

Victorian Default Offer – ESC draft advice

Public forum

Essential Services Commission

25 March 2019



Introduction and overview

Dr Ron Ben-David, Chairperson
Essential Services Commission

Purpose of today's forum

- Provide a summary of our draft advice to the Victorian Government
- Opportunity for participants to provide feedback, and take views into account as we prepare our final advice

Agenda

- 12.15pm: ESC – welcome and overview of draft advice
- 12.40pm: Gerard Brody, CEO Consumer Action Law Centre
- 12.50pm: Ben Barnes, Director Retail Policy, AEC
- 1.00pm: John McCluskey (CEO) and Hal Zhou (COO), GloBird
- 1.10pm: Questions and discussion
- 2.00pm: Close

Terms of reference: what have we been asked to do?

“The ESC is requested to develop a methodology for determining an efficient price for electricity and use that methodology to **recommend** a VDO”

“The VDO price(s) should:

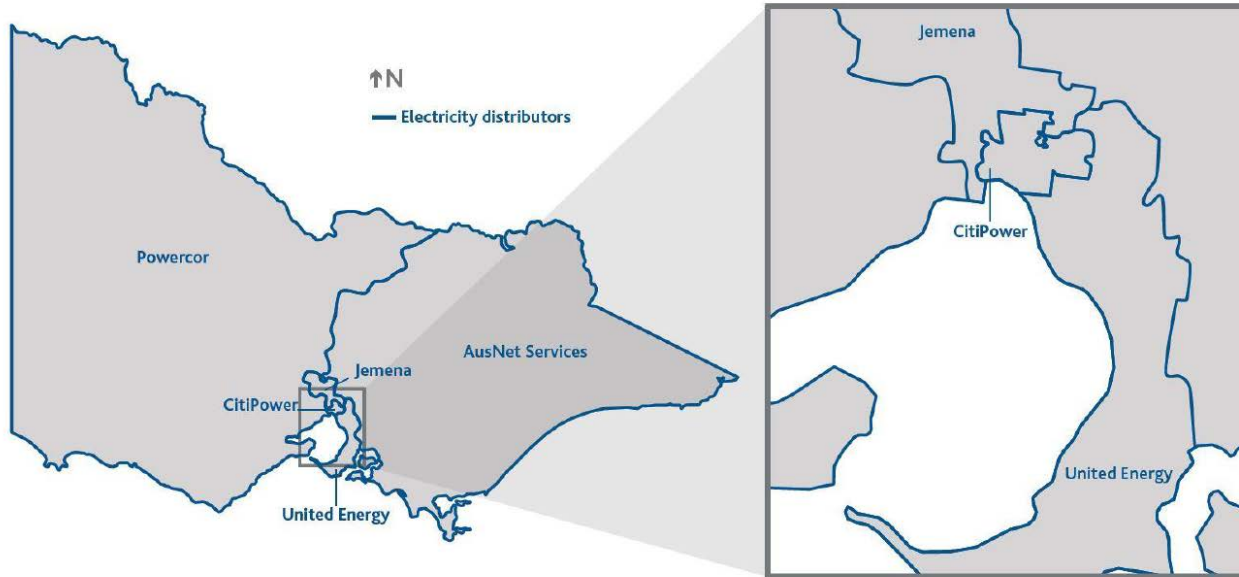
- be set for each distribution zone;
- be based on the efficient cost to run a retail business;
- include an allowance for a maximum retail profit margin;
- include a modest allowance for customer acquisition and retention costs;
- not include an allowance for headroom.”

What is the Victorian Default Offer (VDO)?

- Every Victorian household and small business will be able to ask for the Victorian Default Offer from their electricity retailer from 1 July
- The price of electricity under the default offer will be set by the Essential Services Commission, not the energy companies
- The price of the default offer will vary depending on the customer's location (there are five distribution zones in Victoria)
- Customers on a standard contract (or standing offer) will automatically transfer on to a default offer on 1 July

