

Victorian Default Offer 2021

Consultation Paper

Online public forum

Tuesday 14 July 2020



Welcome

- Please mute your mic and switch off video.
- Please note this public forum is being **recorded**, this means:
 - Any statement, comment or question will be included in the recording.
 - Any question you ask using the chat function may be read out along with your name (also recorded).
- Please use Slido for any questions – we will respond during our Q and A session.
- To access Slido open <https://www.sli.do/> in your web browser and enter the event code **VDO2021** - please provide your name and organisation when posting a question.

Today's forum – agenda

10:30am – Introduction (Kate Symons Commission Chair)

10:40am – Overview of consultation paper (Jonathan Roberts)

10:50am – Ben Barnes (Australian Energy Council)

11:00am – Jake Lilley (Consumer Action Law Centre)

11:10am – Question and Answer session

11:35am – Closing comments (Sitesh Bhojani Commissioner)

Our role

We are Victoria's independent economic regulator – we promote the long-term interests of Victorian consumers while having regard for the efficiency and financial viability of the industry, along with incentives for long term investment.

We regulate:

- electricity and gas
- water, sewerage, and
- Transport and local government rates.

Our work in energy



This includes our work on:

- Energy Retail Code Review
- Electricity Distribution Code Review
- Our monitoring role (with the Australian Energy Regulator) to collect data on retailer response to coronavirus
- Minimum Feed-in Tariff Review
- Maximum prices for embedded networks and other exempt sellers
- Protections for life support customers

The retail electricity market and Covid-19

- We understand that both energy retailers and consumers are currently managing issues resulting from the current pandemic, and may be for some time into the future.
- We will be considering coronavirus related issues effecting both retailers and their customers as part of our review of the 2021 VDO.
- Stakeholders are invited to provide information on how Covid-19 has impacted the retail electricity market, and how we might consider this in setting the 2021 VDO

Respond to our consultation paper

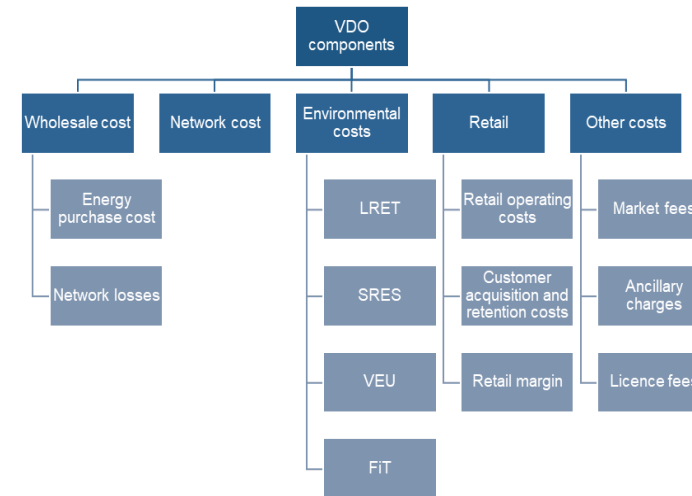
- Make a submission or general comment on our draft decision via Engage Victoria – www.engage.vic.gov.au.
- Email us at VDO@esc.vic.gov.au .
- Submissions to our consultation paper close 21 July 2020.
- We will release our draft decision in September.
- We will release our final decision in November.

We have been tasked with setting the VDO

- In May last year the Governor in Council issued a pricing order to regulate standing offer tariffs through the introduction of the Victorian Default Offer.
- The objective of the VDO is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.
- Last year, we made a determination on the Victorian Default Offer to apply from 1 January 2020.
- We are now undertaking a review on the Victorian Default Offer prices for the period commencing 1 January 2021.

