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Victorian Default Offer 2023-24: Draft Decision

AGL welcomes this opportunity to provide comments on the Essential Services Commission's (ESC) *Victorian Default Offer 2023-24: Draft Decision* (Draft Decision), as published on the 15 March 2023.

AGL operates nationally across the energy supply chain and delivers 4.3 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We also operate Australia's largest electricity generation portfolio, with a generation capacity of over 11,000 MW, accounting for approximately 20% of the total generation in the National Electricity Market.

AGL notes that the ESC has used the same approach for calculating the 2023-24 Victorian Default Offer (VDO) prices as in previous years. AGL strongly supports this consistency of approach.

Making any major methodological changes to mitigate the draft VDO price increases (that are a result of current market conditions) would introduce uncertainty, expose retailers to greater regulatory risk and potentially impact:

- future investment;
- participation in the competitive retail market; and
- a retailer's ability to recover efficient costs with resulting retailer of last resort (ROLR) events.

AGL would make the following comments on the Draft Decision.

Wholesale costs

AGL continues to support the market-based approach used by Frontier to forecast the wholesale energy cost, including the continued use of trade-weighted ASX futures contract prices over the 12-month period.

Frontier's assumptions reflect many retailers' hedging practices of building contract positions over time and the ASX Energy futures contracts remain a reasonable proxy.

AGL also support the treatment of option contracts in the Draft Decision and believes the removal of the exercised options data from the book-build of the trade weighted forward contract prices is a valid approach.



Market Intervention Costs

AGL notes that some of the costs caused by the 2022 market intervention are yet to be known. Although we would encourage the ESC to include all costs in the wholesale electricity cost component for 2023-24, we recognise the difficulty in estimating some of these costs and therefore understand the ESC's position to pass-through only the known intervention costs.

Retail Operating Cost

The ESC has previously used an historic benchmark for retail operating costs (per customer) in its VDO methodology as this approach was simple, transparent, and provided retailers with a reasonable opportunity to recover efficient costs.

Its change in method to use actual retail operating cost data collated from across the Victorian retailers should ensure the estimate used in the VDO prices continues to reflect the efficient costs of retailers.

However, using this actual data will create a lag in the recovery of efficient costs. This is concerning if the ESC were to make future methodological changes which led to retailers not recovering their efficient costs over time.

Process

AGL also support the ESC's proposed process to include the 'request for comment' notice at the start of future reviews. This will minimise the workload for the ESC but retain a vital consultation step in their process.

If you have any questions in relation to this submission, please contact Patrick Whish-Wilson on pwhish-wilson@agl.com.au.

Yours sincerely

Chris Streets
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Policy, Market Regulation and Sustainability