



3 April 2018

Review Secretariat
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By email: EnergyMarket.Review@delwp.vic.gov.au.

Response to the review of the electricity and gas retail markets in Victoria.

Alinta Energy Retail Sales Pty Ltd (**Alinta Energy**) welcomes the opportunity to provide comments on the Department of Environment, Land, Water and Planning (**the Department's**), consultation paper on the review of the electricity and gas retail markets in Victoria (the consultation paper).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing customer base of over around 800,000 customers in Western Australia and across the National Energy Market and is well placed to provide comment on the Issues Paper.

Alinta Energy is committed to improving the efficiency and effectiveness of energy markets in Victoria. We firmly believe that the introduction of retail competition in the Victorian market has led to efficient outcomes by way of innovative products, cost reflective tariffs, and delivered choice to consumers.

The reintroduction of price regulation through a Basic Service Offer (**BSO**) will have significant impact across the market in Victoria, potentially resulting in retailers exiting the market. Price regulation where the BSO offer price is seen as the reference price from which to compare other offers introduces retailer risk where such a reference price is set incorrectly, that is not correctly accounting for the costs to operate in the market and provide services to consumers. The removal of price regulation introduced the ability for retailers to manage price risk, that has resulted in consumer benefit.

A further concern with the reintroduction of price regulation is the risk faced by Government when attempting to set prices. Customer bill cost drivers such as network

& wholesale costs are not within the control of Government, nor is the Government on any ongoing basis exposed to the market changes in these cost inputs so their level of current market understanding when attempting to set prices would be compromised, making it extremely difficult for the Government to set cost reflective pricing.

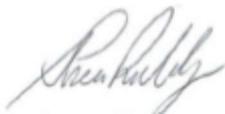
While in principle we support recommendations 3-11 we have concerns around the lack of operational detail supporting these recommendations. Further work is required to fill these gaps before any work can commence on the assessment and implementation of recommendations 3-11.

Our submission primarily focuses on the introduction of a regulated Basic Service Offer and its associated reference price and seeks to ensure that any policy reform meets all of its intended purposes; one of them being, to ensure the long-term interests of Victorian consumers, particularly focusing on supporting vulnerable customers.

Our responses and comments to the review of the electricity and gas retail markets in Victoria are contained in the attached response. Alinta Energy would be happy to discuss any aspect of this submission, or earlier submissions, where required.

Should you have any questions or wish to discuss any aspect of our submission please contact Mr Ante Klisanin Retail Regulation Manager, on (03) 8533 7344 or via email: ante.klisanin@alintaenergy.com.au

Yours sincerely



Shaun Ruddy
Manager National Retail Regulation

Implications of the Basic Service Offer replacing Standing Offers

As set out in the consultation paper, it is envisaged that the Basic Service Offer (**BSO**) will replace the standing offers currently available to small market customers in Victoria. A key component of the BSO is the proposal to incorporate a regulated reference price that is;

- i. Based on annual usage of energy,
- ii. Be based on the efficient costs to run a retail business,
- iii. Include an allowance for a maximum retail profit margin; and
- iv. Not include customer acquisition and retention costs or headroom.

Of great concern to Alinta Energy is the narrow objective of the BSO (and reference price). As referenced in the consultation paper;

The BSO would be a 'no frills' offer, intended to provide a clear price signal to the market about the reasonable price of energy for a 'no frills' service that would allow consumers to compare the BSO with the value of other offers in the market. The BSO would also provide an option for customers who 'just want affordable energy without the fuss'.

This narrow objective statement only captures a small segment of the Victorian energy market, namely, those customers who choose not to engage in the market to seek more tailored offers for products and services. The BSO runs the risk of creating an environment of customer disengagement which leads to a number of unintended consequences. These are discussed further below.

a. Alinta Energy customers contracted under a Standing Offer

As at 1 January 2018, Alinta Energy had less than 2% of its Victorian electricity and gas customers on standing offer contracts the vast majority of these standing offer customers are "Move-in" customers on deemed arrangements, as opposed to customers who have chosen this product, or have transitioned onto this product from one of Alinta Energy's market retail contracts. (Discussed further below) Alinta Energy does not proactively market its Standing Offer product, rather it focuses on marketing our most competitive offer.

The consultation paper identifies that it is the, '*major retailers supplying over 90 percent of Victoria's standing offer customers*'. The greater question is whether standing offers or standing offer tariffs continue to have a place in today's market and what can be done to move consumers away from these offers.

The standing offer has commonly been viewed as a “Fall Back” offer for those customers that choose not to engage in the market. There is a commonly held view that the market has moved on and the continued need for a standing offer has significantly diminished or in effect become obsolete.

Consumer protections attached to standing offers, that is deemed protections where a customer has not engaged in the market exist outside of the standing offer environment.

Retailers have the ability to offer customers a no frills offer based on their market tariffs where these market tariffs also form the basis for other competitive offers that contain value added services and/or discounts. The continued existence of the standing offer (price/ tariff) obligations stifles this innovative approach.

A key initiative the Alinta is strongly supportive off is moving consumers off standing offer products.

