



Victorian Default Offer Draft Decision

[Applying from 1 July 2023]

Public forum
30 March 2023



Acknowledgement of country

We acknowledge the Traditional Owners of all of the lands wherever you are today.

We pay our respects to Elders past, present and Aboriginal Elders of other communities who may be with us.

We also acknowledge the connection Indigenous Australians hold to country and culture.



Barring Djinang artwork by Jade Kennedy.
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Welcome



Please mute your microphone



This public forum is being recorded (including questions, comments and chats) and will be published on our website



Use the zoom chat for questions

Our approach today

We're keen to hear from you

We will engage on matters you'd like to explore further

Please make submissions via Engage Victoria:

Due date - 11 April



Today's agenda

11:00 am	Introductions – Kate Symons, Commission Chair
11:05 am	Our draft decision – Dean Wickenton, Senior Regulatory Manager
11.15 am	Stephanie Tonkin – Consumer Action Law Centre, Chief Executive Officer
11:25 am	Emma King – Victorian Council of Social Service, Chief Executive Officer
11:35 am	Bruce Mountain – Victoria University Energy Policy Centre, Professor and Director
11:45 am	Jane Sing – Australian Energy Council, Retail Policy Lead
11:55 am	Questions – Marcus Crudden, Executive Director
12.15 pm	Closing – Kate Symons, Commission Chair

Energy consumers' rights and protections

- Draft decision proposes increases in Victorian Default Offer prices, reflecting change in wholesale markets.
- Recognise the impacts of these proposed increases amid broader cost-of-living concerns.
- Support consumers to navigate the impacts of a volatile energy market.
- Uphold the rights and protections of energy consumers. The impacts of higher wholesale energy is front of mind as market prices begin to flow through to retail markets and consumer energy bills.
- Use our full suite of regulatory tools to support and promote retailer compliance with critical safeguards in place to protect Victorian energy consumers.

Retailer obligations and compliance

- Obligations to support customers under the Energy Retail Code of Practice and payment difficulty framework.
- Best offer information on energy bill statements.
- Expect retailers will work with customers to fulfill these obligations – update of concession, help with utility relief grant obligations, referrals to other assistance.
- Key focus of our compliance and enforcement activities.
- The draft decision applies to only to the Victorian Default Offer – changes in market offers should not be linked to the default offer.

Financial support for customers

- We encourage customers to contact their retailer about payment plans, available concessions, rebates, grants.
- A new round of Victorian Government Power Saving Bonus started from 24 March. It offers eligible households \$250 to help ease cost of living pressures, and encourage customers to compare energy offers (via Victoria Energy Compare website).
- Links to Victorian Government concessions and benefits can be found on the [Department of Families Fairness and Housing Website](#)
- Details of Federal Government support to come.

Our draft decision

Proposed changes to 2023-24 Victorian Default Offer

Main driver of proposed higher Victorian Default Offer is wholesale costs, and then network costs (to a much lesser extent).

Cost component	Contribution to domestic bill increase
Wholesale	27.6%
Network*	4.4%
Retail	-0.8%
Environmental	-0.4%
Other	0.3%
Total	31%

