

Victorian Default Offer 2021

Draft decision

Online public forum

Thursday 8 October 2020



Welcome

- Please mute your mic.
- Please note this public forum is being **recorded** – including questions, comments and chats.
- Please use Slido for any questions – we will respond during our Q and A session. You can also add questions to the zoom chat.
- Head to **<https://www.sli.do/>** and use event code **VDO21**.

Our approach today

- This is intended to be a conversation with stakeholders – we will engage with the matters you'd like further exploration of.
- We encourage you to make a submission via Engage Victoria – www.engage.vic.gov.au by 20 October.

Today's forum

11:00am – Introduction (Kate Symons, Commission Chair)

11:05am – Our draft decision (Jonathan Roberts, Project Manager)

11:15am – Ben Barnes (Australian Energy Council)

11:25am – Patrick Sloyan (Consumer Action Law Centre)

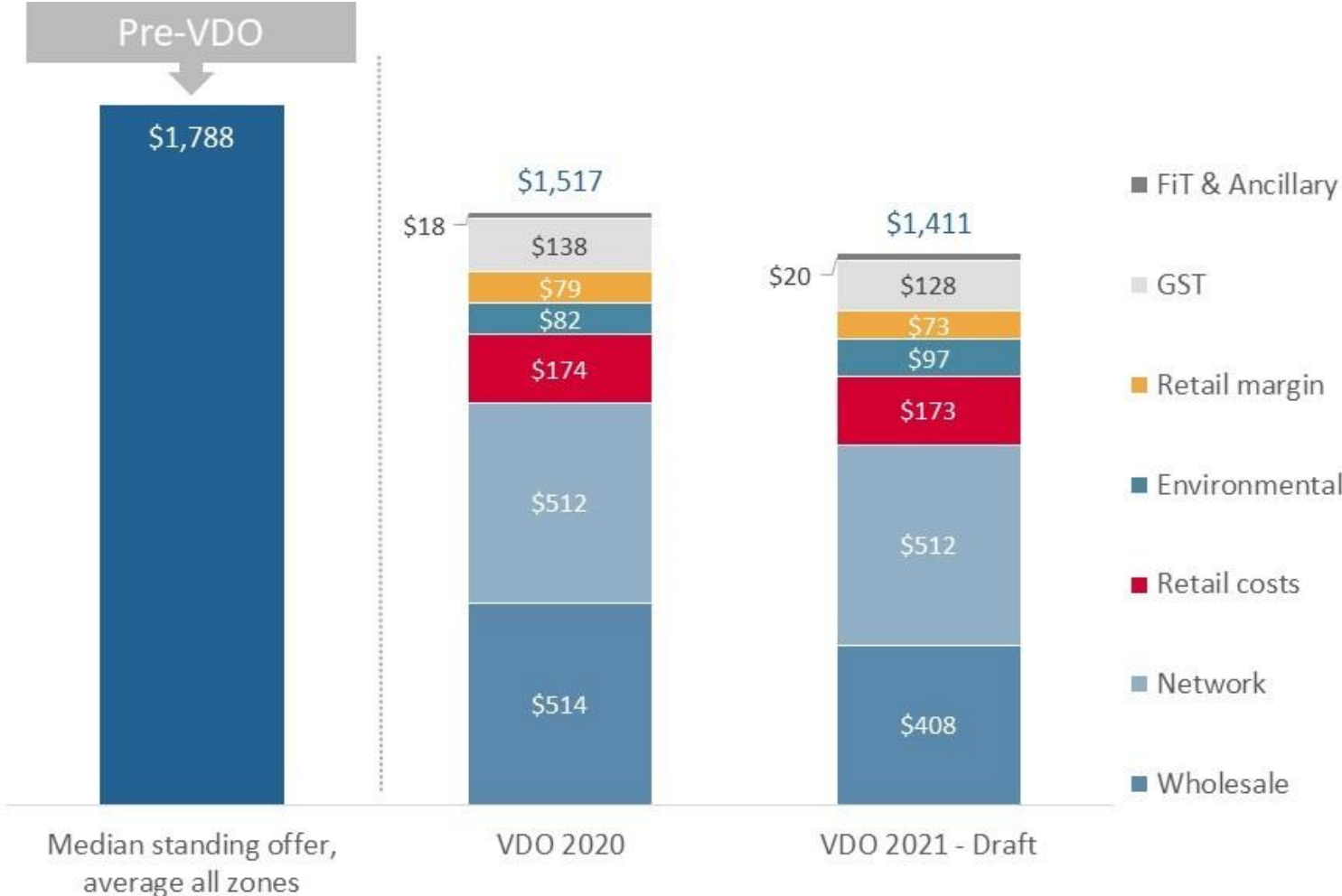
11:35am – Question and answer session (via Slido)

