

16 June 2021

Mr Marcus Crudden  
Executive Director, Price Monitoring and Regulation  
Essential Services Commission  
Level 8, 570 Bourke Street  
MELBOURNE VIC 3000

Submitted via Engage Victoria

Dear Mr Crudden

### Re: Next steps for the Victorian Default Offer (VDO)

Tango Energy welcomes the opportunity to provide its feedback and views on the Essential Services Commission's (ESC) approach to the 2022 VDO.

Tango Energy is a rapidly emerging player in Australia's retail energy market, supplying over 100,000 customer accounts across the National Electricity Market. As a growing retailer, Tango Energy is committed to providing energy consumers competitively priced products that are simple and easy to understand.

Tango Energy's emergence in Australia has been supported by its parent company, Pacific Hydro. Pacific Hydro owns a diversified portfolio of renewable energy generation assets in Australia with an installed capacity of 665 MW. While Pacific Hydro and Tango Energy are committed to investing in Victoria's future energy needs, it is vital that this investment is underpinned by a competitive retail market that facilitates innovation. With this in mind, the following submission:

1. evaluates the length of the regulatory period for the next VDO price determination;
2. provides commentary on the proposed methodology and assumptions used to set the VDO; and
3. sets out the reasons why Tango Energy considers that the ESC needs to undertake a holistic assessment and review around the continuing application of regulated electricity prices in Victoria.

#### 1. Length of the regulatory period

Tango Energy considers that the most efficient way to align the VDO with the annual network price reset period is to extend the current VDO determination, in its revised form, to 1 July 2022.<sup>1</sup> This would, nevertheless, necessitate adjustments being made on 1 August 2021 to account for any component of the VDO cost stack that has varied substantially, such as the prices for Victorian Energy Upgrade certificates.

The 2021 VDO was set based on an average certificate price of \$32.38 per Victorian Energy Upgrade Certificate. However, as shown in Figure 1 below, market data indicates that these certificates are now trading closer to \$60 per certificate and are on an upwards trajectory.

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<sup>1</sup> In accordance with cl 11(3) of the Order under section 13 of the Electricity Industry Act 2000 (VDO Order), Victorian Government Gazette, No. S 208, 30 May 2019, the ESC may, after consulting the Minister and where special circumstances exist, extend the duration of a regulatory period by up to 6 months.

Figure 1: VEEC historical trades (2020-2021)



If the ESC decides not to extend the current VDO determination period, then Tango Energy considers that the ESC should make a prompt decision about how it intends to administer a transitional pathway to align the VDO with annual network price resets. In doing so, the ESC should take all reasonable steps to avoid any determination that may give rise to an ad hoc price variation. Ad hoc variations to the VDO create uncertainty and additional administrative work, including the need to send bill change alerts, upload new prices to Victorian Energy Compare and update reference pricing.

## 2. Methodology

Apart from the Victorian network structure reforms, the other main issue that needs to be addressed is how bad and doubtful debt will be accounted for as part of the VDO cost stack. Challenges in terms of collecting debt have been exacerbated by recent regulatory intervention, including debt management expectations that were imposed on energy retailers as a result of the COVID-19 pandemic.

For this reason, the ESC will need to assess the debt profiles of all major Victoria electricity retailers in order to make an informed assessment of the contingency that needs to be made in the VDO cost stack for bad and doubtful debt. In undertaking this assessment, the ESC needs to take into account the fact the retailers are assuming greater responsibility in terms of assisting vulnerable customers. This is, in turn, increasing the financial risks and the total debt liability being borne by energy retailers, as evidenced by the ESC's own research that shows increasing consumer debt levels across the Victorian energy sector.<sup>2</sup>

## 3. Reforms

Tango Energy would also encourage the ESC to undertake an independent and holistic assessment review of the VDO and its effect on retail prices. In many respects, the VDO has imposed an artificial price ceiling on electricity prices and distorted market price signals. As a result, many retailers are competing primarily based on price, as they attempt to position themselves first on Victorian Energy Compare. This type of pricing behaviour is not sustainable. It will only lead to a long-term reduction in competition as unprofitable businesses exit the market, or otherwise attempt to game regulatory requirements to gain a competitive advantage.

Tango Energy, therefore, considers that ESC should start consulting with industry to understand the practical implications regulated pricing is having on competition and market innovation more broadly. This research could then be used to assist the Victorian Energy Minister to undertake an informed and evidence-based evaluation of the VDO Order.<sup>3</sup> It may be that the VDO should at very least be refined to operate more as a light-handed price cap akin to the Default Market Offer.<sup>4</sup>

## Closing remarks

Tango Energy encourages the ESC to think pragmatically about how best to align network and VDO price changes to ensure cost reflectivity while simultaneously minimising the administrative burden on the energy sector. Indeed, the time, cost and administration involved in the VDO process highlights the inefficiency that can stem from price regulation. For this reason, Tango Energy is strongly of the view that competitive markets are best placed to provide incentives to improve efficiency and service quality across the Victorian energy industry.

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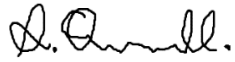
<sup>2</sup> ESC, 'A year in review – supporting energy customer during the coronavirus pandemic', 19 May 2021.

<sup>3</sup> See cl 17 of the VDO Order: The Minister must cause a review of the operation and effectiveness of the Order to be undertaken before the third anniversary of the Order coming into operation.

<sup>4</sup> See *Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019* (Cth).

Tango Energy welcomes further discussion in relation to this submission. To arrange a discussion, please contact me via email at [aoconnell@tangoenergy.com](mailto:aoconnell@tangoenergy.com).

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. O'Connell".

Anthony O'Connell  
Corporate Lawyer, Regulatory & Compliance