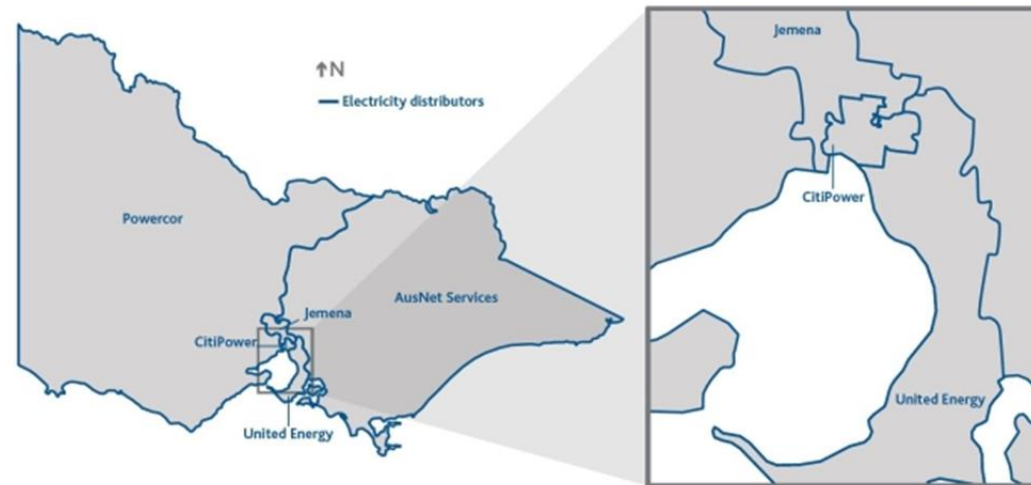
How we calculate the VDO

- We base the VDO tariffs on the efficient cost of sale of electricity by a retailer.
- Using a cost-based approach, we built a cost-stack of the main costs borne by retailers in getting electricity to end users in Victoria.



VDO tariffs

- VDO tariffs are set separately for both domestic and small business customers for each distribution zone in Victoria:



- The current VDO tariffs include a:
 - Daily supply charge (\$/day)
 - Per kilowatt usage charge (\$/kwh)
 - Controlled load component for residential customers (\$/kwh)

VDO tariffs and the complaint maximum annual bill

- Where retailers choose to make standing offers that are not flat tariffs, their standing offers must comply with the VDO compliant maximum annual bill.
- The compliant maximum annual bill is calculated by the commission based on the flat VDO tariffs at a representative customer usage.
- Retailers choosing to offer non-flat standing offer tariffs must ensure that their tariffs would not result in a maximum bill above the maximum at that usage amount.

Our consultation paper and proposed approach

- We released our consultation paper on the 16th June.
- We propose to maintain our approach to estimating cost components and calculating VDO prices.
- Although we would like to hear about a number of things, key things we will need to consider are:
 - accounting for the impacts of COVID-19
 - length of regulatory period.



