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29 November 2022

Mr Gavin Fox
A/General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted by email: DMO@aer.gov.au

Dear Mr Fox,

RE: Default Market Offer Price 2023-24 - Issue Paper

GloBird Energy welcomes the opportunity to provide feedback on the issue paper for the Default Market offer Price 2023-24 (**issue paper**).

GloBird Energy commenced operation in 2015 and has since become one of the fastest growing electricity and gas retailers in Australia, with a customer base over 145,000 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.

The AER states the DMO policy objectives should:

- reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices;
- allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention; and
- enable competition, innovation and investment by retailers, and retain incentives for consumers to engage in the market.

GloBird Energy is supportive of competition that allows customers access to innovative offerings and reasonable prices. However, the current highly volatile wholesale costs and the recent increase in ROLR events highlight the important role of the DMO to allow retailers recovering their costs as a means of protecting competition.

GloBird Energy's submissions provides feedbacks on the following questions raised in the issue paper:

Wholesale forecasting methodology

The current book build process assumption that a prudent retailer would purchase hedging contracts over a 2-3 year period may reflect the hedging strategy of incumbent retailers but not that of small retailers who play a critical role to drive competition and together have a large market share.

Unlike incumbent retailers, small retailers do not possess the financial resources to hedge that far. Further, while small retailers are finding it difficult to get credit offered for 2-3 year period, hedging for such long period of time increases the retailer's working capital requirement on credit support and liquidity reserve

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needed on variation margin due to market volatility, which has increased significantly over the last few years. Therefore, a prudent small retailer would not hedge that far, in order to avoid incurring additional costs that when passed to customers would jeopardise competition and reduce the availability of better value energy products to consumers.

Based on the Victorian Default Offer experience, we believe a book build process that occurs over a 12- month period strikes the right balance between price stability, retail cost and sustainable market competitiveness. We encourage the AER to consider reviewing the methodology to simulate the wholesale energy market from both a large and a small retailer's perspective.

In DMO 4, the AER changed its approach from 95th percentile estimate of modelling price outcome to 75th percentile, effectively allowing retailers to recover their wholesale electricity costs (WEC) in three out of four years. Given the current and expected future volatility of market conditions, it would be appropriate for the AER to revert to the 95th percentile to provide retailers greater certainty and drive competition.

Load profile

We support the AER proposal to use interval or smart meter data to improve load profile assumptions.

Transparency of the modelling process

We do not support the use of options or sophisticated instruments in the modelling because of lack of evidence that a prudent small retailer utilises these in their hedging strategy.

We do not support the inclusion of confidential contract information into the book build process because:

1. these contracts reflect the position of individual entities and as such are not liquid; and
2. such approach will make the process less transparent.

Retail allowance

Retail allowance is not a major component of the price stack and treating this component as a tool to reduce the DMO price will add stability risk in the retail market, which in our view contravenes with the DMO objective to enable competition and retain incentives for consumers to engage in the market.

GloBird Energy will be pleased to meet with the AER to further discuss this submission. Please contact Nabil Chemali via email: nabil.chemali@globirdenergy.com.au

Yours sincerely



John McCluskey
Executive Manager
GloBird Energy