

# Maximum prices for embedded networks and exempt sellers

## Draft Decision

Online public forum

Thursday 28 May 2020

## Presenters

Kate Symons – Commission Chair

Dean Wickenton – Senior Regulatory Manager

Rebecca Love – Project Lead

Jordan Tasker – Project Manager



# Welcome

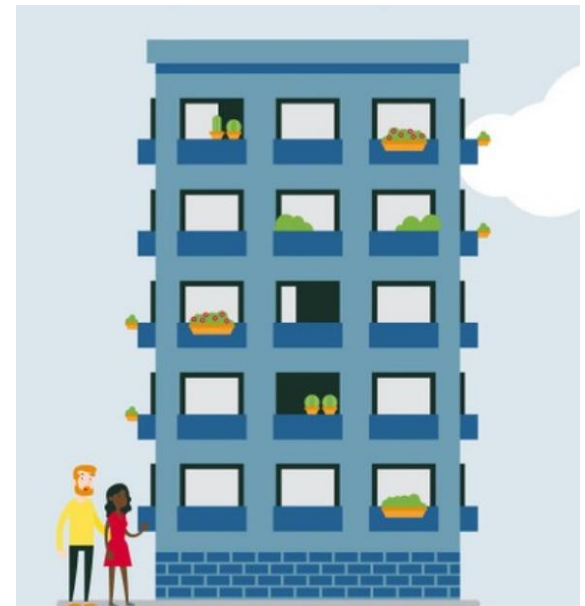
- Please mute your mic and switch off video.
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- Raise your hand during the Q and A – we will respond.

# Welcome

- Make a submission or general comment on our draft decision via Engage Victoria – [www.engage.vic.gov.au](http://www.engage.vic.gov.au).
- Email us at [retailenergyreview@esc.vic.gov.au](mailto:retailenergyreview@esc.vic.gov.au) .
- Submissions to our draft decision close 15 June 2020.
- We will release our final decision in July.
- At this stage it is proposed that maximum prices will be implemented 1 September 2020.

# Today's forum – agenda

- 1:00 pm – Introduction from the chair of the Essential Services Commission: Kate Symons
- 1:05 pm – Discussion of policy context: Dean Wickenton
- 1:10 pm – Presentation on our draft decision: Rebecca Love
- 1:30 pm – 10-minute break – to field questions
- 1:40 pm – Question and Answer session
- 2:05 pm – Close



# Our role

We are Victoria's independent economic regulator – we promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate:

- electricity and gas
- water, sewerage, and
- transport.

# Our work in energy

**We are strengthening protections for energy customers, including customers in embedded networks.**



This includes our work on:

- Our monitoring role (with the Australian Energy Regulator) to collect data on retailer response to coronavirus
- Victorian Default Offer
- Energy Retail Code review
- Protections for life support customers
- Electricity Distribution Code Review.

# Background

## The General Exemption Order 2017:

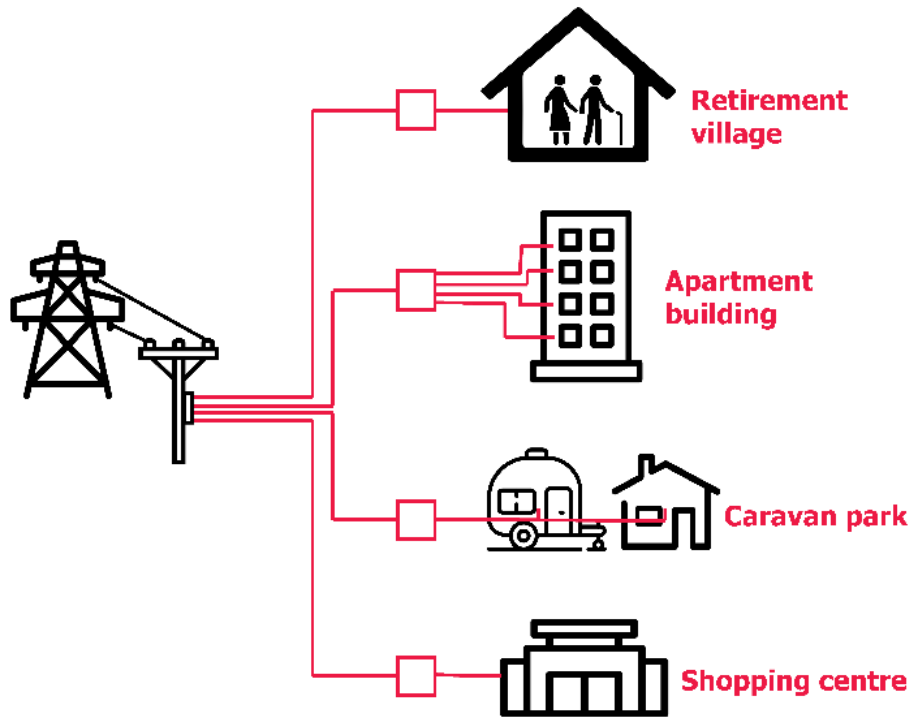
- Empowers the commission to formulate a maximum price for exempt sellers.
- Put the transitional pricing rule in place.

