

14 December 2023

Essential Services Commission  
Level 8, 570 Bourke St  
Melbourne VIC 3000

Lodged via Engage Victoria

Dear Commissioners,

**Re: 2024-25 Victorian Default Offer – Request for comment**

Simply Energy welcomes the opportunity to provide feedback on the Victorian Default Offer (VDO) price determination to apply from 1 July 2024.

Simply Energy is a leading energy retailer across Victoria, New South Wales, South Australia, Queensland and Western Australia. Simply Energy is owned by the ENGIE Group, one of the largest independent power producers in the world and a global leader in the transition to a zero-carbon economy. As a leading retailer focused on continual growth and development, Simply Energy supports the development of effective regulation to facilitate competition and positive consumer outcomes in the market.

In this submission, Simply Energy provides feedback on the topics raised in the Essential Services Commission's (Commission) paper and comments on the Commission's retail operating cost methodology.

**Retail operating margin**

Simply Energy would support the Commission adopting an approach to estimating the retail operating margin that is more transparent than the current approach based on benchmarks set by other regulators and the expected returns model developed in 2019. To promote regulatory certainty, we would support an approach that set a fixed percentage margin for a set period (for example, three or five years), which would then be reviewed and reset before each subsequent period.

While we are not opposed to the Commission deciding on a value for the retail operating margin from within a range of values, we were disappointed with the Commission's decision to move within the range in the final 2023-24 VDO decision, with little explanation as to how the available evidence changed so significantly between the draft and final decisions to justify the move.

As a short-term measure, we would support the retail operating margin being reset at 5.7 per cent for the 2024-25 VDO while a longer-term methodology is developed and consulted on. In our view, the Commission should have reduced the retail operating margin in the context of the current market environment, where there has been a step change in Australian interest rates and an expectation that higher than target inflation persists until the end of 2025<sup>1</sup>.

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<sup>1</sup> Reserve Bank of Australia 2023, Statement on Monetary Policy, 9 November, p. 1.

## Wholesale costs

Simply Energy accepts that peak swap wholesale electricity futures contracts are no longer traded in meaningful volumes. As an alternative, the Commission should consider obtaining over-the-counter contract prices from brokers and incorporate this data into the estimation of the wholesale electricity cost benchmark.

## Retail operating costs

During the 2023-24 VDO consultation, we did not support the retail operating cost methodology being changed to be based on retailers' actual costs. We considered there was no compelling reason to change the methodology when the Commission was of the view that the previous methodology was producing acceptable estimates of operating costs.

We accept that the Commission is unlikely to revert to their previous methodology for the 2024-25 VDO decision, however, we urge the Commission to reconsider its customer-weighted retail cost benchmark. In our view, a customer-weighted retail cost benchmark does not provide an accurate estimate of a retailer's efficient costs and does not promote competition in the Victorian electricity retail market. A more appropriate estimate of the efficient retail operating costs across the market would be to use a benchmark based on a median or mean measurement.

The customer-weighted average inherently biases the estimate to align with the operating costs of the big three retailers. As highlighted in the Australian Competition and Consumer Commission's November 2022 report<sup>2</sup>, the big three retailers have a significant operating cost advantage over all other retailers across the National Electricity Market.

As all retailers are required to make the VDO available to their customers, not just the big three retailers, the use of a cost estimate that is reflective of larger retailers makes it more challenging for smaller retailers to compete in the market and supply market contracts at or below the VDO price. Over time, maintaining the customer-weighted average may increase barriers to entering the Victorian electricity retail market, reducing competition in the market and customer choice.

## Concluding remarks

Simply Energy looks forward to working actively with the Commission to ensure that the 2024-25 VDO price determination accurately reflects forecast changes in the cost of supplying electricity retail customers in Victoria.

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact me at [matthew.giampiccolo@simplyenergy.com.au](mailto:matthew.giampiccolo@simplyenergy.com.au).

Yours sincerely



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<sup>2</sup> Australian Competition and Consumer Commission 2022, Inquiry into the National Electricity Market – November 2022 Report, 8 December, p. 75.