* Assumed CPI

Proposed changes to 2023-24 Victorian Default Offer

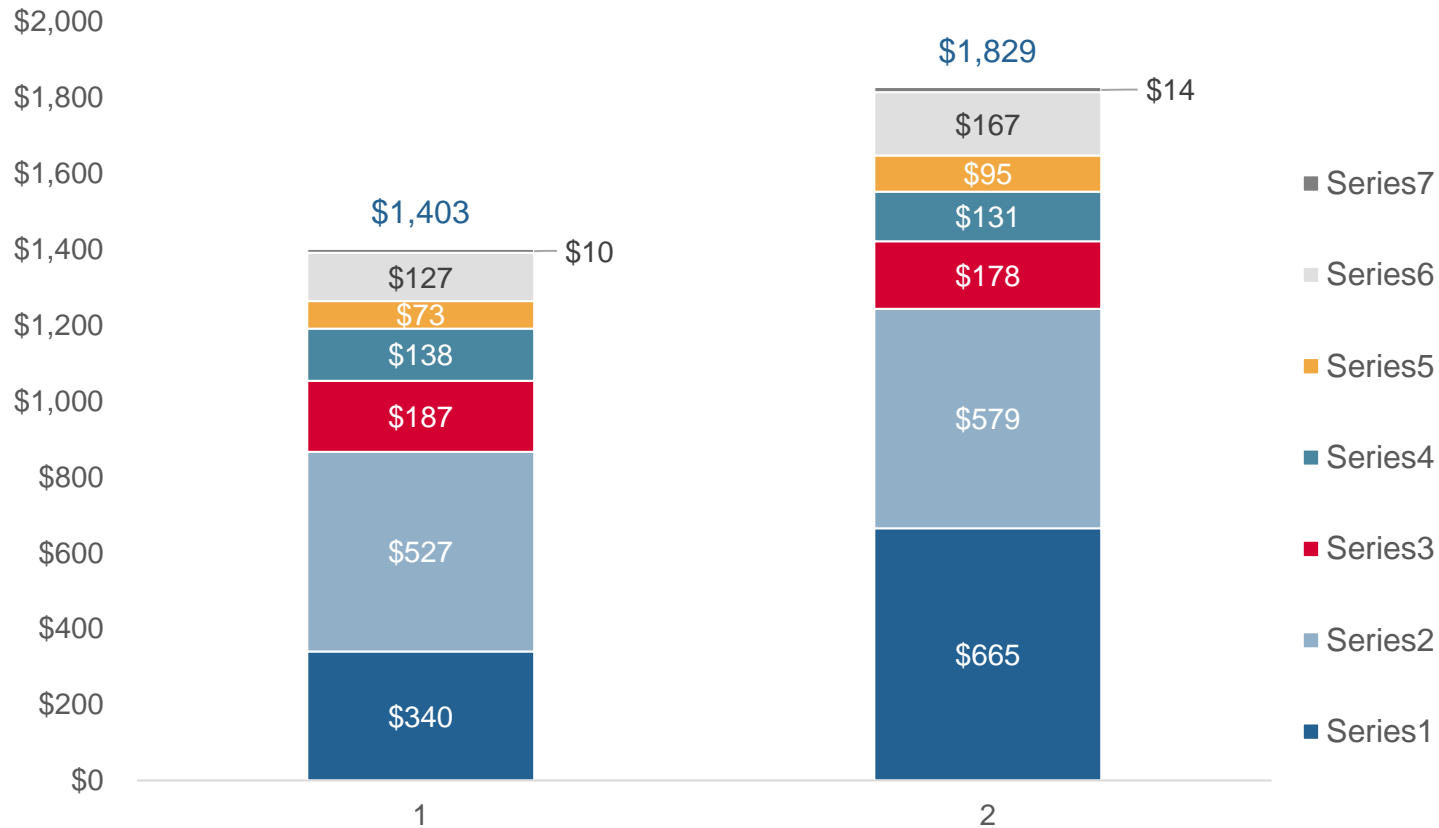
On average, across all five distribution zones:

- typical annual domestic bills would increase from \$1,403 to \$1,829 (an increase of \$426) with 4,000 kWh usage
- typical annual small business bills would increase:
 - from \$3,039 to \$3,917 (increase of \$878) with 10,000 kWh usage
 - from \$5,620 to \$7,358 (increase of \$1,738) with 20,000 kWh usage

Changes also include:

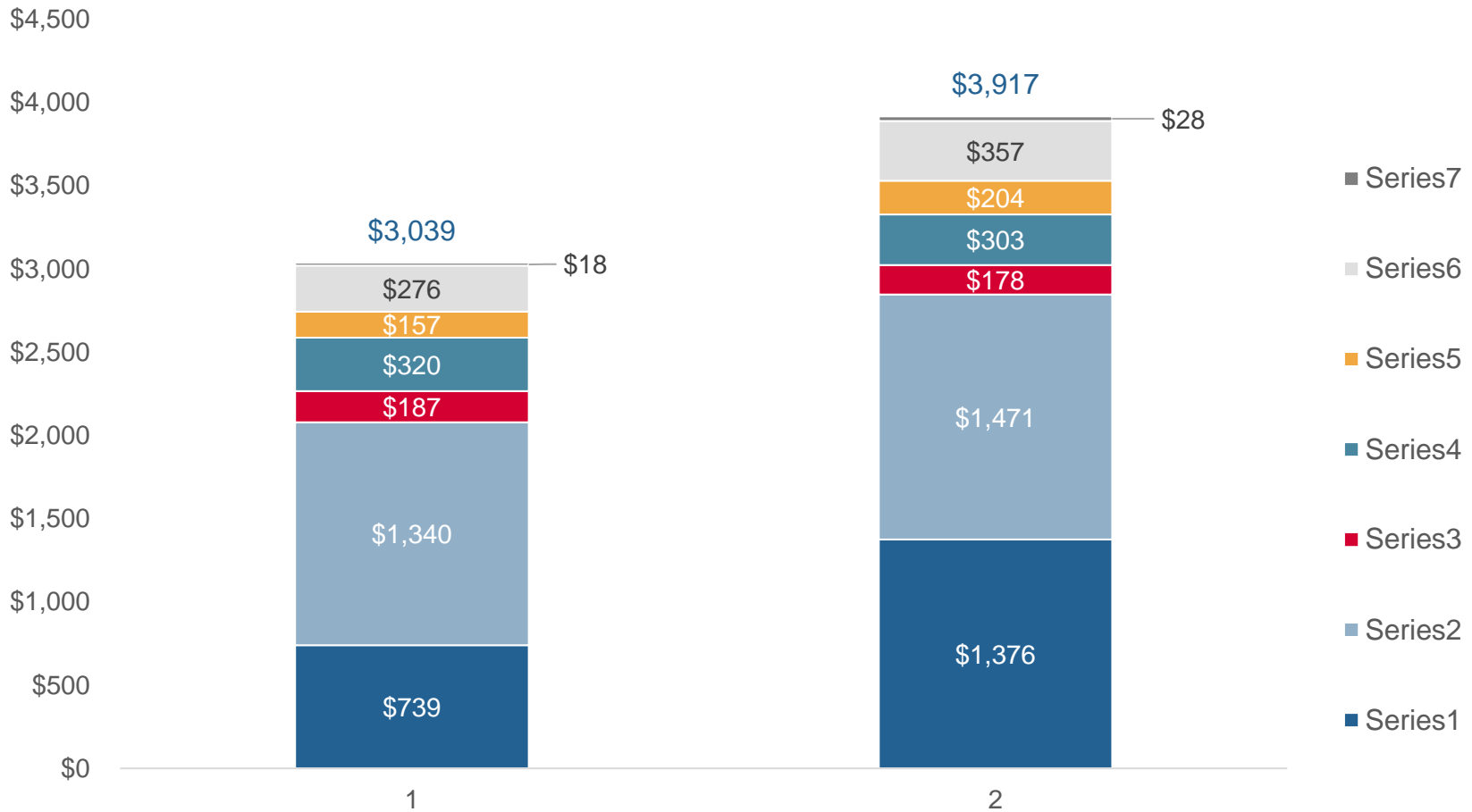
- Retail operating costs now based on actual costs
- Market intervention costs

