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

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

Dear Commissioners,

RE: Victorian Default Offer 2024-25 – Request for Comment Paper

GloBird Energy (**GloBird**) welcomes the opportunity to provide feedback on the Essential Services Commission's (**ESC**) Victorian Default Offer 2024-25 request for comment paper (**paper**).

GloBird commenced operation in 2015 and has steadily grown, currently retailing energy to over 200,000 residential and small business customers across Victoria, New South Wales, Queensland and South Australia. Our excellent value energy offerings, innovative products and a high-quality customer service are key drivers of our success in this highly competitive energy market.

Alternative to peak swap wholesale electricity futures contracts

In its final decision on the 2023-24 VDO, the ESC did not include peak swap contracts in the estimation of wholesale electricity cost benchmark based on observations that indicate ASX Energy peak swap contracts were no longer traded in meaningful volumes. GloBird accepts that peak swap contracts are now rarely traded.

Historically, "peak" covered the period 7 AM – 10 PM where load rose in the morning and remained relatively flat across the day, except for "humps" between 7 AM – 9 AM and 5 PM – 7 PM. Accordingly, financial products covered this period.

The increased penetration of roof-top and utility scale solar generation in the market has created a "duck curve", causing the load profile to change. Consequently, there is little load to hedge across the middle of the day and a huge spike between 5 PM and 7 PM. Accordingly, financial products have adapted with a "super-peak" product emerging. Although a growing over the counter contract (OTC) market, this is not yet listed on futures.

GloBird proposes that the ESC seek OTC prices from brokers for this product and incorporate these into the modelling to estimate wholesale electricity costs.

Retail operating margin

In its VDO 2023-24 final determination, the ESC set the retail margin at 5.3% based on benchmarks set by other regulatory bodies and having regard to the expected returns model. GloBird requests that the ESC to publish its assumptions in determining the retail margin, so that there is more transparency about the selection of variables underpinning the retail margin, including the capital required to operate a retail service, the risk-free rate, the cost of capital and the EBITDA the ESC is targeting. Making these variables transparent will allow stakeholders to make meaningful feedback.

In our submission, dated 23 January 2023, to the VDO 2023-24 consultation paper, we argued that the high interest rate environment is not a short-term change and therefore the increase in financial cost should be reflected in retail margin.

In its monetary policy decision statement dated 7 November 2023, the RBA Governor, Michelle Bullock, noted the following:

- While inflation has passed its peak, it is still too high and proving persistent.
- The Board received updated information on inflation, suggesting that the risk of inflation remaining high for longer has increased.
- There are still significant uncertainties around the outlook. Services inflation has been surprisingly persistent overseas and the same could occur in Australia.

We reiterate our position that there is evidence indicating that the current high interest rate environment is here to stay beyond the short-term.

We submit the increase in financial cost should be reflected in retail margin.

If you have any questions about this submission, please contact Nabil Chemali, Regulatory & Commercial Manager, at nabil.chemali@globirdenergy.com.au

Yours sincerely



John McCluskey
Executive Manager
GloBird Energy