

**GloBird Energy**

13 3456

globirdenergy.com.au

Building 10, 613 Whitehorse Road, Mitcham, VIC 3132

**Essential Services Commission****Level 37/2 Lonsdale St, Melbourne VIC 3000****RE: Victorian Default Offer 2022–23 review**

GloBird Energy welcomes the opportunity to provide feedback on Victorian Default Offer 2022–23 review. GloBird is a Melbourne based non vertically integrated energy retailer. Our submission contains our observations on the changing input costs that should be accounted for in the VDO to make the default offer better reflects the actual components of the cost stack. Mainly the following:

1. Victorian Energy Efficiency Certificates
2. Cost to Serve
3. Wholesale
4. Solar Feed-In

Victorian Energy Efficiency Certificates

The cost of complying with the Victorian Energy Upgrades program has increased significantly in recent years. The price of VEECs has increased because energy upgrades could not proceed due to Government lockdowns resulting in many upgrade participants unable to fulfill the delivery of certificates.

Even prudent retailers who took all reasonable precautions by hedging in good faith by entering forward agreements found that the promised certificates were not delivered. Providers who were supposed to deliver certificates have defaulted, failed, or closed their doors permanently.

This has forced retailers to either buy certificates at extremely elevated prices or pay the shortfall. Based on GloBird's book of retail customers this additional cost works out to be an additional \$8 per customer per year (based on an average residential customer) for the 2021 calendar year VDO price, which we suggest the extra cost should be added into the FY2023 VDO price as a true-up to give retailers a chance to fully recover on the true cost of the VEU program occurred in 2021.

Cost to serve

The federal government's recently released "population statement" shows the lowest population growth in a century. Border closers and staff shortages have driven up the cost of attracting and retaining staff. In January 2022 KPMG released their report "The big issues facing business leaders in 2022". The report sighted the number one challenge for business is acquiring and retaining talent is their key concern.

KPMG chief economist Brendan Rynne pointed at two years of foreign residents returning home led to a net overseas migration fall of 100,000 people in the 12 months to March 31, 2021 in a negative trend which, although borders have since reopened, Dr Rynne expects this trend to continue.

## **GloBird Energy**

13 3456

globirdenergy.com.au

Building 10, 613 Whitehorse Road, Mitcham, VIC 3132



Businesses like GloBird have been forced to pay more and get less in productivity (as more staff insist on working from home). This trend has real world impacts on CARC. GloBird estimates the costs to serve has increased by almost 20% and this cost pressure looks set to persist long into the future as most of the increase are on wage & salary. The CARC figure used in previous VDO calculations is now woefully underestimated and should be increased to reflect current costs.

### Wholesale

One of the largest components to the cost stack that makes up the VDO is wholesale cost. Therefore, it is crucially important that this component is calculated accurately. Yet the trade-weighted contract price data used in the frontier model is missing its most crucial data, which is the annual option expiry day for the ASX energy futures market. This is due to the cut-off date being one day earlier than it should be.

GloBird are concerned that this particular day is excluded as it contains the highest volume of trades. GloBird note that the commission are aware of this day's importance, and note the reason given to exclude it is the tight "statutory deadlines".

GloBird believes ignoring the day with the highest weighting of trades undermines confidence in the frontier model and that is greatly skews the result. In GloBird's view, we would prefer to wait for a few extra days to receive the final VDO price so the data can be included in the modelling, if the deadlines constraints make it difficult to include this data at the time, a true up mechanism should be included so the weight of this data is not consistently ignored.

### Solar Feed-In

The VDO currently includes a "social cost for carbon" to account for the difference between what retailers are forced to pay customers for solar (minimum feed in) and the value of that solar. However, the amount for this in dollars terms is greatly understated.

Retailers are forced to buy the roof-top solar generation from customers at the price that is no less than the minimum feed-in tariff, but there are no solar shaped wholesale contracts available in the ASX energy market for retailers to manage the roof-top solar generation risk. As a result, retailers have no choice but to take the spot market price.

With spot prices more commonly negative during the period when solar volume is at its highest, the gap between the two is far greater than that accounted for in the 2.5 cents catered for in the VDO. From GloBird's experience, the average solar generation fed into the grid has grown by a factor of 15 times (on a per customer basis against our total customer base). While this is welcome news for the environment, it creates significant changes to the wholesale energy market, which is apparent from the increased number of negative wholesale prices.

The difference should be calculated based on the actual historical Victorian spot price for the proceeding calendar year and the min feed in rate.

**GloBird Energy**

13 3456

globirdenergy.com.au

Building 10, 613 Whitehorse Road, Mitcham, VIC 3132



Summary

The components in the cost stack are not reflective of current real-world costs and should be analysed to ensure they are more realistic. Market and social conditions have significantly changed, both of which have had major impacts on the underlying assumptions and direct costs associated with energy costs, and therefore we ask they be considered fully when working out the VDO.

Please contact John McCluskey for any enquiries regarding this submission.

Regards



**John McCluskey** / Executive Manager

[john.mccluskey@globirdenergy.com.au](mailto:john.mccluskey@globirdenergy.com.au)

**GloBird Energy**

13 3456

Unit 10 / 613 Whitehorse Rd, Mitcham

VIC 3132

[www.globirdenergy.com.au](http://www.globirdenergy.com.au)

**References:**

<https://home.kpmg/content/dam/kpmg/au/pdf/2022/issues-facing-australian-leaders-2022-outlook.pdf>

[Centre for Population Annual Population Statement 2021](#)