## Amendments to the General Exemption Order in 2019:

- Froze maximum prices to that of standing offers – in effect as of May 2019
- Confirmed that in formulating maximum prices we must have regard to commercial market data and may have regard to any other matter we consider relevant.

# What is an embedded network?

Generally, an exempt seller buys electricity at a 'gate' meter and on-sells it to individual customers within the embedded network.





# What is meant by a maximum price?

- Sets a 'limit' or 'cap' on the price exempt sellers can charge customers for the sale of electricity.
- Exempt sellers can charge at or under the maximum price.
- Maximum prices already apply to exempt sellers under the General Exemption Order.
- We are not reviewing the enforcement and compliance framework as part of this project.



Live in an embedded network?

You could save under our proposed maximum price.



# Overview of our draft decision

## Victorian Default Offer as the maximum price

For all residential and small business customers – covering most customers in embedded networks.

## Reduces maximum prices for most customers

Compared with current maximum prices, annual bills could reduce by:

- \$180 to \$370 for residential customers
- \$900 to \$2,200 for small business customers

## Proposed to apply from 1 September 2020

# Our process to formulating a maximum price



## Our consultation paper:

- Set the scope for our review, including:
  - the framework for formulating maximum prices
  - tariff structures
  - implementation
- Commenced our formal consultation on a new maximum price, seeking feedback from stakeholders – receiving 34 public submissions in response.

# Formulating the maximum price

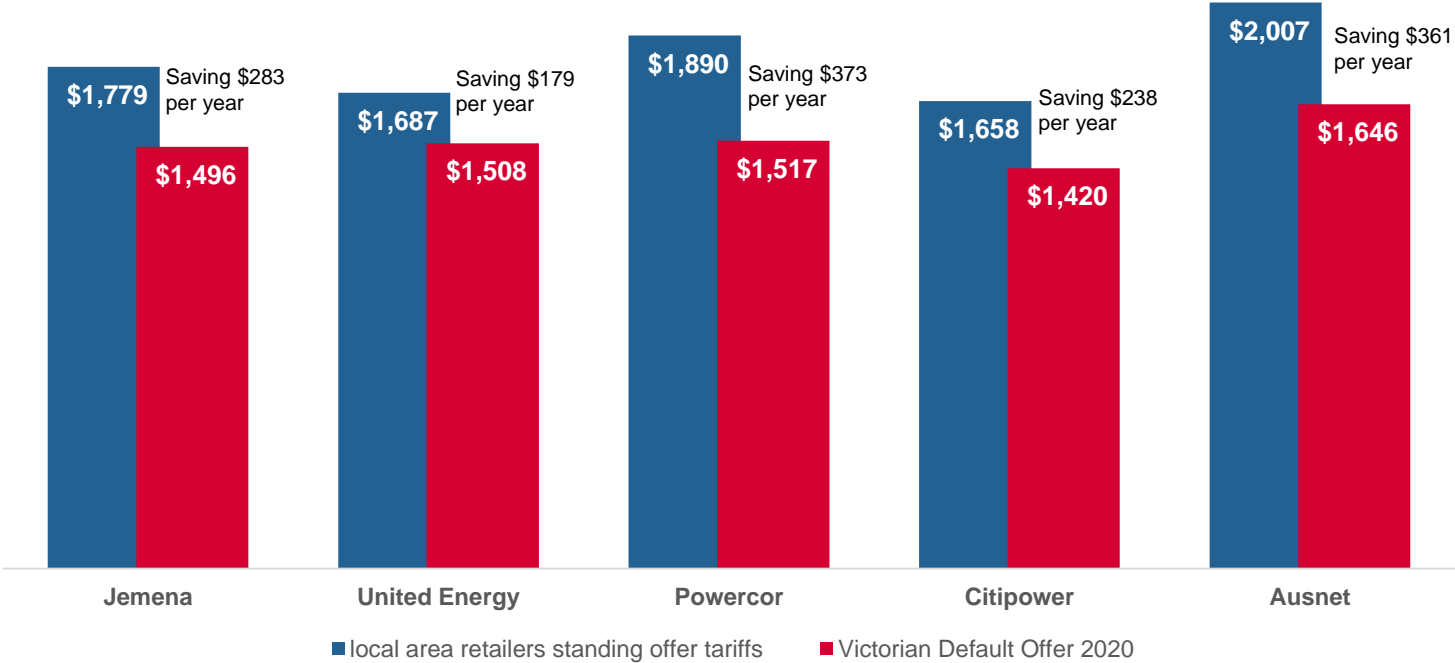
The Victorian Default Offer as a maximum price:

- Aligns with the policy objective of providing similar protections to that of on market customers.
- Considers the efficient cost benchmarks of the competitive market – which are likely to represent what an efficient exempt seller should be able to achieve.
- Considers the long-term incentives for investment and financial viability.