Draft decision – domestic flat tariff with 4,000 kWh usage

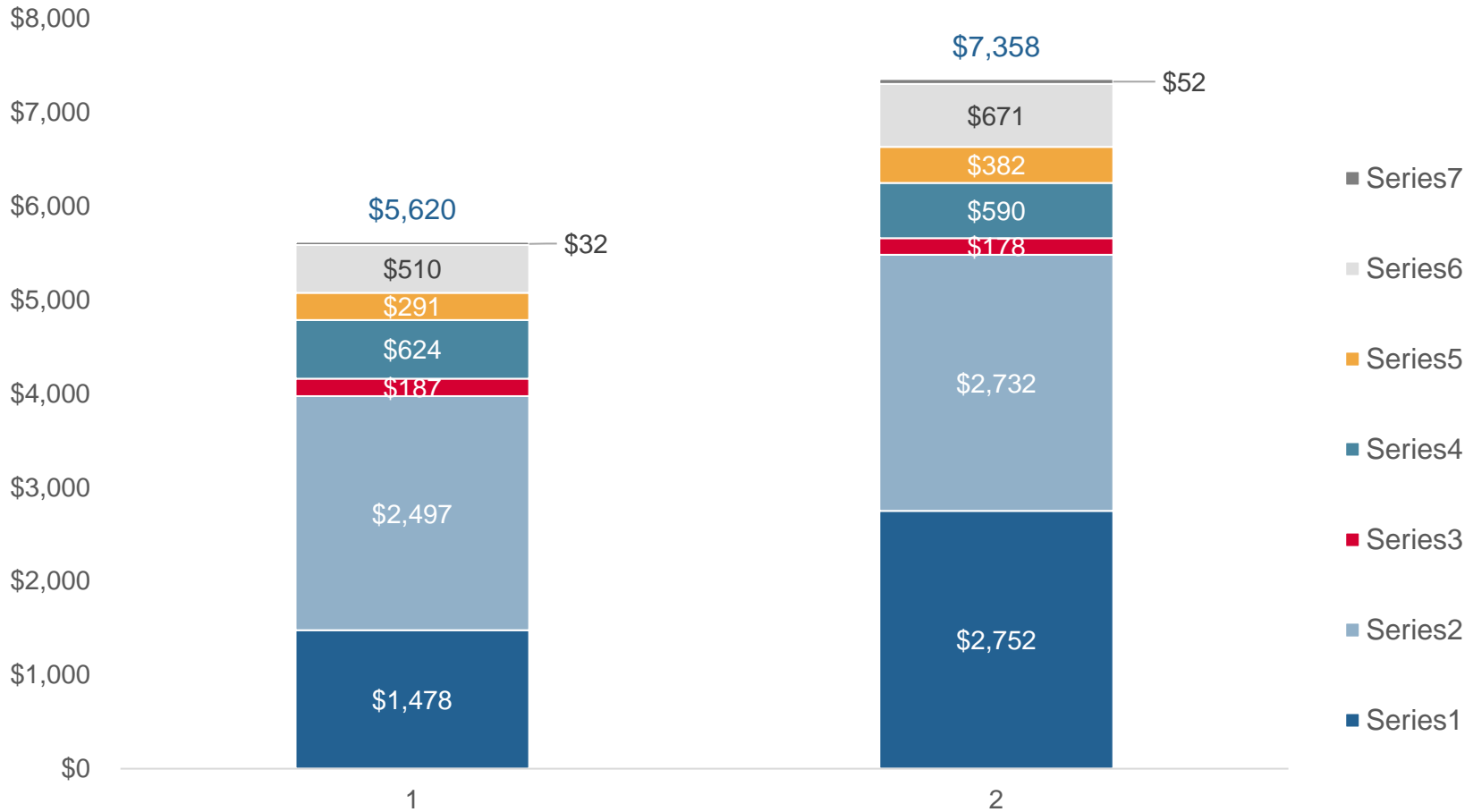


- Some figures will differ in our final decision (in particular network and wholesale costs) as we will update the costs closer to our final determination.

