

Victorian Default Offer 2025-26

Submission received via Engage Victoria on our request for comment paper on Victorian Default Offer 2025-26

Submission prepared by:

██████████

Organisation:

-

Email

████████████████████

I have read and agree to the above submissions and privacy collection statement.

Yes

Please confirm which one of the following applies to your submission:

I agree to my submission (other than the information I have identified as confidential or commercially sensitive (if relevant)) being published, but please do not publish my name.

Date submitted:

14 December 2024

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

Yes but with some caveats. It's good because it prevents cross-subsidies between customer groups. But there's a fixed component of operating costs in terms of the cost to serve, regulatory compliance, etc. And a variable component of these costs in terms of the bad and doubtful debts. The fixed component would be lower for small businesses since its spread over a much larger annual usage when compared to households with their smaller annual usage - I think you have

10000/20000 vs 4000. I Expect the variable component to go up with usage so it would be higher for small businesses and lower for households. I reckon both effects these will offset each other and you will arrive at a similar level of retail operating costs for households and small businesses. But the results of that analysis would be interesting to see so I support it.

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

I think it would be good to re-run the expected returns approach with some updates. The numbers from 2019 may not hold up - especially since offers have gone up by a lot in value. In 2018 & 2019, electricity was just around \$1300 as per the VEMR from that time. Compare that with prices today, which have gone up by over \$300 (that's almost 25%!). Retailers are not taking on more risks, in fact their risks have gone down. Frontier's report mentions that retailers take on the risk of exposure to the half-hourly spot price on their customers' behalf. But now things have moved to 5 minutes. This means less volatility and thus, less exposure (at least in a rational world!). It makes sense for the margin to be lower.

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

The expected returns model needs to be run again and analysis should be done to check whether systematic risk (non-diversifiable) has gone down or not. And try not to pick a number which is at the top of the range - ideally the lower bound should be chosen but that's sure to annoy all the electricity companies.

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

Current approach seems fine - annual average of VEEC prices makes sense since the VEEC scheme also runs annually. VEECs have a maximum life of 6 years though so there may be some logic for having a longer than annual average for estimating VEEC prices - dependent on the weightage of VEECs which last for more than a year but that might be too complicated.

Does the removal of solar exports from the load profile better reflect an efficient retailer's load profile assumptions? Please explain why.

Yes - retailers cannot accurately predict the future (at the moment). They could not have accounted for solar exports from customers when planning for their electricity supply in the future,

except for maybe a week or two in advance. However, in the future when solar uptake is much higher and more data on people's solar exports is available, retailers may be able to account for solar exports more efficiently

Do electricity retailers exclude solar exports from their load profile when buying future wholesale electricity contracts? Please provide details.

As I mentioned above. The rest is left as an exercise to the reader

Are there any views you would like to share on the general approach we use to set our cost benchmarks?

Make sense for the most part. There's not much else I can say.