ESSENTIAL SERVICES COMMISSION

Victorian Default Offer 2025–26: Draft Decision Paper

Draft Decision Paper

13 March 2025

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

An appropriate citation for this paper is:

Essential Services Commission 2025, *Victorian Default Offer 2025–26: Draft Decision Paper*: *Draft Decision Paper*, 13 March

Contents

We invite submissions on the draft 2025–26 Victorian Default Offer

Formal submissions on this draft decision can be made via the Engage Victoria website until 5pm on 11 April 2025. We will consider all submissions received by this date before making our final decision in May 2025.

Public forum

After releasing our draft decision, we will hold a public forum for interested parties to discuss the areas of our decision that we anticipate will matter most to them. For details regarding our public forum please visit our Engage Victoria website.

Table 1: Milestones for the 2025–26 Victorian Default Offer review

Key milestone	Date
Draft decision released	13 March 2025
Public forum on the draft decision	31 March 2025
Consultation period on the draft decision	13 March – 11 April 2025
Final decision and determination	by 24 May 2025

Sensitive or confidential information

All submissions come under the commission's submissions policy. We will make submissions available on our website, except for any information that is commercially sensitive or confidential. Submissions should clearly identify which information is sensitive or confidential.

Visit Engage Victoria's website to make your submission: www.engage.vic.gov.au.

Summary

This document sets out our draft decision for the 2025–26 Victorian Default Offer.

- Our draft decision results in relatively flat average bills for Victorian Default Offer customers in 2025–26 compared to 2024–25.
- For domestic customers on a flat tariff, the Victorian Default Offer will be $12 (or less than one per cent) higher than in 2024–25 (based on an average of the five distribution zones and assuming annual usage of 4,000 kilowatt hours).
- Our draft decision shows the changes in domestic Victorian Default Offer customer bills range from $19 lower in AusNet and Powercor areas, to $68 higher in CitiPower (based on annual usage of 4,000 kilowatt hours).
- For small business customers on a flat tariff, the Victorian Default Offer will be $103 (or three per cent) higher than in 2024–25 (based on an average of the five distribution zones and based on annual usage of 10,000 kilowatt hours).
- Our draft decision shows the changes in small business Victorian Default Offer customer bills range from $77 higher in the AusNet area, to $128 higher in CitiPower (based on annual usage of 10,000 kilowatt hours).
- The slight overall increase in Victorian Default Offer prices in 2025–26 is driven by higher network costs. These costs are pass-through costs reflecting indicative network tariffs and metering charges submitted to the Australian Energy Regulator.
- Overall, most other Victorian Default Offer cost components have remained relatively constant, noting environmental costs in typical domestic and small business customer bills decreased in our draft decision.
- We refined our methodology for forecasting wholesale electricity costs, using load only interval data (excluding exports) to estimate customer load profiles. This reflects new data that has become available which improves our estimate of efficient retailer costs.
- This change has contributed to an overall decrease in the wholesale electricity cost component of the 2025–26 Victorian Default Offer for average domestic customers, notwithstanding stable wholesale futures contract prices. However, wholesale electricity cost movements do vary across Victoria's five distribution zones, as the impact of removing solar exports from the load profile is more pronounced in zones with higher solar uptake.

- For our draft decision, we have also reduced the retail operating margin to five per cent of the total Victorian Default Offer cost stack, down from 5.3 per cent in 2024–25. This change acknowledges the importance of a reasonable return for retailers while also offering some relief to customers facing cost-of-living pressures.
- In making our final decision, we will use updated data inputs where available to determine the 2025–26 Victorian Default Offer cost stack.
- We are seeking feedback on our draft decision by 11 April 2025, to be considered for our final decision which will be made by 24 May 2025.

The Victorian Default Offer provides a safeguard for customers

The Victorian Default Offer sets the maximum prices a retailer can charge for electricity sold to domestic and small business customers in Victoria, who are on a standing offer.[1] [2] [3] The objective of the Victorian Default Offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.[4]

Standing offers

Standing offers are contracts that electricity retailers must make available to domestic and small business customers. A standing offer will apply if the customer has:

- never signed up for an electricity contract
- entered into an electricity contract, cancelled the contract within the cooling-off period, but continues to use electricity without entering into a new contract
- moved into a new address and uses electricity without entering into a contract
- specifically asked for a standing offer
- moved onto a standing offer after their market offer contract came to an end.

[1] A standing offer is defined in section 3 of the *Electricity Industry Act 2000*.

[2] A 'domestic customer' for purposes of the Victorian Default Offer is a customer who purchases electricity principally for personal, household or domestic use (see clause 4 of the pricing order).

[3] A 'small business customer' for purposes of the Victorian Default Offer is a customer who is not a domestic customer and whose aggregate consumption of electricity is not more than 40 MWh per annum (see clause 4 of the pricing order).

[4] Clause 3 of the pricing order.

Most customers are not on standing offers and are not directly affected by this decision. In Victoria around 337,000 (or 13 per cent of) households and 56,000 (or 20 per cent of) small businesses are on standing offers.[5]

Embedded network customers

The Victorian Default Offer also applies as a maximum price for most embedded network customers (covering around 189,000 customers).[6] Electricity providers in embedded networks may set prices below the Victorian Default Offer. Embedded networks supply electricity for many domestic and small business customers in apartment buildings, caravan parks or office spaces.

The Victorian Default Offer is based on efficient retailer costs

The Victorian Default Offer was introduced by the Victorian Government in 2019 by an order made under section 13 of the *Electricity Industry Act 2000* (pricing order).[7] Under the pricing order, we must set the Victorian Default Offer each year, based on the efficient costs of the sale of electricity by a retailer, having regard to specific cost components. [8] [9]

In setting the Victorian Default Offer, we are guided by requirements set out in the pricing order. This includes adopting an approach and methodology that best meets a range of objectives (detailed in Appendix F) including:

- providing a simple, trusted and reasonably priced electricity option that safeguards consumers who are unable or unwilling to engage in the electricity retail market[10]
- promoting the long-term interests of Victorian consumers[11]
- promoting the development of full retail competition[12]

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[5] Figures are as of end of December 2024, based on data reported by Victorian retailers under the Compliance and Performance Reporting Guideline version 8 and does not include ENGIE (previously trading as Simply Energy).

[6] Figure is as of February 2025.

[7] The Order in Council made under section 13 of the *Electricity Industry Act 2000* was published in the *Victorian Government Gazette* No. S 208 on Thursday 30 May 2019. Minor amendments to this Order have subsequently been made by Orders in Council made under section 13 of the Act and respectively published in the *Victorian Government Gazette* No. S208 Thursday 30 May 2019 and the *Victorian Government Gazette* No. G50 14 December 2023. The original Order in Council as amended is referred to in this paper as the 'pricing order'.

[8] Clause 12(3) of the pricing order.

[9] Clause 12(4) of the pricing order.

[10] Clause 3 of the pricing order.

[11] *Essential Services Commission Act 2001*, s 8.

[12] *Electricity Industry Act 2000*, s 10.

- protecting consumers.[13]

Setting prices in the Victorian Default Offer based on efficient costs means customers have access to a reasonable price that reflects retailers' efficient costs. Setting a price below efficient costs may mean, in the longer term, less retail competition and less investment in the industry. As a result, there would likely be less innovation focused on delivering customer value, while the reliability of electricity services could also suffer. This would not be in the long-term interests of Victorian consumers.

The Victorian Default Offer acts as a comparison price

The majority of Victorians are on market offers, not standing offers. Most market offers are available at prices below the Victorian Default Offer.

The Victorian Default Offer is therefore also a reference price for these market offers. Retailers must compare their market offer prices to Victorian Default Offer prices when advertising. This enables customers to easily compare market offer prices with our benchmark prices and choose a plan that best suits their needs.

We must determine Victorian Default Offer prices by May each year

Our first determination of Victorian Default Offer prices came into effect on 1 January 2020. We have been responsible for setting Victorian Default Offer prices annually since then.

We released our last determination on 20 May 2024 for the Victorian Default Offer to apply from 1 July 2024 to 30 June 2025 (the 2024–25 Victorian Default Offer).

Under the pricing order, we must make a new determination for the Victorian Default Offer to apply from 1 July 2025 to 30 June 2026 on or before 24 May 2025.[14] We refer to the new pricing arrangements for standing offers to apply from 1 July 2025, as the 2025–26 Victorian Default Offer.

Network and wholesale electricity costs have the biggest impact on Victorian Default Offer prices

Network costs, representing the costs associated with delivering electricity to customers' homes and businesses, are the largest cost component of the Victorian Default Offer, comprising around 40 per cent of the cost stack in 2025–26. For our draft decision, network costs for domestic

[13] *Electricity Industry Act 2000*, s 10.

[14] Clause 10(1) of the pricing order.

customers are seven per cent higher compared to 2024–25 (on average, across the five distribution zones), and are the primary driver of increased Victorian Default Offer prices.

Network costs in the Victorian Default Offer are directly passed through from the network tariffs and metering charges approved by the Australian Energy Regulator each year, reflecting its role in regulating networks focused on efficiency and the long-term interests of consumers.[15] These network tariffs and metering charges vary across Victoria's five distribution zones due to a range of factors, including costs related to geographical scale, population dispersion, overall demand, the age of the network and network investment needs.

For our draft decision (see page 21), wholesale electricity costs in typical domestic customer bills are four per cent lower compared to the 2024–25 Victorian Default Offer (on average, across the five distribution zones). This is despite relatively stable wholesale futures contract prices. The driver of this decrease is our decision to change from using a balanced load (the net of customers' imports and exports) to a load only profile (customers' imports only) to generate the customer load profiles used in forecasting wholesale electricity costs (see page 22 for detailed discussion of this change).

Wholesale electricity cost movements do vary for typical domestic customer bills across all five Victorian distribution zones. This is because the impact of excluding solar exports from the customer load profile (by moving to a load only profile) is more pronounced in zones with higher solar uptake.

For our draft decision (see page 49), we have also applied a retail operating margin of five per cent of the total Victorian Default Offer cost stack, down from 5.3 per cent in 2024–25. This reduced margin was set having regard to: margins set by other Australian regulators; market offer prices relative to default offer prices; the expected returns approach; retailers' actual margins; and submissions.[16]

Overall, all other cost components of the Victorian Default Offer, including retail operating costs, have remained relatively stable, noting minor decreases in the environmental costs for typical domestic and small business customer bills as a result of reduced retailer costs associated with Australian Government environmental programs.

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[15] For our draft decision, we have used indicative network tariffs for 2025–26, submitted by distributors to the Australian Energy Regulator in February 2025. Our final decision will use updated network tariffs as approved by the Australian Energy Regulator, expected in May 2025.

[16] The expected returns approach seeks to estimate the minimum retail margin required to compensate equity investors in a notional electricity retailer for the systematic (i.e., non-diversifiable) risk they bear when committing equity capital to the firm.

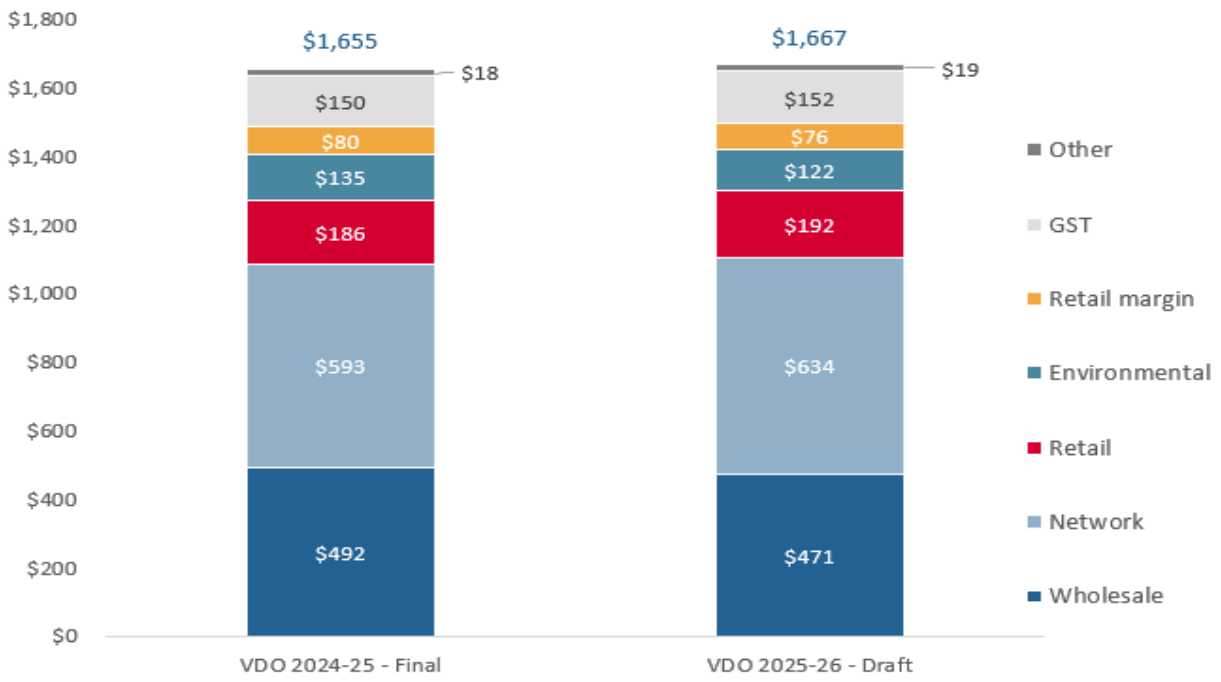
Average annual bills for Victorian Default Offer customers will be slightly higher in 2025–26

Average domestic annual bills

The average annual bill for a 2025–26 Victorian Default Offer domestic customer on a flat tariff will be $1,667. This is $12 (or less than one per cent) higher compared to our 2024–25 decision. This price is the average of typical annual bills across the five electricity distribution zones in Victoria.[17]

Wholesale electricity costs and environmental costs components for the average domestic flat tariff Victorian Default Offer customer have reduced slightly compared to 2024–25 (see Figure 1). These slightly lower wholesale and environmental costs, as well as a lower retail operating margin, are offset by the higher increases in network costs.

