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

24 December 2024

To Commissioners,

Victorian Default Offer 2025-26: Request for comment paper

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Essential Services Commission (the Commission) regarding the 2025-26 Victorian Default Offer (VDO) comments paper.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet that includes renewables, gas-powered generation, diesel peakers, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE broadly welcomes the Commission's approach to 'use generally the same methodologies as in past reviews.'[1] Retailers place significant importance on maintaining a consistent methodology, and unnecessary adjustments risk undermining the stability and predictability this consistency provides.

In this submission, ENGIE has focused its comments on aspects of the methodology that require clarification, further review, or necessary adjustments, to ensure that the VDO represents a reasonably priced electricity offer while reflecting the efficient costs of the sale of electricity by a prudent retailer.

Retail operating cost

ENGIE supports the Commission estimating retail operating costs separately for residential and small business customers, given that the change demonstrates substantive value to the VDO. ENGIE considers that substantive value would be shown through clear evidence that the change improves the accuracy of the VDO, without creating a sense of "false precision".

ENGIE considers a useful methodology change would be discontinuing the use of customer-weighted averages to calculate retailer costs. We disagree with the statement that a 'customer-weighted average

[1] Essential Services Commission, *Victorian Default Offer 2025-26: Request for Comment Paper,* 2024. [Link.]

based on retailers' actual operating costs provides a robust estimate of efficient retail operating costs.'[2] As noted in our submission on the VDO 2024–25 draft decision, this approach skews the costs incurred by retailers towards those with significantly larger customer bases.[3]

Retail operating margin

ENGIE continues to express disappointment with the Commission's decision to reduce the retail operating margin to 5.3 per cent for the 2023–24 and 2024–25 VDO determinations. While ENGIE supports the Commission's commitment to consultation on this issue, there has been limited explanation of the evidence justifying this change.

ENGIE encourages the Commission to reinstate the retail operating margin to a minimum of 5.7 per cent for the 2025–26 VDO, aligning with the standards upheld in previous reviews that the Commission has considered appropriate. Following this reinstatement, ENGIE supports maintaining the 5.7 per cent value for an extended period, such as three years, to provide regulatory certainty. ENGIE recommends conducting a review and reset of the margin ahead of each subsequent regulatory period after the three years.

Environmental costs

ENGIE notes that the costs associated with the Victorian Energy Upgrades scheme are currently underestimated. As of 27 November 2024, the Victorian Energy Efficiency Certificate (VEEC) spot price was $113 AUD[4], significantly higher than the average trade-weighted certificate price of $87.01 AUD (excluding GST)[5] used in the 2024–25 VDO calculation. As such, ENGIE suggests a preferable methodology change would be to consider using the most recent six months of historical spot market prices prior to the final VDO determination, rather than the past twelve months, to ensure it captures more recent market conditions and prices.

ENGIE supports the Commission's decision to source additional data to cross-check and validate the current estimates of VEEC costs; however, more data does not necessarily lead to better decision-making. As such, ENGIE suggests the Commission provide further clarity on the type of data it is exploring, including its source, and the actions the Commission intends to take if the data confirms that VEEC costs are currently underestimated.

Wholesale electricity costs

ENGIE does not support removing solar exports from the VDO's load profile as this is not reflective of the hedging strategy of a prudent retailer that hedges for their net load. The exclusion of solar exports would flatten the load profile, reducing the cost of the financial products required to manage the peakiness of the

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[2] Ibid.

[3] ENGIE, *Submission – Victorian Default Offer 2024-25: Draft Decision Paper*, 2024. Link.

[4] Northmore Gordon, *Certificate Prices*, 2024. Link.

[5] Essential Services Commission, *Victorian Default Offer 2024-25: Final Decision Paper,* 2024. Link.

load. This approach would ultimately underestimate the costs that retailers incur to obtain contracts to hedge their net load.

ENGIE notes that retailers are increasingly exposed to costs from solar exports during times of high solar production, where both net load and spot prices are negative. Retailers will largely manage their cost exposure through their hedging strategies for the wholesale market. Feed-in tariffs are not an effective tool to manage the additional costs that retailers incur in hedging a peakier load profile and managing negative spot prices for solar exports. This is particularly the case in Victoria, where retailers have less flexibility to adjust feed-in tariffs to manage exposure to spot market outcomes due to the Commission setting the minimum feed-in tariff that must be provided to small customers for their solar exports.

Concluding remarks

ENGIE looks forward to working closely with the Commission to ensure that the 2025-26 VDO represents a reasonably priced electricity offer while reflecting the efficient costs of the sale of electricity by a prudent retailer.

Should you have any queries in relation to this submission please do not hesitate to contact me by telephone on [redacted].

Yours sincerely,

[redacted]

Ronan Cotter
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