

14 December 2023

Review of the Victorian Default Offer
Essential Services Commission
Level 8/570 Bourke Street
Melbourne, VIC 3000



Via email: VDO@esc.vic.gov.au

Re: 2024-25 Victorian Default Offer: Request for Comment

I refer to your 2024-25 Victorian Default Offer: Request for Comment and provide thanks to the Essential Services Commission (ESC) for the opportunity to provide comment.

1st Energy is a non-integrated, second-tier electricity and gas retailer for residential and SME customers. Founded in April 2015, 1st Energy operates throughout the eastern states of Australia including New South Wales, Queensland, South Australia, Tasmania, and Victoria.

Alternatives to peak swap wholesale electricity futures contracts

1st Energy is of the view that the use of current peak swap wholesale electricity futures contracts is no longer reflective of today's market and we propose that the ESC seek de-identified over-the-counter contract prices from brokers that include any shape or peak premiums relative to the base contract price.

Retail operating margin

Our view is an appropriate retail operating margin should be set using the most up-to-date cost data available, sufficiently reflective of actual retailer costs and remain an agreed percentage of cost. We seek transparency as to how the ESC calculated the 5.3% and would challenge the validity of using retail margins determined by other regulators in vastly different retail markets, with limited competition. The cost of capital has increased significantly over the last 12 months and we would expect this to be reflected in the retail operating margin percentage calculation.

Caution must be exercised with the nature of how the percentage is varied. Referencing market offer prices which do not necessarily have a relationship to the VDO assume a flawed logic and does not for example consider those retailers who seek to gain market share and offer a loss leading product.

We understand that the current VDO information requested by the ESC would provide sufficient information to consider this approach.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, aneta.graham@1stenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Liam Foden', is written over a light blue horizontal line.

Liam Foden
Managing Director
1st Energy Pty Ltd