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# VDO – DRAFT ADVICE

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# Context of this presentation

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- Not here to discuss the merits of the policy
- Not here to discuss actual retailer costs and how they might react to the price
- Unable to discuss with members (CCA compliance) about how the decision aligns with their cost structures
- We are here to provide high level commentary of the Draft Advice, focusing particularly on judgements of the ESC based on publicly available information

# The impacts of the VDO

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- The VDO will impact existing offers in the market
- The VDO is priced to represent the efficient cost of supply, with no headroom
- Given this, likely that retail offers below the VDO are foregoing margin
- Reasonable to expect these offers might be impacted as retailers understand the impacts of the VDO

# Consistency in approach

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- We are concerned that the Draft Advice fails to make decisions using consistent methodologies.
  - LRET vs Wholesale Cost
- The Draft Advice appears to recommend approaches based on what would result in the lowest price, rather than exercise reasonable judgement
  - Eg. ROC references a market average as at 30 June 2017, when more recent publically reported data suggests this number is no longer accurate

# Retail Operating Costs

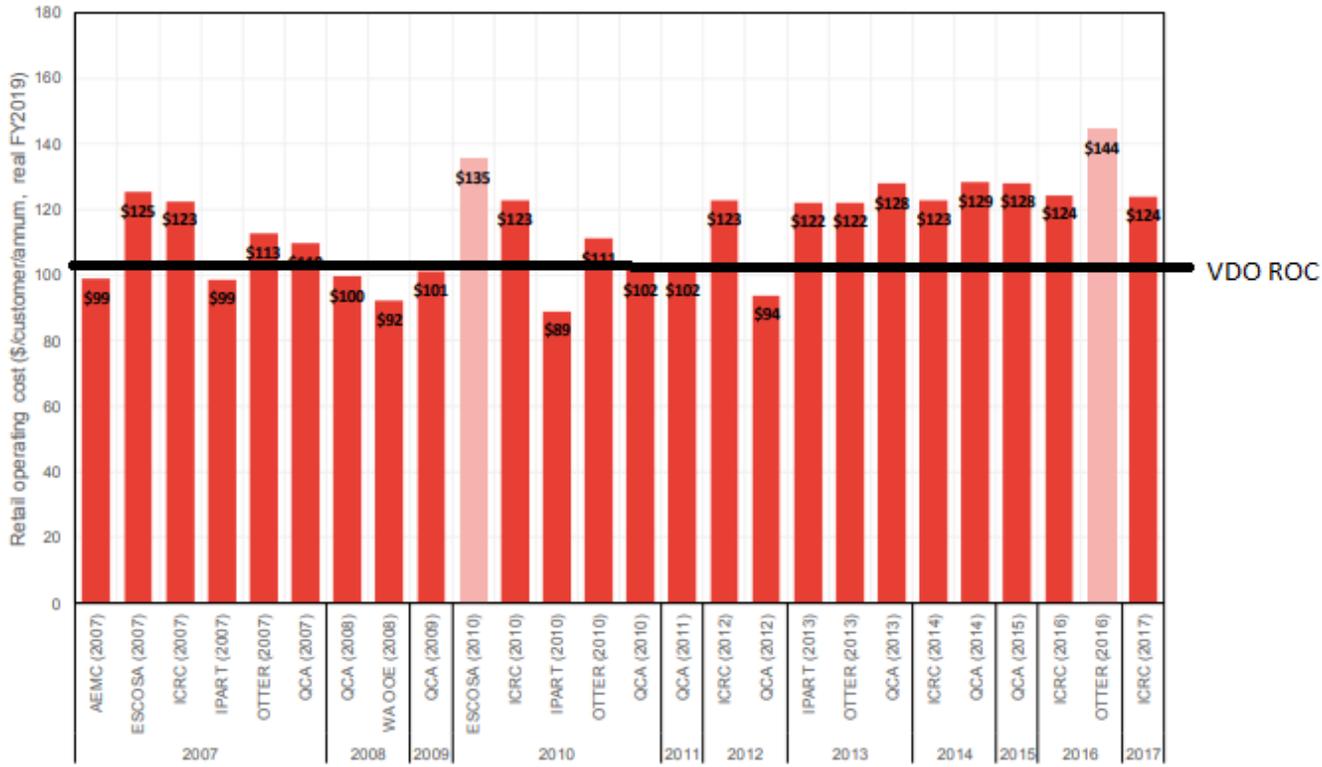


Figure 7 Regulatory allowances for retail operating costs, \$ per customer, \$2018-19

Source: Frontier Economics

Note: the figures for ESCOSA's 2010 decision and OTTER's 2017 decision both include CARC allowances

# Retail Operating Costs

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- The regulatory benchmark from 2013-17 is a range between \$122 and \$129.
- In 2017, the ACCC found the Victorian average ROC was \$96.66. The ESC has made some minor allowances and set the VDO ROC at \$104.50.
- Available evidence suggests ROC increasing since 2017

# No Margin for Error

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- Understand the ToR did not allow the ESC to consider the merits for headroom,
- Concerned that the Draft Advice does not take into account the difficulty of regulating a reasonable price.
- Each element of the cost stack has been set at the lowest possible justifiable price.
- Impact on customers given likely wholesale and NW costs will increase in 2020?



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