Draft decision – small business flat tariff with 10,000 kWh usage

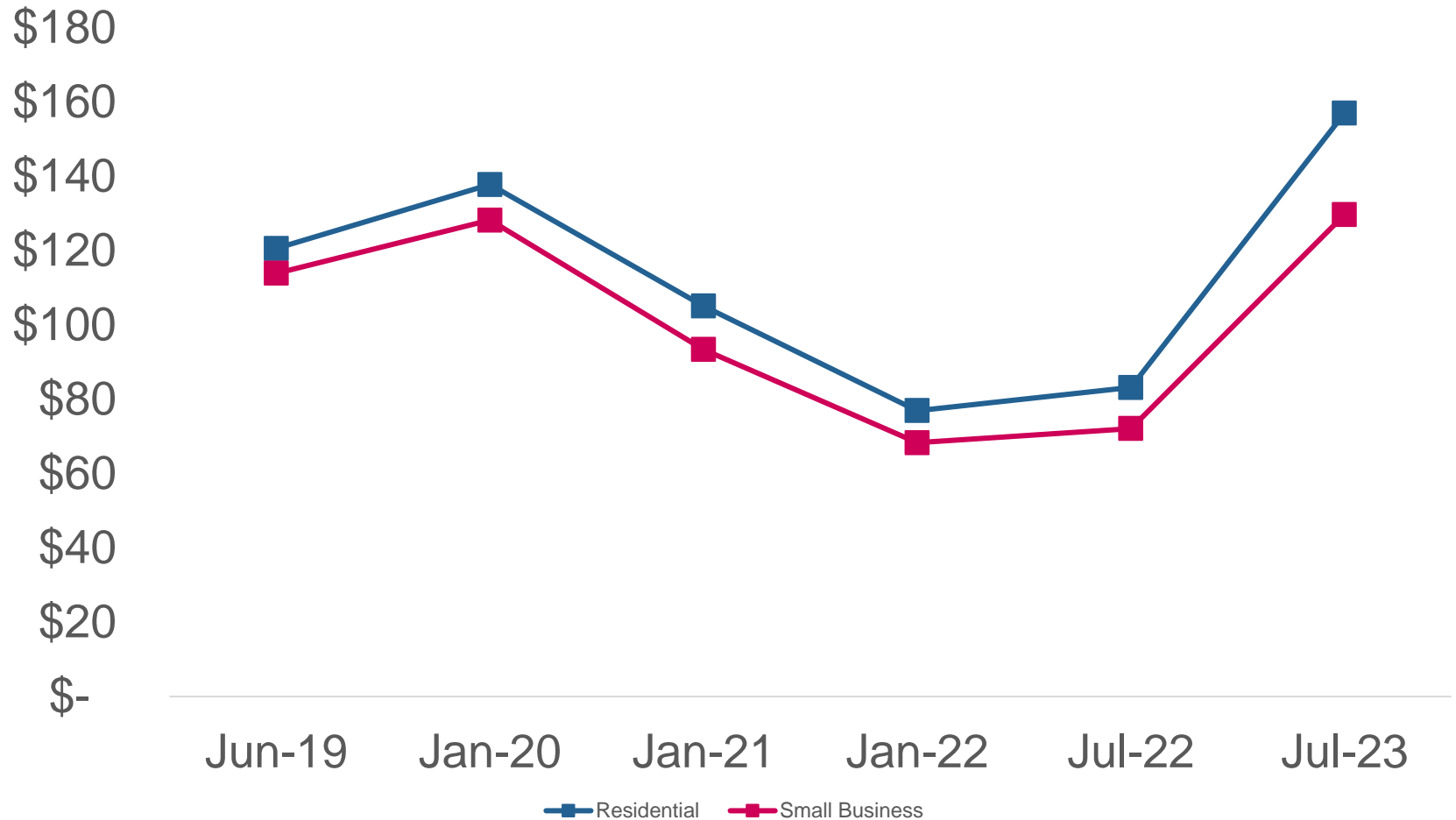


Draft decision – small business flat tariff with 20,000 kWh usage



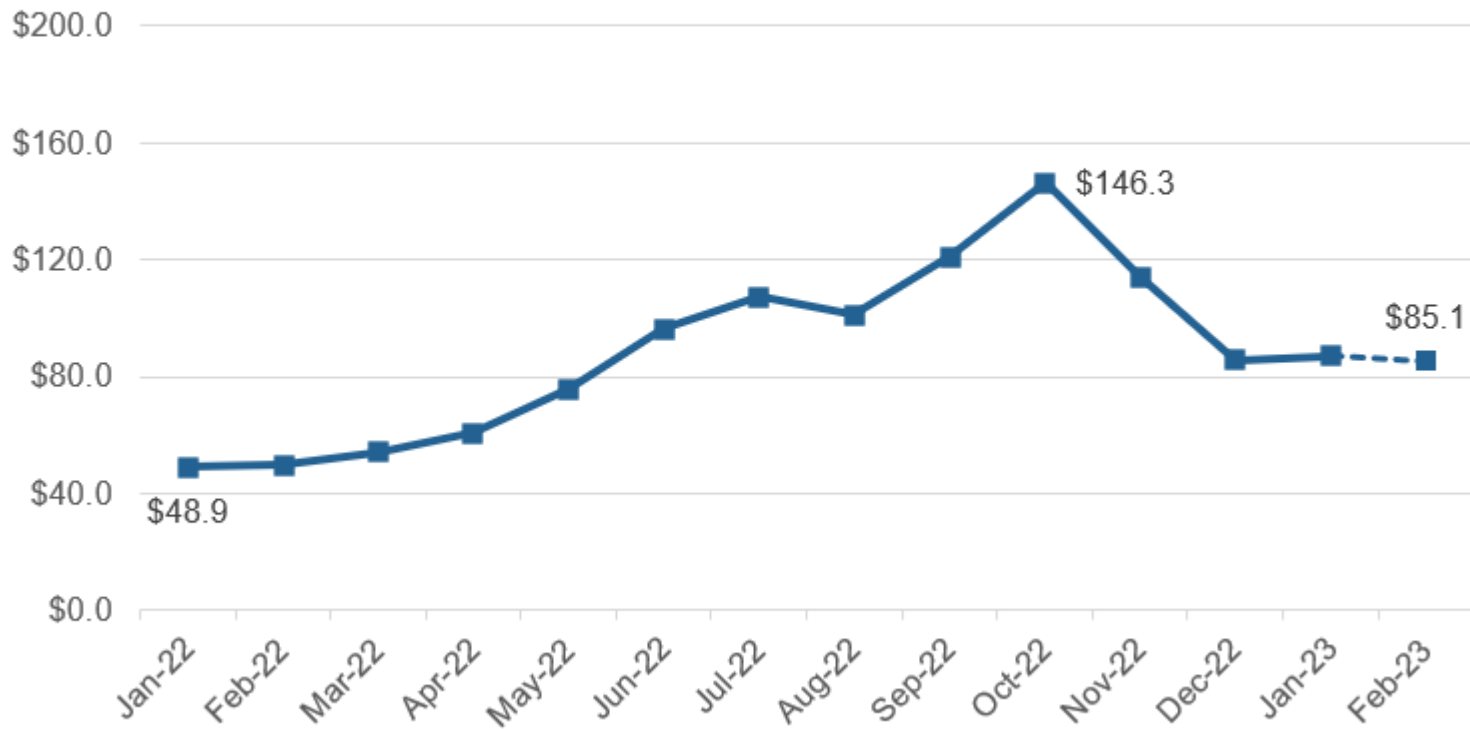
Wholesale cost assumptions for VDO over time