11:55am – Closing comments (Kate Symons, Commission Chair)

Draft decision at a high level

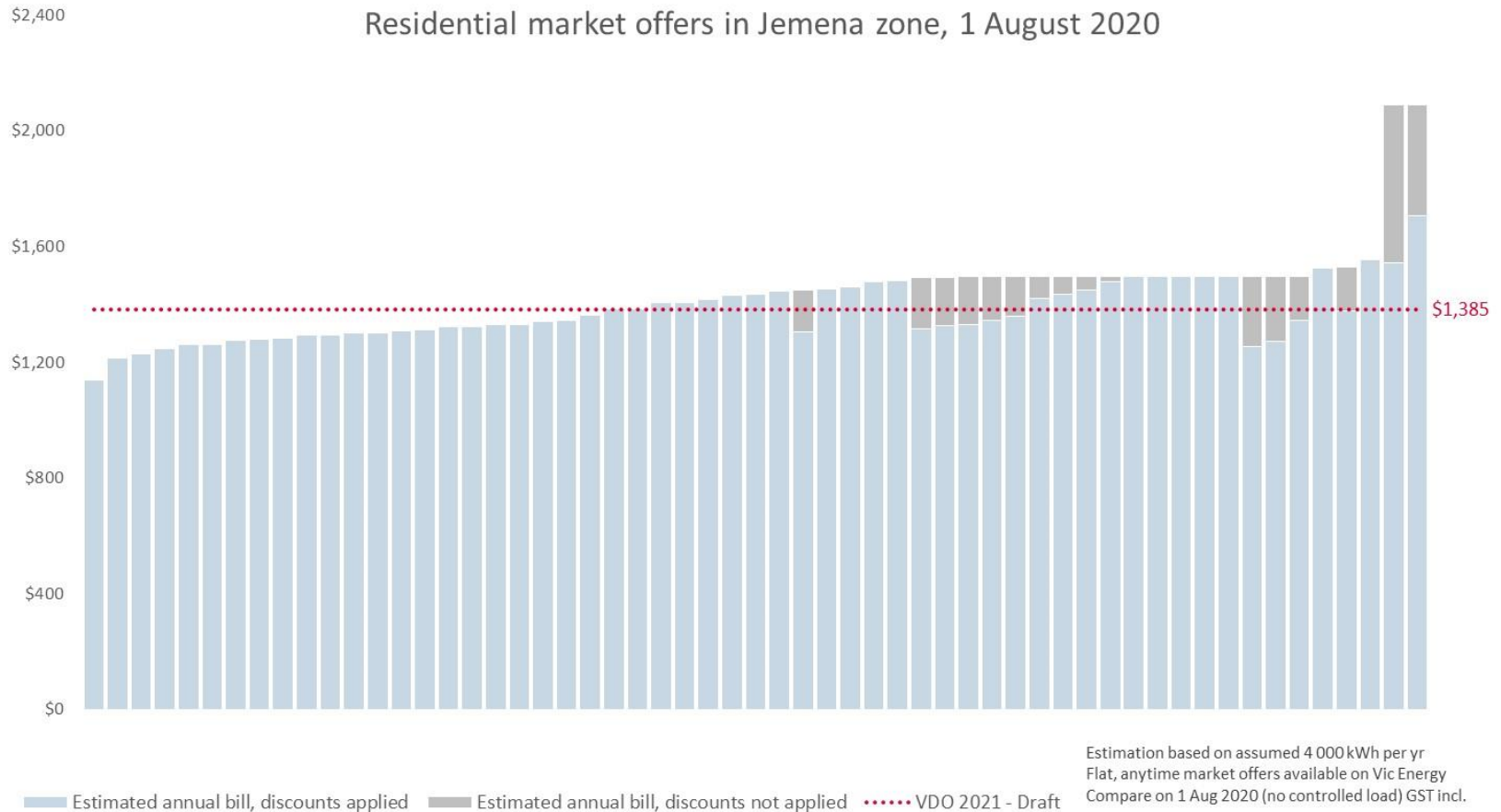
- Our draft decision uses a similar approach and methodology to that used in our 2020 VDO determination.
- We have proposed a regulatory period of 12 months.
- We have included variation mechanisms for two uncertain events:
 - changes in network tariffs during 2021
 - potential changes in costs due to the coronavirus pandemic.
- Our draft decision does not adjust cost allowances to reflect the impacts of the coronavirus pandemic.
- We will update our cost forecasts and consider stakeholder feedback prior to making a final decision in November.