Figure 1: Average change in 2025–26 Victorian Default Offer annual bills for domestic customers (assuming annual usage of 4,000 kWh) compared to 2024–25



[17] The annual reference consumption amount reflects pricing order clause 15(5)(a). For domestic customers the average consumption assumes 4,000 kilowatt hours per year, we call this 'typical' usage.

Victorian electricity distribution zone comparisons - domestic

Figure 1 outlines the average bill for all domestic customers. However, movements in typical annual bills do vary across the five distribution zones in Victoria.

Victorian Default Offer domestic customers will see bill changes ranging from a $68 increase (around five per cent) in the CitiPower area to decreases of $19 (around one per cent) in the AusNet and Powercor areas. CitiPower has the highest forecast increase, however domestic customers in this area continue to have the lowest typical bills in Victoria.

Table 2 shows the movement in typical annual bills for domestic Victorian Default Offer customers in each zone and on average across the zones, as compared to 2024–25 (assuming 4,000-kilowatt hours annual usage).

Table 2: Change in average annual Victorian Default Offer bills for domestic customers on flat tariff (nominal assuming 4,000 kWh/year)[18]

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2024–25 (final decision)	$1,902	$1,456	$1,664	$1,699	$1,554	**$1,655**
2025–26 (draft decision)	$1,883	$1,524	$1,680	$1,680	$1,569	**$1,667**
Change in $	-$19	$68	$16	-$19	$15	**$12**
Change in %	-1%	5%	1%	-1%	1%	**1%**

Average small business annual bills

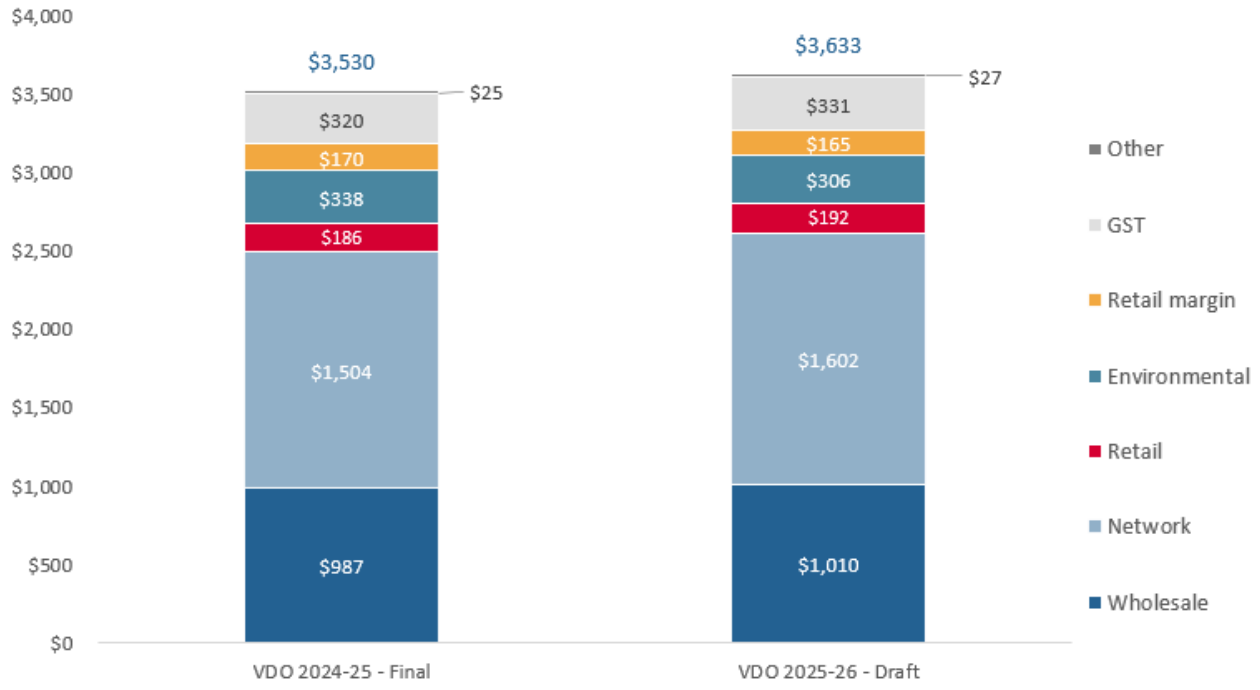
The average annual bill for a 2025–26 Victorian Default Offer small business customer on a flat tariff will be $3,633. This is $103 (or three per cent) higher compared to our 2024–25 decision. This price is the average of typical annual bills across the five electricity distribution zones in Victoria.

Network costs and wholesale electricity costs for the average small business flat tariff 2025–26 Victorian Default Offer customer have increased compared to 2024–25 (see Figure 2).[19] Increases in these costs are the main contributors to increased bills overall.

[18] Values in the table may not sum to exact total due to rounding.

[19] The annual reference consumption amount reflects pricing order clause 15(5)(a). For small business customers the average consumption assumes 10,000 kWh per year, we call this 'typical' usage. The commission has historically reported Victorian Default Offer average annual bills for small business customers assuming an average usage of 20,000 kWh per year. We have used 10,000 kWh per year to align with how small businesses prices are reported in default market offers in other states.

Figure 2: Change in 2025–26 Victorian Default Offer annual bills for small business customers (assuming annual usage of 10,000 kWh) compared to 2024–25



Victorian electricity distribution zone comparisons – small business

Changes in typical small business customer bills compared to the 2024–25 Victorian Default Offer vary across the five distribution zones in Victoria. Victorian Default Offer small business customer bills range from increases of $77 (around two per cent) in the AusNet area to $128 (around four per cent) in the CitiPower area. The difference in typical annual bills across distribution zones is mainly due to differing network tariffs and wholesale electricity costs.

Table 3 shows the movement of typical annual bills for small business Victorian Default Offer customers in each zone and on average across zones (assuming 10,000-kilowatt hours annual usage).

Table 3: Change in average annual Victorian Default Offer bills for small business customers on flat tariff (nominal assuming 10,000 kWh/year)[20]

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2024–25 (final decision)	$4,388	$3,025	$3,695	$3,331	$3,212	**$3,530**
2025–26 (draft decision)	$4,465	$3,153	$3,813	$3,416	$3,318	**$3,633**
Change in $	$77	$128	$118	$85	$106	**$103**
Change in %	2%	4%	3%	3%	3%	**3%**

Our draft decision is informed by submissions on selected matters

On 28 November 2024, we released the 2025–26 Victorian Default Offer: Request for Comment Paper seeking submissions on select matters related to our methodology for determining the Victorian Default Offer, which we were considering for further refinement. These included:

- whether retail operating costs should be estimated separately for domestic and small business customers
- whether the current retail operating margin is appropriate, and, if not, where it should sit within the feasible range
- whether there are other considerations we should have in determining a retail operating margin for an efficient energy retailer
- whether there is a better approach to estimating Victorian Energy Efficiency Certificate prices
- whether the removal of solar exports from the load profile would better reflect an efficient retailer's load profile assumptions
- whether electricity retailers exclude solar exports from their load profile when buying future wholesale electricity contracts.

In making this draft decision we have considered all submissions received in response to our Request for Comment Paper. We have addressed submission themes in the relevant sections of this draft decision to which they relate.

[20] Values in the table may not sum to exact total due to rounding.

We have maintained a largely consistent approach, with some changes

Our draft decision broadly maintains the same approach that we used in the 2024–25 Victorian Default Offer, with some changes to cost benchmarks and methodology.

We consider our overall approach for calculating the Victorian Default Offer is sound. Our methodology has remained largely the same for a number of years. During this time, it has achieved the objective of providing a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market, including over a period of fluctuating and volatile electricity market conditions.

Submissions received on our Request for Comment Paper show general support for the overall methodology we use, with electricity retailers submitting that our approach provides for stability.[21]

Accordingly, a very strong rationale is required for us to change our established approach to calculating prices. In making our draft decision, we have carefully considered expert advice, existing and new datasets, broader regulatory practice, evidence and submissions. Where we have made a draft decision to refine or change aspects of our methodology or cost inputs, we have also provided a rationale and evidence to support this position.

We consider our approach to the various cost components in this draft decision best meet the requirements of all relevant provisions, and account for all matters we must have regard to under the *Essential Services Commission Act 2001*, *Electricity Industry Act 2000*, and the pricing order. Further details on these matters are set out in Appendix F.

Updated cost inputs are anticipated for our final decision

When we make our final decision, we will use up-to-date cost inputs including:

- network tariffs and metering charges approved by the Australian Energy Regulator, expected in May 2025
- final ASX Energy futures contract prices as at 25 April 2025, noting that as futures contract prices change daily, the wholesale electricity cost benchmark adopted in our final decision is likely to be different to the one in this draft decision

[21] ENGIE submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, AGL submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, Momentum Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, Origin Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, Australian Energy Council submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, EnergyAustralia submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1, Shell Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 1.

- other (smaller) inputs to our cost stack, dependent on available data.

We will also consider all submissions received on this draft decision and make any necessary updates in our final decision.

We will continue to uphold other protections for customers

In addition to the safeguarding and benchmarking functions of the Victorian Default Offer, Victoria also has a range of broader customer protections and safeguards, including requirements for retailers to provide payment difficulty assistance and to notify customers about lower priced energy offers. These are largely set out in the Energy Retail Code of Practice, which we administer.

We will continue to monitor retailers' delivery of these protections, encourage compliance and enforce the rules where necessary.

A retailer must inform customers about their best offer

Under the Energy Retail Code of Practice, a retailer must provide a customer with best offer messages on their bills and price change notifications.[22]

We closely monitor how retailers are meeting their responsibilities to inform energy consumers about whether they are receiving retailers' best offers. We also want consumers to engage confidently with their retailer and seek better offers from other retailers, where possible. Victorian Energy Compare can help consumers find the best market offer.

All customers are entitled to payment assistance

Under the Energy Retail Code of Practice, a customer is entitled to receive payment assistance when they miss paying an energy bill.[23]

Utility Relief Grants

A retailer is also required to support customers to apply for Utility Relief Grants—a grant offered by the Victorian government to provide relief of up to $1,300 every two years to eligible account holders.[24] We encourage customers who are having trouble paying bills to ask their energy retailer about payment plans and what concessions, rebates or Utility Relief Grants might be available.

We want to make sure Victorian energy consumers are getting all the assistance they are entitled to. We continue to closely monitor retailer actions, particularly on the obligations to provide

[22] Energy Retail Code of Practice, Version 3, 1 October 2024, Part 5, Division 5.

[23] Energy Retail Code of Practice, Version 3, 1 October 2024, Part 6.

[24] Energy Retail Code of Practice, Version 3, 1 October 2024, Division 12, 128(1)(d).

payment assistance, and requirements that retailers help their customers to apply for Utility Relief Grants where eligible.

