

21 July 2020

Ms Kate Symons  
Chairman  
Essential Services Commission of Victoria  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Submitted online: <https://engage.vic.gov.au>

Dear Ms Symons

### **Victorian Default Offer 2021**

Thank you for the opportunity to provide a submission in response to the Victorian Default Offer for 2021 (Consultation Paper).

Momentum Energy is a 100% Australian-owned and operated energy retailer. We pride ourselves on competitive pricing, innovation and outstanding customer service. We retail electricity in Victoria, New South Wales, South Australia, Queensland and the ACT. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services. We also retail natural gas to Victorian customers.

Momentum Energy is owned by Hydro Tasmania, Australia's largest producer of renewable energy.

Momentum acknowledges that the Essential Services Commission (the Commission) is required to make a decision in line with the Pricing Order which it has been provided. We are cognizant of its statutory objective, that is, to “promote the long term interests of Victorian consumers”.<sup>1</sup>

We agree with the Commission that the intention of the Victorian Default Offer (VDO), which is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market, is consistent with promoting the long term interests of consumers.

We appreciate that the Commission is bound to undertake the process of determining a new VDO based on the current Pricing Order however, we believe the objective of the VDO could be more readily achieved in the current circumstances by amending the timing specified in the Pricing Order.

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<sup>1</sup> *Essential Services Commission Act 2001* S8.

It is our view that the current VDO determination should be maintained until 30 June 2021. The Commission could then set a new VDO price for a 12 month period commencing July 2021. To facilitate this we ask that the Commission work with Government to amend the Pricing Order to allow for the use of the most current inputs to form that determination.

### **Timing**

To facilitate alignment with network tariff changes which will take effect from 1 July from 2021 onwards, it will be necessary for a VDO determination to run for something other than a 12 month period. As outlined in the Consultation Paper, there are a number of options for this. Momentum considers that the most practical approach is to extend the current VDO determination and seek a revised Pricing Order to allow the Commission to set a new VDO to commence from 1 July 2021.

Ensuring a positive consumer experience is vital for retailers to retain customers and remain competitive in the market. Traditionally retailers have generally sought to limit customer price changes to one a year, in line with network tariff changes. This approach is taken as retailers are acutely aware that customers do not want to be contacted on a more regular basis about their contract and to avoid the costs associated with price change activity. These avoidable costs include system testing, collateral updates and managing increased call volumes. We consider that any approach where customers are subject to price variations more than once in 12 month period will lead to a poor customer experience and impose additional costs on retailers (which will need to be recouped via allowance in the VDO).

Furthermore, the Commission recently introduced changes to the Energy Retail Code as part of its 'Ensuring Contracts are Clear and Fair' reforms, that prevent retailers from passing through price increases more than once a year on market contracts. We believe it is important for the Commission to consider consistency across its decisions and we contend that the VDO should not change more frequently than this.

The Consultation Paper suggests that if the current VDO determination was extended, the Commission would still be required to develop a new VDO in line with current Pricing Order timings which would then commence on 1 July 2021. We highlight that there are obvious downsides to this approach, most notably, the fact that inputs into the determination would be significantly out of date. Consequently, we consider the VDO would not reflect the true cost of providing electricity to customers at a fair price. Momentum considers that while the Commission is bound by the current Pricing Order, it would be in the best interests of Victorian consumers if the Commission worked with Government to seek a new Pricing Order with more appropriate timings.

### **Cost to Serve**

The Commission considers using the Independent Competition and Regulatory Commission (ICRC) of the Australian Capital Territory (ACT) determination as an appropriate benchmark for Retailer Operating Costs (ROC). We also note that the ACT's regulatory regime, one of the two initial National Energy Customer Framework (NECF) participants, has arguably been the most stable of all jurisdictions. The Victorian framework on the other hand, has been

subject to constant, often fundamental change. We do not believe that the Commission's use of ICRC benchmarks provides a representative picture of retailer operating costs.