All of the above remains subject to legislation passing through parliament

Victorian electricity distribution zones



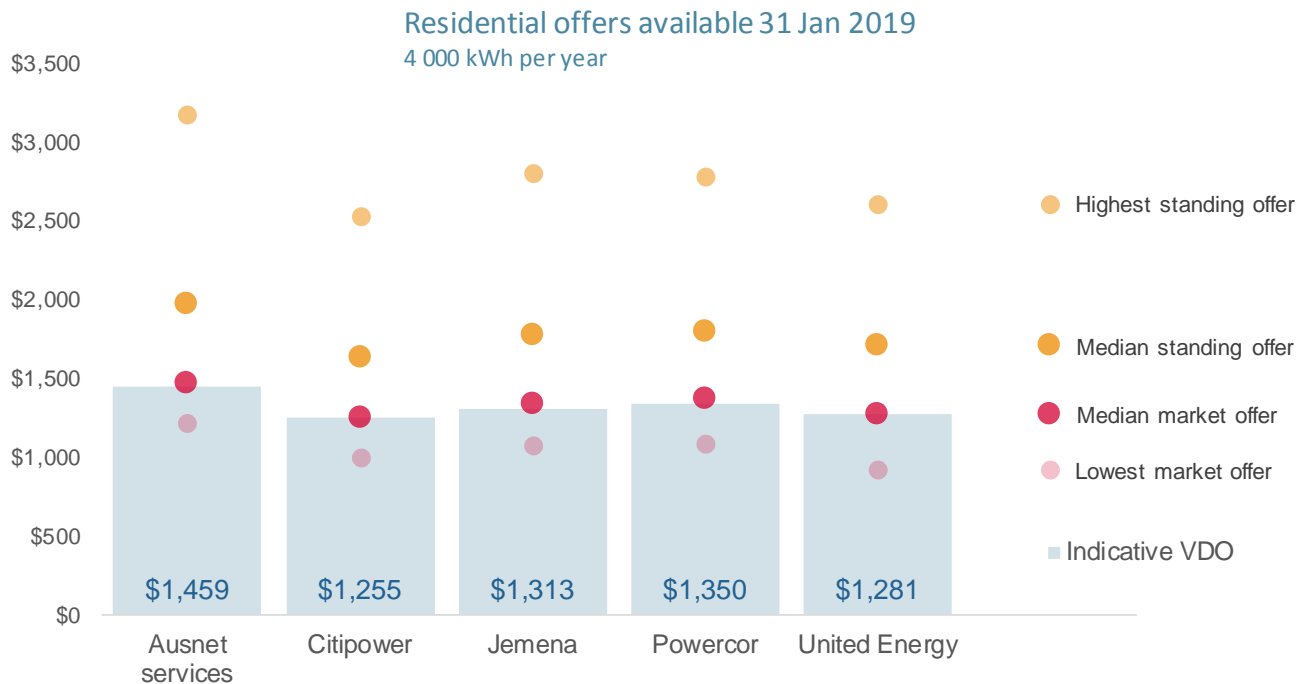
Victorian Electricity Distribution zones