Other support for Victorians

Victorian households with eligible concession status can also access government assistance to cover part of their ongoing energy costs. These supports include:

- ongoing assistance with annual electricity concessions
- winter gas concessions
- temporary assistance through energy bill relief made available during 2024–25.[25]

The commission will also continue to use its compliance and enforcement powers in the public interest. We act to protect consumers especially those experiencing vulnerability. Protecting consumers experiencing vulnerability is an enduring compliance priority for the commission.

Consultation on further energy consumer reforms is underway

In response to our Request for Comment Paper we heard from consumer groups, the Minister for Energy and Resources, Climate Action and the State Electricity Commission, and a consumer about energy bills and their potential impact on cost-of-living pressures in Victoria.[26] Consumer groups suggested several measures that could help reduce the effect of higher retail electricity prices.[27] This includes helping customers access retailers' best offers and preventing retailers rolling customers on to prices above the Victorian Default Offer.

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[25] Victorian Government, Energy Bill Relief Fund for households and small business, accessed 10 March 2025.

[26] Consumer Action Law Centre, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 3-4, Joint submission with Victorian Council of Social Service (VCOSS), Brotherhood of St Laurence, Consumer Action Law Centre, Council Of The Ageing Victoria (COTA), Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1-6, Financial Counselling Victoria (FCVic), submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, Energy Consumers Australia, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1-2, Hon Lily D'Ambrosio MP, Minister for Climate Action, Energy and Resources and the State Electricity Commission, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1-2, Compton Harry, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[27] Consumer Action Law Centre submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 3-5 and 8, Energy Consumers Australia submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1-2, Joint submission from Victorian Council of Social Service (VCOSS), Brotherhood of St Laurence, Consumer Action Law Centre, Council Of The Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 5-6.

We are actively considering these suggestions as part of our current review of the Energy Retail Code of Practice, which is focused on reforms that can support Victorian energy consumers.[28] The review follows a request from the Victorian Minister for Energy and Resources.[29] Reform will aim to help customers access cheaper energy deals and consider increased support for those experiencing payment difficulty.

We released a discussion paper in October 2024, which proposes the following specific reforms:

- automatic best offers for customers experiencing payment difficulty
- improving the ability for customers to access or switch to the best offer
- improving the application of concessions to bills
- extending protections for customers on legacy contracts
- improving awareness of independent dispute resolution services.

We are publicly consulting on the proposed reforms, with a final decision expected in mid-2025.

A proposed social electricity tariff requires government consideration

To further reduce the effect of higher retail electricity prices, submissions from consumer groups also proposed the introduction of a social electricity tariff that uses components of the Victorian Default Offer to provide an electricity price available to low-income consumers.[30]

We note that a social electricity tariff would require new supporting policies, and changes in current regulatory settings. We are therefore of the view that this matter is best considered by government, separate to the Victorian Default Offer price determination process.

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[28] Essential Services Commission, Reviewing the Energy Retail Code of Practice, https://www.esc.vic.gov.au/electricity-and-gas/codes-guidelines-and-policies/energy-retail-code-practice/reviewing-energy-retail-code-practice. Accessed 10 March 2025.

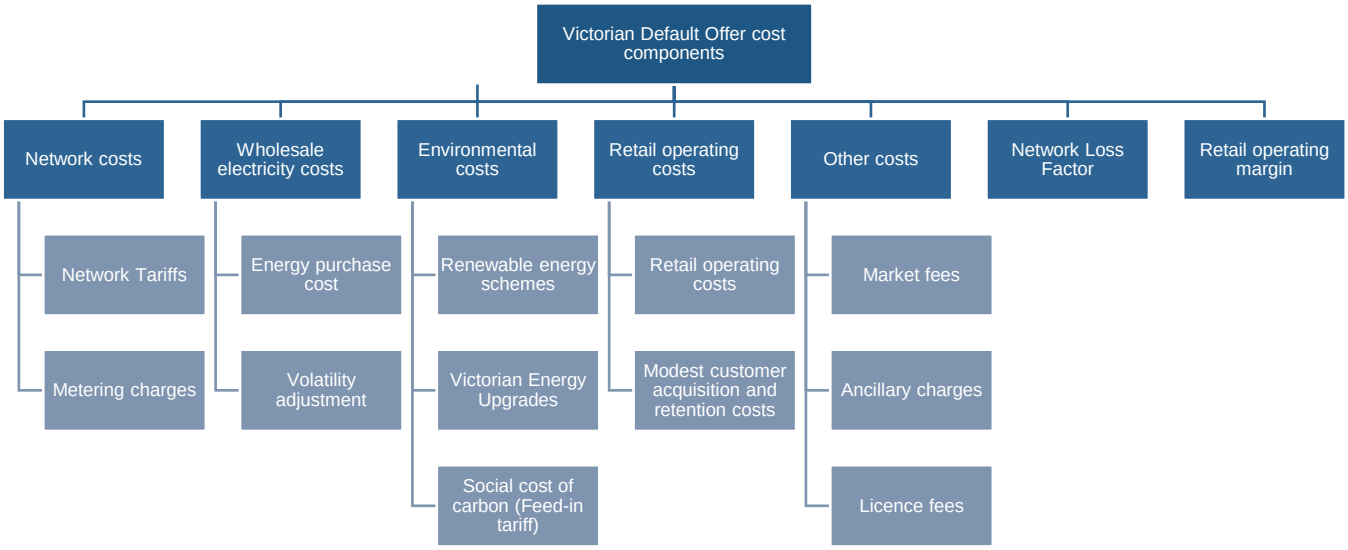
[29] This follows a package of energy consumer reforms proposed by the Energy and Climate Change Ministerial Council (ECMC) on 19 July 2024, which submitted several related rule change requests to the Australian Energy Market Commission.

[30] Consumer Action Law Centre submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 3-5 and 8, Energy Consumers Australia submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1-2, Joint submission from Victorian Council of Social Service (VCOSS), Brotherhood of St Laurence, Consumer Action Law Centre, Council Of The Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 5-6.

Victorian Default Offer cost components

We must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.[31] In doing this, we must have regard to specific cost components.[32] Figure 3 shows the cost components included in our Victorian Default Offer cost stack in 2025–26.

Figure 3: Victorian Default Offer cost stack



The inputs we use to determine the Victorian Default Offer cost components are as follows:

- **Network costs** – based on distributors' network tariffs and metering charges submitted to, and approved by, the Australian Energy Regulator.
- **Wholesale electricity costs** – based on the forecast cost of purchasing electricity in the futures market, factoring in a volatility allowance.
- **Environmental costs** – based on retailers' costs of complying with environmental obligations imposed under Commonwealth and Victorian law or regulation
- **Retail operating costs** – based on the customer-weighted average of retailers' actual retail operating costs for domestic and small business customers and including a **modest customer acquisition and retention costs** – based on the average 2013–14 average acquisition cost benchmark updated for inflation.
- **Other costs** – as detailed on pages 44 to 48.

[31] Clause 12(3) of the pricing order.

[32] Clause 12(4) of the pricing order.

- **Retail operating margin** – based on a retail operating margin benchmark and having regard to market offer prices relative to default offer prices, the expected returns approach and retailers' actual margins.
- **Network loss factor** – based on information from the Australian Energy Market Operator, and applied to wholesale electricity costs, environmental costs and variable other costs.

Network costs

- Our draft decision is to continue using a cost pass-through approach for network costs, passing through the network tariffs and metering charges approved by the Australian Energy Regulator each year.
- For our draft decision, we have based network costs on the indicative network tariffs and metering charges for 2025-26 that Victorian distributors submitted to the Australian Energy Regulator in February 2025.
- We will update the network costs for our final decision once the Australian Energy Regulator approves these network tariffs and metering charges, expected in May 2025.
- Under the 2025-26 Victorian Default Offer, network costs represent about $634 (or 38 per cent) of the average annual domestic flat tariff bill (averaged across the five distribution zones).
- Overall, network costs are about seven per cent higher, compared to the 2024–25 Victorian Default Offer.

The pricing order requires that we have regard to **network costs** in estimating the efficient costs of electricity retailers.[33] Network costs are costs associated with building, operating, maintaining and growing the transmission and distribution networks that deliver electricity to customers.

There are five electricity distribution networks operating in five separate zones across Victoria. Each year, the Australian Energy Regulator approves network tariffs and metering charges submitted by Victorian distributors for each of Victoria's five distribution zones. Retailers must pay these network tariffs and metering charges to distributors to access transmission and distribution services.

Network tariffs consist of three main elements:

- distribution charges – for the use of the distribution network

[33] Clause 12(4)(b) of the pricing order.

- transmission charges – for the use of the transmission network
- jurisdictional charges – for the payments distributors are required to make within each jurisdiction. This includes jurisdictional scheme amounts.

Network tariffs are structured in one of two ways:

- a daily supply charge and a flat usage charge (flat network tariffs)
- a daily supply charge and peak and off-peak usage charge (two-period time of use network tariffs).[34]

We have maintained a cost pass-throughs approach to network costs

Our draft decision is to continue to apply a cost pass-through approach, with network costs reflecting network tariffs and metering charges as approved by the Australian Energy Regulator, reflecting its role in regulating networks focused on efficiency and the long-term interests of consumers. We have used indicative network tariffs and metering charges for our draft decision, submitted by Victorian distributors to the Australian Energy Regulator in February 2025 (see Appendix B for more information). Our final decision will use updated network tariffs and metering charges as approved by the Australian Energy Regulator, expected in May 2025.

Overall, network costs in a typical domestic Victorian Default Offer bill are higher than they were in 2024–25. Table 4 shows the increase in network costs across each of the five distribution zones in Victoria. The increase in network costs for typical domestic customers ranges from five to eight per cent, depending on the distribution zone. The variation in network costs across distribution zones is due to a range of factors, including geographical scale, population dispersion, forecast demand profiles, the age of the network and network investment needs.

The Australian Energy Regulator has identified a range of drivers for higher network tariffs for 2025-26 (which are the major component of network costs), including:

- higher return on debt: due to significant changes in relevant financial markets since its 2021–26 Victorian distribution determinations.
- large incentive scheme rewards, including deferred incentive scheme rewards from previous years
- cost pass-throughs [35]
- inflation

[34] We amended the 2021 Victorian Default Offer price determination in July 2021 to incorporate a two-period time of use tariff.

[35] A cost pass-through is a mechanism through which regulated entities can directly recover costs incurred beyond the reasonable control of the business, such as new statutory obligations or damage to infrastructure caused by a natural disaster.

- increased transmission costs
- recovery of under-recovered distribution revenue in prior years
- for some network businesses the increase in network costs are partially offset by the return of previously over-recovered revenues.[36]

Table 4: Change in network costs for domestic flat tariffs (nominal)[37]

	*AusNet	CitiPower	*Jemena	Powercor	United Energy	Victorian average
2024–25 (final decision)	$766	$491	$594	$600	$514	$593
2025–26 (draft decision)	$806	$531	$635	$645	$551	$634
Change in $	$40	$40	$41	$45	$37	$41
Change in %	5%	8%	7%	8%	7%	7%

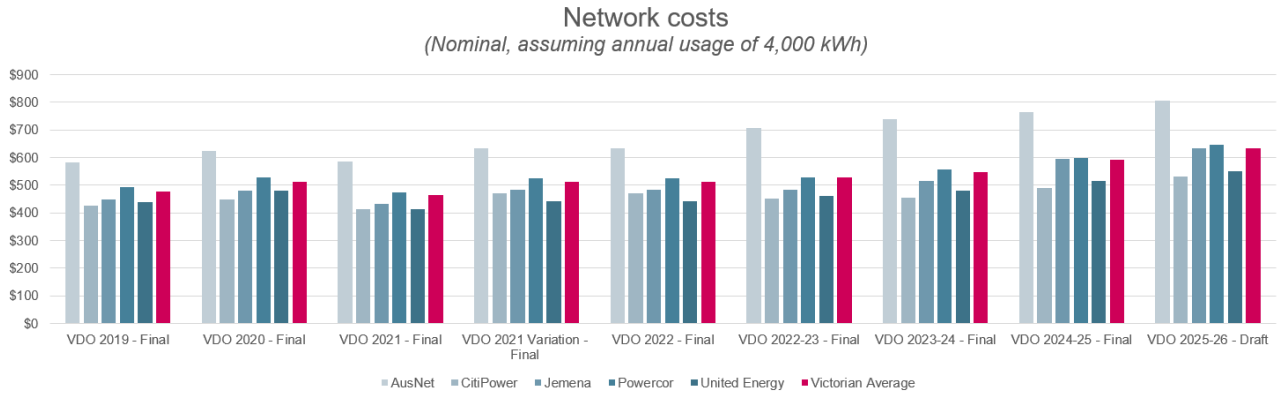
*Current proposals being considered by the Australian Energy Regulator are included in prices, including Jemena's reopener application, and AusNet's cost pass-through application.

