

24 December 2024

Mr. Gerard Brody
Chairperson
Essential Services Commission
Level 8/570 Bourke St
Melbourne VIC 3000

Submitted via website: www.engage.vic.gov.au

Dear Mr. Brody

RE: Victorian Default Offer (VDO) 2025-26 Request for Comment Paper

Momentum Energy Pty Ltd (**Momentum, us or we**) welcomes the opportunity to provide feedback on the VDO 2025-26 Request for Comment Paper (the **Paper**).

We are an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest generator of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and the Bass Strait Islands. We also retail gas to Victorian customers.

Introduction

In the Paper, the Essential Services Commission (the **Commission**) seeks comments on matters related to the 2025-26 VDO and proposes to generally use the same methodologies as have been used in past VDO reviews. The Commission then discusses the commitments made in the 2024-2025 VDO final determination and asks for views on areas for further refinement, including the retail operating margin and the prices of Victorian Energy Efficiency Certificates (**VEECs**).

Momentum generally supports the Commission's consistent approach, which provides certainty and predictability in developing strategies to manage supply and revenue risks in a highly competitive market.

Retail operating margin

Momentum believes that the appropriate level of the retail operating margin should be set in the higher range, with an increase to **5.7%**. The retail operating margin needs to be set at a level that not only promotes competition, but also encourages more market innovation, and allows retailers to offer their customers more support through the energy transition. The Commission should take into account the risks faced by smaller retailers, including but not limited to the following:

- A delicate balance must be maintained to compete effectively while retaining customer numbers. Higher margins are more likely to enable a more innovative and competitive market.

- Flexibility in adjusting retail prices allows scope for retailers to better invest in and provide consumers with the energy products and services they need without compromising retailer economic viability.
- Recovering costs is challenging for smaller retailers, who tend to have higher overhead costs and a smaller customer base to spread these costs across. In contrast, larger retailers can offer lower prices with lower customer economies of scale and have greater cross-subsidisation. This gives larger retailers a competitive advantage over smaller retailers and new entrants.

Victorian Energy Efficiency Certificate prices

Momentum supports the Commission in investigating the true cost to retailers of compliance with the Victorian Energy Upgrades (VEU) scheme. In particular, due to elevated non-delivery risk in the market, many retailers are largely limited to buying VEECs in the spot market and holding these for up to 12-18 months until surrender. This incurs a cost of carry due to the interest costs of using capital to purchase and hold VEECs. This has increased significantly in recent years, driven by elevated certificate prices and higher interest rates. However, retailers cannot recover this cost of carry under the current VDO approach to estimating VEEC costs. Momentum supports the Commission accounting for this cost of carry in the VDO methodology. To recover this under the current methodology, the interest costs of holding funds to purchase VEECs until the surrender date must be applied to each day in the averaging period.

Summary

Momentum looks forward to actively working with the Commission to ensure that the 2025-26 VDO price determination accurately reflects projected changes and provides a fair and reasonable outcome in the cost of supplying electricity to retail customers in Victoria. If you wish to discuss any aspect of this submission, please contact me at [REDACTED].

Yours sincerely

[Signed]

Daniel Oliver

Strategic Delivery and Policy Lead