

5 April 2023

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

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

Dear Ms. Symons

Victorian Default Offer (VDO) 2023-24 Draft Decision

Thank-you for the opportunity to provide a submission in response to the Victorian Default Offer 2023-24 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 aim to offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

1. Overview

We note that significant increases in wholesale electricity costs are largely responsible for the increased prices presented in the Draft Decision. While retailers are responsible for collecting the revenue for all parties in the electricity supply chain they should not bear the sole responsibility for managing the impact of cost increases across the market. It has been well publicised that international unrest, transitions to renewable generation, increases in network costs and contributions to environmental incentives are all factors that have led to increased electricity prices for consumers. These factors should be acknowledged and it should not be left to retailers to bear the impact of these through a reduction in the allowance for retail operating costs or retail margin. Retailers already bear the responsibility of managing bad debt and vulnerable customers through these uncertain market conditions.

Momentum supports the consistent, stable approach to the wholesale market cost component determination in the Draft Decision.

2. Retail Operating Cost

We are somewhat disappointed that the Essential Services Commission (ESC) has chosen to change from escalating the former retail operating costs benchmark (determined by the Independent Competition and Regulatory Commission in 2017) to an assessment of actual retail operating costs for the Draft Decision. This has significantly reduced the retail operating cost in the Draft Decision at a time when retailers have been recovering from the financial impacts of the Covid pandemic. Retailers actively supported vulnerable customers to levels in excess of regulated provisions during the pandemic and while there is no exact science to calculating customer costs of large, small and startup retailers, it is unfortunate that the ESC has chosen to move to a different methodology, that also happens to initially reduce the average retail operating cost per customer for the Draft Decision. We recommend that this change, in the retailer operating cost methodology, be scaled over several years, to reduce the sudden impact of a reduced cost allowance. Retailers can then consider additional options to further reduce costs, within their businesses, in line with the revised retail operating allowance.

3. Retail Margin

Momentum notes the ongoing commentary of consumer advocates and other stakeholders in relation to the retail margin, to reduce the increase of the Draft Decision. The past year has seen several retailers withdraw from the market and in some cases fail, causing retailer of last resort events. This is distressing for customers and industry participants and decreases the level of confidence that customers have to actively engage in the market especially with smaller and often highly innovative retailers. Momentum believes that the ESC should undertake a robust and constructive review of the retail margin at distinct timings, for example once every 5 years, to avoid the emotive discussion of the retail margin every VDO decision and to provide certainty to retailers and their investors to ensure an ongoing sustainable market.

4. Compensation for Market Intervention Costs

Momentum notes in the Draft Decision that the ESC will only include any known market intervention costs that are currently being determined by the Australian Energy Market Operator (AEMO) and the Australian Energy Market Commission (AEMC) in the 2023-24 VDO final decision. However, we reiterate our concern with the intention of the ESC to not include an additional capital funding allowance to cover the lag in recovery of any other market intervention costs until the 2024-25 VDO. There is a reasonable assumption that some of the market intervention costs will not be known until after the 2023-24 VDO final decision and it appears that the ESC is content with retailers covering this likely additional cost of capital as well as the proposed reduction in retailers' operating costs. We suggest this approach is unreasonable and requires further consideration by the ESC.

5. Consumer Data Right (CDR) Cost

In the Draft Decision the ESC has suggested that the CDR operating cost per customer falls within the range of \$0.04 - \$2.60. Momentum provided an estimate of our CDR operating costs in our response to the VDO issues paper, with the expectation that these costs would be recovered, via an increase in the retailer operating costs. Instead, the Draft Decision suggests that as the retailer operating cost in 2021-22 was more than, what is now proposed in the Draft Decision, that no additional allowance will be recoverable for CDR in the Draft Decision. This appears to be inequitable especially considering the lack of lead time for the implementation of the recently proposed actual retailer operating cost methodology and also considering that the CDR was a retail regulatory obligation not underwritten by any cost benefit analysis. The ongoing use of the CDR by customers is unknown and delivers little or no off-setting cost ability to retailers.

6. Summary

In our response to the VDO Issues paper we mentioned the unprecedented year that the electricity market has been through with the wholesale market being both suspended and placed under an administered price cap. With a price regulated market this has placed a substantial responsibility on the ESC to ensure the ongoing viability of the market.

The ESC has undertaken a consistent, approach to the wholesale cost methodology and delivered a workable pricing outcome. Whilst we have concerns with some lesser aspects of the VDO cost methodology we commend the ESC on its approach to determining the Draft Decision.

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

Head of Regulatory Affairs