Despite the variance across different zones, network costs have been largely increasing since 2019. Figure 4 shows the historical trend of network costs across the five distribution zones in Victoria.

[36] Advised by the Australian Energy Regulator via email on 24 February 2025

[37] Values in the table may not sum to exact total due to rounding.

Figure 4: Historical network cost across different distribution zones in Victoria



Wholesale electricity costs

- Our draft decision is to continue using our futures market approach to forecast wholesale electricity costs. However, we propose to change aspects of our methodology.
- We have moved to using a load profile based on customers' import data only, recorded every 5-minutes. Previously, we used a profile reflecting the balance of customers' imports and exports at the end of each 30-minute interval.
- This change is informed by expert advice and is aligned to the approach currently used by the Australian Energy Regulator in setting Default Market Offer prices.
- Overall, our draft decision to change our methodology has contributed to lower forecast wholesale electricity costs for domestic customers. However, wholesale electricity movements vary across distribution zones, as the impact of removing solar exports from the load profile used to calculate wholesale electricity costs is more pronounced in zones with higher solar uptake, like Powercor and AusNet's distribution zones.
- For typical average domestic customers on the flat tariff Victorian Default Offer, wholesale electricity costs are $21 (or four per cent) lower in the total annual bill for 2025–26 compared to 2024–25.
- Wholesale electricity purchase costs are $471 and make up around 28 per cent of a typical annual domestic flat tariff bill (averaged across the five distribution zones).
- For typical average small business customers on the flat tariff Victorian Default Offer, wholesale electricity costs are $22 (or two per cent) higher in the total annual bill for 2025–26 compared to 2024–25.
- Wholesale electricity purchase costs are $1,010 and make up around 28 per cent of a typical annual small business flat tariff bill (averaged across the five distribution zones).

The pricing order requires that we have regard to **wholesale electricity costs** in estimating the efficient costs of electricity retailers.[38]

Retailers face wholesale electricity costs when they purchase electricity from the wholesale market to supply to their customers. In the wholesale electricity market, generators bid to have their electricity sent to the grid and retailers buy electricity to meet their customers' demands. Buying electricity from the wholesale electricity spot market exposes retailers to the risk that electricity prices may be high when they need to purchase electricity.

Futures markets allow retailers to engage in hedging as a way of managing this risk. When a retailer hedges its wholesale electricity spot risk, the price it pays for electricity can be set, capped, or offset in advance. There are many different ways retailers can hedge their risk including by contracting directly with a generator, through a financial market transaction on ASX Energy, or with another financial intermediary.

Our draft decision retains a futures market approach

A futures market-based approach forecasts wholesale electricity costs by reference to the costs a retailer faces in supplying electricity to their customers using financial hedging products. We use this approach in setting the Victorian Default Offer because hedging reflects how a prudent retailer would limit exposure to high wholesale electricity spot prices and ensure its wholesale electricity costs are efficient.

Our draft decision is to change our methodology for estimating customers' load profiles

A key input into forecasting annual wholesale electricity costs in the Victorian Default Offer is the customer load profile. We aim to use load profile data that is reflective of the costs to retailers of purchasing electricity for their residential and small business customers across the coming financial year. Since first setting the Victorian Default Offer in 2019, we have used 30-minute interval meter data at a 'balanced' position (the balance of customers' imports and exports) to produce load profiles. This approach was informed by the structure of load profile data available from the Australian Energy Market Operator (market operator) at the time.

While we previously relied on interval meter data at a balanced position, new load profile data is now available, with interval meter data split by imports (customers' demand for electricity) and exports (from sources like rooftop solar), as recorded at the end of each 5-minute and 30-minute

[38] Clauses 12(3) and 12(4)(a) of the pricing order.

interval. This new data has enabled us to consider whether to continue to use a balanced position, or to change to an import only (load only) position for estimating customers' load profiles.

We engaged Frontier Economics to provide advice (the Fronter Economics Advice) and prepare a report (the Frontier Economics Draft Report) on wholesale electricity costs for the 2025–26 Victorian Default Offer.[39] In considering whether to change to a load only position, we received advice from Frontier Economics that:

- in practice, retailers charge customers for all their imports, not imports net of exports, and then separately credit a feed-in tariff for exports
- because wholesale prices are lower during the day when exports are occurring, using a load profile based on the balance of customers' imports and exports results in a higher proportion of load occurring during high price periods than under a load only profile
- this leads to a higher daily average price, compared to a profile based on customers' load only
- as such, a load only profile is a better estimate of retailers' wholesale costs because it reflects customers' demand in isolation of the wholesale cost of customers' exports.

We noted that using a load only profile aligns with the Australian Energy Regulator's approach to setting the Default Market Offer.[40] We also had regard to:

- available data and evidence
- consultation and consideration of submissions responding to our Request for Comment Paper
- our obligations and objectives under legislation and the pricing order, particularly with respect to setting the Victorian Default Offer based on a retailer's efficient costs of selling electricity.

Based on these considerations, our draft decision is to change to using a load only profile in setting the Victorian Default Offer, based on the market operator's load only interval meter data recorded at the end of each 5-minute interval. We consider this to be the most accurate available load profile data for forecasting a retailer's efficient wholesale electricity costs and best aligns with the objectives of the Victorian Default Offer. In our view, using 5-minute load only data (as opposed to 30-minute load only data) will also provide a more accurate relationship between load and price. Using 5-minute interval data does not change the overall load, as the load recorded at the end of a

[39] Frontier Economics 2025, *Advice on load profile to use for the VDO: A note for the* ESC, 12 February. Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A draft report for the Essential Services Commission*, 24 February 2025.

[40] Australian Energy Regulator, 2024–2025 Default market offer prices: Final determination, May 2024

30-minute interval is the same as the sum of the underlying six 5-minute intervals for that same time.

We have published on our website aggregated Victorian customers' 30-minute metered data for the last three years, which we requested from the market operator.[41] This data displays aggregated small customer usage in each distribution zone, split by imports, exports and a balance position. For the purpose of estimating customers' load profiles, we use a similar data set, but it is disaggregated by customer types and therefore may not exactly reflect the data published.

We have carefully considered submissions on the treatment of exports within the load profile

Our Request for Comment Paper sought feedback from interested parties on whether excluding exports from the load profile better reflects an efficient retailer's approach to estimating load profiles, and whether retailers exclude exports when buying wholesale electricity futures contracts.

We received 12 submissions with comments on the treatment of exports, from 11 retailers and their peak body, the Australian Energy Council.[42] Overall, these submissions supported the continued use of a load profile that reflected customers' exports to estimate wholesale electricity costs. The reasons submissions did not support the removal of exports from the load profile were:

- market settlements are based on the balance position for each interval
- a regulated minimum feed-in tariff exists in Victoria
- solar adds more risk to a retailer's ability to hedge accurately.

[41] Requested via email on 7 February 2025.

[42] Alinta Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 2, AGL Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 4, Australian Energy Council submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 1, Anonymous 1, submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024. p.2, Engie submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p.3, Energy Locals submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 3, EnergyAustralia submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 2, 1st Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p.2, Origin Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p.3, Red Energy & Lumo Energy (joint submission) submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 3, Shell Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 3

We heard from retailers that an efficient retailer would use a balance position (customers' imports and exports) when buying wholesale electricity contracts.[43] This is because the market operator settles the wholesale market on a balance position at the end of each interval.

The Frontier Economics Advice sets out market examples that illustrate market settlements are the result of the balance position for each interval, however advises the cost to a retailer for their customers' imports and exports should be recovered through import and export tariffs separately.[44] In other words, wholesale electricity costs for the Victorian Default Offer should be based on customers' imports (or demand for electricity) and recovered through their import tariffs. The wholesale electricity cost of customers' exports should be recovered through their feed-in tariff.

We also heard from retailers, and their peak body, that they are concerned with the exclusion of exports from the load profile while a regulated mandatory feed-in tariff exists in Victoria.[45] The Australian Energy Council stated:

> The ESC should be cautious in its consideration of this issue considering that Victoria has a minimum FiT unlike in the jurisdictions regulated by the AER.[46]

We considered advice from Frontier Economics that the existence of Victoria's regulated minimum feed-in tariff does not mean that the wholesale electricity cost component of the Victorian Default Offer needs to account for the cost of exports through a balance load profile. Instead, the cost of exports should be accounted for in the wholesale electricity costs component of the feed-in tariff. Further, Frontier Economics advised that if the regulated minimum feed-in tariff was removed, this would also not mean that a balance load profile would better reflect retailers' costs, as retailers would still be reflecting the costs of exports in their own unregulated feed-in tariff. In short, now that we have available reports from the market operator that separately records customers' import and export profiles, the feed-in tariff is the appropriate place for retailers to account for the wholesale costs of exports. The Victorian Default Offer should reflect the wholesale costs of customers' imports only, through the use of an import load profile.

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[43] AGL submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024, p.4.

[44] Frontier Economics 2025, *Advice on load profile to use for the VDO: A note for the ESC*, 12 February, pp. 3-8.

[45] Alinta Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 2, Engie submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 3, Energy Locals submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 3, Origin Energy, Australian Energy Council submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024, p 1.

[46] Australian Energy Council, submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024.

We also heard retailers were concerned about the complexity of, and ability to, hedge any risk customers' exports present when buying wholesale electricity futures contracts. The Victorian Default Offer uses a futures market-based approach to estimate wholesale electricity costs that includes an estimate of future base swap and base cap products traded on ASX Energy.

We collected retailers' wholesale electricity contract data and acknowledge that retailers are likely using a wider range of products than we assume in our approach. We consider the futures contract products used in our approach remains appropriate when providing a simple and trusted price, however there are products available in the future contract market that may enable retailers to address their risks in different ways.

We are considering how to account for wholesale electricity export costs that may arise in the future

In considering whether to adopt a load only profile, we also considered whether there are other risks associated with customers' exports that need to be accounted for in the Victorian Default Offer. We had regard to the interaction between the social cost of carbon in Victoria's regulated minimum feed-in tariff and the wholesale electricity cost component of the Victorian Default Offer. We also noted that the Minister for Energy and Resources recently indicated an intention to deregulate the minimum feed-in tariff.[47] We considered what might occur should Victoria's current minimum feed-in tariff regulations be abolished, yet a zero-price floor be maintained for feed-in tariff payments. Frontier Economics also provided advice on this scenario.[48]

The regulated minimum feed-in tariff in Victoria is made up of two primary components: the social cost of carbon (as set out in regulations) and the wholesale electricity cost (the settlement amount potentially payable by retailers to the market operator).[49] In our final decision on the Minimum Electricity Feed-In Tariffs from 1 July 2025, these components essentially offset each other, resulting in a regulated feed-in tariff close to zero in Victoria.[50]

Our previous Victorian Default Offer price determinations have always accounted for the social cost of carbon component of the minimum feed-in tariff as an environmental cost, because it is

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[47] Sunday Age 2025, Sun sets on minimum payments for those with rooftop solar, 16 February.

[48] Frontier Economics 2025, *Advice on load profile to use for the VDO: A note for the ESC*, 12 February, p. 2.

[49] The minimum feed-in tariff is comprised of wholesale electricity costs, avoided network charges and AEMO fees, and the social cost of carbon. The social cost of carbon is a fixed component of 2.49 c/kWh. For our 2025-26 decision we forecast the wholesale costs to be -2.38 c/kWh. The network charges and AEMO fees are the smallest component of the minimum feed-in tariff, and we forecast them to be -0.07 c/kWh. We have included them with the wholesale cost. For more information, please see Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February, p 13.

[50] The flat rate minimum feed-in tariff for 2025–26 has been set at 0.04 cents per kilowatt hour. Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February.

recognised that retailers subject to the regulated minimum feed-in tariff would otherwise not be able to recover this amount. This is because, unlike wholesale electricity costs, the social cost of carbon does not reflect a market value that retailers are simply passing through to solar customers.

In response to our Request for Comment Paper, we heard retailers are concerned that exports (primarily from rooftop solar) have added risk when purchasing wholesale electricity futures contracts.[51] When the wholesale cost of exports is overall negative, this requires retailers to make settlement payments to the market operator. Once this wholesale cost exceeds the social cost of carbon (which is included in the Victorian Default Offer), this may result in an overall cost to retailers.[52] Currently these two costs are relatively neutral. However, we acknowledge the time periods in which exports generally occur are increasingly seeing negative wholesale prices.

