

30th April 2019



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To: Department of Environment, Land, Water and Planning (DELWP)
PO Box 500
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To Department of Environment, Land, Water and Planning (DELWP)

Re: Active Utilities Pty Ltd (AU) Submission to Victorian Default Offer – Draft Orders consultation paper

Thank you for the opportunity to comment on the DELWP's consultation paper on the Victorian Default Offer – Draft Orders.

Active Utilities agree and welcomes the intent of the VDO, though believes consideration should be given to the cost-stack methodology.

Additionally, Active Utilities believe consideration should be given to the VDO, being the instrument used as a maximum price cap for selling electricity under an exemption as it impedes on embedded network customers benefits of gaining alternative good value market offers from embedded network operators. This is explored in further detail below.

Active Utilities have also provided some further discussion points and queries stemming from the draft determination.

If you require any further information in relation to this submission, please feel free to contact me.

Kind Regards,

A handwritten signature in black ink, appearing to read "Kyle Johnson".

Kyle Johnson
Compliance & Risk Manager
Active Utilities

Price determination prior to commencement of a regulatory period

Active Utilities seeks clarification on Clause 9 of the draft section 13 Order where it provides that, at least 42 days before the commencement of a regulatory period, the ESC must make a price determination.

Active Utilities holds concerns that final Network charges may not be published at least 42 days before the commencement of a regulatory period. Therefore, we are unsure on how the ESC will be able to make a price determination given the proposed method is a cost-stack approach without a published Network charges.

Other matters the ESC should be required to consider in setting prices for the VDO

Research and Development

Active Utilities notes that the ESC is basing the VDO on a cost stack approach. Active Utilities believe the cost stack approach fails to consider research and development where margins are directed towards the innovation, introduction, and improvement of products and processes; such as solar, renewable energy, integrated utilities systems and virtual power plants, to assist in sustaining lower costs to customers in the long term.

Embedded Networks

Active Utilities have also identified that when using this methodology, Embedded Network Operator costs have not been considered including the following regulatory changes:

- embedded network exemption guidelines;
- power of Choice reforms;
- updating regulatory frameworks for embedded networks;
- electricity licensing exemptions; and
- the General Exemption Order.

VDO as a maximum price cap for Embedded Networks

Active Utilities believes consideration should be given to the VDO, being the instrument used as a maximum price cap for selling electricity under an exemption¹.

The original reason for applying a maximum price cap on embedded networks was due to a pricing monopoly that embedded network had. This has since been rectified by power of choice reforms and implementation of Embedded Network Managers.

¹ See clause 10 of the General Exemption Order 2017, November 2017, p. 6.

Active Utilities note there are currently further reforms to embedded network frameworks that will allow further provisions for efficient churning of customers to on-market retailers if requested.

If the VDO is implemented as a maximum price cap to embedded networks, this will prevent embedded networks from offering alternative good value for money contracts (that may cost more than the VDO). This will impede on embedded network customer's benefits, from those who are active on the market, from gaining alternative good value market offers and may force embedded network customers, who are otherwise happy with an embedded network operator, to go on-market to access these offers from licensed retailers. Active Utilities believe that embedded network operators should also be able to offer alternatives in the market above or below the proposed VDO, as the VDO currently sits below the median market offer in the majority of distribution zones.

Retail margin

Active Utilities strongly agree with the ACCC's REPI final report of an average retail margin of 11 percent in Victoria² and believe the cost stack approach should set the retail margin at the ACCC retail margin rate. We acknowledge ESC's counterargument of this margin but believe the points raised in the draft advice are based on possibilities.

Two-part tariff

Active Utilities note that the DELWP have a flat tariff and a three-part tariff highlighted in Appendix C of the consultation paper. Active Utilities request the creation of a two-part profile due to it being a common tariff type for SME's.

² ACCC, Retail Electricity Pricing Inquiry – Final Report, June 2018, p. 8.
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