23 December 2024

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

Via online lodgement: www.engage.vic.gov.au

2025-26 Victorian Default Offer: Request for comment

Alinta Energy welcomes the opportunity to respond to the Essential Services Commission's request for comment on the 2025-26 Victorian Default Offer.

The Commission presents several questions relating to determining the VDO for 2025-26 and we respond to these below.

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

We do not support separately allocating retail operating costs among residential and small business customers. While such an approach would align with that applied in the Default Market Offer determined by the Australian Energy Regulator, we note the differences in calculating the ROC assumed under the DMO for example, separating small business and retail operating costs and adding separately calculated bad and doubtful debt expense costs.

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

Risks faced by retailers have increased since the previous 2024-25 VDO. For example, the risks associated with the energy transition, increasing penetration of CER, the need for retailers to continue innovating and the regulatory risks associated with retailing in Victoria suggest that the VDO retail margin should be closer to the upper end of the range of expected returns suggested by the ICRC. We recommend that the retail margin be restored to 5.7% on this basis.

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

Alinta Energy recommends the ESC maintain the current approach and application of the retail operating margin and consider the risks faced by retailers discussed above to restore the margin to 5.7%. While the level of market concentration in Victoria's electricity retail market has decreased, it remains higher than optimal. A more competitive environment can enhance the range of offers available to consumers, fostering innovation and choice, which are essential for meeting their long-term interests. To support sustainable competition, retail operating margins must reflect the risks retailers navigate to participate effectively in the market.

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

Alinta Energy supports the ESC using the most recent available data on VEEC prices to estimate the costs incurred by retailers to comply with the Victorian Energy Upgrade scheme. The volatility in VEEC

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prices is an example of a further risk faced by retailers that support setting the retail operating margin at the higher end of the range of expected returns as discussed above. Delivery risk by accredited providers is also a risk that has grown in recent years under the VEU scheme.

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

Solar exports should not be removed from the load profile while feed-in tariffs remain regulated. Furthermore, the removal of solar exports from the Victorian profiling approach may result in a significant step-change as the load profile is not blended (as the Default Market Offer is), but rather reflective of interval metered consumption due to the universal deployment of smart meters. We would caution against making this change at this stage but would support the Commission's consultants to consider the impact going forward and publish any results for review by stakeholders.

Alinta Energy would also welcome further discussion of any issues raised in this response with the Commission, please contact [redacted] in the first instance.

Yours sincerely

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General Manager, Regulatory & Government Affairs