With a mandatory regulated feed-in tariff in Victoria of effectively zero, we are cognisant that retailers may soon have no obligation to make mandatory payments but may also not be able to recover the wholesale cost of exports if a feed-in tariff cannot be charged to solar customers.[53]

We have accounted for the social cost of carbon in the 2025–26 Victorian Default Offer and expect to continue to do so as long as this cost is regulated. The social cost of carbon currently offsets the wholesale electricity cost of exports. However, this may mean that, in the future, an additional component of the Victorian Default Offer is required to reflect any risk that may arise if the social cost of carbon is abolished or the wholesale cost of exports exceeds the social cost of carbon. We invite interested parties to provide submissions to our draft decision on this point.

We would like to hear from interested parties about whether there is a need to account for the wholesale electricity cost of customers' exports in the Victorian Default Offer and how this could be done.

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[51] 1st Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024. p.2, Red Energy & Lumo Energy (joint submission) submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 3, Origin Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p.3, Engie submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p.3, Shell Energy submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment'* December 2024 p 3, Australian Energy Council submission to the Essential Services Commission *'2025-26 Victorian Default Offer: Request for Comment*' December 2024 p 1.

[52] The social cost of carbon is set by an Order in Council at 2.49 cents/kWh, the methodology can be found in Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February, p 40.

[53] Under the *Electricity Industry Act 2000*, the feed-in tariff cannot be set below zero. This means that retailers cannot charge their customers for solar exports. Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February, p 6.

Our draft decision is to continue using a Monte Carlo simulation to forecast demand and spot prices

To forecast customers' electricity demand and the relationship between price and demand, we analyse historical data on load and prices. We have previously used the most recent three years of interval meter data and wholesale electricity spot prices (both recorded at 30-minute intervals) sourced from the market operator to undertake a Monte Carlo simulation for this purpose.[54] For our draft decision, we considered whether using the most recent three-years of historic data continues to be appropriate. In our view, a three-year sample period reflects a reasonable balance of providing an appropriate time series to analyse wholesale costs, while accounting for changes in demand patterns. Using a shorter period would place emphasis on short-term market dynamics or one-off weather events. We have therefore retained this approach in our draft decision, aside from using demand and price data recorded at 5-minute intervals.

The Monte Carlo simulation randomly generates a year of five-minute observations. This process is repeated 500 times to generate a range of simulated years.[55] Each simulated year is normalised to maintain load shape and the correlation between load and price and scaled to five-minute prices so that the time-weighted average price in each quarter is equal to the relevant quarterly ASX Energy base swap price for 2025–26, subtracting a contract premium.[56] Our methodology excludes days on which participants exercise their contract options from these trade-weighted averages, as this would include the benefit of options to retailers (of lower hedging costs) without including their cost.

These simulations give a range of possible outcomes for demand and the relationship between price and demand for 2025–26.

Our draft decision is to retain our approach to estimating an efficient hedging position

With this range of possible demand conditions, we estimate the hedging position a prudent retailer would adopt. The hedging position is the level of protection from spot prices, using a combination of hedging contracts, that a retailer selects.

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[54] A Monte Carlo simulation is a mathematical technique used to estimate the possible outcomes of an uncertain event or process by running many random trials. Frontier Economics provides more detail in their report, Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A draft report for the Essential Services Commission*, pp 16-18, 24 February.

[55] Frontier Economics use a random drawing of data from a pool of like days, where days are classified as either weekdays or weekends, from either Q1 (January to March), Q2 (April to June), Q3 (July to September) and Q4 (October to December).

[56] The assumed contract premium is five per cent on the underlying prices.

For our draft decision, Frontier Economics used its STRIKE model to develop an efficient contracting position. The model uses ASX Energy base swap and base cap future contract prices, three years of historical load data and spot prices from the market operator, and the spot price and demand conditions from the Monte Carlo simulations. Using this data, the STRIKE model determines a hedging position that represents an efficient mix of hedging products that a prudent retailer would use to represent a position that is the lowest energy purchase cost for the lowest level of risk.

To estimate the cost of this hedging position, we use the 12-month trade-weighted contract prices from ASX Energy for base swap and base cap contracts. There are many different hedging products available. However, we continue to use futures prices from ASX Energy to estimate wholesale electricity costs, as participants publicly trade ASX Energy contracts, so prices and volumes are transparent.

We anticipate that our draft decision to change to a load only profile in setting the Victorian Default Offer will naturally adjust the hedging position, because the underlying load to be serviced by the hedging contracts is different. We do not otherwise propose to make explicit adjustments to the hedging position we have used.

Our draft decision is to continue to apply a volatility allowance in forecasting wholesale electricity prices

For our draft decision, we have continued to apply a volatility allowance to the wholesale electricity cost components of the Victorian Default Offer cost stack. This allowance covers the cost to retailers of holding working capital to fund spot market purchases during periods of very high spot prices (which are unexpected and hard to predict). We calculate the volatility allowance based on the difference between our forecast wholesale electricity costs for the median simulated year and those for the costliest simulated year. This is completed for each of the five Victorian distribution areas.

In some years, actual costs will be higher than expected. In others, it will be lower. On average over time, we would expect the higher and lower costs to balance out.

Our methodology means in general we would expect there to be relatively little unhedged load. For example, during the very high spot prices experienced during 2022, we monitored the exposure retailers would face if they had adopted the hedging position assumed in our 2022–23 Victorian Default Offer wholesale electricity cost benchmark. We found that retailers hedged in this way would have had very little unhedged load and therefore little need for working capital to support the extreme market scenario that eventuated.

We acknowledge that some retailers may choose a riskier hedging position than assumed in our wholesale cost benchmark and therefore have higher working capital requirements. However,

under the pricing order, we are required to consider the costs of an efficient retailer, and we are not required to set our cost benchmarks to reflect the actual costs of individual retailers.[57]

Further, those retailers with greater exposure to the wholesale spot price would also spend less on hedging contract costs. As a result, if we were to increase the volatility allowance, we would also have to make a commensurate decrease in hedging contract purchase costs.

Wholesale electricity costs are lower in typical domestic customer bills

Wholesale electricity costs are the second largest component of annual bills, making up 28 per cent of both domestic and small business Victorian Default Offer customers bills for 2025–26. This component is a yearly cost of $471 for a typical domestic customer and $1,010 for a typical small business customer on the default offer.

For typical domestic customers, wholesale electricity costs are $21 (or four per cent) **lower** than in our 2024–25 Victorian Default Offer. For typical small business customers this cost is $22 (or two per cent) **higher** than in our 2024–25 Victorian Default Offer.

Wholesale electricity future contract prices are relatively stable, so the driver is the change in our approach to load profiles. For small business customers, the change in load profile has had a less pronounced impact due to their load profiles being flatter, with most electricity used during the day and less solar uptake.

Environmental costs

- Our draft decision is to maintain our previous approach for estimating costs for the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme, Victorian Energy Upgrades program and social cost of carbon.
- Environmental costs represent about $122 (or seven per cent) of the average domestic flat tariff 2025–26 Victorian Default Offer bill (averaged across the five distribution zones).
- Our draft decision means environmental costs for domestic customers are $13 (or nine per cent) lower compared to the amount in our 2024–25 determination. This is mainly driven by decreased cost liability in Australian government environmental programs.

[57] Clause 12(3) of the pricing order.

The pricing order requires that we have regard to **environmental costs** in estimating the efficient costs of electricity retailers.[58]

Our approach to environmental costs

Our draft decision is to continue to forecast environmental costs based on the costs Victorian retailers incur in complying with environmental obligations imposed under Victorian or Commonwealth law or regulation. Environmental costs of this nature arise under the following Victorian and Commonwealth programs:

- Large-scale Renewable Energy Target
- Small-scale Renewable Energy Scheme
- Victorian Energy Upgrades program
- the social cost of carbon applied within the minimum feed-in tariff.

Because these costs are unavoidable, we consider it appropriate to include these costs in the Victorian Default Offer, as they reflect a retailers' efficient costs of selling electricity.[59]

Our draft decision is to retain our approach to Large-scale Renewable Energy Target costs

The Large-scale Renewable Energy Target is an Australian Government program designed to reduce emissions in the electricity sector and encourage additional generation from renewable sources. It creates a financial incentive for the installation of large-scale renewable energy power stations.

Under the Large-scale Renewable Energy Target, eligible power stations create Large-scale Generation Certificates (LGCs) for every megawatt hour of renewable power they generate. Electricity retailers buy LGCs to meet their legally binding Renewable Energy Target obligations on an open market. Annual renewable generation targets and the amount of wholesale electricity purchased by electricity retailers determine the renewable power percentage (liability percentage). Electricity retailers must buy and surrender LGCs to the Clean Energy Regulator each year based on the liability percentage.

Our draft decision maintains our previous approach to calculating retailer costs of complying with the Large-scale Renewable Energy Target. Our approach uses publicly available information and is a transparent and replicable method for estimating the efficient cost (per megawatt hour) of complying with the program.

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[58] Clause 12(4)(c) of the pricing order.

[59] Clause 12(3) of the pricing order.

We take the applicable liability percentage set by the Clean Energy Regulator each calendar year (17.91 per cent in 2025)[60] and multiply the liability percentage by the 12-month trade-weighted average market price for LGCs settled in 2025–26 ($40.60).[61]

As the liability percentage is set each calendar year and our decisions are for the financial year, we also include a "regulatory period adjustment" to account for the difference between the estimated liability percentage used in our previous decision (18.48 per cent in 2024) and the actual liability percentage for the 2024–25 period that is now available. We do this by reflecting the midpoint between the liability percentages used in our previous and current decisions.

Our draft decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the Large-scale Renewable Energy Target for 2025–26, is $7.10 per megawatt hour.[62]

Our final decision will include more recent trade-weighted prices for LGCs, continue to use the 2025 liability percentage and include the regulatory period adjustment to account for the difference in liability percentages between 2024 and the midpoint for 2024–25.

Our draft decision is to retain our approach to the Small-scale Renewable Energy Scheme

Under the Small-scale Renewable Energy Scheme electricity retailers must purchase Small-scale renewable Technology Certificates (STCs). Individuals and small businesses create STCs when they install eligible small-scale renewable energy systems such as solar panels, solar hot water systems and air source heat pumps.[63] Retailers then buy the STCs.

By March each year the Clean Energy Regulator sets a **binding** small-scale technology percentage (binding liability percentage) for the current year, and **non-binding** small-scale technology percentage (non-binding liability percentage) for future years.[64] These liability

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[60] Clean Energy Regulator set the renewable power percentage at 17.91 per cent for 2025. Clean Energy Regulator https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-renewable-power-percentage, accessed 17 February 2025.

[61] We have used the most recent 12-months of trade-weighted average market prices for LGCs settled in 2025–26 as of 5 February 2025. Frontier Economics, *Wholesale electricity costs for 2025–26: A draft report for the Essential Services Commission*, February 2025 p. 44.

[62] The regulatory period adjustment value accounts for retail operating margin, network line losses and GST.

[63] For more information see https://www.cleanenergyregulator.gov.au/RET/About-the-Renewable-Energy-Target/How-the-scheme-works/Small-scale-Renewable-Energy-Scheme, accessed 10 February 2025.

[64] Clean Energy Regulator, https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-small-scale-technology-percentage, accessed 10 February 2025.

percentages set the amount of STCs electricity retailers must buy. Electricity retailers then surrender STCs to meet their obligation for that year.

Our draft decision is to retain our previous approach to calculate the cost of the Small-scale Renewable Energy Scheme including performing a regulatory period adjustment of our previous decision.

For our draft decision we used the mid-point between the 2025 binding and 2026 non-binding liability percentages, multiplied by the STC clearing house price ($40 excluding GST).[65] Our draft decision uses a mid-point of 12.84 per cent, using the 2025 binding percentage of 13.89 and the 2026 non-binding percentage of 11.79.

Our draft decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the SRES for 2025–26, is $4.59 per megawatt hour.[66] This is a decrease of $2.34 per megawatt hour from our 2024–25 Victorian Default Offer because of lower liability percentages.

Our final decision will continue to include the 2025 binding liability percentage, multiplied by the known price of small-scale technology certificates. We will also include a regulatory period adjustment to account for the difference between the midpoint liability percentage used in the 2024–25 Victorian Default Offer final decision and the actual midpoint for 2024–25.