WEC \$/MWh averaged across distributors for VDO decisions \$2022/23

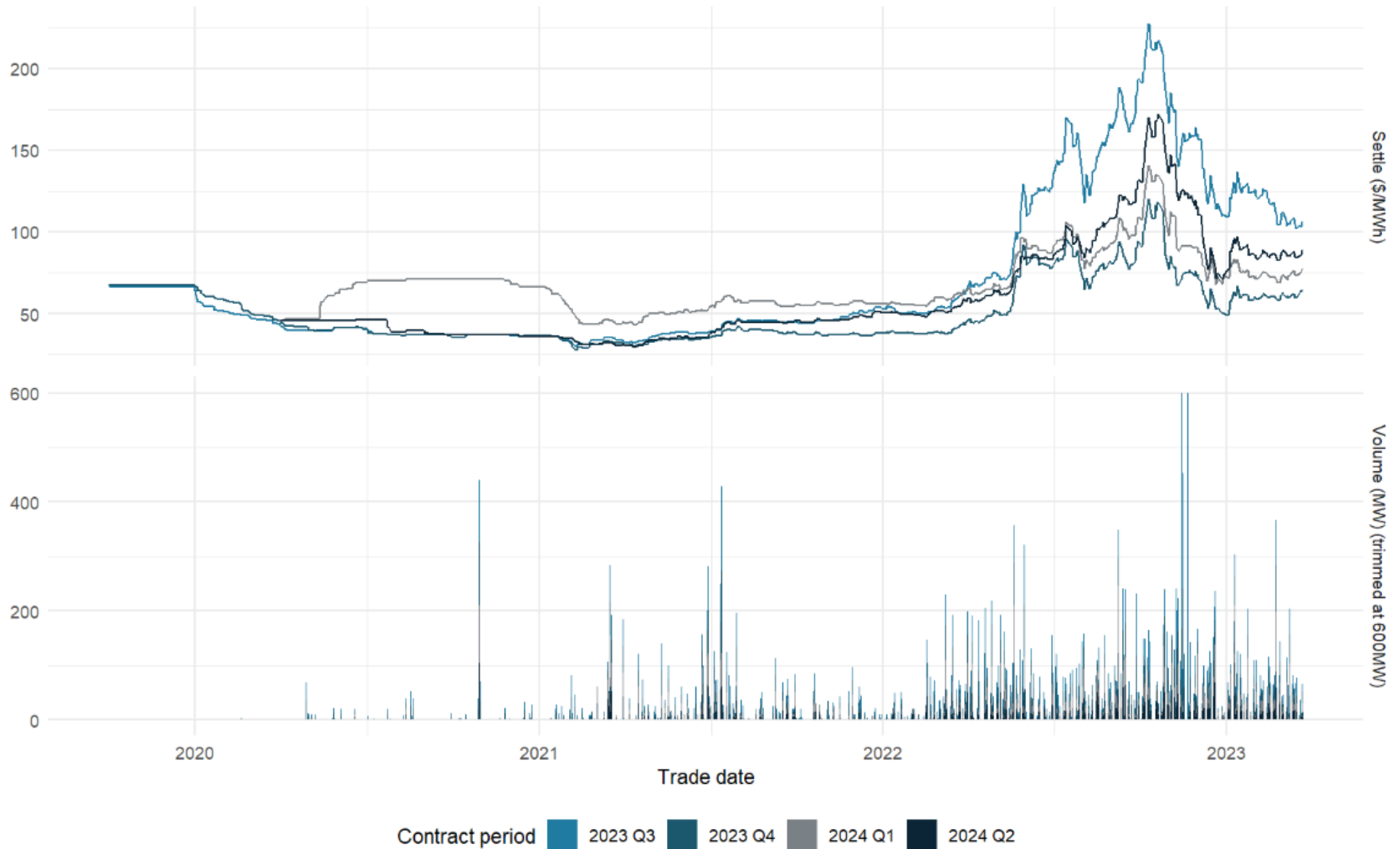


Wholesale futures costs for 2023–24 increased significantly in 2022 but have stabilised now