Impact of our draft decision on annual bills



* Estimated annual bill for residential VDO customers (average across five distribution zones)

Our draft decision compared to market offers – Jemena zone



12-month regulatory period

- We asked stakeholders to consider the merits of a six, 12, or 18-month reg. period – noting network tariff changes in the period.
- Six-month regulatory period is not workable – it is unlikely network tariffs will be approved by the AER in time for us to issue a new determination by late May 2021.
- 18-month regulatory period would require changes to the way we estimate several parts of the cost stack – we would need to consult on this.
- We have proposed a 12-month regulatory period, with a variation mechanism to pass through changes in the level of network tariffs – changes to the structure of network tariffs may require further consultation.

Variation mechanism

- We propose to carry forward the current variation mechanism – providing for things that are:
 - uncertain or unforeseen when making the determination, and
 - sufficiently material to impact our benchmark efficient cost allowance for the supply of an electricity retail service.
- We nominated the AER’s network tariff approval as an event that would lead us to consider a variation to our determination – accounting for changes in the level (and possibly the structure) of network tariffs.
- We seek your feedback on cases where you think we may not need to consult on making a variation.

Potential impacts of the coronavirus pandemic

- Retailers raised concerns about the potential of increased costs resulting from the pandemic – bad debts and operating costs.
- We note the challenges retailers face in providing evidence of cost increases related to the pandemic – but we have not yet received enough information to justify any change.
- We will continue to consider information on the change in total costs since restrictions associated with the pandemic began – reviewing relevant cost information such as bad debts.
- If necessary, our variation mechanism would allow us to adjust the VDO to account for increases in costs associated with the pandemic that are uncertain when we make our final decision.

Ben Barnes – General Manager, Retail Policy (Australian Energy Council)



Key recommendations for ESC

- Identify approaches to ensure retailers are able to recover unexpected costs
- Develop approaches in a competitive market to account for capital expenditure
- Set VDO timeframes in a manner that avoids unnecessary price changes and additional risks

Priority 1: Unexpected costs

- The impacts of COVID has highlighted shortcomings in the existing price setting methodology
- The VDO is set based on forecast costs, however has no mechanism for unavoidable costs to be recovered retrospectively
- DD notes:
 - retailers incurred additional costs in 2020 to manage the COVID pandemic response, but these are not relevant to delivering energy in 2021.
 - retailers are expected to incur additional costs due to increases in bad debts in 2021, but without quantification cannot be included in the 2021 prospective VDO calculation.

Recommendation

- The ESC should develop an approach to allow retailers in a competitive market to recover efficient, unexpected costs in future years.

Priority 2: Recovering efficient capital expenditure



- The existing methodology does not provide for a predictable means of recovering capital expenditure in a competitive market.
- 5MS decision highlights this issue – the market will incur significant implementation costs, which have been deemed efficient by the AEMC
 - Yet, the ESC appears to require all retailers to incur ongoing, annual costs before allowances are considered.
- Monopoly price regulation allows businesses to recover their own efficient capex costs, however the ESC's 'efficient retailer' approach in the VDO appears to cherry pick outcomes based on the lowest cost.

Recommendation

- The ESC should develop a predictable methodology for the VDO to account for efficient CAPEX costs caused by regulatory interventions

Priority 3: Minimise VDO change dates

- The AEC does not support the proposed approach to set a 12 month VDO on 1 January 2021, with a NW price reset on 1 July 2021.
- The ESC note that NW prices will not be published in time to meet deadlines in the pricing order, and as such appear to suggest using the variation mechanism as a means of avoiding the VDO change requirements.
- This approach would not mitigate timing issues on retailers, who presumably will still be required to undertake a price change, including notifying all impacted customers.

Priority 3: Minimise VDO change dates

- The ESC's proposed approach would result in a number of other unintended outcomes:
 - VDO customers will receive 4 price changes in a two year period, before prices will align with mid-year NW change dates
 - 1 January 2021
 - Around 1 July 2021
 - 1 January 2022
 - 1 July 2022
 - Pandemic impacts post 31 March 2021 will not be able to be accounted for until 1 January 2022
 - Market offer change dates will not align with VDO price change dates

Recommendation

- The ESC should set the VDO on 1 January 2021, 1 August 2021, and 1 July 2022.

Patrick Sloyan – Senior Policy Officer (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?

"...these bills they've killed me over the years."

