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By email:
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Onsite Energy Solutions Pty Ltd – submission due 30th January 2019
Victorian Default Offer for domestic and small business electricity customers

To Whom It May Concern,

Please find attached OES's submission to inform the ESC's deliberations in relation to the proposed Victorian Default Offer.

Please do not hesitate to contact me [redacted] should you require any further information or clarification.

Yours faithfully,

Ronald (Bryn) Dellar
Chief Executive Officer / Executive Chairman
Onsite Energy Solutions Pty Ltd

Attachment:

OES' VDO submission

2.3. What is an efficient retailer?

1. ***Is the definition of a notional retailer suitable for the Victorian retail energy market? What alternatives could we consider for the VDO?***

   As a new market entrant, OES does not meet the definition of an "efficient retailer" as describe in the Staff Paper. Specifically, OES has not achieved economies of scale (i.e. one that has an efficient cost base) and currently operates with a restricted licence to service a limited number of small scale customers in Victoria. However, we believe that the definition proposed in the Staff Paper is reasonable for the purpose of setting the VDO.

3.1. Wholesale electricity costs

2. ***Please provide your views on the time period, buying curve and load profile that are most suitable to the Victorian electricity market. What is an appropriate time period to estimate forward contact prices (ie. 40 days, 12 months or 24 months)? What are the pros and cons of a shorter or longer period? Should we consider a combination of different time periods?***

   Load profile: OES considers Monte Carlo analysis (past 6 years) should be used to determine the shape of the annual load profile, within which the 2018 total load (with appropriate known adjustments) should be distributed to create the 2019 load profile. Prices: For inaugural VDO price setting use of the futures price for 2019 is acceptable (which includes an estimated 5% premium above expected forward spot prices).

   What factors do we need to consider if we use MRIM data? Are there alternatives we should consider?

   We envisage two (2) key drawbacks to arise from the use AEMO MRIM data:
   1. AEMO data is for < 160 MWh/year. The VDO is for "small customers" with less than 40 MWh/year. Hence there will be extraneous data between 40 MWh/year and 160 MWh/year which will introduce uncertainty into the VDO calculation.
   2. AEMO does not segment the data for residential and commercial customers. Given that these two customer classes are likely to have significantly different load profiles a common VDO will be to some degree inaccurate for both classes.

   A better solution would to require actual customer data from distributors for small customers (< 40 MWh/year) and segmented by residential and commercial. We believe there is a precedent for distributors providing such data.

Should we consider additional allowances for volatility (beyond what's accounted for in the futures market approach)? Describe the nature of the risk and how it might be accounted for?

No comment.

What approaches might we consider as an alternative to the futures forecasting method? What are the pros and cons of the alternatives?

OES believe that the use of the futures market to set forward wholesale prices would lock in current wholesale market inefficiencies and distortions (given the current concentration of supply side market power).
Notwithstanding our view that a "bottom up" generator cost build up is preferable to futures contracts for setting the wholesale price in the VDO, we understand that there is not sufficient time to employ this methodology for setting the inaugural VDO from 1st July 2019.

3.2. Network losses

3. ***How should the commission calculate transmission losses?***

As proposed in the Staff Paper.

3.3. Network costs

4. ***Are the tariffs set out in Tables 1 and 2 the appropriate tariffs to use for establishing the VDO?***

Yes.

5. ***How should we treat the calendar year network revenue determinations in the context of the introduction of the VDO from 1 July 2019?***

Treatment could be to set the first VDO period from 1st July 2019 to 31st December 2019 using current 2019 tariff determinations. Subsequent VDO periods could then be set annually from 1st January 2020 and aligned with calendar year network tariff determinations in an ongoing sense.

3.4. Environmental costs

Environmental costs should be set at the regulatory "cap" prices for VEECs, STCs and LGCs in an effort to avoid underestimating environmental certificate costs intra VDO periods.

3.5. Retail operating costs and customer acquisition and retention costs

6. ***Do you agree with our proposed approach of using benchmarking? If not, why not, and what alternative approach should we consider?***

OES considers that a "bottom up" approach to develop a retail cost stack, using actual retailer data, would be preferable to benchmarking alone. However, for setting the inaugural VDO pricing we understand that benchmarking is the only feasible approach given the short time to complete the task (~ 3 months).

7. ***What should be included as efficient retail operating costs and a modest customer acquisition and retention costs allowance?***

OES has insufficient data to comment.

8. ***For electricity retailers – how readily can you separate customer acquisition and retention costs from other operating costs? What issues might we need to consider?***

OES has insufficient data to comment.

What factors should we take into account if we use existing benchmarks for retail operating cost? What are the issues and how might we address them?

OES has insufficient data to comment.

What kind of costs should be included in a "modest allowance" for customer acquisition and retention costs? How might we define a "modest allowance"?

OES has insufficient data to comment.

What issues do we need to consider in terms of establishing a benchmark for customer acquisition and retention costs? For example, are there existing benchmarks (or data sets) we might use?

OES has insufficient data to comment.

What alternative approaches to benchmarking might we consider to estimate retail operating costs? What are the pros and cons of these alternatives?

Refer to answer for Question 6 (above).

3.6. Retail operating margin

What factors should we take into account if we use existing benchmarks for retail operating margin? How might we address this?

OES has insufficient data to comment.

3.7. Other costs

9. ***Are there any other costs incurred by an electricity retailer that we should consider? Why?***

OES has insufficient data to comment.

Are there any approaches we should consider to establish a benchmark for the retail margin?

No comment.

4.1. Cost allocation and tariffs

9. ***Does this proposed structure provide a simple and practical approach to deal with the variety of standing offers?***

No comment.

11. ***What other approaches to cost allocation would you consider appropriate?***

No comment.