Summary of draft advice

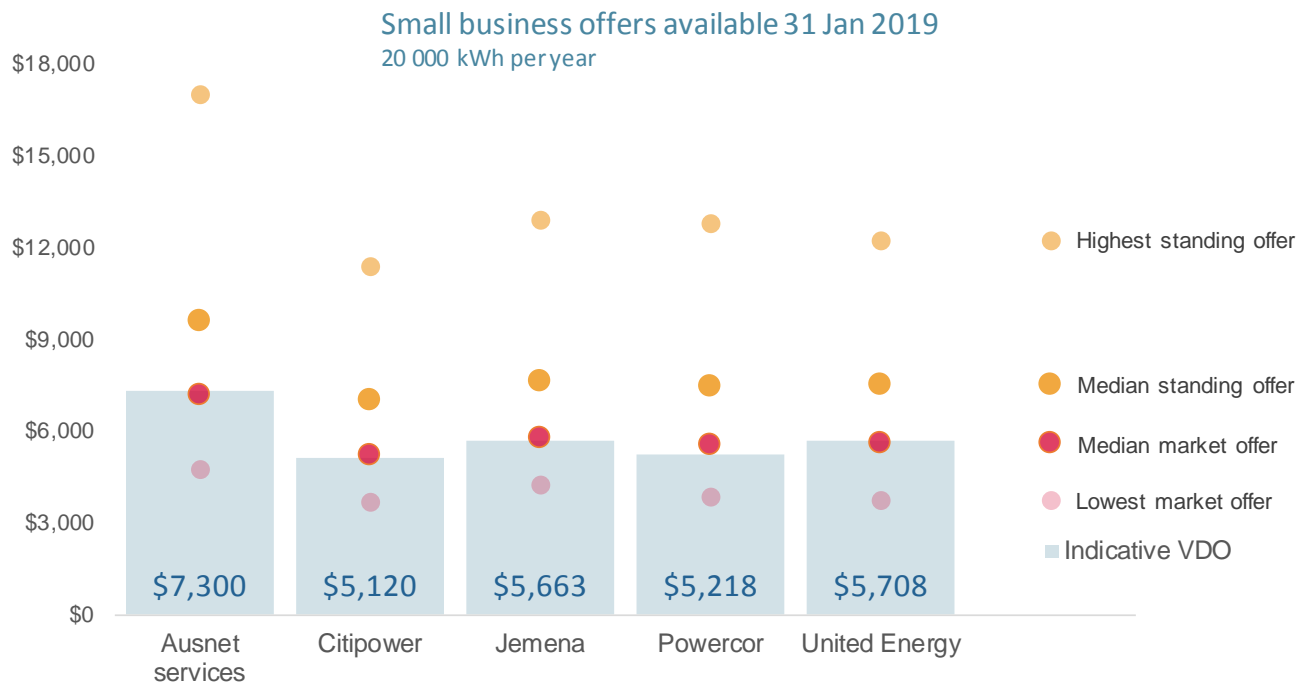
- Under the proposed Victorian Default Offer, a typical residential customer (using 4,000 kWh per year) on a standing offer will save **\$390 to \$520** from 1 July*
- The proposed Victorian Default Offer would save a small business customer (using 20,000 kWh per year) on a standing offer **\$1,830 to \$2,300** from 1 July*

* Compared with the median standing offer in each distribution zone (at 31 Jan 2019)

VDO compared to residential offers



VDO compared to small business offers



Estimated bill reduction for residential standing offer customers due to VDO* – by selected electricity usage

Distribution zone	2 000 kWh	4 000 kWh	8 000 kWh
Ausnet services	\$320	\$520	\$870
Citipower	\$230	\$390	\$720
Jemena	\$300	\$470	\$860
Powercor	\$270	\$450	\$890
United Energy	\$270	\$430	\$710

* Compared to median standing offer

Process and methodology

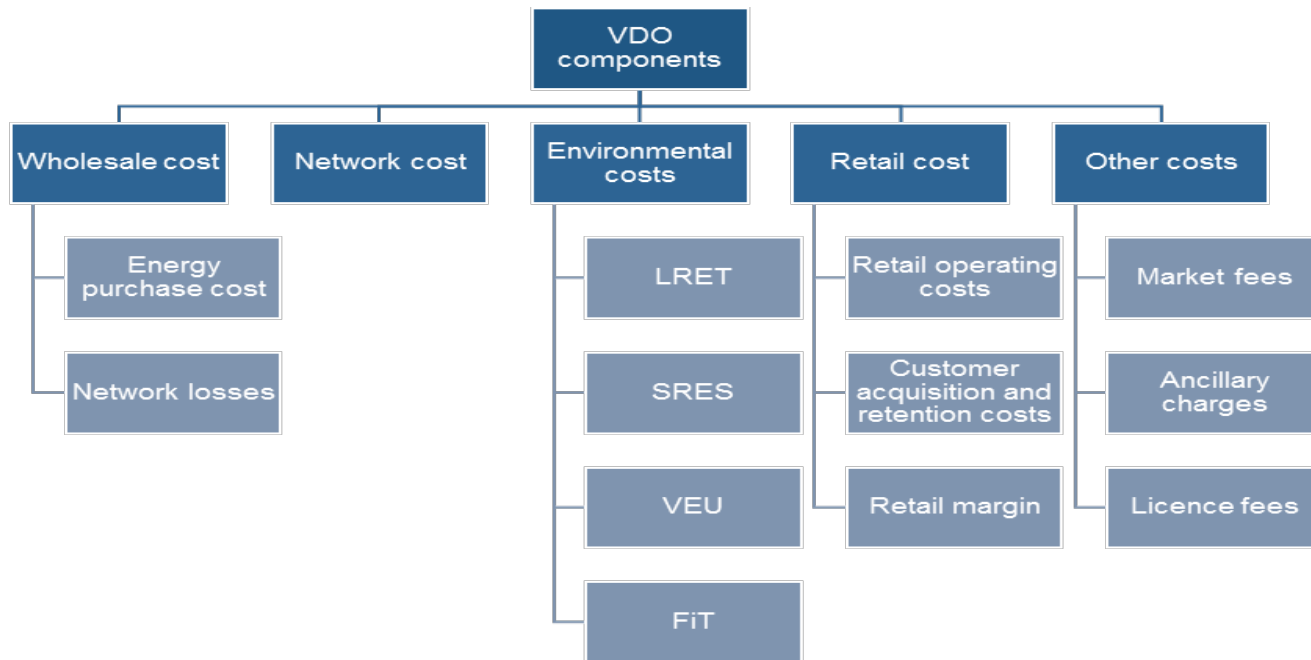
Dean Wickenton and Jordan Tasker
Essential Services Commission

