



EnergyAustralia

LIGHT THE WAY

25 May 2021

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Dear Chairperson and Commissioners,

VDO: Addressing changes to network tariffs

Thank you for the opportunity to comment on the Essential Services Commission's (ESC) proposed changes to the VDO to pass through the Australian Energy Regulator's (AER) final Victorian distribution network tariffs (Final Network Tariffs).

Overall, EnergyAustralia supports the VDO variation to pass through the Final Network Tariffs, and the proposed structural changes to the VDO prices to reflect the new Two Period TOU network tariffs via introducing specific VDO prices (Two Period TOU VDO prices). However, we are highly concerned that the final decision will not be made and released in time for retailers to set prices, meet the Gazettal Office deadlines (and therefore that the Gazettal date is not achievable) and other obligations related to price variations.

This submission sets out our views on a few issues regarding the detail of the ESC's proposed changes.

Effective date of variation to VDO

Assuming there will be no adjustment for under-recovered network costs (discussed more below), we support a 1 August 2021 effective date for the VDO variation to minimise the time lag and under-recovery of network costs. Importantly however, **if the ESC were to set a 1 August effective date, retailers would need the Final VDO prices to be released as soon as possible and at the latest by 22 June 2021.**

Retailers need sufficient notice of Final VDO prices to meet the many regulatory obligations and flow-on obligations related to changing the VDO (which is both a variation to Standing Offer prices and a change to the Reference Price). Complying with these obligations requires multiple interdependent steps across many internal teams and external vendors, at a time when price variations for non-Victorian states/territories and Market Offers are also occurring around the same time. These obligations include but are not limited to:

- Providing notice to the customer of a price variation via a Bill Change alert at least 5 business days before the price change occurs, or as soon as practicable for a tariff re-assignment (section 70L(2) Energy Retail Code (ERC)). The timings around this notice are particularly

challenging due to the multiple steps in drafting communications with updated price details and organising postage through third party mail house services and Australia Post. Retailers also need to account for extra time in their postage timelines to reflect deemed postage times (which deem when a customer is said to have received mail after postage).

- Advertisements must compare retailer prices with the Reference Price (VDO). e.g. A retailer's plan is 13% less than the Reference Price (VDO). Where the VDO changes, these percentages will need to be recalculated for retailer Market Offers and advertisements changed (Section 64F of the Energy Retail Code (ERC)).
- Update Vic Energy Compare with the new VDO Standing Offers and update the retailer's own internet site (Section 15A of the ERC).
- Publishing variations to Standing Offer prices (VDO prices) in a newspaper and on the retailer's website at least 10 business days before the variation occurs and, on the customer's next bill.

The information in the Bill Change alert must be accurate for each customer's usage and circumstances and relies on inputs such as the Final VDO prices and final network tariffs to enable retailers to set their other Market Offer prices to be able to determine the latest best offer price. Aside from strict compliance with the above requirements, EA tries to ensure that customers receive easy to understand price variation information and that the details and background are available to our customer service agents who answer customer enquiries about price variations. Having sufficient lead times for the 1 August VDO will support us meeting customers' needs.

With very tight deadlines, every day counts. We request that the ESC release the VDO to retailers as soon as possible following the decision by the Commissioners. Retailers are unable to start the next steps in the process unless we have the detailed Final VDO prices and usage profile information.

In addition, and separately, we would also require the Department of Environment, Land, Water and Planning (DELWP) to **move the Gazettal date for Standing Offer variation notices from 19 July 2021 (as currently planned) to 26 July 2021**. This is because DELWP requires Retailers to submit draft Standing Offer variation notices (Draft Gazette notices) to the Gazette Office two weeks ahead of the Gazettal date which means they are due on 5 July, and this presents challenges if the Final VDO prices are released late June 2021. The current and our proposed dates are set out in the table below.

	Current date	Proposed date
VDO release date	June/July 2021	22 June 2021
Gazettal office deadline for Draft Gazette Notices	5 July 2021	12 July 2021
Gazettal date	19 July 2021	26 July 2021

We understand that Gazettal requirements are the remit of DELWP, but we ask the ESC to coordinate resolving this issue with DELWP given the timings of the Final VDO prices will impact on the time retailers have to meet the Gazettal requirements.

Under-recovery of network costs

The ESC has verbally indicated that there will not be an adjustment to the VDO (taking effect on 1 August) to allow for any under-recovery of network costs. This under-recovery will arise where network tariffs increase from 1 July but the VDO variation (to pass through this increase) lags and does not occur until later. The ESC proposes an effective date of 1 August 2021 which would mean a time lag of one month (for the month of July). The ESC has explained that the under-recovery of network costs for the one month is immaterial.

From a policy standpoint, it is unclear why the ESC would not adjust the VDO for the under-recovery. As the ESC points out itself, unlike other cost components, network tariff costs are known, certain, and are clearly borne by retailers. It would be reasonable to expect that an adjustment would occur, in the same way that an adjustment is made for the default and binding renewable power percentages under the current VDO methodology.

In terms of materiality, our estimate of the network cost under-recovery is approximately \$5 for each customer *per month*, based on the AER's Tariff Structure Statements (TSS) for the Victorian Distribution Network Service Providers. This is a conservative estimate that likely understates the amount. We consider this to be a material amount particularly when compared with other cost adjustments previously made by the ESC. For example, the \$0.21 per customer *per annum* increase in the 2021 VDO to reflect the higher retailer operating costs associated with introducing five-minute settlements. We urge the ESC to reconsider this issue and request the ESC to provide specific amounts on the materiality of this under-recovery in its Draft Determination.

Costs of VDO variation

We submit that the ESC should consider including a one-off adjustment to reflect the additional administration costs linked to implementing this VDO variation. In effect, Retailers are wearing the cost of a second price variation in Victoria for the year 2021, after having completed a price variation in January 2021. These costs are due to Victorian Government decisions which are beyond the control of Retailers.

Further, these additional administration costs are material and can be clearly quantified. For instance, the cost of an additional price change notification to a customer by mail is \$1.50 per notice. This amount reflects production costs including printing, production, and postage. There are also the costs of an additional IT system release to update pricing information in retailer billing systems and the costs of staff required to manage updates to collateral and to support additional calls from customers. We can provide detailed information on specific costs that are directly attributable to this VDO variation if the ESC explores this further.

Other issues

EnergyAustralia also flags additional issues for the ESC's attention:

- Draft VDO prices and pricing model – We expect that draft VDO prices will be released with the Draft variation determination on 9 June 2021 and recommend that the ESC publish the underlying pricing model with the Draft Determination to provide retailers the opportunity to verify data calculations. Further checks of the data by retailers will assist the ESC in identifying any errors or unexpected outcomes in the resulting VDO.
- Two period TOU tariff with controlled load – There is a Two Period TOU tariff with controlled load in AusNet's area. We ask the ESC to clarify how the Two Period TOU VDO price will apply to this tariff. Currently, the Two Period TOU VDO price does not have a controlled load component. Our reading of the Victorian TSS documents and latest implementation plans suggests that a Two Period TOU VDO price with a specified controlled load component is permitted (i.e. it is not explicitly disallowed).

If you have any questions in relation to this submission, please contact me (Selena.liu@energyaustralia.com.au or 03 8628 1548)

Regards,
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