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

By electronic lodgment: https://engage.vic.gov.au/Victorian-default-offer-2021

20 October 2020

Victorian Default Offer 2021 – Draft Decision

Alinta Energy welcomes the opportunity to respond to the Commission's draft decision on the Victorian Default Offer to apply from 2021.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers has a strong interest in the determination of the VDO, as a key determinant in the effectiveness of the Victorian energy retail market.

The VDO period

The Commission notes it is unlikely that final approved network tariffs for Victoria will be available in order to apply these to the second half of 2021. Instead, it proposes to use the variation mechanism provided for by the pricing order to adjust the VDO for material changes in the cost components.

Given the large share of the bundled retail tariff attributable to network costs, a fundamental principle of price regulation must be that regulated retail price determinations tariffs reflect the approved and final network tariffs for the corresponding period.

To that end, Alinta Energy strongly encourages the Commission to consider the inclusion of actual approved network tariffs rather than a variation that might only be triggered on a discretionary basis. Therefore, we support the option of a VDO determination based on approved network costs early in the second half of 2021 that would apply until June 2022. For example, the Commission could determine a VDO to apply from 31 August 2021 to 30 June 2022.

Recovery of capital costs

Alinta Energy requests that the Commission considers how significant capital expenditure to support regulatory changes (such as five-minute settlement) is appropriately reflected in future VDO decisions. The retail energy market is a competitive industry, and approaches that may be taken to monopoly utilities allowing recovery of capital expenditure are inappropriate. Given ongoing and material reform in the National Electricity Market through the 2020s, a more nuanced approach to accounting for costs incurred by retailers is timely now that the VDO has been in operation for several years.

Alinta Energy Retail Sales Pty Ltd ABN 22 149 658 300
Grosvenor Place, Level 13, 225 George Street, Sydney NSW 2000 Australia
T +61 2 9372 2600 F +61 2 9372 2610 W alintaenergy.com.au

The impact on retailer operating costs from the COVID-19 pandemic

In response to the most challenging economic environment in Victoria across several generations, the Commission (and the AER) has understandably put in place measures to assist consumers through the COVID-19 pandemic. Retailers have also taken voluntary measures to help customers stay connected and to provide customers with even more flexible payment arrangements.

However, Alinta Energy is concerned with the asymmetric approach the Commission has adopted when assessing the increased retailer costs due to the prevailing economic conditions and additional regulatory obligations, requiring a higher standard of evidence than required by the Commission to introduce those additional regulatory obligations.

To date there has been little recognition of the impact of the pandemic's economic consequences on retailers through material amendments to regulation (including the VDO). The JobKeeper and JobSeeker assistance offered by the Federal Government is economy-wide and schemes for the possible deferral of network payments are complex, narrow, and administratively costly. Not providing an allowance for the impact of the pandemic on retailer operating costs is not in the best interests of effective competition in the retail energy market, nor the long-term interests of consumers.

Productivity factor for retail cost benchmarks

As part of the consideration of retailer operating costs, the Commission notes changes in listed retailer costs suggest a productivity factor for cost efficiencies might be included in subsequent VDO decisions.

Alinta Energy does not consider the application of productivity factors, akin to regulated industries subject to building block regulation and capital asset pricing models (as applied to distribution and electricity networks and other monopoly providers), appropriate to highly competitive industries such as the Victorian energy retail market. Retailers have no certainty of cost recovery or a guaranteed customer base to recovery costs.

In addition, the Commission remains reliant on historical benchmarks produced by the Independent Competition and Regulatory Commission, which, for example in the current Decision, does not include retailer operating cost impacts from the pandemic or material changes to market systems (such as the introduction of five-minute settlement).

Alinta Energy would welcome further discussion with the Commission on any of the matters raised in this response. Please contact David Calder (Manager, Regulatory Strategy) on (03) 9675 5359 in the first instance.

Yours sincerely,

Graeme Hamilton
General Manager, Government & Regulatory Affairs