



2 July 2021

Ms Kate Symons  
Chair  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne Victoria 3000

Email: [VDO@esc.vic.gov.au](mailto:VDO@esc.vic.gov.au)

Dear Ms Symons

**RE: Victorian Default Offer amendment to price determination 2021 – Draft Decision**

Origin Energy (Origin) appreciates the opportunity to provide a submission in response to the Essential Services Commission's (ESC) proposed amendment to the 2021 Victorian Default Offer (VDO) price determination.

As indicated in our previous submission, Origin strongly supports the ESC's decision to vary the current VDO price determination to reflect the AER's final decision on network tariff structures and prices. Our responses to matters raised in the ESC's draft decision are set out below.

*Network Cost Recovery*

Given the delay in the AER's decision on network tariffs, Origin supports the proposed 1 September 2021, commencement date for the VDO amendment. The ESC notes that the delay in applying the new network tariffs to the VDO means that the network costs incurred by retailers over July and August 2021 will not have been reflected in the amended VDO. The ESC suggests that these costs can either be reflected:

- from 1 September this year and across the next regulatory period starting 1 January 2022; or
- in the next regulatory period starting 1 January 2022.

Given the number of customers impacted and the estimated bill impacts, the financial impact on Origin's working capital will be material. In addition, from a customer perspective, we consider an adjustment from 1 September will assist in smoothing price impacts rather than delaying the pass-through of these costs from 1 January 2022. For these reasons, we support an allowance for network costs for July and August to be reflected in the VDO from 1 September 2021.

In terms of the amount of the allowance that ought to be included, Origin's internal calculations are marginally greater than the ESC's proposed \$4 per month for domestic customers (provided the estimates are GST exclusive). Notwithstanding, we consider it is pragmatic for the ESC to adopt an estimate on the lower end of the expected range to ensure that customers do not pay more than their actual cost of supply. We expect that any difference between allowed and actual costs to be captured as part of a true-up at the commencement of the next regulatory period. We also seek confirmation that the ESC's estimates are GST exclusive.

*Compliant Maximum Annual Bill*

For the purposes of comparison to the Compliant Maximum Annual Bill, the ESC's determination (Appendix D, Schedule 3 - Table 1) contains usage allocations for a number of non-flat standing offer tariffs. We understand that standing offer customers will transition from legacy network TOU tariffs to the new network TOU tariffs and these legacy tariffs will no longer be provided as standing offers. However, Origin may retain a number of these tariffs for its market customers. In terms of comparison to the Compliant Maximum Annual Bill, we seek confirmation that the usage profiles provided in Table

1 are indicative rather than mandatory for market customers on these tariffs and that the retailers' usage profiles should be used for the purposes of comparing market offers with the VDO as required in section 15(4) of the VDO Order.

#### *Other Matters*

The ESC identifies the impact of the network tariff changes on VDO customer compared to both current monthly bills i.e. for the first half of 2021, and on an annual basis against 2020 VDO prices. While both comparisons are valid, in terms of customer messaging we consider it important to focus on the immediate impact of the VDO amendment. We consider that customers are primarily interested in the impact of any immediate change to their current bill and less on year-on-year averaged comparisons.

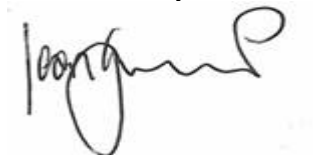
In the interest of avoiding customer confusion and enhanced customer messaging, we suggest the ESC focus on the immediate customer impacts and any future communications, including media releases, by making explicit reference to monthly bill impacts.

The ESC proposes to update usage profiles in calculating the Compliant Maximum Annual Bill amounts to account for daylight savings and for changes to the small business peak and off-peak usage. We support amendments that better reflect usage, however, we would appreciate additional information on the proposed change to the small business usage profile given the extent of change compared to the ESC's consultation paper.

We note an inconsistency in the Determination (Consolidated version). Specifically, Schedule 1 (Part A) and Schedule 1 (Part B) contain the same rates despite the time periods differing. We consider the rates in Schedule 1 (Part A) should reflect current rates as per the 2021 VDO Final Decision. We seek confirmation from the ESC.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at [gary.davies@originenergy.com.au](mailto:gary.davies@originenergy.com.au).

Yours sincerely



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