Average monthly price of Victorian base swaps for 2023-24 (\$/MWh)



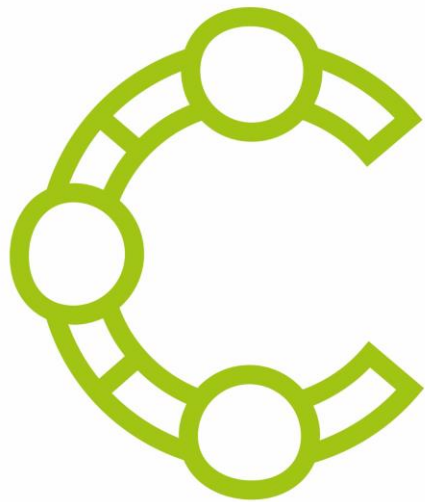
Our benchmark reflects ASX trade volumes



Timeframes for the Victorian Default Offer 2023–24 review

Key milestone	Date
Consultation paper release	8 December 2022
Submissions on consultation paper close	30 January 2023
Draft decision – release	15 March 2023
Draft decision – public forum	30 March 2023
Draft decision – submissions close	11 April 2023
Final decision and determination – release	By 24 May 2023
Victorian Default Offer 2022–23 takes effect	1 July 2023

Stephanie Tonkin, CEO, Consumer Action



consumer
action
law centre

OFFICIAL

Emma King, CEO, Victorian Council of Social Service



People
Equity
Wellbeing

Bruce Mountain, Professor, Victoria University

Comments on the VDO 2023-24 Draft Decision

Jane Sing, Interim Retail Policy Lead

30 March 2023

Key points

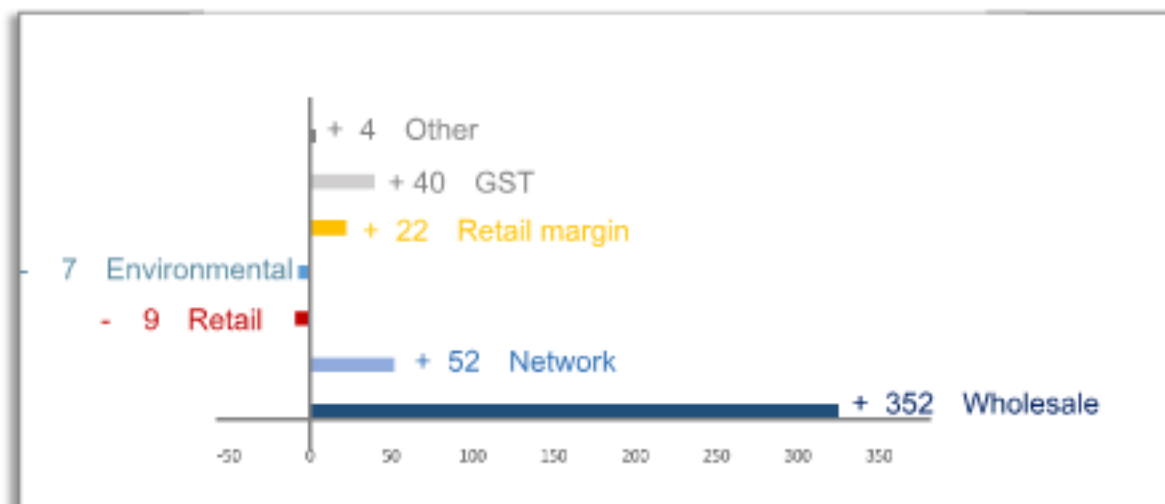
- **Change in price – key drivers**
- **A stable system benefits everyone**
- **Elements to monitor**

VDO increases are driven by the need to recover higher wholesale and network costs

Domestic – 4MWh p.a



Price Delta



- The cause of the increases was mostly the high prices and volatile wholesale market – driven by domestic and international factors

The VDO represents a simple, trusted, and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity market in Victoria.

