16 December 2024

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

Via email: VDO@esc.vic.gov.au

Re: 2025-26 Victorian Default Offer: Request for Comment

I refer to your 2025-26 Victorian Default Offer: Request for Comment and thank the Essential Services Commission (ESC) for the opportunity to provide comment.

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.

1. Do you support the Victorian Default Offer estimating retail operating costs separately for domestic and small-business customers?

Whilst we recognise that domestic customers typically incur higher costs due to increased service obligations such as the payment difficulty framework and associated interactions, separating retail operating costs could create challenges. A blended approach minimises complexity and avoids overburdening retailers with separate cost reporting while acknowledging cost variances. The ability to accurately separate costs depends on the availability of granular data, which may not be uniformly collected across all retailers. Costs like billing, IT systems and customer service are often shared across customer segmentation and can be difficult to allocate precisely.

2. What are your views on the appropriateness of the current retail operating margin and where should it sit within the feasible range?

The retail operating margin should reflect current market conditions, including increased costs of capital and industry risks.

Our position remains consistent with our submission on 14 December 2023:

- Retail operating margins must be based on up-to-date cost data, transparently calculated, and account for actual capital costs.
- We caution against referencing market offers, which may not align with efficient cost bases or the principles of the Victorian Default Offer (VDO).

3. Are there any other considerations we should have in determining a retail operating margin for an efficient electricity retailer?

It is our view the current VDO design disproportionately favours incumbents. A broader consultation should assess whether the retail margin appropriately considers the challenges faced by smaller or new market entrants. Our market continues to rapidly evolve and retail operating margins should reflect systemic risks, increasing compliance costs, and fluctuating wholesale prices.

4. Is there a better approach to estimating Victorian Energy Efficiency Certificate prices?

The current method of using the 12-month trade-weighted average spot price of VEECs is a reasonable starting point. However, it does not adequately reflect the complexities of certificate availability and procurement timing.

We suggest incorporating additional data sources, such as forward contracts and retailer-specific procurement strategies, to create a more accurate cost model. Consideration should be given to the timing misalignment between spot price availability and mandatory purchase periods, which may lead to cost volatility.

5. **Does the removal of solar exports from the load profile better reflect an efficient retailer's load profile assumptions?**

Removing solar exports may not fully reflect the actual costs incurred by retailers, as these exports still influence network operations and wholesale market dynamics.

Recommendation:

- Conduct further analysis to determine the cost impacts of removing solar exports on retailer load profiles.
- A mixed-method approach may better capture the nuances of solar integration in load forecasting.

6. **Do electricity retailers exclude solar exports from their load profile when buying future wholesale electricity contracts?**

1st Energy does not exclude solar exports when securing wholesale electricity contracts.

As the amount of solar in the market increases we are observing periods of overall negative load which is often accompanied with a negative spot price therefore creating a direct wholesale cost to us. Furthermore, the overall retail customer load shape which incorporates solar is becoming peakier which also adds additional hedging costs.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, [redacted].

Yours sincerely

[redacted]

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