Process

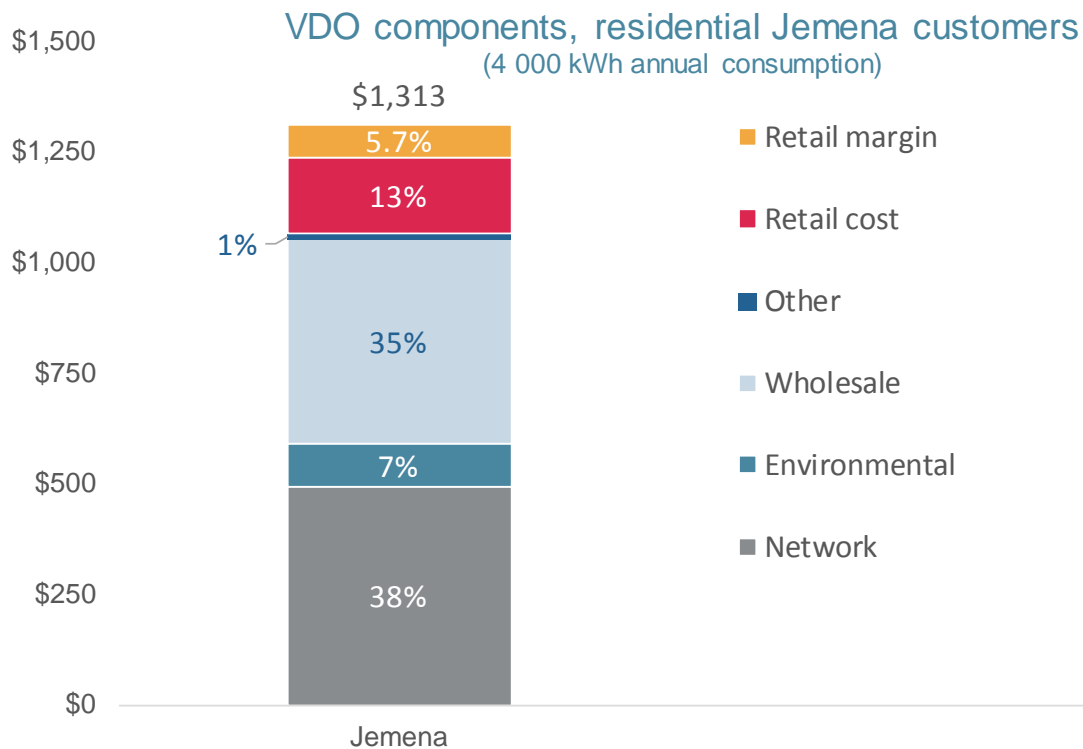
- 18 December 2018 – ESC received terms of reference
- 20 December – ESC issued staff paper (call for submissions)
- 20 January 2019 – technical workshop
- 30 January – submissions on ESC staff paper closed
- 8 March – ESC issued draft advice (call for submissions)

- 4 April – submissions on ESC draft advice due
- 3 May – ESC final advice due to government

