

Public engagement summary: 1 January 2022

Victorian Default Offer

Between May and October 2021, we sought public and stakeholder views on our proposed approach to setting the Victorian Default Offer for electricity for the period 1 January to 30 June 2022. Our public engagement process involved two consultation periods (after the releases of our consultation and draft decision papers) that ran for a total of 9 weeks. We received a total of 29 submissions throughout the engagement process.

The engagement process has informed our decision making and we have provided a summary of how on pages 4–5 of this document. We have made our decision after considering all matters raised by stakeholders and all relevant provisions and matters we must have regard to under the Electricity Industry Act 2000, the Essential Services Commission Act 2001 and the Victorian Default Offer pricing order.

Project background

The Victorian Default Offer we set will apply from 1 January to 30 June 2022.

The Victorian Default Offer is a simple and trusted electricity price that we, not energy companies, set every year. It provides Victorian consumers access to a fair electricity deal even if they are unable or unwilling to engage in the retail market. The Victorian Default Offer also functions as the maximum price embedded network operators may charge residential and small business customers.

Under the pricing order, we had to make a new determination for the tariffs to apply from 1 January 2022 by 25 November 2021.

In general, we used the same approach to setting Victorian Default Offer prices for the first half of 2022 as we did in past decisions. The main changes in this Victorian Default Offer are that we have:

- removed the temporary adjustment for bad debts
- included a true-up for under or over recovered network costs
- set prices for a six month period

- made some small changes to distribution loss factors
- updated Australian Energy Market Operator fees.

How we engaged



Key dates

- 14 May 2021: consultation paper was released. We sought views on our proposed approach to Victorian Default Offer applying from 1 January 2022.
- 20 May 2021: an online public forum was held. We explained our consultation paper, heard from stakeholders and took questions from attendees.
- 16 June 2021: submissions to consultation paper closed.
- 7 September 2021: draft decision paper was released.
- 23 September 2021: an online public forum was held. We explained our draft decision, heard from stakeholders and took questions from attendees.
- 8 October 2021: submissions to draft decision paper closed.
- 25 November 2021: final decision and amended price determination was released.
- 1 January 2022: new default offer takes effect.



Methodology

- We sought feedback and submissions via Engage Victoria for the consultation and draft decision papers.
- We held two online public forums.
- We invited stakeholders to email us at vdo@esc.vic.gov.au.
- We had one-on-one meetings with some stakeholders.



Number of participants

- Between 14 May to 25 October 2021, we had 497 visits at our [Engage Victoria consultation page](#) by 289 visitors.
- 159 attendees at our public forums including:
 - energy retailers
 - embedded network operators

- consumer representatives and advocates
- government departments
- other regulators
- consultants.



Number of submissions received (written, verbal)

- 29 submissions from retailers, embedded network operators, Consumer Action Law Centre, Victorian Council of Social Service and consumers. These included:
 - 16 written submissions to our consultation paper made through our page on Engage Victoria and by email
 - 13 submissions to our draft decision paper made through our page on Engage Victoria and by email.

All submissions can be found on our [website](#).

Summary of feedback

We proposed	You said	We did
<p>We proposed not to change our approach to forecasting wholesale electricity prices by using:</p> <ul style="list-style-type: none"> forecasts of wholesale electricity prices based on futures prices from ASX Energy average wholesale costs over a 12-month forecast period. 	<p>Electricity retailers suggested we use a 6-month average rather than 12-month average of wholesale costs.</p> <p>Other stakeholders submitted that we should keep our approach</p>	<p>We have kept our approach to calculating wholesale costs.</p> <p>We consider that not using this approach consistently would lead to retailers recovering more than their long-run efficient costs. This would not be in the long term interests of Victorian consumers.</p>
<p>We retained the temporary allowance for bad debts but signalled that in the absence of strong new evidence we intend to remove the temporary allowance for bad debts in our final decision.</p>	<p>Retailers suggested we keep the temporary allowance for bad debts while the Consumer Action Law Centre suggested we should remove said allowance.</p>	<p>We considered that the temporary adjustment for bad debts included in 2021 will not be required in the Victorian Default Offer to apply from 1 January 2022.</p> <p>The information available to us suggests that economic conditions will improve in 2022. Publicly available financial statements from retailers also show that there is no clear pattern in the impact of the pandemic on bad debts.</p>
<p>We proposed to maintain our approach to calculating Victorian Energy Upgrade costs:</p> <ul style="list-style-type: none"> the relevant greenhouse gas reduction rate for electricity will be multiplied by the historic 12-month trade-weighted average price for Victorian Energy Efficiency Certificates 	<p>Several retailers proposed alternative approaches ranging from:</p> <ul style="list-style-type: none"> adding a risk premium to the current approach, an explicit allowance for penalty payments with a subsequent true-up to reflect actual payments, an upwards adjustment to reflect the higher market price of certificates, 	<p>We have kept our approach to calculating Victorian Energy Upgrades costs.</p> <p>In response to stakeholders' concerns, we announced on 25 October 2021 that we are extending the certificate surrender due date from 30 April 2022 to 31 July 2022. On 27 October 2021, the Department of Environment, Land, Water and Planning also announced that residential lighting efficiency activities will be permitted for a further year up until 31 January 2023.</p>

