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

19 April 2024

To Commissioners,

Victorian Default Offer 2024-25 – Draft decision paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Essential Services Commission (Commission) in response to the draft decision on the Victorian Default Offer (VDO) 2024-25.

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 which 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 supports the Commission's approach to estimating the VDO and the consistency of the Commission's methodology across a number of years. In this submission, ENGIE has focused its feedback on aspects of the methodology that we consider require further review to ensure that the VDO is a reasonably priced electricity option that also reflects the efficient costs of the sale of electricity by a retailer.

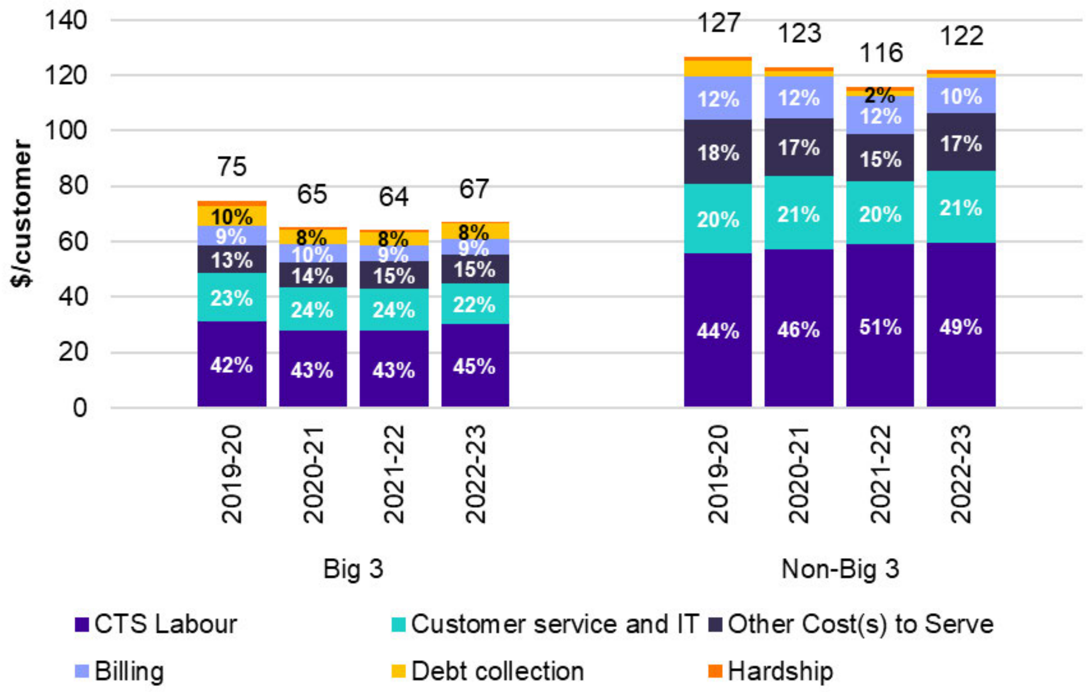
Retail operating costs

ENGIE acknowledges that the Commission has responded to concerns we have raised with the customer-weighted average retail operating cost benchmark by stating it will continue to monitor where retailers' costs sit relative to the retail operating cost benchmark.

While we cannot comment on where individual retailers' costs sit relative to the Commission's benchmark, the Australian Competition and Consumer Commission's (ACCC) data on the average cost to serve clearly demonstrates the operating cost advantage that the big three retailers have over all other retailers in the National Electricity Market.[1] This is visually demonstrated in Figure C8.6 of the ACCC's December 2023 inquiry report, as included below.

[1] Australian Competition and Consumer Commission 2023, Inquiry into the National Electricity Market – December 2023 Report, 1 December, p. 37.

Figure C8.6: Average Cost to Serve per residential customer across the NEM by retailer tier, 2019-20 to 2022–23, real $2022-23, excluding GST



As all retailers are required to make the VDO available to their customers, the use of a cost estimate that is biased towards larger retailers with significant cost advantages will make it more challenging for smaller retailers to compete in the market and supply market contracts at or below the VDO price. We continue to urge the Commission to adjust its methodology to a measure that is more reflective of smaller retailers' operating costs.

ENGIE also notes that smaller retailers have been incurring costs to implement the Consumer Data Right (CDR) since mid-2023, with the second tranche of implementation due to occur on 1 May 2024. The Commission's use of actual cost data from 2022-23 means that CDR related costs incurred by smaller retailers will not be reflected in the upcoming VDO decision, which will likely further increase the gap between smaller retailers' costs and the Commission's benchmark. Although these costs will be incorporated into the 2025-26 VDO, we are concerned that the operation of the Commission's customer-weighted approach to benchmarking operating costs will result in the VDO's retail operating cost allowance only partly incorporating the cost of smaller retailers' implementing the CDR.

Retail operating margin

ENGIE was disappointed with the Commission's decision to alter the retail operating margin from 5.7 per cent to 5.3 per cent in the final 2023-24 VDO decision, with little explanation as how the available evidence changed significantly between the draft and final decisions to justify the change.

When considering the retail margin for the 2024-25 VDO final decision, the Commission should take into account the Australian Energy Regulator's (AER) draft decision that a 6 per cent retail margin would be efficient for residential Default Market Offer prices. While the Commission and the AER have different policy objectives to take into account when setting their respective regulated prices, we consider that this would be a relevant input into the Commission's assessment of an appropriate retail margin for Victoria.

To promote regulatory certainty, ENGIE would support the Commission committing to maintain the percentage level of the retail margin for a period of time (for example, three years), followed by a review and reset of the retail margin before each subsequent period.

Concluding remarks

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

Yours sincerely,

[redacted]

Matthew Giampiccolo
Manager, Regulation and Policy