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Essential Services Commission
Level 8, 570 Bourke St
Melbourne VIC 3000

Lodged via EngageVictoria

Dear Commissioners,

Re: Next steps for the Victorian Default Offer – consultation on approach for 2022 VDO

Simply Energy welcomes the opportunity to provide feedback on the Essential Services Commission's (Commission) proposed approach to making the Victorian Default Offer (VDO) price determination to apply from 1 January 2022.

Simply Energy is a leading energy retailer with over 750,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. As a leading retailer focused on continual growth and development, Simply Energy supports the development of effective regulation to facilitate competition and positive consumer outcomes in the market.

While Simply Energy understands the reasons behind the introduction of the VDO, Simply Energy does not support price regulation in competitive markets.

Simply Energy's submission provides feedback on several of the main areas of VDO costs that the Commission identified in its paper. Simply Energy also provides feedback on the length of the regulatory period for the 2022 VDO.

A six-month regulatory period is preferable to an 18-month regulatory period

Simply Energy would support the Commission reducing the regulatory period of the 2022 VDO to six months. The two options outlined in the paper would likely result in the same number of price changes for customers over the next 18 months, assuming that the Commission would vary the 2022 VDO to account for network price changes on 1 July 2022 under either option. Practically, the key difference is that a six-month VDO would enable the Commission to update its market-based forecasts during the 18-month period.

Simply Energy considers that an 18-month regulatory period would have a significant risk of forecasting error. To address the risk that the VDO price may fall below retailers' efficient costs over the 18-month regulatory period, an 18-month VDO should include higher cost allowances for market-based forecasts or an uplift in the retail margin. These increased forecasting risks would not be relevant for a six-month regulatory period.

A six-month regulatory period would also reduce any potential downside of extending the adjustment for bad debt costs included in the 2021 VDO. If the Commission were to extend the bad debt cost adjustment, it would be able to revisit this decision again in six-months, rather than locking in higher retail operating costs for 18-months.

Bad debt costs continue to be a significant issue for retailers

Bad debt expenses were higher than average in 2020 and have continued to worsen in 2021. Simply Energy supported the Commission's decision to include a $6 per customer allowance in the 2021 VDO to reflect the significant increase in bad debt expenses that retailers are facing due to the coronavirus pandemic and associated government restrictions.

The recent coronavirus outbreak in Victoria has demonstrated the continuing risk of the pandemic on the Victorian economy. Economic activity will likely continue to be disrupted throughout 2021 and 2022 while vaccines are rolled-out to the community.

Simply Energy expects to be able to provide the Commission with information on its forecast 2022 bad debt expenses at a later stage of this review. At this early stage, Simply Energy proposes that the Commission leave open the possibility for the bad debt allowance to be extended into 2022 if retailers can demonstrate that higher than average bad debt costs will continue to be accrued beyond 2021.

The allowance for the costs of five-minute settlement does not need to be extended into 2022

Simply Energy expects that the costs of the five-minute settlement reform have been incurred in 2020 and 2021. For that reason, Simply Energy supports the Commission's proposal to not extend this allowance into the 2022 VDO cost stack.

A productivity factor should not be introduced at this time

Simply Energy supports the Commission's proposal to not introduce a productivity factor for the 2022 VDO. Before the introduction of a productivity adjustment, the Commission should first ensure that its retail operating cost benchmark is updated to reflect the efficient costs of providing a retail electricity service to Victorian customers. Similarly, Simply Energy considers that the provision for customer acquisition and retention costs is out-dated and does not represent the costs faced by retailers in Victoria in 2021-22.

Simply Energy recognises that updating retail cost estimates would be a significant change to the current VDO methodology and would require the Commission to undertake detailed work and stakeholder consultation. If the Commission sets a six-month regulatory period for the 2022 VDO, it will be committing to undertake many rounds of VDO-related stakeholder consultation over the next 12 months. In that context, Simply Energy would prefer that any significant change to the VDO methodology is deferred until the 2023-24 VDO. This would ensure that the Commission has the time to undertake a detailed review of the VDO methodology and run an extended consultation process with stakeholders. This would ensure that the Commission is able to properly consider the implications of any major change to the VDO methodology.

The retail margin benchmarking approach does not reflect the costs faced by retailers

Simply Energy maintains the view that a retail margin based on benchmarking against regulatory decisions from other jurisdictions does not reflect the costs faced by electricity retailers in Victoria. Simply Energy would support the Commission setting the retail margin allowance using a transparent process that reflects the risks and costs of investing in electricity retail businesses.

As per the feedback on retail operating costs, Simply Energy recognises that this would be a significant change to the Commission's current methodology and may be more appropriate to consider for the 2023-24 VDO determination.

It is appropriate to introduce a ToU VDO to reflect the two-part ToU network tariffs

As outlined in its submission to the variation of the 2021 VDO, Simply Energy supports the introduction of a new two-part time-of-use (ToU) VDO. This proposal is appropriate because the two-part ToU network tariff will be consistent across all Victorian distribution businesses and will be the default ToU tariff for all small customers going forward. The introduction of a two-part ToU VDO will simplify compliance for retailers and will also ensure that the specific VDO tariffs are transparent and consistent across all retailers.

Concluding remarks

In closing, Simply Energy looks forward to continuing to work actively with the Commission to ensure the inputs and methodology for setting the VDO accurately reflect the efficient costs of providing a retail electricity service to Victorian customers.

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact Matthew Giampiccolo, Senior Regulatory Adviser, at matthew.giampiccolo@simplyenergy.com.au

Yours sincerely

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