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SETTING THE 2021 VDO

BEN BARNES

GM RETAIL POLICY

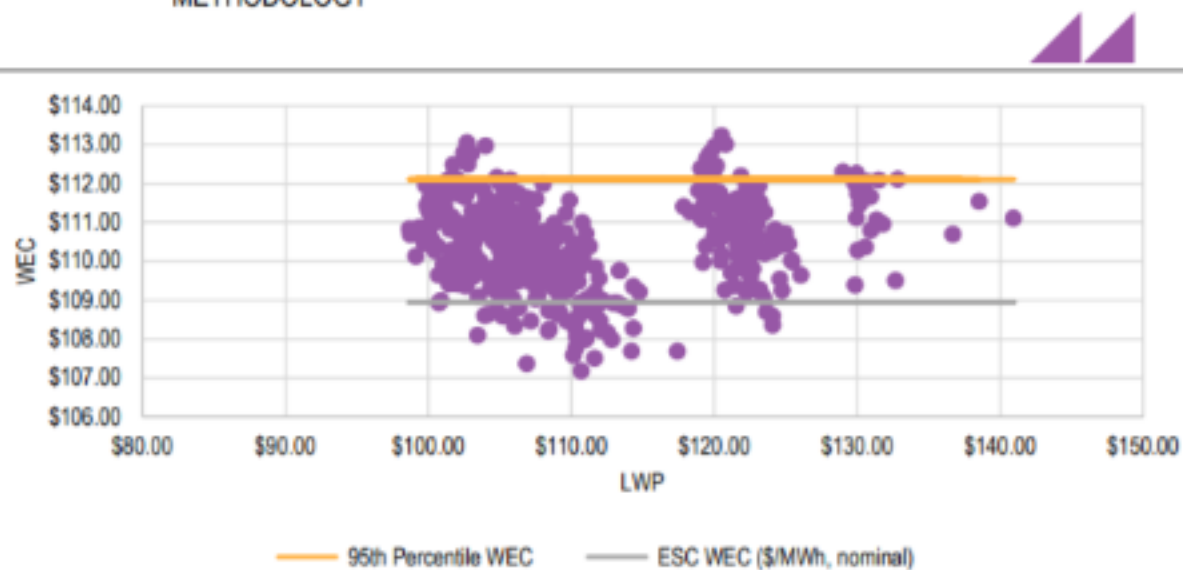
14 JULY 2020

Key recommendations for ESC

- Mitigate risks of undervaluing wholesale costs where possible
- Ensure NW tariffs align to retail tariffs
- Ensure retailers are able to recover the costs of implementing a changing regulatory framework
- Ensure retailers are adequately compensated for the ongoing impacts of COVID-19 pandemic

Mitigate risks of undervaluing wholesale costs

FIGURE 4.1 500 SIMULATED ANNUAL LWPs VERSUS WECs (\$/MWH, NOMINAL) FOR AUSNET SERVICES RESIDENTIAL LOAD – 2020 – ACIL ALLEN APPLICATION OF ESC METHODOLOGY



SOURCE: ACIL ALLEN ANALYSIS

- **Use 95th percentile to set WEC**

- Obligation on ESC to ensure that a retailer is able to recover their efficient costs.
- Current approach ensures that 50% of the time the ESC sets a WEC that is too low.

Ensure NW tariffs align to retail tariffs

- **Where customer opts into a flat VDO, NW tariff should mirror**
 - Current rules require retailer to offer flat VDO, based on flat NW pricing
 - ESC should identify approaches to require NW's to align tariff to VDO
- **AEC supports ESC's proposed flat tariff approach in 2021**
 - In future years, as default network tariffs become increasingly cost reflective, this may need to change
 - AEC encourages ESC to continue to monitor NW tariffs, in particular default tariffs

- **The regulatory framework in Victoria is dramatically different to what it was in benchmark jurisdictions**
 - PDF
 - Clear and Fair Contracts reforms
 - Bills and Marketing reforms
 - New limitations on Back-billing
 - 5MS implementation
 - Escalating ESC, AEMO, EWOV costs
 - New coronavirus measures

Ensure retailers are compensated for the impacts of COVID-19

- **2020 has not been like other years**
 - Likely to see significantly increased bad debt costs
 - Increased reliance on PDF anticipated
 - Limitations on Disconnections – including occupier sites and businesses
 - Proposed 24 month debt holds for business customers
- In the absence of direct Government intervention to reduce debt risk or increase customer support, the risks facing retailers will increase.
 - The intent of the VDO is for retailers to be compensated for these risks



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consumer
action
law centre

OUR VISION:

a just marketplace,
where people have power
and business plays fair

OUR PURPOSE:

To make life easier for people experiencing vulnerability and disadvantage in Australia

Victorian Default Offer

What is the policy objective?

"...your brain is so fogged up with worry and everything else. It's hard to understand it."

"The objective of the Victorian default offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market."