Our draft decision is to retain our approach to the Victorian Energy Upgrades costs

The Victorian Energy Upgrades program is a key mechanism for reducing Victoria's greenhouse gas emissions. The program helps Victorians reduce their energy bills and greenhouse gas emissions by providing access to discounted energy efficient product and services.[67]

Under the program, accredited persons install energy efficient products or perform energy efficiency upgrades for customers. These energy efficient upgrades create Victorian energy efficiency certificates (VEECs), which can offset the out-of-pocket costs for consumers.

Each VEEC represents one tonne of carbon dioxide equivalent of greenhouse gas avoided. Electricity retailers must buy and surrender VEECs to meet their obligations set in Victorian legislation.

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[65] Small-scale renewable energy system owners and registered agents have the option to sell STCs through the open market for an uncapped price, or through the STC clearing house at a fixed price of $40 (excluding GST). Clean Energy Regulator, https://www.cleanenergyregulator.gov.au/OSR/REC/STC-clearing-house, accessed 10 February 2025.

[66] The regulatory period adjustment accounts for retail operating margin, network line losses and GST.

[67] Essential Services Commission, 'About the Victorian Energy Upgrades program', https://www.esc.vic.gov.au/victorian-energy-upgrades/about-victorian-energy-upgrades-program accessed 18 February 2025.

Submissions generally supported our approach to estimating Victorian Energy Efficiency Certificates

In our Request for Comment Paper, we sought feedback on our approach to estimating the price of Victorian Energy Efficiency Certificates in the Victorian Default Offer. We received 13 submissions from one consumer, a consumer group, retailers, and their peak body, the Australian Energy Council.[68]

Submissions expressed general support for our approach and supported us collecting additional information to investigate how our approach benchmarks with retailers' costs. We also heard suggested improvements to our approach to accommodate issues with certificate availability.

The Australian Energy Council supports us undertaking further investigations about Victorian Energy Efficiency Certificate prices, including:

- non-delivery risk, whereby retailers purchase Victorian Energy Efficiency Certificates in advance, but do not receive them, and are therefore exposed to significantly higher spot market prices. The issue demonstrates caution against changing the methodology to a mix of contract and spot prices.
- structural issues in the market which impact on retailers' ability to obtain certificates.[69]

We acknowledge recent reforms led by the Department of Energy, Environment and Climate Action to increase the number of activities for the Victorian Energy Upgrades program. The department expects these reforms will increase the number of available Victorian Energy Efficiency Certificates.[70]

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[68] Alinta Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1, AGL Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 3, Australian Energy Council submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1, Anonymous 1, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024. p.2, Consumer Action Law Centre submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 8, ENGIE submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p.2, Energy Locals submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1, EnergyAustralia submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 2, 1st Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 1, Origin Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 2, Red Energy & Lumo Energy (joint submission) submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 2, Momentum Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 2, Shell Energy submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024 p 2

[69] Australian Energy Council, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024.

[70] 'Industry market update and work program,' Essential Services Commission, https://www.energy.vic.gov.au/victorian-energy-upgrades/installers/industry-market-update-work-program accessed 18 February 2025.

Some retailers proposed that we use the most recent Victorian Energy Efficiency Certificate prices and review our previous decisions:

> To ensure accuracy, Shell Energy supports the ESC completing a look back once to ensure the price is cost reflective of the 12-month trade-weighted average. Taking the difference between last year's forecast and actual costs would be a good starting point.[71]

We collected retailers' cost data regarding Victorian Energy Efficiency Certificates, including the amount paid for certificates. We found the average trade-weighted price paid for Victorian Energy Efficiency Certificates for the 2023–24 financial year was $85, while our estimate for approximately that same time was $87.[72] This indicates our approach is comparable to the actual prices retailers are paying for Victorian Energy Efficiency Certificates.

In addition, several retailers expressed concerns about potential penalty payments as well as drivers of volatility in the Victorian Energy Efficiency Certificate market. Alinta Energy, Energy Australia and Shell Energy were concerned about increases in Victorian Energy Efficiency Certificate prices. AGL, Red Energy and Lumo Energy said deficiencies in the Victorian Energy Upgrade scheme increases their systematic risk. The Australian Energy Council was concerned that the Victorian Energy Upgrade strategic review may push up the compliance cost of the program.[73]

Having considered submissions and the available information, our draft decision is to maintain our approach to calculating the cost of the Victorian Energy Upgrades program for electricity retailers. We use the most recent 12-month trade-weighted average spot price for Victorian Energy

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[71] Shell Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024.

[72] Essential Services Commission analysis of cost data reported by a sample of licenced electricity retailers in Victoria with over 10,000 small customers, provided via information gathering notices under Section 36 of *Essential Services Commission Act 2001*. Essential Services Commission 2024, *Victorian Default Offer 2024–25: Final Decision Paper*, 20 May p. 27.

[73] Australian Energy Council, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, AGL Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Alinta Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p.1, EnergyAustralia, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 4, Red Energy & Lumo Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Shell Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

Efficiency Certificates multiplied by the 2025 greenhouse gas reduction rate for electricity.[74] We will continue to use the most up-to-date pricing information for our final decision.[75]

For our draft decision, this means we multiply the volume weighted average certificate price of $102.29 (excluding GST) by 0.15126, which produces a cost per domestic Victorian Default Offer customer of $15.47 per megawatt hour. This results in a total cost of $61.89 in a typical domestic Victorian Default Offer bill. This is an increase of $2.21 per megawatt hour compared to our 2024–25 Victorian Default Offer.

The 2025 greenhouse gas reduction rate is lower than in our 2024–25 Victorian Default Offer. However, this was offset by an increase in the average trade-weighted certificate price.

Our final decision will use the most recent trade-weighted average prices for VEECs, and as a result may differ from our draft decision.

Our draft decision accounts for the social cost of carbon component of the minimum feed-in tariff

As electricity retailers must pay small-scale renewable generators for the avoided social cost of carbon component of the minimum feed-in tariff, we include it in the Victorian Default Offer.

As previously noted in our consideration of wholesale electricity costs, we acknowledge the Minister for Energy and Resources recently indicated an intention to deregulate the minimum feed-in tariff in Victoria.[76] If abolished, retailers will no longer be required to pay the social cost of carbon as part of feed-in tariffs, and we will no longer need to include the social cost of carbon in the environmental costs associated with the Victorian Default Offer. However, we will continue to account for the social cost of carbon while the legislation requires this.[77]

Our draft decision for domestic and small business Victorian Default Offer customers, regarding the social cost of carbon component of the minimum feed-in tariff for 2025–26, is $1.80 per megawatt hour. This is an increase from our 2024–25 Victorian Default Offer determination.

A typical average domestic Victorian Default Offer customer will pay $122 per year in environmental costs out of a total annual bill of $1,667 in 2025–26. This is $13 lower compared to

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[74] Greenhouse gas reduction rate for 2025 is 0.15126. Essential Services Commission, https://www.esc.vic.gov.au/victorian-energy-upgrades-program/participating-veu-program/energy-retailers-veu-program, accessed 10 February 2025.

[75] The date range for VEEC trades and volumes covered the period 29 January 2024 to 28 January 2025.

[76] *Sunday Age* 2025, Sun sets on minimum payments for those with rooftop solar, 16 February.

[77] *Electricity Industry Act* 2000, s40FBB(3)(c).

the amount included in the 2024–25 Victorian Default Offer cost stack. This change is mainly due to decreased cost liability for retailers under the Australian Government environmental programs.

Retail operating costs

- Our draft decision is to continue setting the retail operating cost benchmark using the customer-weighted average of retailers' actual retail operating costs, adjusted for inflation. This approach was first adopted for our 2023–24 Victorian Default Offer decision and is retained in our draft decision.
- Retail operating costs represent $146.11 (or nine per cent) of the average domestic flat tariff bill and about four per cent of the average small business flat tariff bill (averaged across the five distribution zones).
- The retail operating costs in our draft decision are about four per cent higher than the amount included in our 2024–25 Victorian Default Offer determination for both domestic and small business customers.

The pricing order requires that we have regard to **retail operating costs** in estimating the efficient costs of electricity retailers.[78]

Retail operating costs consist of a range of costs incurred by an electricity retailer, comprising:

- cost to serve, including:
  - billing and revenue collection systems
  - related labour cost
  - information technology systems
  - call centre costs
  - corporate overheads
  - energy trading costs.
- bad and doubtful debt write-offs.

Our draft decision is to retain our approach to benchmarking retail operating costs

In our Request for Comment Paper, we invited interested parties to submit their views on estimating retail operating costs separately for domestic and small business customers for the 2025–26 Victorian Default Offer.

[78] Clause 12(4)(d) of the pricing order.

After completing our internal analysis and considering the submissions received on this issue, our draft decision is to continue using a single, uniform benchmark for calculating retail operating costs for both domestic and small business customers.

For our draft decision, we collected the most recent financial year's (2023–24) retail operating cost data from electricity retailers using information gathering notices issued under section 36 of the *Essential Services Commission Act 2001*. The retailers that provided data collectively represent over 95 per cent of Victoria's domestic and small business electricity market. Based on this data, we calculated a single retail operating cost benchmark for both customer segments by determining the customer-weighted average of retailers' actual reported costs adjusted for the difference in Consumer Pricing Index (CPI).

The customer weighted average of retail operating costs per customer in 2023–24 is $145.48 excluding GST before CPI adjustment.[79] Consistent with the approach taken in previous reviews, we adjusted the 2023–24 benchmark for the change in the CPI, which results in a retail operating cost benchmark of $146.11 excluding GST.[80] [81]

Individual retailers may have operating costs that differ from our benchmark. However, we do not set the benchmark for an individual retailer, or industry segments. Instead, we consider the costs faced by an efficient retailer when setting this benchmark.

The data collected reflects the most up-to-date cost information available. Basing our benchmark on the customer-weighted average of retailers' actual costs will ensure that our price determination allows retailers to recover the efficient costs associated with providing electricity to Victorian Default Offer customers.

We considered the customer-specific benchmarks methodology but found that, for now, a uniform benchmark remains the more logical and efficient approach

For the 2025–26 Victorian Default Offer, we considered an alternative approach using customer segment-specific benchmarks to set the retail operating cost. This approach would involve creating two distinct benchmarks for residential customers and small business customers, based on the cost data provided by retailers for each customer category. The purpose was to explore whether

[79] Essential Services Commission's internal calculation based on retailers' actual reported costs.

[80] 31 December 2024 Australian Bureau of Statistics, All groups CPI, Australia Series ID A2325846C, accessed February 2025.

[81] We applied the CPI from June 2024 (138.8) to 31 December 2024 (139.4).

this approach better aligns with our regulatory objectives of estimating the efficient costs for an electricity retailer.

In making our draft decision, we considered actual retail operating cost data provided by retailers, as well as submissions from interested parties.

We have reviewed the methodologies used by other regulators

The Australian Energy Regulator uses separate benchmarks for domestic and small business customers in determining the Default Market Offer for New South Wales, South Australia and Southeast Queensland.[82] Similarly, the Queensland Competition Authority also applies a benchmark methodology, adjusting for inflation and customer-specific distinct cost allocations.[83] In contrast, the Independent Competition and Regulatory Commission,, and the Office of the Tasmanian Economic Regulator, apply a uniform retail operating cost across customer segments, opting for blended benchmarks instead of customer-specific allocations. [84] [85]

Setting separate benchmarks will have minimal impact on residential customers but could place a significant burden on small businesses

We collected retail operating cost data separately for both customer segments from retailers. Our data shows that on average cost to serve and bad debt write-off amounts are lower for residential customers compared to small businesses. However, applying customer-specific benchmarks would only slightly reduce the residential retail operating cost benchmark while noticeably increasing the benchmark for small businesses (more than $30).

Individual retailers' data did not support the cost allocation across different customer groups

We noted that despite the fact that cost to serve and bad debt are lower on average for residential customers, individual retailer data does not support this cost allocation assumption. Some retailers have higher costs for residential customers while others have higher costs for small business customers.

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[82] Australian Energy Regulator 2024, Final determination - Default market offer prices 2024-25 (track-changed comparison) 7 June, p. 46.

[83] Queensland Competition Authority 2024, Regulated retail electricity prices in regional Queensland for 2024-25, Final Determination, June, p. 23.

[84] Independent Competition and Regulatory Commission 2024, FINAL REPORT: Retail electricity price investigation 2024-27, 23 May, p. 42.

[85] Office of the Tasmanian Economic Regulator 2022, Standing Offer Electricity Pricing Investigation - Final Report, April, pp. 19-20.

