momentum energy

16 June 2021

Ms Kate Symons
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street,
Melbourne VIC 3000.

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

Dear Ms. Symons

Essential Services Commission (ESC) Approach to 2022 Victorian Default Offer (VDO)

Thank-you for the opportunity to provide a submission in response to the consultation paper titled "Next Steps for the Victorian Default Offer".

Momentum Energy Pty Ltd (Momentum) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest producer 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 on the Bass Strait Islands. We also retail natural gas to Victorian customers. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

In this submission we intend to respond to the issues raised regarding the ESC's approach to the 2022 VDO which will be effective from 1 January 2022.

Responses to specific questions raised in the consultation paper.

Bad debts
We will revisit the temporary allowance for bad debt expenses due to the coronavirus pandemic. While there is still uncertainty in relation to the final impact of the pandemic, there are some indications that retailers' financial provisions for bad debts in 2022 will be lower than they were for 2021. We seek stakeholder feedback on what information we should consider when we review the bad debt allowance, including supporting evidence where available.

The coronavirus pandemic has presented Momentum with some significant operational and financial challenges. We are currently forecasting an increase in our bad debt position from 2021 to 2022. This is primarily due to the long term consumer income effects of the ongoing coronavirus pandemic, and the cessation of the Job Keeper and Job Seeker government support schemes. In addition, retailers have to address the impact of ongoing regulatory controls on debt recovery which can cause delays in debt write offs. The moratorium on disconnections for non-payment over the last 12 months, have materially increased our bad debt expenses and diminished our ability to manage debt recovery. Furthermore, the extent of the current and any future lock downs in Victoria is extremely uncertain and this will impact our 2022 bad debt situation. We strongly believe that the additional debt allowance included in the 2021 VDO cost stack should be included as a minimum in the 2022 VDO cost stack.

Wholesale cap contracts
Our initial view is to continue with Frontier Economics' approach using historical price movements to estimate cap contract prices. We will investigate using the data from the newly listed cap contracts for the draft decision once these contracts are sufficiently traded. Is there other information we should be considering in relation to the newly listed cap contracts?

At this stage we are comfortable with the proposed approach to determining the wholesale price although we note that the introduction of 5 minute settlements could impact this. More will be known after 1 October on the impact of this change to the electricity market.

Retail operating margin
Our initial view is to maintain the retail margin at 5.7 per cent. The information we have reviewed suggests the current margin is within a reasonable range. Should we be considering any other information?

We are of the view that a retail margin of 5.7% is not adequate as it fails to reflect the substantial cost impact of regulatory change. New regulations often require retailers to make significant system changes and incur significant costs and we would argue the benefit of such changes for consumers are sometimes questionable or negligible. For example, the changes required to comply with the NEM Customer Switching rules have been estimated to require at least 500 hours in system development for Momentum. In addition, billing adjustments will be required where transfers occur on estimated reads, therefore the cost of this change will be on-going. There is no retailer benefit flowing from this change and we question the benefit for our customers. We believe that these types of changes should result in an increase in the VDO retail margin allowance.

The introduction of the new Energy Fairness legislation recently presented to the Victorian Parliament with a proposed implementation date of December 2021 will remove many low cost small customer acquisition channels and ban win back customer retention activities. While it is too early to fully understand the full impact of this new legislation it is likely to increase customer acquisition and retention costs for retailers. Customer acquisition and retention costs need to be suitably accounted for in the retail margin of the VDO.
Another new regulatory obligation under development is the Customer Data Right and once again this appears to fail to deliver any cost benefit and will continue to erode retail margins.

An ongoing reasonable retail margin is required to sustain the operation of a retail business, deliver a suitable return, encourage new entrants and to ensure an effective competitive market. Momentum believes that the retail margin should be increased or alternatively a suitable cost allowance allocated to fund regulatory market changes that are often imposed without any robust cost benefit analysis.

Five- minute settlement
We consider the one-off increase to retail operating costs provided in the 2021 VDO adequately accounts for changes in the cost to serve relating to five-minute settlement.

Momentum believes it is too early to fully understand any adverse operational costs caused by the five–minute settlement rule change which is due to go live on 1 October 2021. We therefore would suggest that the allowance remains in the 2022 VDO and the impacts of five-minute settlements continue to be monitored for future VDO determinations.

Large scale renewable energy target costs
Our initial view is to retain the approach we used in the previous VDO decisions to estimate a benchmark for costs associated with the Large-scale Renewable Energy Target (LRET). This involves using available market data on the expected future costs of meeting the LRET.

We support the proposed approach to determining the large scale renewable energy costs.

Productivity factor
Our initial view is to not include a productivity factor in the VDO in 2022.

As detailed above, retailers are continuing to be exposed to new regulatory obligations which fail to deliver any cost reductions or productivity improvements rather they often result in substantial costs being incurred by retailers. The coronavirus pandemic will also continue to negatively affect retailers' ability to recover bad debt in 2022. We therefore agree with the ESC's initial view to not include a productivity factor in the VDO.

Distribution and marginal loss factors
Our initial view is to update our approach to calculating distribution loss factors, using a weighted average of factors. We have not proposed changes to calculating marginal loss factors, but we will assess any views on the matter. We welcome stakeholder feedback on our approach to accounting for loss factors.

We support the proposed approach to determining distribution and marginal loss factors.

Network tariff costs
For the 2022 VDO tariffs, in addition to specifying a flat VDO tariff, we propose to continue the default two-period time of use VDO as outlined in our proposed variation, reflecting changes to distribution network tariffs commencing 1 July 2021.

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We support the proposed approach to determining network tariff costs.

Length of the regulatory period
We seek feedback on the length of the 2022 VDO regulatory period: six months or 18 months.

Momentum is firmly of the view that the length of the 2022 VDO regulatory period should be six months due to the uncertainty of network costs which are revised in July. A six month VDO period will ensure the VDO prices are aligned to any changes in network prices which is important to both consumers and retailers as network costs account for over 40 % of the retail bill. This will also support a smoother change in prices going forward and limit any significant step changes. Consumers are better able to budget and respond to smaller changes in energy prices.

Should you require any further information regarding this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au

Yours sincerely

[Signed]
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