**Public Version with Confidential Data Redacted**

8 October 2021

Ms Kate Symons
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street,
Melbourne VIC 3000.

Submitted online via: www.engage.vic.gov.au

Dear Ms. Symons

**Essential Services Commission (ESC) Victorian Default Offer (VDO) From 1 January 2021**

Thank-you for the opportunity to provide a submission in response to the consultation paper titled "Victorian Default Offer from 1 January 2021 Draft Decision" (Draft Decision).

Momentum Energy Pty Ltd (Momentum) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest producer of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We also retail natural gas to Victorian customers. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

We provide specific comment regarding several of the issues raised in the Draft Decision.

**Under or Over Recovery of Network Costs and the Regulatory Period of the Next VDO**

Momentum is generally comfortable with:

- The method suggested to recover the under or over recovery of network costs for July and August 2021, caused by the delay in the commencement of the VDO until 1 September 2021. Determining the actual consumptions for the applicable tariffs for the two month period and applying adjustments to the daily network charges for the first half of 2022 will suitably correct this issue and minimise tariff volatility which will benefit customers; and

- The proposal to limit the length of this VDO regulatory period to six months to primarily ensure that subsequent VDO determinations align with changes in network tariffs which occur on 1 July each year. This is particularly important as network tariff charges currently account for approximately 38% of the retail bill forming a significant input into VDO price determinations.

**Bad Debt Allowance**

We note that the ESC reported, in the Victorian Energy Market Update September 2021,[1] that during 2021 the average outstanding debt of electricity residential customers has stayed persistently high. Momentum is concerned with the proposal to remove the current COVID bad debt allowance of $6.00 from the VDO price determination. The average arrears at the end of June 2021 was [redacted] per cent higher compared to the monthly average in 2019 for electricity, while the average arrears for gas was similar to the monthly average in 2019.

Also under the ESC's March 2021 special notice of "Customer Protections during the Pandemic" our ability to manage customer debt has been significantly impacted. With the reintroduction of government imposed lock downs, in recent months, caused by significant out breaks of the COVID pandemic in Victoria, Momentum has experienced an increase of our 90 day debt as a percentage of overdue debt. It is likely that the effect of this pandemic will continue to impact bad debt into the second half of 2021 and for the full 2022 year, until the conditions imposed by the ESC are progressively removed. Results to date do not fully reflect the bad debt situation as debt write offs will not be reflected until the current restrictions are removed. The underlying metrics that highlight this situation include:

- Momentum's 90 day debt as a percentage of overdue debt has materially increased from a low of [redacted]% pre COVID to over [redacted]% as indicated in the Overdue Debt Profile Chart and Table below (redacted in this version);
- Current debt loss rates are low as they are linked to restricted COVID customer protections but we expect these to increase and wash through our debt portfolio over a period of six to twelve months once restrictions are eased; and
- Current overdue debt has also been limited as a result of specific activity undertaken by Momentum including:
    - *Redacted;*
    - *Redacted; and*
    - *Redacted.*

All of these activities have been funded by Momentum. We expect 90 day plus debt to climb for the remainder of FY22, reaching [redacted] in Q3 for the first time, particularly as the FY21 seasonal increased billing period reaches the 90 day plus debt category.

While some retailers are reporting lower than expected impact to Net Bad Debt Expenditure (NBDE) as a percentage of revenue, we believe this will increase in coming quarters due to the issues we have discussed above.

[1] https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/victorian-energy-market-report

[redacted]

*Chart Redacted*

Overdue Debt Profile Chart

*Table Redacted*

Overdue Debt Profile Table

The debt provision timeline table below summarises the various adjustments Momentum has taken to manage its debt and provision profile, over the past 24 months. Momentum is still holding a provision of [redacted] related to COVID 19.