	<ul style="list-style-type: none"> • accounting for any substantial changes through a true-up mechanism and • excluding pre-2021 certificate prices to ensure more current values are used. <p>On the other hand, the Consumer Action Law Centre and Victorian Council of Social Service support maintaining our current approach. They submitted that retailers are better placed to manage the price risks of the program.</p>	<p>We consider that these changes should address the issues that retailers raised about the supply of certificates and may put downward pressure on prices.</p> <p>We will monitor the impacts of these changes. The Victorian Default Offer we set is for six months, and we can reassess our approach for the subsequent Victorian Default Offer from 1 July 2022 if required.</p>
<p>We proposed a 6-month regulatory period from 1 January 2022</p>	<p>Stakeholders supported our proposed approach.</p>	<p>The regulatory period for the next Victorian Default Offer will be six months starting from 1 January 2022.</p>
<p>We proposed that any under or over recovered network costs from July and August 2021 should be accounted for in full over the six-month period of the Victorian Default Offer to apply from 1 January 2022.</p>	<p>Stakeholders supported our proposed approach.</p> <p>Powershop suggested we use a weighted monthly usage approach in estimating under or over recovered costs for controlled load customers.</p>	<p>We maintained our approach in the draft decision except that we adopted Powershop’s suggested approach for controlled load. We consider that Powershop’s proposed approach better reflects controlled load customers’ electricity demand for the months of July and August.</p>

Our engagement events

Online public forums

Recordings of our online public forums are available for you to view online at the commission's YouTube channel:

[Public forum: Next steps for the Victorian Default Offer, 20 May 2021](#)



[Victorian default offer 1 January 2022 - Draft decision forum, 23 September 2021](#)



Online engagement

LinkedIn and Twitter

We used LinkedIn and Twitter to share information with you on how we proposed to set the Victorian Default Offer applying from 1 January 2022.



We're reviewing the Victorian Default Offer – Victoria's fair and simple energy option – and want to hear your thoughts about our approach.

Join our public forum this Thursday 20 May to have your say and hear from key industry stakeholders on our proposal.

Read our consultation paper on our website > <https://lnkd.in/ghespDv>

Kate Symons, Rebecca Billings, Simon Corden, Sitesh Bhojani, John Hamill, Michelle Bryne, Rebecca Love, Mayank Grover



Next steps for the Victorian Default Offer: public forum

eventbrite.com.au • 1 min read



Essential Services Commission
@EssentialVic



#HaveYourSay! We're setting the 2022 Victorian default offer – Victoria's fair and simple price for electricity – and want to hear your thoughts.

Head to Engage Victoria by 8 October to have your say > engage.vic.gov.au/victoria-defau...



10:42 am · 29 Sep 2021 · Twitter Web App

Engage Victoria

We used [Engage Victoria](#) throughout the course of this project.

Victorian Default Offer 2022

The Essential Services Commission is setting the Victorian Default Offer for electricity and wants to hear from you.



Overview

The Essential Services Commission is seeking your views about our proposed approach for setting the Victorian Default Offer prices that would apply from 1 January 2022. We released our draft decision paper on 7 September 2021 and are seeking your views until 8 October 2021.

The Essential Services Commission is responsible for setting, and annually reviewing, the Victorian default offer prices. The default offers are designed to be simple, trusted and reasonably priced electricity options that safeguard customers that are unable or unwilling to engage in the market.

Our draft decision paper

We propose using largely the same approach as we did for our [current Victorian Default Offer price determination \(2021\)](#) and believe that this approach will best meet our legislative objectives and requirements.

Our draft decision would lead to the average annual bill for Victorian Default Offer customers going down by 5 per cent for residential customers and 7 per cent for small business customers. This is largely due to forecast changes in wholesale electricity prices.

Our draft decision follows the release of our consultation paper in May 2021. We took into account [stakeholders' submissions](#) to our consultation paper in making our draft decision.

We sought your feedback on our draft decision

In particular on:

- Our approach to bad debts
- The forecast period for wholesale electricity costs
- Victorian Energy Upgrades costs
- The length of the regulatory period

Read our draft decision

Updates

7 September 2021 / VICTORIA DEFAULT OFFER 2022

Victorians could save on default electricity offer price

Victorian small business and residential customers on a default electricity offer could see their annual bills reduced by at least five per cent, under a proposal by the Essential Services Commission.

[Learn more >](#)

Timeline

- ✓ Consultation paper released
14 May 2021
- ✓ Consultation opens
14 May 2021
- ✓ Next steps for the Victorian Default Offer: public forum
20 May 2021
- ✓ Consultation closes
16 June 2021
- ✓ Draft decision released
7 September 2021
- ✓ Consultation on draft decision opens
7 September 2021