



30 January 2023

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

By electronic lodgment: www.engage.vic.gov.au

Victorian Default Offer 2023-24 – Consultation Paper

Alinta Energy welcomes the opportunity to comment on the Essential Services Commission's consultation paper on determining the Victorian Default Offer for 2023-24.

We firmly support the Commission's intention to maintain its past approach to determining the VDO for 2023-24. This will provide certainty for energy consumers and retailers at a time of significant wholesale market volatility.

Alinta Energy understands the Commission's view that the determination process need not include an initial consultation paper unless material changes to the approach to determining the VDO is being proposed. In the current environment, it may be prudent to retain this initial step in the short term, with a view to removing it as market conditions stabilise.

We maintain our view that the ongoing need for the VDO should be monitored and reviewed in the future in the absence of evidence of market failure.

We have focused this response on the matters set out in table 1 of the consultation paper. These are set out below. Other issues are discussed in section 2.

1. Areas on which the Commission seeks feedback

Market Intervention Costs

Alinta Energy notes that the review of the VDO Order in Council concluded that the VDO is achieving its objectives. It also noted the importance of flexibility for the ESC in making determinations and the re-opening of or the varying of the VDO "to allow retailers to recover significant and unforeseen increases in costs".¹

This is of particular importance following the volatility and intervention in wholesale energy markets during 2022. We support the Commission's position that market intervention costs be passed through as "other costs" in the VDO cost build up. There are cash flow and working capital implications associated with the intervention costs for retailers as market customer participants in the NEM. Timely and reasonable recovery of these costs is important to support

¹ Review of the Victorian Default Offer (VDO) Order in Council (2022), *Final Report*, page 5.

retailer viability and competitive choice for consumers.

We understand the Commission is considering passing through market intervention costs via:

- (1) A re-opening of the VDO when the costs become known; or
- (2) Passed on in the 2024-25 VDO determination.

Alinta Energy considers that both approaches carry risk; a re-opening of the VDO may not align with timing and logistics for retailers to amend their prices. A delayed pass-through places significant pressure on retailers who will have to pay compensation and intervention costs far in advance of these costs being recovered.

A third approach we would strongly encourage the Commission to consider involves the inclusion of known costs and an estimate of costs to be incurred, with a true-up adjustment (either up or down) in the VDO for 2024-25. This would minimise the impact of market intervention costs on customers and retailers and would more accurately reflect the appropriate timing of cost recovery.

Retail Operating Costs

We support the maintenance of the benchmark approach to determining retail operating costs escalated by CPI. Maintaining a consistent approach in the short to medium term will provide certainty for retailers in a volatile operating environment.

Consumer Data Right

As noted in previous submissions on the VDO², costs associated with the CDR are material, and for second-tier retailers, the majority of costs are being incurred in the current and 2024 financial years. We have provided data separately to the Commission on CDR costs we have budgeted for.

While there will be ongoing operational costs associated with the CDR, these upfront costs are borne by retailers who have no choice but to implement the CDR as required by the Commonwealth.

Consumer Acquisition and Retention Costs

As for retail operating costs (discussed above), we do not believe there is a basis to change the approach to CARC at this time. Maintaining certainty and given the relative stability in rates of customer switching, Alinta Energy believes there is no grounds to alter CARC for the 2023-24 VDO period.

2. Other issues

Wholesale Costs

Alinta Energy supports the Commission's proposal to retain its futures market-based approach for the most recent 12-month period of available data. We agree that this reflects the approach of a prudent retailer in constructing its hedging position and will factor in recent wholesale market volatility, using the most recent data available.

Any review of the approach to wholesale costs in the future should be undertaken during a

² Alinta Energy's submission to the VDO 2022-23 draft decision (April 2022), page 3.
https://www.esc.vic.gov.au/sites/default/files/documents/Alinta%20Energy_0.PDF

period of lower market volatility.

Network Costs

As raised in previous submissions³, the timing of the determination of regulated network prices, where these occur as late as two months prior to the financial year to which they will apply to the VDO (and Default Market Offer) remains a source of unnecessary pressure.

While noting this issue is outside of the Commission's control, we maintain the view that there is no reason preventing the Australian Energy Regulator from finalising network tariffs earlier (e.g., early April of each year), given it is one of the key inputs into the VDO. The Commission should seek to impress on the AER the need for earlier finalisation of Network Costs, in order to remove the risk of potential delays in the finalisation of the VDO and that of retailer's ability to update their price arrangements.

Environmental costs

Alinta Energy supports maintaining the approach to determining environmental costs in the VDO. Consistency across VDO decisions in absence of fundamental market or regulatory changes provides certainty for retailers moving forward.

Other fees and charges

We support maintaining the pass-through approach to Australian Energy Market Operator fees, ancillary fees, Reliability and Emergency Reserve Trader scheme costs and retailer licence fees.

We would welcome further discussion of this response with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely



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³ *Ibid.*, page 2.