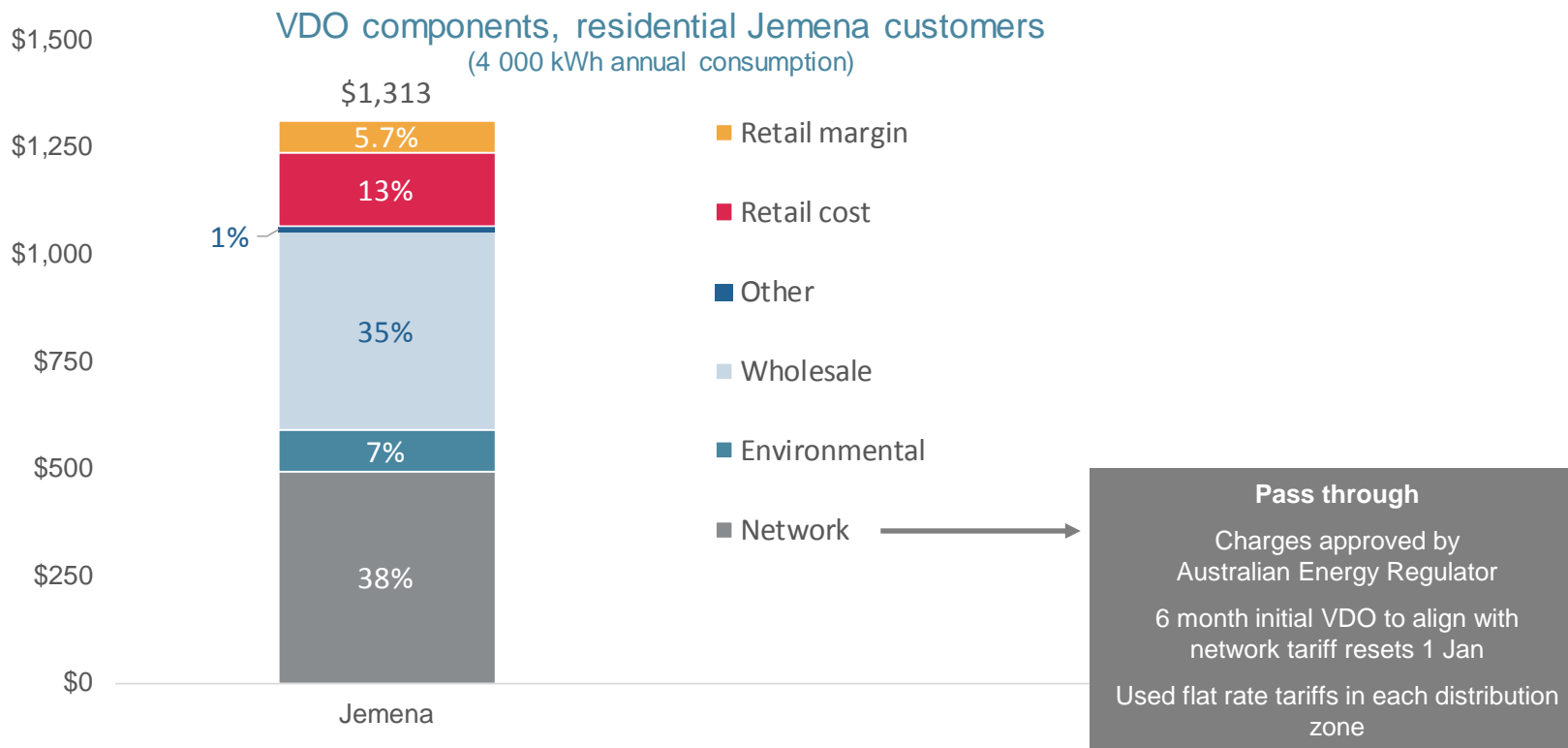
Estimating a VDO price



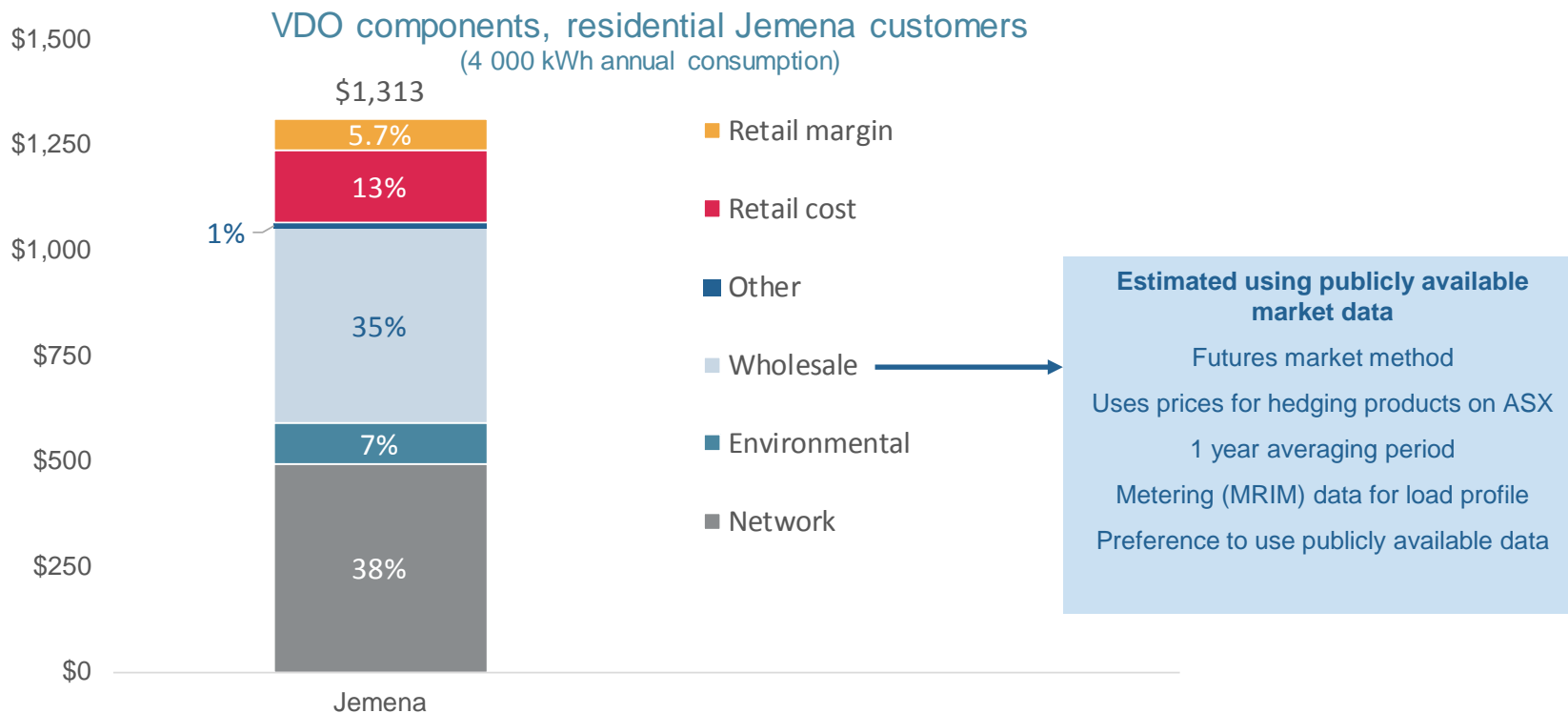
Estimating a VDO price



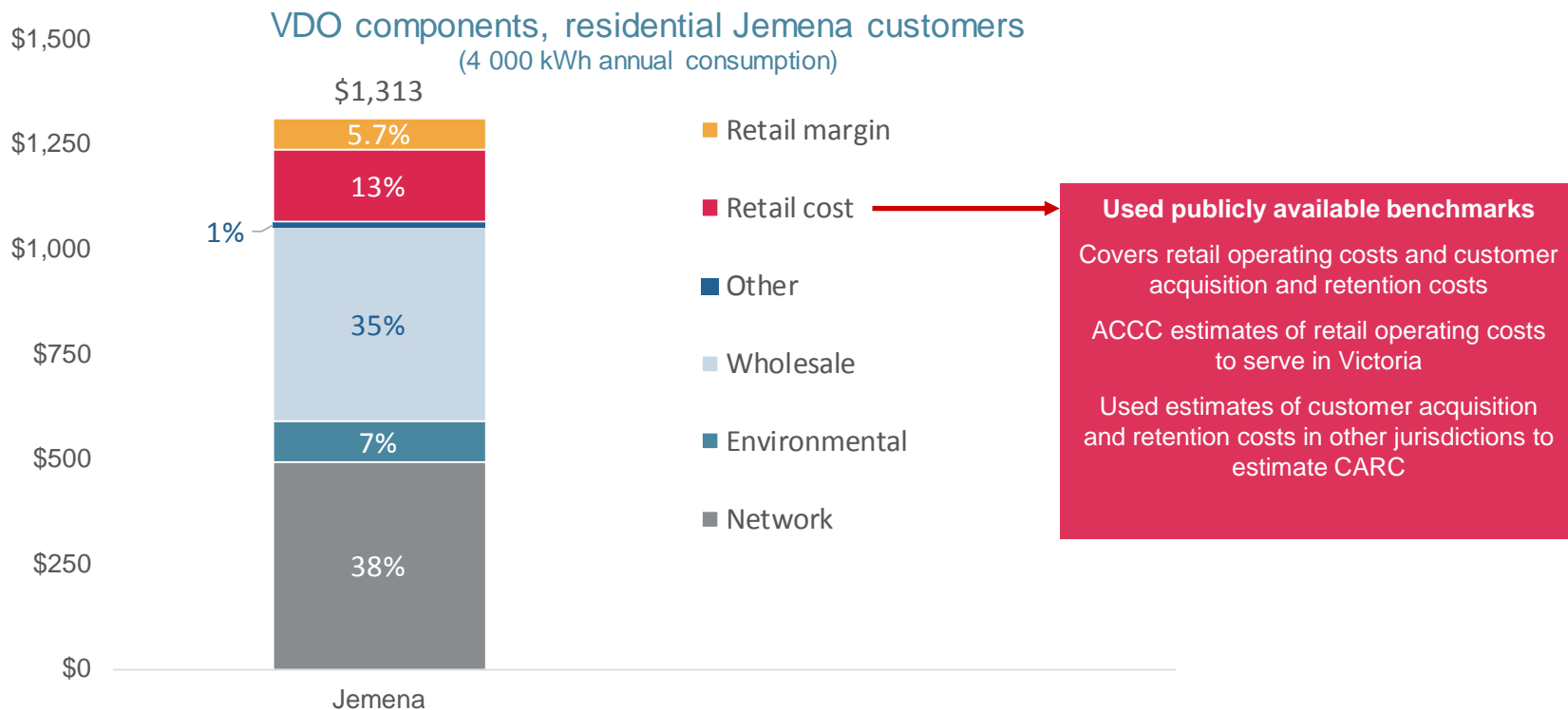
Estimating a VDO price



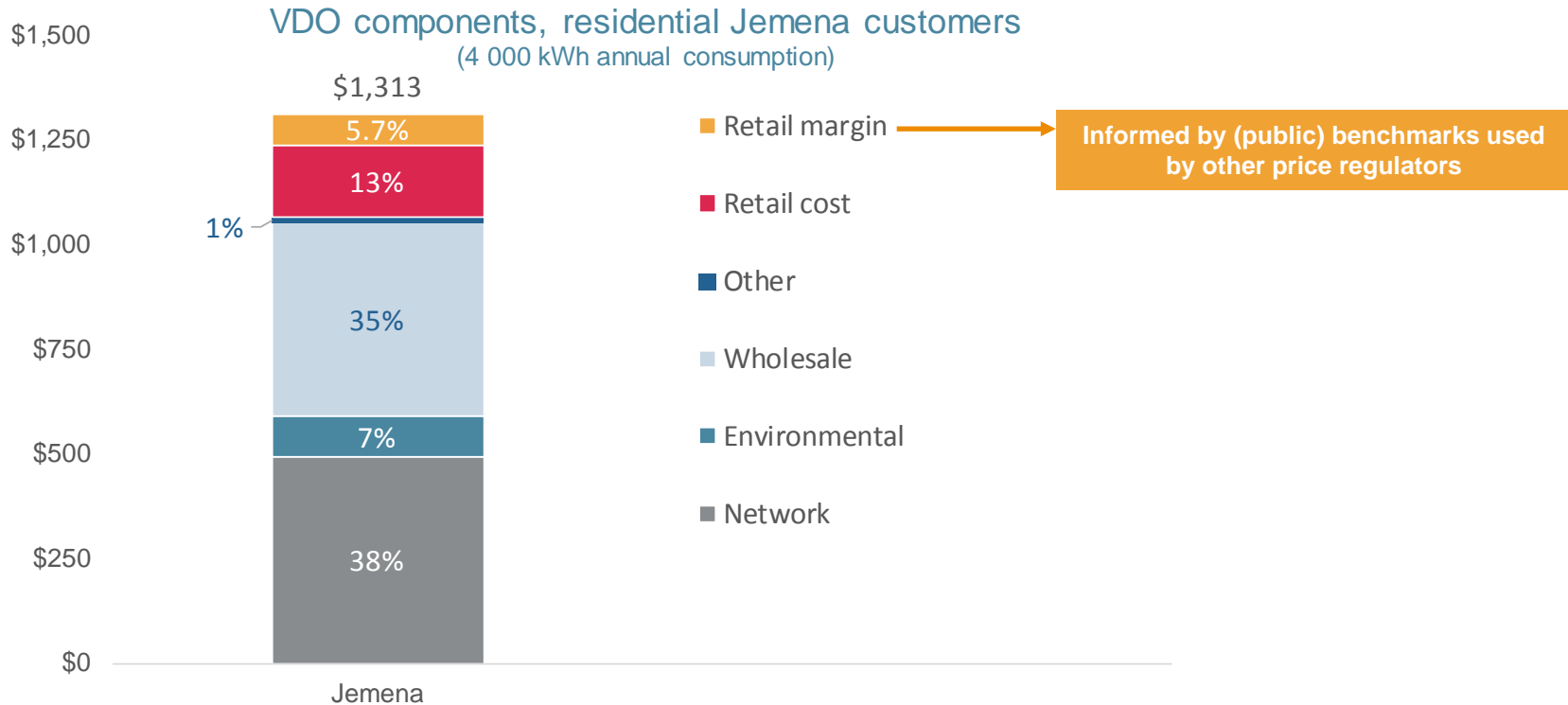
Estimating a VDO price



Estimating a VDO price



Estimating a VDO price



Estimating a VDO price

- Convert the cost stack into a set of tariffs for each distribution zone

Supply (\$ per day)	Usage (cents per kilowatt hour)
Retail costs (incl. CARC)	Wholesale costs
Fixed network tariff	Flat variable network tariff