# What could this mean for residential customers?

## Indicative Annual Bill (Domestic Customers)

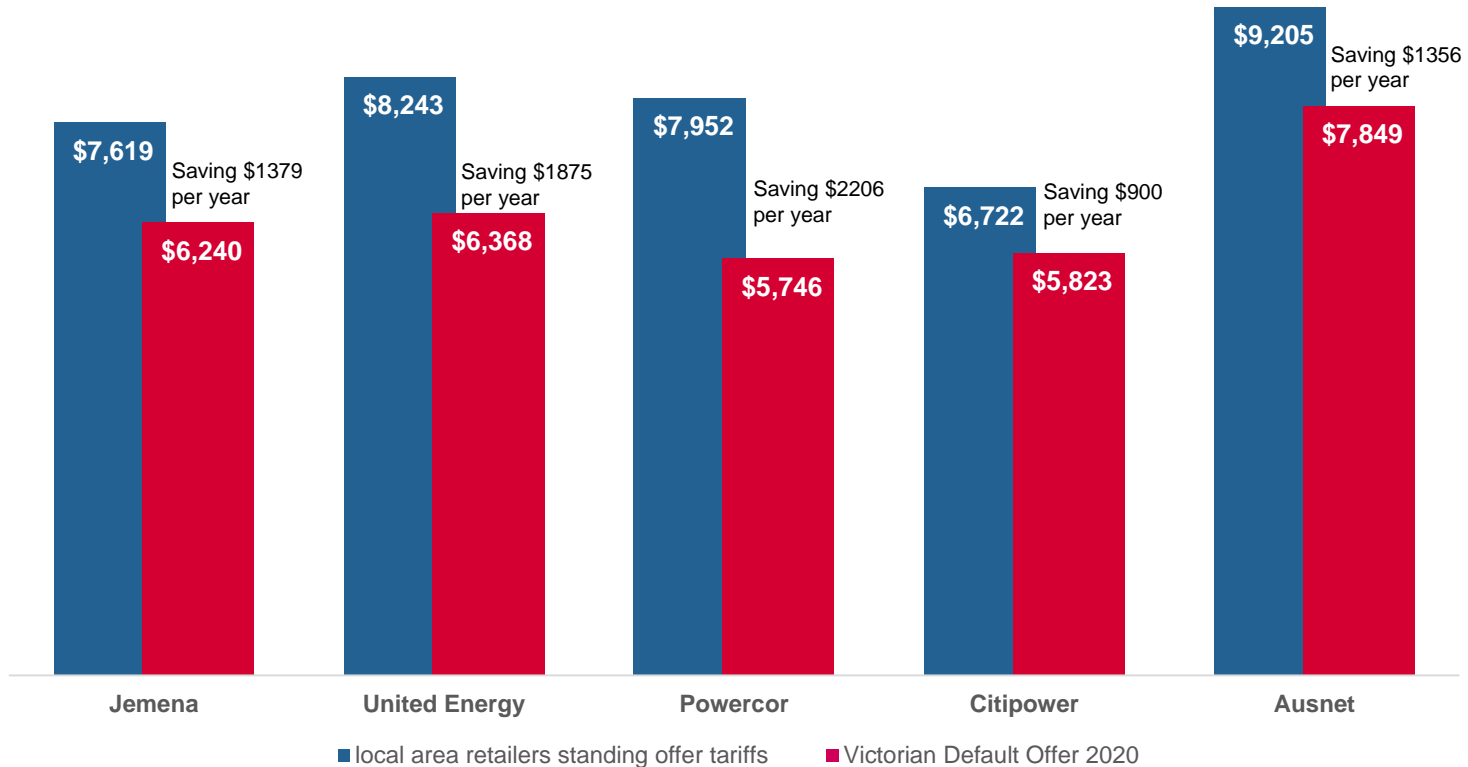
Comparison between local area retailers standing offer tariffs (27 May 2019) and the Victorian Default Offer 2020 (based on annual consumption of 4,000 kWh - GST inclusive)



# What could this mean for small business customers?

## Indicative Annual Bill (Small Business)

Comparison between local area retailers standing offer tariffs (27 May 2019) and the Victorian Default Offer 2020  
(based on annual consumption of **20,000** kWh - GST inclusive)



