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16 June 2021

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

Email: www.engage.vic.gov.au

Victorian Default Offer – Price Review 2022 Consultation 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 – Price Review 2022 Consultation 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

MEA Group agrees with the ESC that a price review for the 2022 VDO is warranted to ensure that it strikes a fair balance for all consumers and encourages product innovation and competition in Victoria.

MEA Group also believe that the methodology toward calculating an annual VDO since its inception in 2019 requires continuous evolution. Numerous material market factors have impacted retailers significantly over the last three years, including but not limited to the implementation of Five-Minute Settlement and Consumer Data Right. Significantly, the current COVID pandemic that continues to impact customers and retailers alike with increased bad and doubtful debts.

Amongst the other key elements of the Paper, MEA Group raise the following key concerns; bad and doubtful debts and calculating Wholesale Electricity Costs (**WEC**), specifically with an upcoming 6 regulatory period.

Bad debt costs and retailer risk

MEA Group believes that the bad and doubtful debts accrued from the COVID pandemic continue to grow, with no clear indication of a reduction on the horizon. The cessation of federal government support through JobKeeper and JobSeeker allowances provided earlier in 2021, is not likely to have the effect of reducing debt as the industry moves toward 2022.

MEA Group acknowledges that the ESC in the previous VDO determination applied a \$6 per customer bad debt allowance, enabling retailers to recover some part of the expected bad debt costs. MEA Group understands that measures and emergency interventions designed to protect customers during the pandemic were required.

MEA Group does not agree with the removal of this allowance for the 2022 VDO. The ESC needs to rely on more evidence than unsubstantiated indications that our financial positions for bad debts will be lower than they were for 2021. MEA Group would encourage the ESC to provide quantitative data or research to support this view.

MEA Group would be happy to consult with the ESC and provide information regarding bad and doubtful debts for 2022, to aid in the determination of the final 2022 VDO.

MEA Group also supports the Australian Energy Council's (AEC) submission and the results of research that the AEC conducted with Synergies Economic Consulting in 2020 on the impacts of continued impact of regulatory interventions on the retail market. The key concern from this research was that most interventions severely impacted a retailer's ability to recover debt.

Like the AEC we encourage consumer protections that benefit consumers, but not at the expense of ignoring their impact on retailers and their ability to participate and recover efficient costs. The original intent behind the VDO was not to force retailers to accept unrecoverable expenses in complying with recent regulatory obligations and in servicing customers on the VDO.

Wholesale Electricity Costs in a shortened regulatory period

MEA Group supports a six-month VDO, from 1 January 2022 to 30 June 2022 and then a subsequent 12 month VDO that aligns with broader network pricing on a financial year basis. A period any longer with a reset to factor in any changes to network prices will present other challenges related to long term forecasts.

What the ESC and its consultant, Frontier Economics need to consider is how a 6 month VDO price is determined, given the usual approach to calculating wholesale electricity costs assumes a 12 month regulatory period. While MEA Group don't have a view as to the most accurate way to calculate these costs, it is incumbent upon the ESC and Frontier Economics to demonstrate the approach for a shortened regulatory period.

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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