Submissions have a mixed view about estimating separate retail operating cost benchmark

In our Request for Comment Paper, we invited interested parties to submit their views on estimating separate retail operating cost benchmarks for domestic and small business. We received 16 submissions about the new approach to estimating retail operating costs.

Several retailers, customers and consumer advocate groups supported a change to separately estimate retail operating costs for different customer segments, recognising it could improve accuracy, consistency and better reflect their cost profiles.

Origin Energy and Shell Energy (Powershop) expressed their support for changing our approach because it would be consistent with Australian Energy Regulator's approach in setting Default Market Offer retail cost comparison and it provides greater certainty and accuracy.[86]

The Department of Energy, Environment and Climate Action supported our approach of exploring different methodologies in estimating the efficient retail operating cost benchmark, using retailers' actual operating cost data.[87]

ENGIE cautioned against creating a sense of 'false precision'.[88] It recommended not using a customer-weighted average as it skews the output towards larger retailers. 1st Energy also acknowledged that different customer segments have different costs but noted that some costs are shared and difficult to segregate based on customer classification.[89]

The Consumer Action Law Centre recognised the differing usage patterns, needs and circumstances of the two customer groups but raised concerns that residential consumers could face higher prices if retailers allocate higher costs to serve to them, potentially causing inefficiencies.[90] They also recommended setting a safeguard cap on the proportion of retail operating cost borne by residential customers.

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[86]Origin Energy, Submission to Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.; Shell Energy, Submission to Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2.

[87] Hon Lily D'Ambrosio MP, Minister for Climate Action, Energy and Resources and the State Electricity Commission, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[88] ENGIE, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2.

[89] 1st Energy, Submission to Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[90] Consumer Action Law Centre, Submission to Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, pp. 4-5.

We also received several submissions which did not support a separate estimate of retail operating cost benchmarks for domestic and small business consumer groups. Alinta, Energy Locals, and the Australian Energy Council supported our current approach and expressed we should maintain consistency in our methodology.[91]

AGL did not support changing the methodology. Acknowledging the significant benefits of regulatory consistency, AGL recommend first building and analysing a reliable data set to evaluate the potential benefits of separating costs by customer types before implementing any methodological changes.[92]

Energy Australia didn't have a strong preference for either method. However, it urged us to consider the implications of separating the costs across customer groups, as this may lead to small reductions in retail operating costs for residential customers, offset by large increases in costs for small business customers.[93] Similarly, Red Energy and Lumo Energy expressed concern that separating costs makes the method overly complex while noting that bad debt is the only cost that can be distinguished meaningfully.[94]

Overall, after considering all submissions and our internal analysis based on the data collected from retailers, we decided to continue with our current approach of setting a uniform benchmark for both customer groups.

Modest customer acquisition and retention costs

- Our draft decision is to keep the same approach we have used in past reviews in estimating modest customer acquisition and retention costs (acquisition costs).
- Acquisition costs represent about $46.14 (three per cent) of the average domestic bill (averaged across the five distribution zones).

[91] Alinta, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, Energy Locals Pty Ltd., submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, Australian Energy Council (AEC), submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[92] AGL, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[93] EnergyAustralia, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2.

[94] Red Energy and Lumo Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2.

- Due to inflation, acquisition costs in the cost stack have slightly increased compared to those in the 2024–25 Victorian Default Offer.

The pricing order requires that in having regard to retail operating costs in estimating the efficient costs of electricity retailers, we include a **modest allowance for customer acquisition and retention** (acquisition costs).[95]

Our draft decision uses the following inputs to estimate acquisition costs:

- the cost of customer acquisition channels (such as third-party comparison websites or telemarketing)
- the cost of customer retention teams
- marketing costs targeted at driving customer acquisition and retention.

Our draft decision is to keep our approach to estimating acquisition costs

For our draft decision we have used an acquisition cost benchmark based on the average National Energy Market-wide acquisition costs from the Australian Competition and Consumer Commission's (ACCC) retail electricity pricing inquiry report.[96] We selected average costs from 2013–14 on the basis that it was the most robust data available prior to large increases in spending on acquisition costs observed across most jurisdictions.

We update our acquisition cost benchmark for inflation during each Victorian Default Offer review.[97] In adjusting for inflation, we are maintaining the value of our benchmark in real terms over time. This approach results in a modest benchmark for acquisition costs of $46.14 excluding GST, slightly higher than the benchmark of $45.50 for the 2024–25 Victorian Default Offer due to inflation.

Our draft acquisition benchmark is below the national average

Our acquisition benchmark for the 2025–26 Victorian Default Offer is about 27 per cent below the weighted average acquisition costs reported by Victorian retailers.[98] Figure 5 also shows that this

[95] Clause 12(4)(d) and Clause 12(6) of the pricing order.

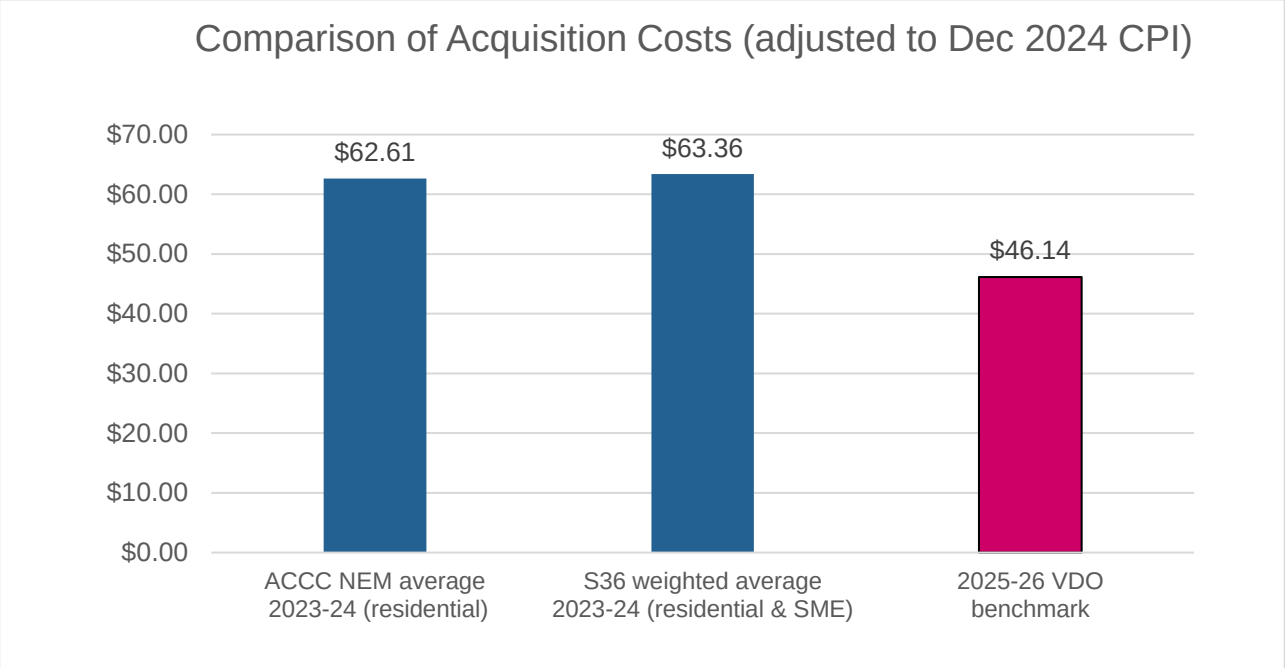
[96] Australian Competition and Consumer Commission, Retail electricity pricing inquiry – Final report July 2018.

[97] 31 December 2024 Australian Bureau of Statistics, All groups CPI, Australia Series ID A2325846C, accessed February 2025.

[98] Based on ESC's internal analysis.

benchmark is also 26 per cent below the national average for residential consumers as reported by ACCC.[99]

Figure 5: Comparison of Victorian Default Offer benchmark acquisition costs with reported costs and National average



We have considered submissions on acquisition costs

The Consumer Action Law Centre provided a submission regarding the inclusion of acquisition costs in the Victorian Default Offer.[100] This submission noted that it is unfair for Victorian Default Offer customers (including embedded network customers) to bear acquisition costs. They emphasised that these customers are typically on standing offers due to an inability or unwillingness to engage in the retail market and therefore do not directly benefit from such expenditures. They also referred to the ACCC's finding (from 2023 data) that 47 per cent of customers are on plans equal to or higher than the default offers (average across both the Victorian Default Offer and the Australian Energy Regulator's Default Market Offer) and questioned the effectiveness and fairness of retailers' acquisition and retention strategies, given that so many customers are on plans higher than the default offer.[101]

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[99] Australian Competition and Consumer Commission, Inquiry into the National Electricity Market report – December 2024, Appendix C – figure C11.20, accessed 22 January 2025

[100] Consumer Action Law Centre, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 4-5.

[101] ACCC's finding shows that this number has reduced to 38% in 2024 for customers on flat rate plans equal or higher than default offers across all jurisdictions.

We acknowledge that retailers do not incur acquisition costs for embedded network customers and are unlikely to incur such costs for customers on standing offers. However, the Victorian Default Offer is designed to reflect the efficient costs borne by retailers operating in a competitive retail market. Customer acquisition and retention costs are part of an efficient retailer's cost structure. In addition, the pricing order requires us to consider modest costs for customer acquisition and retention (acquisition costs) in making our Victorian Default Offer determinations. As result, a modest allowance for these costs remains an appropriate component of the cost stack.

In terms of our approach to establishing a modest allowance for customer acquisition and retention costs, we note a previous review of the Victorian Default Offer pricing order found our interpretation of the term 'modest' appears to balance stakeholder interests.[102]

Other costs

- Other costs make up slightly more than one per cent of total costs for a typical Victorian Default Offer customer (averaged across the five distribution zones).
- Our draft decision marginally increases the amount included for these costs compared with the 2024–25 Victorian Default Offer, primarily due to increases in market intervention costs, Reliability and Emergency Reserve Trader costs and AEMO fees.

The pricing order gives us discretion to have regard to any **other costs** considered appropriate or relevant in our estimation of the efficient costs of the sale of electricity by a retailer (with the exception of headroom).[103]

Our draft decision is to pass-through other costs that retailers incur when they are specific and discrete to their obligations and requirements to operate as an electricity retailer. These costs are generally minor in relation to the total Victorian Default Offer cost stack (slightly more than one per cent) but are part of a retailer's efficient costs in selling electricity.

These costs include:

- market intervention costs
- Australian Energy Market Operator fees
- ancillary services fees
- Reliability and Emergency Reserve Trader costs

[102] Department of Environment, Land, Water and Planning 2022, *Review of the Victorian Default Offer Order in Council Final decision*, pp. 26-27.

[103] Clause 12(4)(f) of the pricing order.

- Essential Services Commission licence fees.

These other costs comprise both fixed costs (per customer) and variable costs (per megawatt hour).

Our draft decision includes recovery of market intervention costs

The Australian Energy Market Operator (market operator) manages the power system that supports the National Electricity Market (NEM). If the power system is interrupted, the market operator can act to maintain a secure operating state by suspending the NEM. In the event the NEM is suspended, the cost of electricity traded on the NEM during that time is determined through market suspension pricing schedules set out in the National Electricity Rules.[104] This cost is recovered by the market operator from electricity retailers that contributed to electricity demand during the suspension event.

Suspension events in 2024

The market operator has advised of six events which occurred in 2024 which may result in costs being recovered from Victorians.[105]

Three of these events are not yet confirmed for cost recovery. One is expected to be finalised by June 2025, and the other two are pending assessment by an independent expert. As these three events are still pending, they have not been included in our draft decision. Should these events impose a cost on Victorian retailers once finalised, they will be considered in our final decision, or in subsequent Victorian Default Offer price determinations.

The market operator has confirmed costs have been recovered from Victorian retailers for three events in 2024. Two of these events occurred February 13th and 14th 2024, resulting from a severe storm cell which developed near Ballarat and moved southeast.[106] The Moorabool-Sydenham No.1 and 2, 500 kilovolt (kV) lines tripped, following a failure of six 500 kV towers. Approximately 2,690 megawatts (MW) of generation was lost and 1,000 MW of load was shed in Victoria following the disturbance. As a result of this incident, the market operator directed Mortlake Units 11 and 12 to remain synchronised to maintain power system security in Victoria.

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[104] For more information see: NER Rule 3.14: Administered Price Cap and Market Suspension - AEMC Energy Rules Accessed 11 March 2025.

[105] Advised by the Australian Energy Market Operator by email on 29 January 2025.

[106] AEMO System security (energy) directions report 03 Feb 2024- 02 March 2024, 'Directions Summary' tab, row 21 and table 3. Accessed 6 February 2025.

