

Victorian Default Offer 2023-24

Submission received via Engage Victoria on our consultation paper on Victorian Default Offer 2023-24

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What are your views about our proposed approach to setting the 2023–24 Victorian Default Offer?

VCOSS appreciates the ESC’s ongoing commitment to stakeholder consultation and a robust, evidence-based approach to its methodology in setting Victorian Default Offer (VDO) tariffs.

Recognising the relatively technical nature of this process, and the ESC’s indication that it “will require strong new evidence to depart from the methodology used in past reviews”, VCOSS is broadly comfortable with the proposed approach outlined in the consultation paper.

In particular – and given both the wider energy market uncertainty and the absence of any major changes to the pricing order following the 2022 departmental review of the VDO Order-in-Council – VCOSS considers that it is reasonable (and likely to be in the overall public interest) for the ESC to maintain a broadly consistent methodology (updated, as always, for the most recent data available).

Do you think that the costs associated with the Australian Energy Market Operator’s June 2022 interventions in the wholesale market should be reflected in the Victorian Default Offer? Why/Why not?

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Based on our general understanding of the national regulatory framework governing these costs and how they were/are generated, articulated, and absorbed by the energy system, it would seem that the ESC has no choice but to reflect them (to some extent) in the VDO.

What are your views on using a variation mechanism for market intervention costs?

VCOSS recognises that how (and how much) these wholesale market challenges are reflected is ultimately a regulatory judgement call for the ESC. As noted elsewhere in the consultation paper, such exercises need to balance the key considerations of efficiency, accuracy, transparency, simplicity, and stability.

In doing so, we also note the ESC's statutory obligation (in s8A(1)(e)(i) of Essential Services Commission Act 2001 (Vic) to have regard to the benefits and costs of its regulatory decisions on low income and vulnerable consumers. That obligation is also relevant to the equity implications of how these costs might be reflected in the supply and/or usage parts of the VDO tariffs.

As was the case in our past submissions on similar circumstances where the precise details of an underlying cost or regulatory impact are uncertain at the time of VDO price-setting (i.e. the re-alignment of network cost periods in 2022-23), VCOSS is not in a position to offer a definitive view at this time on the specific pros and cons of whether or not to use a variation mechanism for revising the VDO tariffs to reflect all of these costs when they crystallise during 2023-24.

In weighing up options and associated demands on stakeholders, however, the ESC should have as its paramount consideration ensuring that final VDO tariffs – across the coming year and beyond – are kept as low, smooth, and equitable as possible.

VCOSS is also mindful of the argument (both in other stakeholder submissions and the ESC's own past observations on VDO draft decisions) that retailers, rather than consumers, should be responsible for managing systemic and short-term price risks.

Do you think we should make changes to our retail cost benchmarks? Why/Why not?

Yes

It is well-established that energy bills represent a much higher share of the ongoing living expenses of low-income households.

As VCOSS has noted in previous submissions, it is vital that the ESC remain vigilant in maintaining the intent and discipline inherent in the VDO's cost stack methodology. Given real increases in wholesale and other costs, VCOSS would be very concerned if the ESC were to continue to apply the Consumer Price Index (CPI) as a primary annual adjustment measure for retailers' operating costs when that tool is known to be increasingly inappropriate for this task (i.e. where the main components of CPI growth, food and fuel, are directly hurting households, but do not substantially contribute to retailers' actual efficient costs).

More generally, along with genuinely interrogating whether or not the proposed operating profit margin is as efficient as possible, VCOSS continues to call for the ESC to commit to a timeline for incorporating an overarching downward pressure on (and the sharing with customers of any savings in) operating costs through an explicit productivity factor.

Do you think we should make changes to our customer acquisition and retention cost benchmark? Why/Why not?

Yes

Consistent with our view on other cost components, i.e. that the ESC should maintain the intent and discipline inherent in this reform, VCOSS encourages the ESC to draw on (or seek) the best available information to rigorously assess the different options for the recognition in the VDO of an efficient retailer's modest customer acquisition and retention costs.

VCOSS shares the concerns of other community sector organisations that, over time, current benchmarks risk a gradual (and unwarranted) growth in the cost stack.

Whatever methodological changes the ESC explores, VCOSS would expect to see in the draft VDO tariffs ongoing restraint (if not an outright reduction) in this cost component.

Do you think we should publish consultation papers in addition to our draft decision papers in future Victorian Default Offer reviews? Why/Why not?

No

Subject to the caveat that draft decisions should continue to incorporate continuous improvement in the VDO methodology, VCOSS supports the ESC's proposal to only consult on their broad approach and methodology if/when major changes are proposed.

As we noted in our draft determination submission in 2022-23, VCOSS encourages the ESC to develop a systematic approach to consolidating feedback (and tracking the status/progress of key issues) from past VDO consultations.

Are there any other matters the commission should look into?

In providing this high-level feedback, VCOSS has consulted with other Victorian energy consumer and community sector advocates, including the Consumer Action Law Centre (CALC). VCOSS endorses CALC's observations on not including any additional pass-through operating costs in relation to the ongoing implementation of the consumer data right.