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VCOSS submission on the ESC's Victorian Default Offer 2021 consultation paper

Why the VDO is important

VCOSS welcomes the opportunity to provide initial feedback on the Essential Services Commission's (ESC's) proposed approach and process to determining the Victorian Default Offer (VDO) tariffs to apply for calendar year 2021.

The VDO is a critical measure to improve energy affordability in Victoria. It establishes a fair, independently-set reference price for all residential consumers in the electricity retail market, while also safeguarding those consumers who are either on retailers' standing offers or are otherwise unable or unwilling to engage in detailed comparisons of current market offers.

VCOSS strongly supported the development and introduction of the VDO, which saves nearly 130,000 households on

standing offers between \$310 and \$450 per year.¹

Build on solid foundations

VCOSS supports the ESC's overarching proposition that it uses largely the same approach (updated for the most recent data available) in setting 2021 VDO tariffs as it adopted for the 2020 full-year determination.

During that original development stage, VCOSS and other Victorian-based community sector and consumer advocacy organisations provided multiple rounds of input. This included feedback on the ESC's [staff working paper on methodology](#) and [draft advice on methodology](#), and the Department of Environment, Land, Water and Planning's (DELWP's) [Draft Order-in-Council \(1 May 2019\)](#).

Given the considerable work and feedback already provided, there may be merit in the ESC incorporating in its draft decision a

¹ Essential Services Commission, *Victorian Energy Market Report 2018-19* (November 2019), p. 48-49.

high-level stocktake of any unresolved or deferred issues previously raised by stakeholders. This could include observations from the ESC's own monitoring of the impact of the VDO on both retail prices and market practices.

Consider full impacts of COVID-19 pandemic

VCOSS recognises that the ESC will need to carefully examine the impact of the COVID-19 pandemic on the electricity retailers' underlying business operations in setting 2021 VDO arrangements.

As noted in our [recent submission](#) on the ESC's draft decision on potential regulatory changes to better support energy customers at this time, the coronavirus pandemic is a compounding health, social and economic crisis. As well as the risk of the virus itself, COVID-19 has also driven an increase in unemployment, with more people facing poverty and financial hardship.

Retailers are likely to be facing extra costs as a result of the pandemic. While acknowledging these real cost issues, the ESC needs to ensure that any assertion of pandemic-related additional costs is robustly justified. In addition, any proposed flow-through into VDO tariffs must be carefully balanced against the increasing costs and risk of hardship for consumers at this time (i.e. ongoing increased residential energy usage and reduced incomes).

Prioritise consumer outcomes when weighing-up timing options

Network charges are incorporated into electricity bills to cover residential consumers' contribution to the operation and maintenance of the "poles and wires" of the electricity grid.

Given that these charges comprise between 35 and 43 per cent of the VDO cost-stack, it is important that they are as accurately reflected as possible.

As noted in the consultation paper, the ESC is exploring multiple options to best align future VDO price determinations (which currently run on a calendar year basis) with the regulated prices of electricity distribution network charges (which, from the next five-year cycle in Victoria, will run on a financial year basis).

These options include setting an 18-month timeframe for the 2021 VDO tariffs but updating them (after network charges are re-set) at the 6-month point using a variation mechanism.

VCOSS does not have specific feedback at this point on the relative merits of options for managing this misalignment in 2021.

When weighing up options and associated demands on stakeholders, the ESC should however have as its paramount consideration ensuring that final VDO tariffs are as low as possible (i.e. they achieve the most efficient and fair energy outcomes for all Victorians).

To discuss this submission further, please
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