As part of the recent PM Roundtable commitments, Alinta Energy (along with a number of retailers) has committed to periodically engaging with all of its customers that are on standard retail contracts to ensure that its customers are aware of the savings associated with moving onto a market retail contract. Arguably this continued initiative mitigates the need for the current version of the BSO offering (inclusive of a regulated price) to replace the standing offer.

Given the above context and extremely low volumes of customers on standing offer contracts with second and third tier retailers, it could further be argued, for the most part, that the obligation to make available a BSO should be limited to Move-in customers on deemed arrangements and vulnerable consumers.

b. Implications of implementing BSO on Alinta Energy's Market Retail Contracts

Alinta Energy has concerns with the impact of replacing the standing offer with a regulated price under the BSO as it has a number of significant consequences on the future development of market retail contract offerings. Like many retailers in the Victorian energy market, our market retail contracts have been developed to incentivise our customers to engage with their retailer. A key feature of current market contracts are conditional discounts linked to customers meeting certain ongoing conditions e.g. “Pay on Time” (PoT) discounts.

It is the retailer's ability to manage pricing risk that allows it to offer incentives such as PoT discounts. The introduction of a reference rate under the BSO will materially impact the ability of retailers to manage this risk, with the flow on effects impacting the availability of incentives and benefits to consumers.

In addition, flexibility in pricing strategies encourages product innovation, this in turn promotes customer engagement. An engaged customer is more likely to review their energy requirements and their options for meeting these requirements on an ongoing basis. This includes options to reduce their consumption and engaging in energy efficiency activities.

Establishing a BSO with a flat “regulated” no-frills tariff essentially signals to a consumer that they can “switch-off”. This consumer disengagement can result in poor consumer outcomes as well as environmental impacts as the incentives on the consumer to reduce consumption are removed.

The loss of competition, choice, innovation, long term investment and economic downturn in the Victorian energy market

In its current form, the BSO reference price has a number of unintended consequences not considered as part of the consultation paper. As the BSO pricing methodology only incorporates retail costs as having the ‘efficient costs of running a retail business’ and no ‘headroom’, this will have a negative impact on both short and long-term marketing and investment strategies across the Victorian energy market. This type of regulatory restriction on commercial enterprise will have actual and perceived connotations that will discourage new entrants, reduce innovative products and exposes retailers to risk that exist only in the Victorian energy market.

In order to fully capture the consequences of a BSO on competition, new entrants, innovation and long-term investment in the Victorian energy market; an objective cost benefit analysis needs to be conducted to assess the impacts across these categories and their impacts on the long-term investment in the Victorian market and on Victorian consumers.

BSO misaligned with cost reflective tariffs and encouraging disengaged customers

Alinta Energy is deeply concerned that a flat tariff BSO will be the only tariff structure established under the departments recommendations. Alinta Energy acknowledges the complexity of developing a pricing methodology for multiple tariff structures, like time of use, two rates, and block based consumption - but we have significant concerns, not only on the environmental impact, but also in regard to the misalignment of objectives with cost-reflective tariffs.

As required under the National Electricity Rules, the distribution networks are required to structure their pricing determinations to reflect consumption patterns of consumers. This initiative was implemented for an equitable and incentive-based network pass-through costs that is an efficient way of managing energy demand during peak times.

By establishing a flat tariff BSO, not only are customers not receiving an equitable pass-through of network costs, but are also losing the incentive to engage on their

consumption profiles to assist in demand management. This type of disengagement by customers with their consumption patterns and timings can also contribute to energy security and reliability in the energy market.

Although Alinta Energy does not suggest that the BSO be developed to have multiple tariff structures, we do suggest using the BSO reference price in a different form to the one proposed in the consultation paper would avoid these unintended consequences. (Referred to below)

Possible solution to assist vulnerable customers and the application of a BSO

Alinta Energy is committed to helping vulnerable customers and understands that having affordable access to essential services during difficult times is the foundation for supporting vulnerable customers.

Although retailers already have existing obligations to assist hardship customers with the most appropriate tariff structure and associated price, it is Alinta Energy's view that a BSO reference price can be utilised as a benchmark to apply only to vulnerable or hardship customers. That is not to say that retailers would not provide offerings below this rate, but rather the BSO could be used as a price ceiling for vulnerable or hardship customers.

Concluding Comments

Alinta Energy supports recommendations 3 to 11 of the consultation paper and firmly believes that implementing these recommendations, along with those of the ACCC review, may significantly increase the efficiency of the Victorian energy market. However, we have concerns around the lack of operational detail supporting these recommendations

We are deeply concerned about the potential for the reintroduction of price regulation through the inclusion of a reference price under the BSO. Implementing recommendations 1 & 2, as described in the consultation paper, has a number of unintended consequences that would be detrimental to the long-term interests of Victorian consumers.

Given the extent of these unintended consequences raised in this submission, Alinta Energy firmly believe that it would be a poor policy decision not to engage in an objective cost benefit analysis against these recommendations and the extent of these unintended consequences on the long-term interest of Victorian consumers.