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EnergyAustralia

LIGHT THE WAY

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne, Victoria 3000

Lodged electronically: <https://engage.vic.gov.au/review-maximum-prices-embedded-networks>

Essential Services Commission – Maximum prices for embedded networks and other exempt sellers: Draft Decision – 29 April 2020

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EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We support the Commission's draft decision to set the maximum price for small customers in embedded networks in line with the Victorian Default Offer (VDO). This includes prescription of flat tariff prices and compliant maximum annual bill amounts for non-flat tariffs.

We also support the Commission's decision to delay the implementation of the maximum price to 1 September 2020. We expect the final decision and associated price determination will provide sellers enough lead-time in the event they are required to adjust their prices to comply.

Our support for the draft decision reflects the high administrative cost in imposing different maximum prices for exempt and non-exempt sellers, whose underlying costs may not be materially different. We still have underlying 'policy' concerns with adoption of the VDO as it is being set in line with the Commission's view of efficient costs, rather than the approach under the Default Market Offer which contains a competitive allocation (otherwise referred to as 'headroom') that provides a financial gain to customers seeking out a better deal.

The Commission's draft decision refers to policy objectives of the Victorian Government that customers of exempt sellers should be given comparable protection as customers of licensed retailers. We understand that the Government will eventually consult on wider reforms, which will likely follow the AEMC reforms outside of Victoria (still pending decision by COAG EC). The expected removal of barriers to these customers going 'on market' under the wider reforms would eventually erode the justification for imposing any maximum price, as competition for these customers increases. Conversely, setting a maximum price at the VDO's lower level may discourage on-market retailers competing for these customers when barriers are removed, and would also reduce the expected benefits of wider reforms (with material implementation costs) that enable choice in supply.

The Commission should further clarify the expected net benefits of its final decision. The Commission's recent media release¹ implies that more than 100,000 small embedded network customers would be affected by its decision. The expected price reductions quoted by the Commission (e.g. at least \$180 per year for residential customers) reflect the entire difference between standing offer prices relative to the VDO as at May 2019. Our understanding is that a significant proportion of customers pay less than the existing price cap. The Commission should be mindful of suggesting that, in the absence of its decision, exempt sellers would be charging the maximum price allowed under the General Exemption Order, as this would unfairly undermine consumer trust. Similarly, creating unrealistic expectations of price reductions would cause reputational damage to sellers and the Commission.

Assessments of costs and benefits of the Commission's decisions are required under section 8A(1)(e) of the Essential Services Commission Act. The Commission's draft decision cites the AEMC which considered "anecdotal evidence and some submissions" that customers appear to be paying close to the standing offer price.² The Commission's price determinations represent a serious market intervention and so should be accompanied by its own analysis of what customers are currently paying in Victoria. Arguably this analysis should have formed the basis of the Victorian Government's 2017 decision to give the Commission a role in price regulation of embedded networks. To the extent market offer prices provide some guide to what occurs in embedded networks, the Government noted that these prices were lower than standing offer prices at the time.³ The lack of any cost/benefit assessment is unfortunately a characteristic of many policy decisions imposed on the energy sector, carrying a real risk that customers ultimately pay more than they should. The Commission should be always vigilant and provide its own independent view of the likely net benefits of government interventions. Such ex ante analysis in this case should also be a key input to the Victorian Government's broader review of embedded network regulation.

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

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¹ <https://www.esc.vic.gov.au/media-centre/apartment-dwellers-and-caravan-park-residents-could-save-hundreds-energy-bills>

² Australian Energy Market Commission, *Final report: Updating the regulatory frameworks for embedded networks*, 20 June 2019, p. iv.

³ Department of Environment, Land, Water and Planning, *Review of the Victorian electricity licence exemption framework – Final position paper*, 2017, section 5.2.