

12 April 2022

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

Essential Services Commission (ESC) Victorian Default Offer (VDO) 2022 – 23 Draft Decision

Thank-you for the opportunity to provide a submission regarding the Victorian Default Offer 2022-23 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 offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

We appreciated the presentations and the interaction with the ESC during the recent VDO 2022-23 Draft Decision Public Forum and make further comment to the following issues:

1. Consumer Data Right (CDR)

In the Draft Decision it was stated that:

The consumer data right is a reform enacted by the Australian Government designed to allow consumers greater access and control over their data, to improve consumers' ability to compare and switch between products and services. This reform will apply to tier 1 electricity retailers from November 2022, and large electricity retailers with over 10,000 customers from November 2023.

For our draft decision we have not included an adjustment for ongoing operating costs associated with complying with the consumer data right legislation. Our decision is based on

estimated cost information produced by Commonwealth Treasury and provided to the Office of Best Practice Regulation, which suggests the ongoing costs of complying with the consumer data right lies within the range of 4 to 7 cents per customer for the retailers that must be compliant with consumer data right legislation by November 2022 (this is tier 1 retailers). We consider this is likely to be accommodated within the benchmark proposed above for retail operating costs.

Momentum has already begun deploying resources to ensure compliance with the CDR rules by November 2023. As indicated in our submission prior to the Draft Decision, we now estimate the cost of these resources for the 2022-23 year will be approximately \$[REDACTED] for our Victorian customer base. We currently estimate that the full cost to deliver CDR will be approximately \$[REDACTED]. We note that the Commonwealth Treasury estimated that the ongoing cost to comply with the CDR would be around 4-7 cents per customer and the ESC has proposed that this cost is already accommodated in the retail operating cost of the VDO.

As Momentum is a relatively small retailer with approximately [REDACTED] customers mostly located in Victoria we suggest that the ESC's proposal may be flawed based on the following basic calculation:

[REDACTED] customers X \$0.07c per customer cost = \$[REDACTED] cost recovered per annum

Assuming costs are recovered over 10 years = 10 years X \$[REDACTED] = \$[REDACTED]

Momentum CDR total capital estimated cost \$[REDACTED] - \$[REDACTED] recovery = \$[REDACTED]

A shortfall of approximately \$[REDACTED] in cost recovery for Momentum over 10 years for the implementation of CDR. Our estimated ongoing costs to comply will be in addition to our implementation costs listed above.

This highlights the inequity of allocating or assuming the recovery of mandatory regulatory change costs onto all sized retailers based on an average cost per customer. It is becoming a disturbing trend, with new initiatives proposed across the energy industry, that comprehensive cost benefit assessments are not being undertaken rather they are replaced with a simple average cost per customer to justify changes. We therefore suggest to the ESC that the retail operating cost of the VDO needs to be increased to suitably allow for the significant cost of implementing and operating the CDR.

2. Australian Energy Market Operator (AEMO) Full Year 2023 Budget and Fees

We refer to your intention to base your AEMO fee cost component on their 2022-23 budgeted fees and charges in the 2022-23 VDO Final Decision. A recent presentation¹ published by AEMO suggests that they will require a revenue increase by as much as 50% to

¹ AEMO Draft FY 2023 Budget and Fees Presentation to Finance Consultation Committee. 4 March 2023.
<https://aemo.com.au/en/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/financial-consultation-committee>

\$377.1M for FY 2022-23 to meet debt and new initiatives required to support the changing electricity market. We urge you to ensure AEMO's significant increase in fees and charges are suitably allowed for in the "Other Costs" component of the VDO Cost components.

3. Weighted Average Cost of Metering

Momentum fully supports the proposed change to estimating annual metering charges. Using the weighted average approach appears to result in a much more accurate recovery of metering costs in all networks. This approach would have resulted in a \$9.20 adjustment to the costs of servicing small customers in the AusNet distribution zone in the current and previous VDOs. While the impact is much less for other distribution zones it highlights the risk of undertaking an averaging approach to price regulation particularly when there is no true up mechanism for VDO price determinations. For example with around 500,000 small customers in AusNet's distribution zone there has been an under recovery of approximately \$4.5M/annum for metering since the 2019 introduction of the VDO.

4. Summary

We reiterate the significant impact that new mandatory regulatory changes are imposing on small retailers like Momentum. These changes offer no or minimal benefits to Momentum but their complexity presents significant capital cost funding challenges to amend our systems and processes to ensure compliance. We would appreciate and urge the ESC along with other regulators and governments to seriously review the validity of proposed benefits when considered against the total costs retailers will incur to implement these regulatory changes, as we endeavour to supply affordable energy to consumers.

Thank you for the opportunity to raise awareness of the CDR implementation costs and increased AEMO fees that need to be included into the VDO cost stack. 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