System stability relies on allowing retailers to recover efficient costs with a consistent principle-based approach

"Allowing retailers to recover efficient costs will help avoid costly retailer of last resort events, such as those that affected the United Kingdom in financial year 2021-22. It will also ensure that retailers continue to invest in the industry to drive the types of innovation that lead to long-term sustainable cost-efficiencies".

ESC, VDO 2023-24 Draft Decision Paper, p5.

- On the whole, the AEC commends the ESC in the **stable and principle-based approach** applied in its Draft Decision.
- **Critical to the process** at this time of heightened volatility:
 - 1 **Clarity of the regulator's role in the system**
 - 2 **Consistency in approach**

Each actor playing their role in the system is, more than ever, important to maintain system stability.



The role of the regulator is to set a determined price inline with the VDO objectives.

It is not their role to adjust their assessment based on a view of affordability.



Retailers have programs in place to support customers in circumstances of hardship.



There are other community-based and government support mechanisms – such as the Energy Relief Package



To the extent that support is required beyond these, it is the role of government to step in.

Consistency is key

- **It's not a perfect science**, the main thing is to stick to the model the regulator has chosen.
- **The VDO is a signal – acting somewhat like the observer effect**

Examples:

- The **WEC approach being based on prices 12 months prior** is a key input into retailers' forecast revenue. Forecasts which cascade through to their hedging strategies and investment choices.
- The **inclusion of CARC allowance** signals to retailers to engage with customers with the capabilities and products required in a competitive market



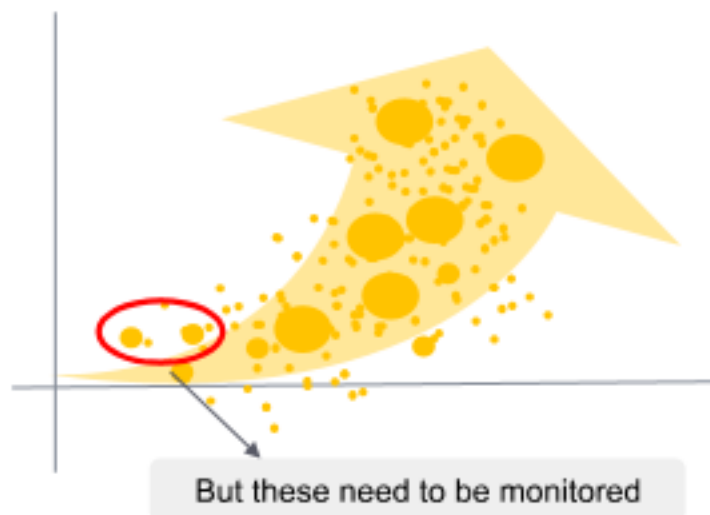
Consistency delivers an essential underpinning (unquantifiable) confidence impact.
Minimises regulatory risk for retailers ◊ more competition ◊ better outcome for customers

There are points of compromise to monitor

The challenge of a balanced calculation method



ESC, necessarily, applies materiality assessments and points of compromise.



Trending factors attached to points of compromise which warrant attention


Some to flag:

- Settlement on real losses:** Impacts on settled load shape of unaccounted for energy (UFE)
- Market liquidity trends:** Volume-weighted impact of OTC futures contracts on WEC prices
- Extreme wholesale market movements:** various types of extreme scenarios
- Increasing overall bill size:** Bundling of allowance for bad debts and impact of \$ per customer approach
- Diversity of retailers:** Weighting of retailer ROC data






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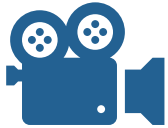
Questions



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The recording (including questions, comments and chats) + slides + questions will be published online

Resources

- **Victorian Default Offer 2023-24: Draft Decision**
- **Victorian Default Offer 2023-24 draft decision fact sheet**
- **Energy bill support for Victorians: What you need to know – March 2023**
- **Engage Victoria: Victorian Default Offer review 2023-24**
- **Energy - DFFH Services**
- **'It's your energy'**
- **Contact: VDO@esc.vic.gov.au**

Next steps

- Make submissions or comments via Engage Victoria – www.engage.vic.gov.au.

Key dates

- Submissions on draft decision paper – 11 April 2023
- Final decision and determination – 24 May 2023
- Victorian Default Offer takes effect – 1 July 2023

2023-24 Victorian Default Offer: Draft decision public forum

SESSION COMPLETE

THANK YOU FOR YOUR ATTENDANCE

