

Submission to the Essential Services Commission's Review of maximum prices for embedded networks

As a resident living in an apartment building with an embedded network serviced by an exempt seller, I've an interest in the Commission's review of the maximum prices for embedded networks.

Framework for formulating maximum price

1. Are there any other issues we should consider in our framework for formulating a maximum price for embedded networks?
2. Is there any other information we should consider in having regard to commercial market data?

In formulating a maximum price, the Commission could consider other markets for essential services in Victoria such as water, by way of an analogy. While customers can't choose their water provider, there are robust consumer protections and pricing safeguards (a regulatory price review/determination process informed by public input). While the Commission has improved consumer protections for exempt customers, strong pricing protections are also needed to ensure that customers are charged a reasonable price for an essential service.

The Commission has stated that: *'The VDO is intended to be a reasonably priced electricity option, providing a safeguard for customers unable (or unwilling) to engage in the electricity retail market. It seems reasonable that customers of exempt sellers who have difficulty accessing the retail electricity market should have access to a comparable price'*. (p9)

I believe the VDO is a good starting point for discussions regarding what is an appropriate benchmark for the cost of selling retail electricity in Victoria by an exempt seller. However, there is a difference between "unwilling" and "unable". Customers of exempt sellers generally don't have the option of or face prohibitive barriers to accessing the competitive market for cheaper market offers, which VDO customers of retailers can readily access if they choose to. Many exempt customers wish to engage with the market but are unable to or restricted from doing so. In fact, these customers are effectively being penalised as they're subsidising other consumers who are able to but are unwilling to find better deals.

According to the Victorian Energy Compare website, there are a number of energy offers from other providers which potentially offers exempt customers like myself a lower price, provided they're able to opt out of the embedded network, which in most instances would be difficult and no doubt costly.

Given this, I submit it wouldn't be unreasonable for the maximum prices exempt sellers can charge customers to be set lower than the VDO.

The inability to access lower market offers especially impacts low income exempt customer households. Low income households generally spend a larger proportion of their disposable income on energy bills and need strong pricing safeguards against inflated energy costs.

Tariff structure of maximum prices

3. We are interested in stakeholder views on the VDO tariff types outlined above and how they might be applied in the context of a maximum price for exempt sellers. What do you see as the advantages / disadvantages of each option?

4. What types of tariffs are currently offered by exempt sellers? On what basis do exempt sellers currently determine tariff structures?

5. Are there any other issues in relation to tariff structures we should consider?

As a general principle, customers should be able to choose the tariff structure that best suits their household circumstances to minimise energy cost. A flat rate would benefit some customers while the maximum annual bill (non-flat tariffs) might be more appropriate for others.

One exempt seller servicing an apartment building (with studio, one and two bedroom units) in the Jemena network area offers a flat rate to residential customers:

- All usage 0.2646 \$/kwh
- Supply charge 1.208 \$/day

The exempt seller's 'all usage' rate is just slightly lower than the local energy retailer AGL's 'all usage' (0.294 \$/kwh) standing offer rate. The difference is \$0.0141/kwh. However, its supply charge is on par with AGL's.

Overall, the current flat VDO tariffs in Jemena's network would offer low and medium usage households in this apartment building a lower bill as the VDO supply charge (\$1.0431/day) is significantly lower than AGL's standing offer rate (\$1.208/day). The difference in supply charge between the exempt seller's and the VDO is \$0.1649/day.

Implementing maximum prices for exempt sellers

6. We are interested in stakeholder views about any implementation issues. Please provide evidence to support your views.

7. Is there any other information we should consider?

The recent government reforms to strengthen consumer protections for customers of exempt sellers is a welcome step in the right direction. Key to the success of these reforms, however, is regular and accurate communications explaining these rights in plain English (with access to translations in other languages) to customers of exempt sellers. Directing customers to websites is insufficient as it assumes all exempt customers will take the initiative to access the internet for information or have internet access (the latter of which may not be the case for low income households). It is also unclear the extent or accuracy to which these new consumer protections have been communicated to exempt customers by their exempt seller. For example, I have a bill from an exempt seller advising its residential customers that 'to escalate unresolved complaints visit www.ombudsman.vic.gov.au' rather than EWOV. Perhaps,

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the Commission could have a role in communication especially as customers are likely to value information from an independent and credible source.

I support the Commission's intent to implement a maximum price for embedded networks by 1 July 2020. Customers in embedded network situations have been subject to monopolistic pricing for too long. A prompt implementation will help to reduce cost of living pressures for customers of exempt sellers especially vulnerable and low-income households.

While exempt sellers are generally regarded by the Commission to be selling electricity as incidental to their main business, some exempt sellers do service multiple sites/customers and are comparable to the smaller energy retailers. While some system changes may be needed, the larger exempt sellers which are better resourced than the smaller exempt sellers (ie. caravan/holiday parks) would be better placed to implement the maximum price by mid-2020. The smaller exempt sellers may need a longer transition period.

Some degree of flexibility is probably needed for the multiple activity exemptions given that these categories operate in a much more dynamic and innovative part of the market. The Commission could consider practices in other jurisdictions for best practice examples and to help build consistency.