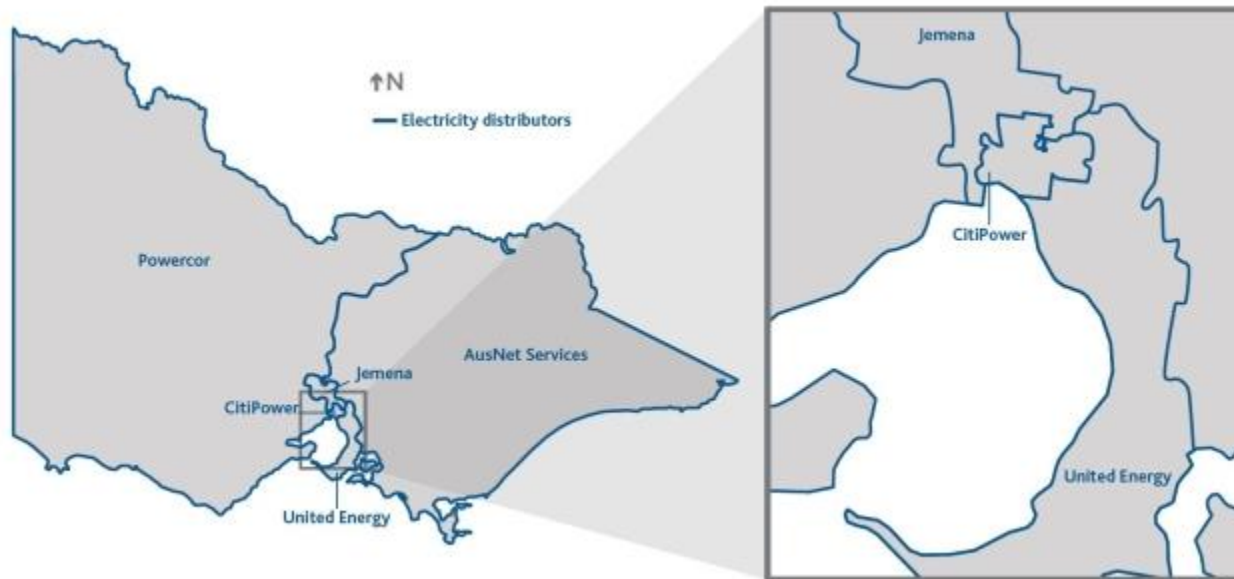
# Application to categories of exempt sellers

- Under the General Exemption Order there are different categories of exempt sellers.
- We have considered the characteristics of each category including whether:
  - the underlying costs are different
  - comparable customers in the competitive market would have access, and
  - ability to exit an embedded network.
- Our draft decision applies the Victorian Default Offer to residential and small commercial customers that use up to 40 megawatt hours per year – covering all residential and most business customers.



# Tariffs

Tariffs for both residential and small business customers are calculated for each of Victoria's five distribution zones.



# Tariff types covered by our maximum prices

Tariff type	Explanation
Flat tariff (‘single’ rate or ‘peak only’ tariffs)	This includes: <ul style="list-style-type: none"><li>• a daily supply charge</li><li>• a flat anytime usage charge calculated on a per kilowatt hour basis.</li></ul>
Flat tariff with a controlled load	This includes: <ul style="list-style-type: none"><li>• a daily supply charge</li><li>• a flat anytime usage charge</li><li>• a separately metered controlled load charge (i.e. electric hot water system)</li></ul>
Compliant maximum annual bill	<p>This is a cap on the amount a retailer can charge a customer for a specified level of usage.</p> <p>This tariff type applies when a customer is on a non-flat tariff e.g. a flexible, time-of-use or demand tariff.</p>

## Compliant maximum annual bill

- Some exempt sellers charge tariffs that are not flat – such as time of use or flexible tariffs.
- Our draft decision provides for these tariffs via the compliant maximum annual bill, based on:
  - the flat-rate Victorian Default Offer, and
  - a customer's electricity use.
- Our draft decision specifies this as an annual bill amount – sellers must not breach the maximum annual bill.

# Q and A

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- You can also raise your hand during the Q and A – we will respond.
- We're committed to responding to your questions; however we may not have time to answer them all today – we will publish our slides, including answers to questions we're unable to respond to.

# Next steps

## Responding to our draft decision:

- We encourage you to make a submission or general comment on our draft decision via Engage Victoria – [www.engage.vic.gov.au](http://www.engage.vic.gov.au).
- You can also contact us by e-mail at [retailenergyreview@esc.vic.gov.au](mailto:retailenergyreview@esc.vic.gov.au) .

## Key dates:

- Consultation on our draft decision closes 5:00pm Monday 15 June 2020.
- Final decision released July 2020.
- Maximum prices implemented 1 September 2020.