Fair outcomes

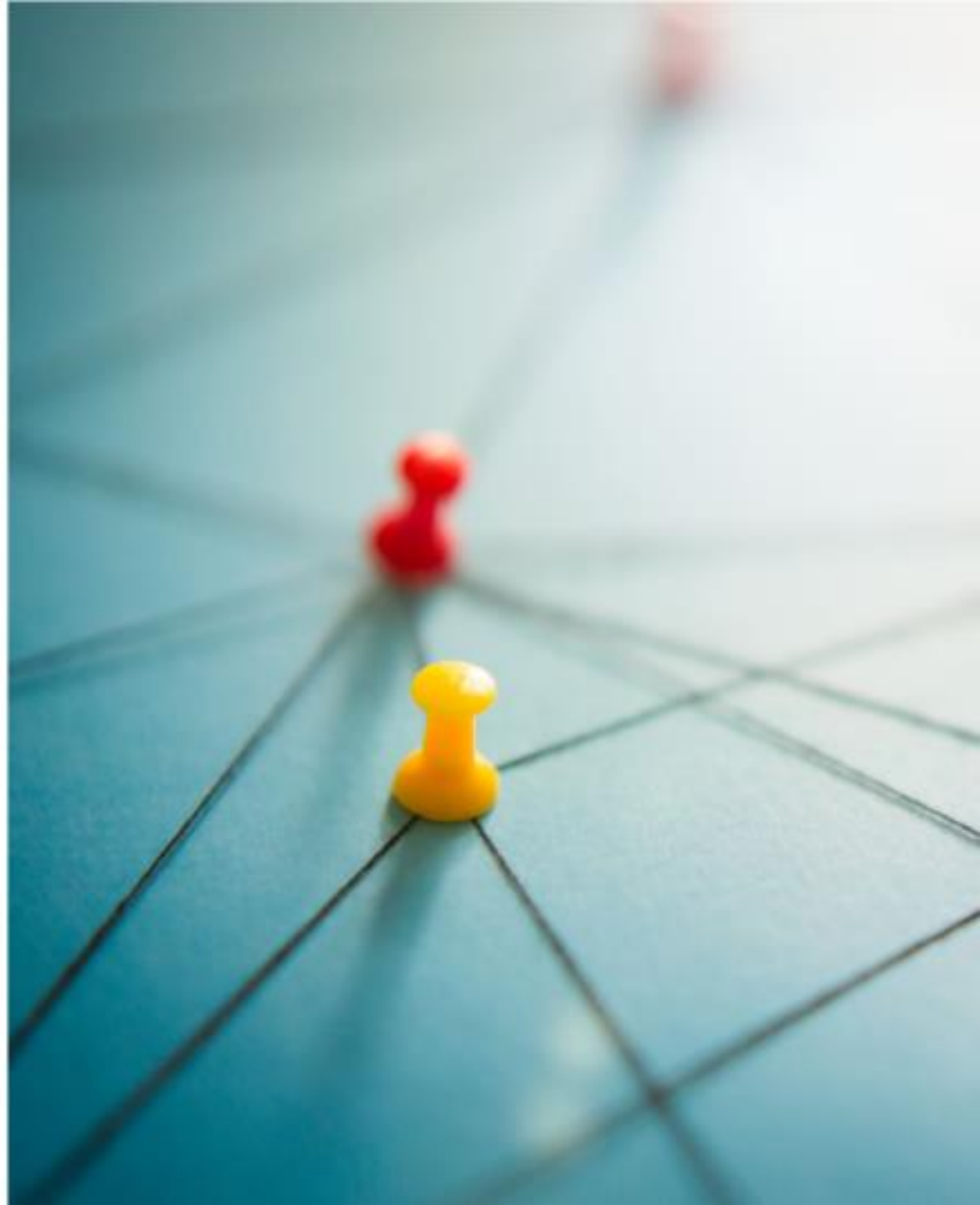
Our focus for this price reset

1. Lower prices for households
2. Households not wearing inappropriate risk
3. Not carrying forward historic or current inefficiencies
4. Customer Acquisition and Retention Costs should decrease over time
5. Monitoring of less conventional tariffs and of what we're all paying

Related reform

Getting fair prices for all households

- Fair access – will 'Fair and Clear' reforms get us there? What about the disengaged on offers with 'expired benefits'
- We encourage all retailers to adjust prices for all customers so no-one is paying higher than VDO unless they've chosen to do so.
- Households purchasing from exempt sellers need the same protections.
- Protections for gas are needed too



Q and A

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Next steps

Responding to our consultation paper:

- Please make submissions or comments on via Engage Victoria – www.engage.vic.gov.au.
- You can also contact us by e-mail at VDO@esc.vic.gov.au.

Key dates:

- Consultation close – Tuesday 21 July 2020.
- Draft decision released September 2020.
- Final decision released November 2020.

Closing comments - Commissioner Sitesh Bhojani



Thank you for attending

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