

30 January 2023



Review of the Victorian Default Offer  
Essential Services Commission  
Level 8/570 Bourke Street  
Melbourne, VIC 3000

Online via: <https://engage.vic.gov.au>

**Re: Review of the Victorian Default Offer for 2023-24**

I refer to the consultation paper setting out the Essential Services Commission's (commission's) views on next steps for the approach to variation to the current Victorian Default Offer, (VDO), determination.

1st Energy is a non-integrated, second-tier electricity and gas retailer for residential and SME customers. Founded in April 2015, 1st Energy operates throughout the eastern states of Australia including New South Wales, Queensland, South Australia, Tasmania, and Victoria.

We recognise cost-of-living pressures are front and centre for many Australians and consumers are looking for price relief; with energy prices remaining at the forefront of public debate. Both customers, particularly those in vulnerable groups, and retailers are facing significant and increasing financial pressure. The soaring prices and volatility have resulted in several retailer market exits, diminishing consumer confidence in the market.

The commission has indicated the approach to determining the VDO will remain largely unchanged, and it is our view this is appropriate to provide market certainty and viability. It is critically important that the VDO strikes the right balance in meeting the policy objectives and we are concerned if it is artificially skewed to provide consumers protection from the actual costs to operate in the retail market this will result in a further reduction of retailer viability, available market offers, and competition will be stymied.

1st Energy provides the following points for the commission's consideration:

**Wholesale costs**

In general, we agree with retaining a futures market-based methodology approach. Any widescale changes would require more than a few months for a retailer to implement and runs the risk of impacting the viability of some retailers, with insufficient time for retailers to review and adjust their wholesale risk management strategies and impacting their capacity to fairly compete in the energy market. Transparency, stability, and certainty should be at the forefront of the approach when considering the current wholesale methodology.

**Network costs**

We agree that in setting the VDO the Australian Energy Regulator approved network costs must be included to ensure a true and accurate representation of the costs in providing retail electricity services.

**Environmental costs**

We agree that it is appropriate to retain the same approaches to estimating environmental costs.

**Market intervention costs**

It is our strong view market intervention costs are passed through as soon as known and not delayed until the 2024-25 Victorian Default Offer. Retailers will face these costs immediately, (in fact payments have already commenced) and with the current market volatility it is an imperative that the VDO is truly cost reflective and adjusted accordingly. We consider it a fairer approach that where possible our current VDO customer base pays for relevant market intervention costs and delaying the pass-through costs may further impact financial hardship for customers if further unforeseen market events occur.

### **Retail operating costs**

The commission is seeking suggestions on alternative methods that could be used to set a retail operating cost benchmark. As set out earlier we are looking for certainty with the approach taken to setting each VDO so we can manage our risk proactively. Inflation has and will continue to impact electricity prices and many of the inputs that build up the cost stack of our retail operating costs have reciprocally increased and furthermore we anticipate bad debt will increase as customers are faced with the cost-of-living pressures.

With respect to the Consumer Data Right we expect to incur significant implementation costs alongside ongoing support costs which are attributable to both the current and following financial year.

We believe it is appropriate to use the cost data collected from Victorian electricity retailers to set the overall retail operating cost benchmark whilst factoring in the changes to the consumer price index.

### **Customer acquisition and retention costs.**

We support the use of a benchmark using actual acquisition costs from Victorian electricity retailers to set a 'modest' CARC. This ensures the CARC is reflective of the actual market Victorian electricity retailers operate within. As a small retailer without a non-incumbent base CARC is currently set disproportionately low.

### **Retail operating margin**

We appreciate the commission has stated they will re-examine the approaches used by other regulators and analyse the most up-to-date cost data available. The commission has also indicated their initial view is to maintain the current retail operating margin and we note that if set too low it limits the ability for retailers to invest further in additional customer benefits and deliver innovative products and services.

### **Consultation process**

As the commission has stated the VDO plays a key role as a benchmark price for market offers and both the VDO and setting our market offer pricing is fundamental for any retailer to remain viable and competitive. It is of paramount importance that the consultative process remains at all stages to provide transparency and ensure the community and the market can make informed decisions, holds all of us accountable and builds trust across the industry.

Retailers are looking for enough certainty so they can sufficiently manage their risk. The predicted higher prices are justifiable, and the commission will be meeting the policy objectives by appropriately passing through the actual costs.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, [aneta.graham@1stenergy.com.au](mailto:aneta.graham@1stenergy.com.au) 03 8397 7147.

Yours sincerely



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