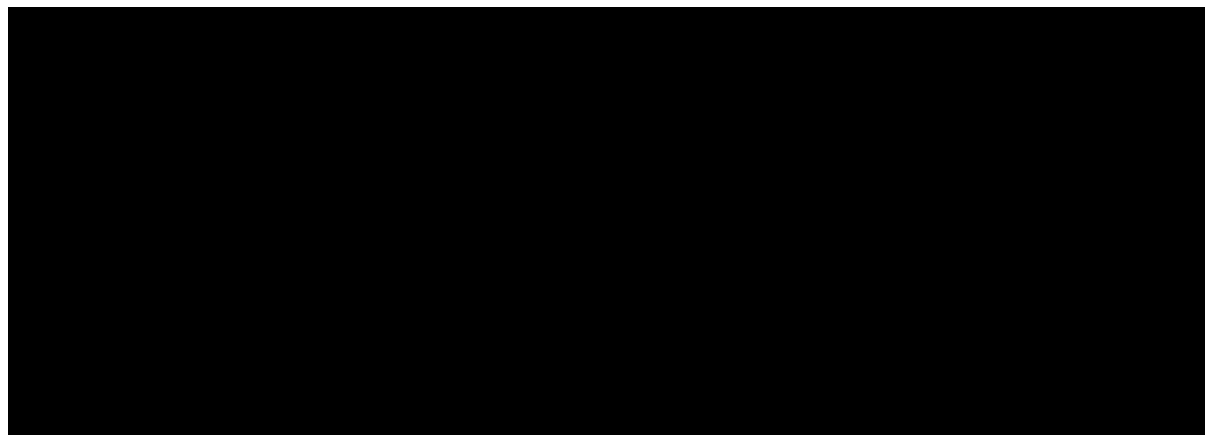
The Victorian Government has made a policy decision not to adopt the NECF. As one of the drivers of the NECF was to create a more efficient regulatory regime leading to lower regulatory costs, the Commission's decision to use a NECF jurisdiction's benchmark in the calculation of the VDO was always questionable. The subsequent divergence between the two regimes is now so great that we believe the two distinct jurisdictions no longer bear any real resemblance. Even if the decisions which have seen customer protections in Victoria deviate from the national framework are ultimately in the best interests of consumers, there will always be a cost attached. This cost must be considered in the determination of the VDO, and cannot be ascertained by relying on costs from another jurisdiction.

We urge the Commission to rely on the cost data provided by retailers rather than the ICRC benchmark to provide the basis for the ROC input.

### **Debt in the COVID-19 Environment**

As the Commission is aware, the COVID-19 pandemic has created huge financial challenges for Victorian households and businesses. Faced with reduced income and/or increased household consumption as a result of isolation measures, many customers are finding it difficult to meet cost of living expenses, including paying their energy bills.

The resultant increased debt costs to retailers are not yet fully apparent however, we expect them to be significant with a steep increase once Federal Government support measures end.



Whilst it is clear that debt costs must be taken into account in the ESC's determination of the VDO, it is unclear how these costs should be treated. Increased debt costs could potentially be captured in the allowable retail margin as this allowance reflects the risk that retailers face in the market. Alternatively, increased debt could be considered a retail operating cost and included in that element of the cost stack. Momentum acknowledges that quantifying this may be a challenge for the Commission, and notably reflects a further divergence from the ICRC benchmark figures relied upon to determine ROC.

There is an argument to suggest the debt costs arising as a result of the Commission's (at this stage Draft) Decision relating to providing assistance to small businesses due to the impacts of COVID-19<sup>2</sup> should be reflected as ROC while an additional allowance should be included in retail margin to reflect the inherent differences in the risks which retailers face in the current economic conditions. It is however, unclear to Momentum how this split should be apportioned.

### **Conclusion**

Momentum considers that in light of the significant uncertainty around the ongoing impacts of the COVID-19 pandemic in Victoria, as well as the need to align with network tariff changes, the ESC should work with Government to seek a new Pricing Order which would allow for the extension of the current VDO determination and the development of a new VDO price, using up-to-date inputs, to commence from 1 July 2021.

Should you require any further information regarding this submission, please don't hesitate to contact me on 0413 266 081 or email [joe.kremzer@momentum.com.au](mailto:joe.kremzer@momentum.com.au).

Yours sincerely

[Signed]

Joe Kremzer

Head of Regulatory Affairs

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<sup>2</sup> Essential Services Commission 2020, Supporting energy customers through the coronavirus pandemic: Draft decision, 30 June