

19 April 2024

Ms Kate Symons
Chairperson
Essential Services Commission
Level 8/570 Bourke St
Melbourne VIC 3000

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

Dear Ms. Symons

Victorian Default Offer (VDO) 2024-25 Draft Decision

Thank you for the opportunity to provide a submission in response to the VDO 2024-25 Draft Decision Paper (the **Draft Decision**).

Momentum Energy Pty Ltd (**Momentum, us or we**) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest generator 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.

VDO Methodology and Retail Operating Margin

The VDO was first introduced in 2020 with the methodology used to determine it remaining largely the same for the past few years, apart from minor changes to how parts of the cost stack are estimated. Momentum supports this consistent approach as it provides certainty and predictability to develop strategies to manage the various supply and revenue risks in a highly competitive market. We realise that network prices will continue to increase and wholesale price volatility is a probability for the future, caused by the market transition to renewable electricity generation. The core function of a retailer, in this disaggregated market, is to smooth out price variations and to minimise risk for consumers. Retailers are also the revenue collection agent for all parts of the electricity supply chain bearing all credit and consumer associated risks and support responsibilities. Unfortunately, since May 2022 11 retailers in the national market have failed causing retailer of last resort events. This is a clear indication that many retailers are struggling financially with these responsibilities together with the ongoing prospect of volatility in the wholesale market.

Therefore, as most other VDO cost inputs have been increased and or suitably accommodated into the Draft Decision it is disappointing that the ESC chose to reduce the retail operating margin in 2023-24 from 5.7% to 5.3% and to retain it at 5.3% for the Draft Decision. Momentum questioned this outcome in the ESC 2024-25 VDO Request for Comments paper, where the ESC justified the margin reduction based on comparisons with

retail margins that existed in Tasmania and the Australian Capital Territory. Momentum pointed to comments made by both regulators of these jurisdictions as follows:

In the April 2022 Standing Offer Pricing Investigation prepared by Office of the Tasmanian Economic regulator (OTTER), it stated that:

- *the Regulator's draft assessment was that Aurora Energy faces lower risks in some areas than other electricity retailers operating in the NEM, especially those that are not part of a vertically integrated business: and*
- *overall, the Regulator's assessment is that, compared to standalone retailers in other Australian jurisdictions, Aurora Energy may face lower than average risks relating to the wholesale electricity price, setting aside volume-related risks.*

The Independent Competition and Regulatory Commission (ICRC) stated in their Retail Electricity Price Investigation 2020-24 Draft Report that:

- *the Commission considers that the efficient retail margin in the ACT may be lower than in other NEM jurisdictions, such as Victoria, given the lower level of customer related risks in the ACT.*

In the Draft Decision, the ESC stated that retailers raised concerns about the retail margin reduction considering the increased levels of competition in Victoria. The ESC dismissed this concern suggesting that increased competition was not a valid argument for increased retail margins. Momentum reiterates its concerns about the reduced retail margin based on the additional wholesale and customer related risks of electricity retailing in Victoria, as indicated by OTTER and the ICRC in their respective reports¹. We believe that the VDO 2022-23 retail margin of 5.7% should be reinstated for the final VDO 2024-25 decision.

Environmental Costs

The ESC approach to estimating the environmental cost component of the VDO has not changed for the Draft Decision. However, we refer specifically to the Victorian Energy Upgrades (VEU) program and the Victorian Energy Efficiency Certificate (VEEC) cost input of \$77 that the ESC has used in the Draft Decision. Prices of VEECs have increased over the past year from approximately \$70 to \$95. We are aware that the ESC uses a trade weighed 12 months estimate up to 31 December 2023 for VEECs and that this cost input will be updated for the final 2024-25 VDO. Nevertheless, we do have concerns with the VEU program and the increasing cost of VEECs. We are aware of accredited certificate providers (APs) that have defaulted on forward VEEC contracts just prior to when retailer surrender dates are due. This has resulted in the risk of exposure to the VEEC spot price and or the penalty price of \$96. It is our view that the VEET scheme requires review covering both the

¹[https://www.economicregulator.tas.gov.au/Documents/22%20889%202022%20Standing%20Offer%20Electricity%20Pricing%20Investigation%20-%20Final%20Report%20\[FINAL%20VERSION\].pdf](https://www.economicregulator.tas.gov.au/Documents/22%20889%202022%20Standing%20Offer%20Electricity%20Pricing%20Investigation%20-%20Final%20Report%20[FINAL%20VERSION].pdf)
https://www.icrc.act.gov.au/data/assets/pdf_file/0007/1474756/Electricity-Draft-report_pdf.pdf page 43

approval process of APs and the approval process of new VEU activities. Victorian government reforms to approved VEU activities has seen the removal of the lighting activity and a slow introduction of new replacement activities. Many of the new activities are complex and require consumer joint funding and lead times before they are installed. This has caused delays in APs generating VEECs and is possibly responsible for the lack of liquidity in the market and the significant increase in VEEC spot prices. Momentum has a legislative obligation to purchase VEECs each year and these problems with the scheme impose an unacceptable financial risk that need to be addressed otherwise the recovery mechanism for VEU in the VDO cost stack is not reflective of the true cost.

Summary

We are hopeful that our comments above will help influence the VDO for 2024-25 to ensure an ongoing viable competitive electricity market with a fair and reasonable outcome for all market participants. Should you require any further information regarding this submission, please do not hesitate to contact me on [REDACTED] or email [REDACTED]

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager