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

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### **Victorian Default Offer from 1 January 2022 Draft decision Paper**

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (**MEA Group or Powershop**) thanks the Essential Services Commission (**ESC**) for the opportunity to provide comments on the ESC's Victorian Default Offer from 1 January 2022 Draft decision Paper (the **Paper**).

#### **Background on the MEA Group**

The MEA Group is a vertically integrated generator and retailer, with a focus on renewable generation. Through our investment in new generation, we have continued to support Australia's transition to renewable energy. Powershop is an innovative retailer committed to providing lower prices for customers and recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Powershop has introduced numerous new, innovative, and customer-centric initiatives into the market.

#### **Statement**

Powershop understands the application of a 12-month forecast for the 6-month regulatory period, despite the January to June period historically impacted by high seasonality pricing. Powershop also believes that if the subsequent July 2022 to June 2023 regulatory period does not compensate retailers for any under-recovery attributable to this upcoming VDO, the appropriate adjustment can be made.

Powershop urges caution when considering the potential to remove the temporary bad debt allowance which is applied in this current VDO. The Paper has assumed that retailer bad debts have either plateaued or have seen a reduction during the pandemic. However, it is likely that the economic impact of the pandemic has yet to be fully realised in Victoria.

Powershop welcomes the ESC's approach to seeking views from retailers on the impacts recent changes to the Victorian Energy Upgrade (**VEU**) costs and the increased certificate prices. We acknowledge the views the ESC holds regarding the uncertainty about changes to the program and its impact on certificate prices. On this basis, Powershop does not believe applying these same methods for previous VDOs is appropriate and should be reviewed.

#### **Wholesale electricity costs**

Powershop broadly supports the implementation of a six-month VDO, between 1 January 2022 and 30 June 2022. Powershop understands the approach to forecasting energy prices that the ESC has followed but believes that the recent volatility in the market requires the ESC to reconsider the approach in the calculation methodology underpinning the wholesale electricity forecast moving forward.

Powershop believes that, due to the unprecedented load shape changes impacting the energy market recently, modelling using data that could be up to five years old risks providing measurements of wholesale costs that may no longer have relevance to the market. Powershop believes that the ESC and their consultant, Frontier

Economics need to factor in the recent increase in negative pricing experienced during certain times of the day. This recent trend is not likely to be reflected in historical sampling.

Additionally, Powershop urges the ESC to be transparent on when the modelling is undertaken as it relates to the ASX option expiry. This is because the '12-month trade-weighted average price' could vary significantly, given the volume of trading that is completed on this date (approximately up to 20-30% of yearly trades occur on this day). Powershop would prefer the final date to be applied to calculate the 12-month trade-weighted average price, is after this date, requiring the ESC to be transparent and consistent with their approach.

### **Environmental costs**

Powershop believes that the ESC should reconsider the approach to calculating the cost of complying with the Victorian Energy Upgrades program. The cost of Victorian Energy Efficiency Certificates has increased by almost \$30 since April. Powershop believes the increase was caused by a shortage of certificates available to purchase during the ongoing lockdown, as well as policy uncertainty surrounding the scheme.

The ESC notes that a retailer can "hedge their risks by purchasing certificates in advance"<sup>1</sup>. However, prior to April 2021, there was significant regulatory and policy uncertainty around the structure of the scheme and eligible activities (including a large increase to the penalty price and the setting of targets). Consequently, retailers were not able to hedge with any strong level of confidence prior to April, increasing the volume of hedging that needed to be completed at higher prices post the April review at higher prices.

As a result of the shortage of certificates, the supply of which has not exceeded demand since the VDO was introduced in 2019, Powershop believes that the ESC should give consideration that some retailers may be required to pay a shortfall penalty. Taking into consideration ongoing compliance with the scheme and through no fault of the retailer, the ESC should ensure that this cost is reflected in the calculation of the VDO.

### **Retail Operating costs**

Powershop believes that the ESC should carefully consider the implications of removing the temporary bad debt allowance. Powershop understands that the ESC receives voluntary data from a number of retailers on a regular basis related to the COVID-19 pandemic. Powershop would urge the ESC to closely monitor the situation leading up to the final VDO determination and beyond. The medium-term impact of the lockdown in Victoria is unknown at this stage, so we urge the ESC at a minimum, to continue to monitor debt levels from across the industry (through monthly reporting) and be prepared to take measures if the situation deteriorates.

The conclusion of JobKeeper in March 2021 contributed to an increased level of debt across the industry, thus the ESC should monitor the impact of federal lockdown support and its pending reduction prior to the final VDO decision due 25 November 2021.

Powershop believes the ESC should consider that the up-front costs of projects such as the Reducing Customer Switching Times<sup>2</sup> rule and procedure change have had significant impact across the industry and apply an allowance within the 2022 VDO.

Powershop supports the inclusion of an ongoing allowance for operation costs associated with the introduction of five-minute settlements. Powershop expect that there will be an increased cost associated with metering to support the increased meter data transfer processes moving forward.

Powershop believes the VDO should consider capex relative to the investment required in changing systems to meet each of the relevant regulatory and market interventions likely to be realised during a regulatory period. Without specific allowances for these projects, the ESC should not assume that retailers automatically benefit under each project. Powershop urges the ESC to provide advice on how upcoming projects like Consumer Data Rights for Energy and implementation costs for the Energy Fairness Plan will be reflected in the VDO.

Powershop generally supports the ESC's approach outlined in Box B.1 to true up the network costs caused by the lag between network price change and the VDO in 2020. However, Powershop notes that the variable cost is based on an annual usage of 6-month portion uniform across 12 months that may underestimate the cost.

Powershop suggests an alternative method would be to true-up variable cost by a weighted average usage on the 6 months to reflect a better estimate as oppose to total 6 month portion on uniform usage. Powershop also notes that the ESC has suggested that AEMO does not report on controlled load profiles.

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<sup>1</sup> Essential Services Commission, Victorian Default Offer from 1 January 2022, Page 24

<sup>2</sup> <https://www.aemc.gov.au/rule-changes/reducing-customers-switching-times-retail> and <https://aemo.com.au/en/consultations/current-and-closed-consultations/nem-customer-switching>

The ESC could utilise Net System Load Profile shapes to determine each distribution true up controlled load tariff as a better reflection, as opposed to using the annual usage profile for controlled load customers.

**Customer acquisition and retention costs**

The ESC has acknowledged in previous VDO decisions that the CARC does not reflect the actual costs incurred by retailers, citing the requirement to apply a modest allowance. Though Powershop would like to see this gap narrowed, we note that broad retention and acquisition costs have remained stable. An increasing upfront cost relative to retention and acquisition is supporting and funding the take up of new technologies – initiatives that include virtual power plants, demand response and electric vehicle tariffs.

Powershop accepts that retailers will attempt to make a modest return on all retail offerings. However, these innovative offerings are in early development stages. To further progress these innovative products under price regulation, Powershop believes a modest allowance in the VDO would support and progress innovation. Retailer innovation will be a critical element to assist Victoria with the nationwide renewable transition under the Energy Security Board's post 2025 Future Market Design, and promote the development of a low-cost, low-carbon competitive energy sector in Victoria.

If you have any queries or would like to discuss any aspect of this submission, please do not hesitate to contact me.

Yours sincerely,



**James Ell**  
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