

11 April 2023

Essential Services Commission of Victoria
Level 8, 570 Bourke Street
Melbourne VIC 3000

www.engage.vic.gov.au

Lodged by email: VDO@esc.vic.gov.au

RE: Victorian Default Offer 2023-24 Draft Decision paper

Powershop is an innovative retailer committed to providing low prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Powershop has introduced several significant, innovative and customer-centric initiatives into the retail energy market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program.

Powershop thanks the Essential Services Commission of Victoria (**ESC**) for the opportunity to provide a submission in response to their Victorian Default Offer 2023-24 Draft decision paper (**the Paper**).

Statement

Powershop shares the concerns that the ESC has for consumers with rising energy costs and empathises with its customers in the current economic climate. Affordability for numerous essential services is a crucial issue not isolated to energy. Powershop already provides its customers with various supports and mechanisms that try to assist customers in reducing their energy debt. We will continue to do this as a priority.

Despite these pressures, Powershop believes the VDO is not a tool that should be used to address affordability. There are many mechanisms and support opportunities that the ESC could pursue with various stakeholders including government, outside of the VDO. Powershop would welcome any opportunity to discuss future initiatives with the ESC.

Powershop broadly supports the ESC to continue to consistently apply the methodology of the VDO as per its previous iterations. The draft decision presents a fair but more importantly for customers a realistic reflection of the challenging environment. This draft decision will at the very least provide customers an insight into the cost burdens the market has experienced and provides an outcome for the market that sustainable for retailers. By applying this decision, it may also further reduce any future VDO increases that could be material in their application.

Finally, despite the advice provided by the ACCC in their Inquiry into the National Electricity Market¹ and consideration for retailers to have an ability to pass through all relevant costs and to make a reasonable retail margin in a high-risk environment, Powershop does acknowledge the Paper's position to maintain a retail margin of 5.7% when considering the current cost of living issues faced by consumers.

¹ ACCC, Inquiry into the National Electricity Market, November 2022

Wholesale Costs

Powershop notes the ESC's acknowledgement of our concerns relating to smaller retailers having access to exchange traded contracts under a volatile wholesale market during the majority of the 2022 calendar year, hence a rise in costs.

Powershop also notes the ESC's paper acknowledged the concerns we raised "that ASX futures alone would not be sufficient to estimate wholesale costs"² and that trade weighted futures in isolation underestimate the true wholesale costs (we suggested a risk premium for the 2023–24 VDO to reflect current market conditions).

However, with the ESC's draft decision not to change its methodology for the wholesale element of the VDO cost stack, we would like to advise of the following issues that Powershop encourages the ESC to consider for its final decision.

Exchange traded contracts must form part of the wholesale cost methodology in order to recognise the hedging positions non-Tier 1 retailers must regularly take in order to manage their heightened risks in a volatile market. As a consequence, Powershop also reiterates the need for a risk premium to be embedded in the final decision.

Market Intervention Costs

Powershop acknowledges the ESC's agreement with our submission to the consultation paper that including residual costs in the 2024–25 VDO is appropriate and that a variation would only be warranted if the costs were highly material in application. Powershop supports the draft decision to retain the variation of price mechanism as per clause 6 of the current 2022-23 VDO price determination and to be included in this determination.

Retail Operating Costs

The Paper acknowledged the concerns that Powershop held with many other retailers that the benchmark set by the Independent Competition and Regulatory Commission should be maintained and adjusted for consumer price inflation, mainly due to this approach being more transparent, simple and stable for the market to follow.

Powershop is disappointed that the paper chooses not to recognise that higher bad debt provisions are a material cost driver for smaller retailers. Powershop believes it is flawed to rely on publicly listed tier 1 retailer information given the scale of their businesses and ability to smooth debt over a larger group of customers. This is not a true reflection of the high debt levels smaller retailers would carry. Powershop would expect the ESC to adjust the VDO for any future higher costs as they apply to smaller retailers due to an increase in bad and doubtful debts.

Consumer Data Right Costs

Powershop, with many other retailers supported the implementation of a Consumer Data Right (CDR) cost pass through in its submission to the ESC's consultation paper. CDR will be an ongoing cost imposed on retailers to provide resources to satisfy compliance obligations.

In response the ESC has stated that

"The information before us suggests that if we base our benchmark on retailer cost data for 2021-22 consumer data right costs will be accounted for. Cost data from retailers required

² Essential Services Commission Victoria, Victorian Default Offer 2023-24, page 13



to comply with the consumer data right by November 2022 indicate that their 2021–22 retail operating cost data include ongoing consumer data right costs.”³

Powershop would prefer to see transparency on the allowance that has been allocated for this VDO under the retailer operational costs allocation and for this transparency to continue beyond this determination.

Powershop will confidentially provide the ESC with its estimated cost of complying with the CDR. Specifically with implementation costs that will be incurred through 2023. Powershop would urge the ESC to consider its and other retailers’ costs associated with the implementation of the CDR in the final VDO determination.

Consultation papers

Powershop supports the Paper’s decision to continue to provide formal consultation papers moving forward as per the current process based upon the advice we provided in our submission.

Conclusion

Powershop welcomes the ESC’s approach to tackling the costs imposed on the market and customers through the VDO and its understanding that the VDO is a mechanism used to reflect true market positions (not a mechanism to drive unviable short-term outcomes). Powershop would welcome further engagement with the ESCV on the points highlighted through this submission. If you would like to discuss, please contact Alan Love at alan.love@powershop.com.au.

Yours sincerely,

Libby Hawker
GM Regulatory Affairs and Compliance

³ Essential Services Commission Victoria, Victorian Default Offer 2023-24, page 31