*Table Redacted*

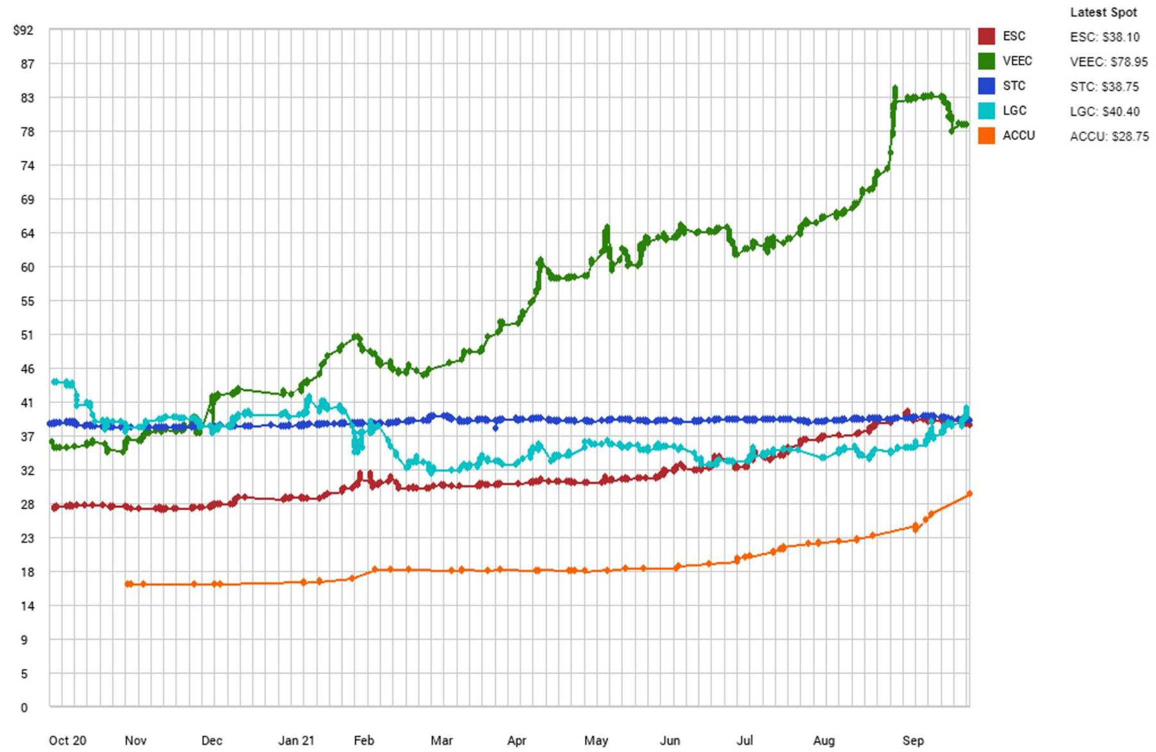
Debt Provision Timeline

**Environmental – Victorian Energy Efficiency Certificates (VEECs)**

We reiterate the concerns raised at the recent ESC VDO forum regarding the price, supply and liquidity of VEEC certificates as follows:

- Spot prices for VEEC[2] have increased from $44.90 on 1st March 2021 to $79.00 on 27 September 2022;
- Lighting has been removed as an accredited activity when it previously accounted for around 80% of VEEC certificates;
- The inability of contractors to install and perform Victorian Energy Upgrade activities, caused by COVID restrictions has reduced the liquidity of VEECs in the market; and
- There is a possibility of contractors defaulting on their contractual obligations and exiting the market.

[2] Demand Manager Spot prices https://www.demandmanager.com.au/certificate-prices/




VEEC Spot prices – Demand Manager

Momentum suggests the following short term solutions to these issues:

- The implementation of an allowance for retailers to roll forward a percentage of their 2021 obligations to future years;
- A reduction of the retailer target for 2022; and
- Reinstatement of lighting for a further period to assist with the shortfall and reduce spot prices.

We realise that some of these suggested solutions may be beyond the ESC scope and we appreciate that the ESC has made representations to the responsible government department the Victorian Department for Environment Land, Water and Planning (DELWP). However, if the current situation cannot be promptly addressed we believe that the allowance for this environmental cost in the VDO should be increased to offset this unforeseen market situation which has largely been caused by the pandemic.

**Retail Operating Costs - Customer Data Right**

In the consultation paper Momentum raised the requirement for cost recovery of the forthcoming national regulatory obligation concerning the Consumer Data Right (CDR). In the Draft Decision the ESC responded by commenting that this new obligation is not applicable to Momentum until potentially 2023. Momentum has been actively engaged over the past 12 months with Treasury and the Data Standards Body developing draft energy rules for the CDR and furthermore we have recently sought advice on implementation timelines based on experience with the CDR in Britain and for banking in Australia. The advice is that retailers should factor in a 12 – 18 months build time for the

CDR to suitably address the complexities of the CDR framework and consequently Momentum has already committed project resources to consider the system implications of the CDR. Early estimates are that we will spend approximately [redacted] this year on pre-work and set up activities, with more to come in future years as we build and deploy the required systems. We therefore believe that an allowance for this mandatory regulatory change should be included in the final VDO decision for 1 January 2022 and for some time thereafter. It is becoming a disturbing trend that federal and state governments are mandating new regulatory obligations onto energy market participants without due consideration for a robust cost benefit analysis and consideration of when and how these costs can be recovered.

**Summary**

Momentum is firmly of the view that the COVID debt allowance of $6 should remain in the VDO cost stack for the 2021 period, particularly as this current pandemic outbreak is continuing and that customers will continue to need assistance for some time to come. Moreover, as indicated above the full impact of the bad debt loss is not reflected until sometime after retail businesses are allowed to return to normal business practices.
We also believe that the retail operating cost component of the 1 January 2022 VDO should be adjusted to reflect the resources, required by retailers, to analyse and develop the system and process changes required to deliver and comply with the CDR obligations.

[redacted]

Should you require any further information regarding this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au

Yours sincerely

[Signed]
Randall Brown
Regulatory Manager