"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

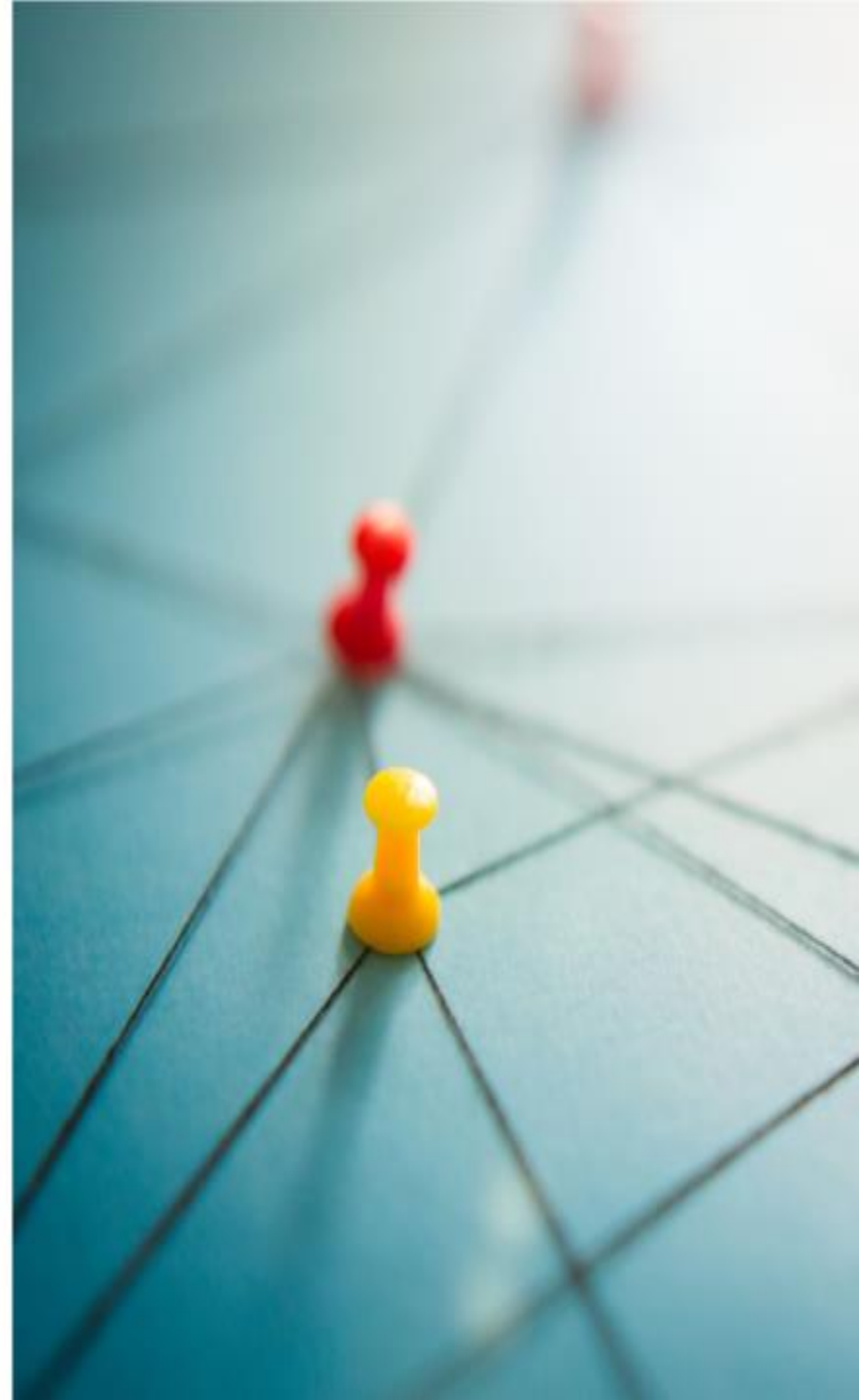
Our thoughts on the draft decision

1. Falling prices for households
2. Ensuring households not wearing inappropriate risk
3. Productivity factor
4. Customer Acquisition and Retention Costs should decrease over time
5. Enabling access to the VDO

Conclusion

Getting fair prices for all households

- Returning to the purpose of the VDO
- The impact of COVID and the need for energy companies to 'step up' and support their communities
- Protections for gas are needed too



Q and A

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- Please use Slido for any questions - head to <https://www.sli.do/> and use event code **VDO21**. You can also add questions to zoom chat.
- You can raise your hand in zoom if you'd like to add to the conversation.
- We will make the presentation slides, a video recording and responses to any questions (including those we may not be able to answer today) available on our website.

Next steps

Responding to our draft decision

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

Key dates

- Submissions on the draft decision close – 20 October 2020.
- Final decision and determination made – 25 November 2020.
- 2021 VDO takes effect – 1 January 2021.