Environmental/other (per customer costs)	Environmental/other costs (per kWh costs)
Retail margin	Retail margin

Estimating a VDO price

Distribution zone	Daily charge (\$ per day)	Variable charge structure	Variable charge (\$ per kWh)	Controlled load (if applicable) (\$ per kWh)
AusNet Services	\$1.0951	Block 1 (1020 kWh) Block 2 (>1020 kWh)	\$0.2629 \$0.2979	\$0.1890
Citipower	\$1.0638	Anytime	\$0.2166	\$0.1650
Jemena	\$0.9620	Anytime	\$0.2404	\$0.1774
Powercor	\$1.1916	Anytime	\$0.2289	\$0.1717
United Energy	\$0.8078	1 Nov to 31 Mar 1 Apr to 31 Oct	\$0.2579 \$0.2400	\$0.1719

Distribution zone	Daily charge (\$ per day)	Variable charge structure	Variable charge (\$ per kWh)
AusNet Services	\$1.0951	Block 1 (1020 kWh) Block 2 (>1020 kWh)	\$0.3091 \$0.3542
Citipower	\$1.2556	Anytime	\$0.2331
Jemena	\$1.1034	Anytime	\$0.2630
Powercor	\$1.3195	Anytime	\$0.2368
United Energy	\$0.8654	1 Nov to 31 Mar 1 Apr to 31 Oct	\$0.2807 \$0.2543

Some issues for follow up

- Looking into additional load profile data (for estimating wholesale costs)
- We have proposed a controlled load tariff for residential customers, but have raised whether this should also be available to small business customers
- Updating inputs for latest market prices, environmental charges, market fees based on the latest public information (e.g. renewable energy liabilities)
- Allocating costs to tariff structure (fixed and variable)

Next steps

- **4 April:** submissions responding to draft advice due
- **3 May:** final advice due to government
- **1 July 2019:** Subject to passage of legislation VDO available to customers