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:

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Organisation:

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Email

[redacted]

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)), and my name being published.

Date submitted:

20 December 2024

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

We do not believe it is necessary for the Victorian Default Offer to estimate retailer operating costs separately for domestic and small-business customers.

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

The current retail operating margin should be increased to appropriately promote competition and the ongoing, elevated costs from the more complex regulatory environment in Victoria and the associated system changes.

Energy Locals urges the ESC to consider the objectives of the VDO and the requirements to use it as a reference price to enable customers to compare market offers. To promote a competitive retail environment, the margin must reflect the cost pressures smaller retailers face, particularly when competing against larger players.

In Energy Locals' previous submission to the ESC for the VDO for 2023/24, we considered that the ESC, in calculating retail costs, has favoured Tier 1 retailers. The regulatory benchmark approach does not accurately reflect retailer's efficient costs and introduces a bias in the estimate towards the operating costs of the three major retailers. By taking a weighted average approach to determining retailers' actual costs, the VDO is likely to be suitable for larger, tier 1 retailers who have the ability to operate at scale.

The requirement to use the VDO as a reference price forces smaller retailers to keep prices low which significantly impacts their financial viability. In setting the margin, we urge the ESC to continue to monitor the retail operating costs reasonably expected for a smaller retailer. This is particularly important in light of the number of smaller retailers collapsing and leaving the market in recent years.

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

As outlined above, in considering what the retail operating costs are for an efficient electricity retailer, the ESC should consider costs of a smaller new market entrant.

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

We support a change to the methodology to estimating Victorian Energy Efficiency Certificate (VEEC) prices as we found that the past Victorian Energy Upgrade (VEU) scheme costs were underestimated.

The approach of using the 12-month trade weight average spot price for VEECs multiplied by the 2024 greenhouse gas reduction rate for electricity resulted in prices that are not an accurate representation of the current market. The scarcity of certificates has resulted in higher prices and these higher prices may not be reflected in the trade weighted average. Similarly, we are concerned about the volatility/ unpredictability of the VEU.

Given the illiquid nature of VEECs, we consider that the ESC should set costs at the tax effective shortfall penalty price. It is not uncommon for retailers to be unable to source a VEEC below the penalty price.

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

We do not support a removal of solar exports from the load profile. The ESC should maintain its current approach.

The ESC has flagged that the Australian Energy Regulator (AER), in setting the Default Market Offer for 2024-25 (DMO6), has excluded customers exports from their load profile. We did not agree with this approach and have again raised our concerns to the AER in response to the DMO 7 Issues Paper.

Furthermore, the AER does not require a minimum solar feed in tariff and nor do any of the DMO states. It is completely unreasonable for the ESC to exclude solar exports from the load profile while simultaneously requiring retailers to pay a minimum FiT for those same solar exports. We regularly are forced to pay a FiT to a customer while also having to pay the wholesale market to take that unit of energy.

This has a direct and material uplift on the wholesale electricity costs that a retailer incurs. This cost is increasingly difficult to forecast and cannot be hedged via any wholesale market instrument. It is, therefore, imperative that solar exports are included.

We have elaborated on this further in response to question 6.

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

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

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