

30 January 2023

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

Submitted via email: VDO@esc.vic.gov.au.

Dear Ms. Symons

Victorian Default Offer (VDO) 2023-24 Consultation Paper

Thank-you for the opportunity to provide a submission in response to the Victorian Default Offer 2023-24 Consultation Paper (Consultation Paper).

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. Market Overview

The electricity market has experienced an extraordinary year since the 2022-23 VDO was consulted on. The wholesale market has been both suspended and placed under an administered price cap. Many retailers have had to review and adapt their normal ongoing operations and at least six retailers have failed in the national market leading to retailer of last resort events. This aberrant period has exposed the risks of retailing electricity in a market where standing offer prices are regulated under the VDO and where the VDO is a mandatory benchmark price for all other offers to be compared.

Momentum acknowledges the recent review of the VDO pricing order, reported to the government in October 2022, which confirmed that the VDO is meeting its primary objectives with no major changes required. We also note from the Consultation Paper, and largely support, the ESC's intent to not change the VDO methodology, at this time, but we remain concerned that some mechanisms may be interpreted differently to address alternative policy objectives in these uncertain times of rising electricity costs.

Retailers cannot be expected to absorb significant changes in wholesale electricity prices and we support an unchanged approach to the application of the wholesale methodology

when determining the VDO for 2023-24. The ongoing viability of the competitive electricity market, under regulated prices, must also be a major consideration for this VDO determination.

2. Issues Raised by the ESC for Stakeholder Consideration

(a) Market Intervention Costs

We agree with the comments made in the Consultation Paper that the market intervention in 2022 created additional wholesale costs that an efficient retailer would need to recover via pass through charges to customers. It is now our understanding that the known generator compensation costs will be included in the final 2023 -24 VDO decision. We are somewhat concerned that the timing and quantum of the recovery of the additional market intervention cost has not yet been determined. We are of the view that Momentum should not be expected to carry these costs until the 2024-25 VDO without certainty of either an additional capital funding allowance or with the prospect of a definite mid-term VDO variation. While the quantum of these costs may not be known, at this time, the ESC should provide certainty of how and when they will be able to be recovered.

We do not support the carryover of any 2022 market intervention costs to the 2024-25 VDO as this compounds the recovery of 2024-25 wholesale costs. Moreover, deferring the 2022 compensation into 2024-25 may also be competing with similar market intervention events in 2023-24 if they occur. It is important to recover costs from customers as near as possible to when the costs were incurred to ensure equitable cost recovery from largely the same customers and the same numbers of customers. The retail margin allowance in the VDO is not sufficient to cover the additional capital funding of delayed cost pass throughs as well as the risk of variations in total customer numbers at the time of recovery.

(b) Retail Operating Costs

We acknowledge that the retail operating cost benchmark is based on an Independent Competition and Regulatory Commission's (Australian Capital Territory) report titled "Standing Offer Prices for Supply of Electricity to Small Customers from 1 July 2017 Final Decision" and that it was produced some time ago. Nevertheless, it has been escalated by the Cost Price Index (CPI) and is a reasonable benchmark as it provides consistency for this VDO input at a time when the wholesale cost input is likely to be varied considerably. While we agree there could be alternative measures of determining the retail operating cost, we do not believe that it is prudent to consider alternatives for this VDO determination.

The Consultation Paper has questioned the use of the CPI as a suitable escalator of the retail operating cost as some of the recent larger contributors to the CPI have been higher food and automotive fuel costs. As neither of these costs make up a significant share of retailers' costs the ESC is suggesting alternative escalators could be used. Momentum does not agree with this assessment and believes that it is inappropriate to pick and choose the high inputs of an escalator at different periods to suit a particular objective. The CPI is a well established measure of inflation used and accepted by many organisations and

governments as a fair and reasonable escalator. Some of the significant costs of a retailer include staff remuneration and tenancy both of which are impacted by CPI based adjustments. As a generally accepted price escalator, the published CPI, will have its high and low years but is at least consistent across industries and well understood by consumers.

(c) Customer Acquisition Costs

Momentum supports the continued approach of escalating the formerly determined customer acquisition and retention costs used in past VDO determinations. We understand the VDO's pricing order stipulates this allowance to be a "modest" allowance and therefore see no value in achieving a more accurate assessment of the true cost of these activities currently. The recent restrictions in the past few years due to COVID and the high volatility in wholesale prices does not reflect a "normal" year for costing these activities.

(d) Consumer Data Right Costs

Momentum is obligated to provide Customer Data Right services from 1 November 2023 for non-complex customers and from 1 May 2024 for complex customers (request made on behalf of a large customer, secondary user or relates to a partnership account).

The Momentum CDR operating expenditure for financial year 2023-24 in Victoria is estimated to be around \$[REDACTED]. This cost should be included in the VDO Retail Operating Cost component of the VDO from this year and all subsequent years.

(e) Continued Publication of Annual VDO Consultation Paper

We believe that an Annual VDO Consultation paper should be published to review the approach, particularly given the following:

- Unique or unexpected market events that could recur and require specific consideration;
- Dynamic nature of the energy market with the progressive transition to renewable generation and projected substantial changes to wholesale electricity costs;
- Significant impact that the VDO has on the viability of retailers in a price regulated market; and
- Impact on affordability of an essential service for all consumers

3. Summary

With the progressive move away from fossil fuel electricity generation to renewables volatility in electricity pricing was inevitable. With Victoria now a price regulated market under the VDO this places an enormous responsibility on the ESC to manage both the sustainability of the market and the ongoing affordability of electricity. This is a relatively simple assignment when electricity prices are falling but requires astute decision making when the inverse occurs to ensure the ongoing viability of all participants in the market. We urge the ESC to adjust the VDO price in line with the volatile wholesale market prices.

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