The third event occurred on 5 September 2024. This involved an IT failure that occurred during a planned electricity market management system transfer which impacted the entire dispatch process.[107] The incident involved the suspension of the spot market in all NEM regions from trading for two hours in the afternoon.

Our 2024–25 Victorian Default Offer decision otherwise noted potential market intervention costs relating to outstanding compensation payable for a significant market intervention event in June 2022. The market operator has since confirmed that compensation relating to this event will not be recovered from Victorian electricity retailers.[108]

This results in a cost to an average domestic Victorian Default Offer customer of $0.29 in 2025–26. This is an increase of 28 cents from the 2024–25 Victorian Default Offer and is driven by the market suspension events in February and September 2024.

Our final decision will include any changes or additional known costs as at 18 April 2025 which are incurred due to market intervention.

Reliability and Emergency Reserve Trader costs

The Reliability and Emergency Reserve Trader scheme is a mechanism that the market operator can use to maintain power system reliability and system security using reserve contracts. The market operator publishes reports detailing when their reliability and emergency trader functions have been activated.[109]

Since our final decision on the 2024–25 Victorian Default Offer, the market operator has confirmed that additional Interim Reliability Reserves were contracted to cover the period from 1 January 2024 to 31 March 2024 for the Victorian region, with costs incurred recovered from Victorian electricity retailers.[110]

Our draft decision reflects a pass-through of these costs as advised by the market operator, setting Reliability and Emergency Reserve Trader costs at 0.38 cents per megawatt hour. This results in a cost to an average domestic Victorian Default Offer customer of $1.52 in 2025–26.

If further costs are recovered from Victorian electricity retailers, we will include these in our final decision, subject to their confirmation with the market operator.

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[107] Australian Energy Market Operator, Preliminary Report: NEM Market Suspension on 5 September 2025. Accessed 6 February 2025.

[108] Confirmed by the Australian Energy Market Operator via email on 15 October 2024.

[109] Australian Energy Market Operator, RERT reporting. Accessed 6 February 2025.

[110] Australian Energy Market Operator RERT Quarterly Report Q1 2024. Accessed 6 February 2025, value confirmed via email with AEMO 15 October 2024.

Australian Energy Market Operator fees

The Australian Energy Market Operator (market operator) charges fees to retailers to recover the costs of market operation.[111] These fees include:

- general NEM fees
- Distributed Energy Resources Integration Program costs
- IT and 5MS/GC compliance costs
- Energy Consumers Australia fees
- Electricity Retail Market fee (formally the Full Retail Contestability operations fee).

These are unavoidable costs incurred by electricity retailers when selling electricity.

Our draft decision relies on indicative fees provided by the market operator, based on its final 2024–25 budget and fees report, escalated by a rate of 4.5 per cent applied across all fees.[112] [113] The market operator intends to release their 2025–26 budget and fees in April 2025. Any additional updates or changes will be included in our final decision.

The total cost in our draft decision for market operator fees for the average domestic Victorian Default Offer customer is $14.55. This an increase of 63 cents from $13.92 in the 2024–25 Victorian Default Offer, reflective of the indicative rate escalation of 4.5 per cent suggested by the market operator.

Ancillary service fees

Ancillary services are provided by the Australia Energy Market Operator (market operator) to manage the power system safely, securely and reliably, for frequency, voltage and system restart processes.[114] The ancillary services are provided separately for each market region in which the market operator operates. Unlike other charges, the market operator's ancillary service fees differ across these different market regions and therefore are not included in the Australian Energy Market fees.

Applicable ancillary service fees depend on the amount of service required at any time, which means the costs will vary from period to period. Our draft decision estimates Victorian ancillary

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[111] For more information on the Australian Energy Market Operators core functions and responsibilities see: Energy market fees and charges, Accessed 06 February 2025.

[112] Australian Energy Market Operator, Budget and fees: FY25v, 28 June 2024. Accessed 06 February 2025.

[113] Confirmed by the Australian Energy Market Operator via email on 15 November 2024.

[114] For more information on ancillary services see: Australian Energy Market Operator, *Ancillary Services Payments and Recovery*. Accessed 6 February 2025.

service fees based on an average of ancillary service fee payments in Victoria over the 52-week period to 29 December 2024.

Our draft decision results in an average ancillary service fee of $0.16 cents per megawatt hour for the average Victorian Default Offer customer. This is a decrease of $0.12 cents per megawatt hour from the 2024–25 Victorian Default Offer determination.

Our final decision will be updated to reflect average ancillary service fees over a more recent 52-week period.

Essential Services Commission licence fees

Electricity retailers are charged an annual licence fee by the Essential Services Commission to sell electricity to Victorian consumers. Licence fees are based on the costs we incur in performing our regulatory functions. The specific fee for each retailer is contingent on the number of customers served by that retailer.

To estimate the cost of licence fees per customer for the 2025–26 Victorian Default Offer we used a market-wide total of all retailer licence fees for 2024–25, adjusted for inflation, divided by the total number of customers as of 30 June 2024. The latest approved licence fees are for 2024–25. When adjusted by inflation this results in a benchmark of $2.11 per customer per year for our 2025–26 draft decision.

This estimate is a decrease of $0.06 per customer from $2.17 in our 2024–25 Victorian Default Offer determination, due to using more recent licence fees, customer numbers and updated inflation.

Network loss factor

The pricing order gives us discretion to consider any **other matter or thing** that we consider appropriate or relevant in our estimation of the efficient cost of the sale of electricity by a retailer (with the exception of headroom).[115]

When electricity is transported through transmission and distribution networks, some of this electricity is lost in the process. Electricity losses occur because of electrical resistance in the wires, converting some electricity to heat and noise. As a result, more electricity is generated than is consumed by end users. The Australian Energy Market Operator (market operator) reports these losses, and we account for them by applying a network loss factor to variable cost components of the Victorian Default Offer.

[115] Clause 12(4)(f) of the pricing order.

Consistent with the approach we used in the 2024–25 Victorian Default Offer, our draft decision is to estimate the network loss factor by calculating and adding the relevant marginal loss factor (energy losses for electricity transmitted on a transmission network) and distribution loss factor (energy losses for electricity transmitted on a distribution network).

To calculate the distribution loss factors in our draft decision, we used:

- the market operator's short sub-transmission factor for the CitiPower, Jemena, and United Energy distribution zones
- the load-weighted average of the short and long sub-transmission factors for the Powercor and AusNet zones.[116]

To calculate the marginal loss factors in our draft decision, we used a simple average of the market operator's regional reference node factor for each of the five Victorian distribution zones,[117] removing transmission nodes that did not have any domestic or small business load.

Retail operating margin

- Our draft decision is to reduce the retail operating margin to five per cent of the total cost stack (before GST), down from 5.3 per cent.
- We continue to use the retail operating margin benchmark approach in setting an appropriate margin, while also having regard to other data and evidence such as the range of expected returns approach, market offer prices relative to default offer prices retailers' actual margins and submissions.
- Our draft decision means that the dollar value of the retail operating margin in the domestic cost stack will decrease by $4 (on average across Victoria's five distribution zones) compared to the margin in the 2024–25 Victorian Default Offer.

Under the pricing order, we are required to have regard to the **retail operating margin** when making a Victorian Default Offer pricing determination.[118]

[116] Australian Energy Market Operator, *Distribution Loss Factors for the 2024–25 Financial Year*, July 2024, p. 12.

[117] Australian Energy Market Operator, *Marginal Loss Factors 2024–25 Financial Year*, November 2024, p. 26-28.

[118] Clause 12(4)(e) of the pricing order.

The retail operating margin for an electricity retail business represents the return that a retailer requires to attract the capital needed to provide a retail service.[119]

The retail operating margin covers:

- systematic risk (non-diversifiable)
- tax
- depreciation and amortisation.

We are not required to base the retail operating margin on retailers' actual operating margins.[120] Under the pricing order, risks accounted for in other components of the Victorian Default Offer cost stack (such as wholesale electricity market risk) must not be included in the retail operating margin.[121]

Our draft decision is to reduce the retail operating margin to five per cent

Our draft decision is to reduce the retail operating margin from 5.3 per cent to five per cent of the cost stack. In determining that five per cent is an appropriate margin we have considered the following factors:

- margins set by other Australian regulators
- market offer prices relative to default offer prices
- the expected returns approach
- retailers' actual margins
- submissions.

Each of these factors is discussed in further detail below.

Most Australian jurisdictions maintained their retail operating margin

For our draft decision, we investigated the regulated retail margins adopted in other Australian jurisdictions using the latest information available. Victoria's retail margin continues to be among the lowest retail margins across jurisdictions, reflecting the level of market competition in Victoria.

Table 5: Comparison of regulated retail margins in Australia

[119] Australian Energy Market Commission, Advice on Best Practice Retail Price Regulation Methodology, September 2013, p. 64.

[120] Clause 12(9) of the pricing order.

[121] Clause 12(7) of the pricing order.

Regulatory decision	Approach	2024–25	2025–26 (draft approach)
Australian Energy Regulator, Default Market Offer	Expected Returns + Regulatory Benchmarking	6.0% in all regions, or $106-$153, domestic customers without control load[122]	6.0% in all regions for domestic customers without control load[123]
Independent Competition and Regulator Commission (ICRC)	Expected Returns + Regulatory Benchmarking	5.2% of the total cost stack, or $100 (inclusive of depreciation)	Maintain 5.2% (equivalent calculation provided in report)[124]
Office of the Tasmanian Economic Regulator	Expected Returns + Regulatory Benchmarking	Approximately 5.25%, or $108.	Approximately 5.25%, or $108.[125]
Queensland Competition Authority (QCA)	Overall retail cost allowance including retail operating margin; retail cost component equivalent to SEQ	6.8%, or $123, calculated from 2023–24 final decision	6.7%, or $127, calculated from 2023–24 final decision[126]

[122] Up until 2023–24, AER's retail allowance included retail margin as well as a competition allowance. This was not fully comparable to the retail margin that the ESC is required to set (this is to ensure that retailers with higher-than-average cost are still able to compete in the market and make reasonable profits). However, in making Default Market Offer prices for 2024-25, the AER has excluded the competition allowance (or set allowance to zero) across all its tariffs. Therefore, we have included AER's retail allowance in our comparison.

[123] Australian Energy Regulator, Default market offer prices *2025–26*, Issues paper, October 2024, p. 29. https://www.aer.gov.au/system/files/2024-10/AER%20-%20Default%20market%20offer%20prices%202025%E2%80%9326%20issues%20paper_0.pdf, accessed 18 February 2025. AER determined a total retail allowance including both an efficient margin and a competition allowance up until 2023-24. It excluded competition allowance in DMO 2024-25. We expect the AER to publish the draft determination in March 2025.

[124] Independent Competition and Regulatory Commission, Final Report: Retail electricity price investigation 2024-27, section 4.6 'Retail margin', May 2024, pp. 45-48. https://www.icrc.act.gov.au/__data/assets/pdf_file/0011/2457047/Final-Report-2024-27.pdf, accessed 18 February 2025.

[125] Office of the Tasmanian Economic Regulator, Final methodology paper for: 2025 Standing Offer Investigation and Determination, October 2024, p. 33-37. https://www.economicregulator.tas.gov.au/Documents/24%202034%20%2020241001%20Review%20of%20the%20approach%20to%20regulating%20retail%20electricity%20prices%20-%20final%20methodology%20paper%20PDF.PDF, accessed 18 February 2025.

[126] Queensland Competition Authority, Final Determination, Regulated retail electricity prices in regional Queensland 2024-25, 'Appendices', Appendix D – table on Tariff 11, June 2024, p. 17. https://www.qca.org.au/wp-content/uploads/2023/12/appendices20211725.pdf, accessed 18 February 2025.
QCA does not explicitly determine a retail operating margin. We have internally calculated a comparable implied retail margin.

Regulatory decision	Approach	2024–25	2025–26 (draft approach)
	decision by the AER.		
Essential Services Commission	Expected Returns Regulatory Benchmarking	5.3% of total cost stack, or $80	5.0% of total cost stack, or $76.

There continues to be many market offers priced below the Victorian Default Offer

In the past year, we have continued to monitor market offer prices using Victorian Energy Compare data. From July 2024 to February 2025, we continued to see median market offers priced below the Victorian Default Offer. This is consistent with a trend observed since 2020. Based on our analysis of bills paid, the prices consumers have generally paid retailers have been below the Victorian Default Offer prices. This suggests that the Victorian Default Offer is not below the efficient cost.

We have monitored retailers' actual margins

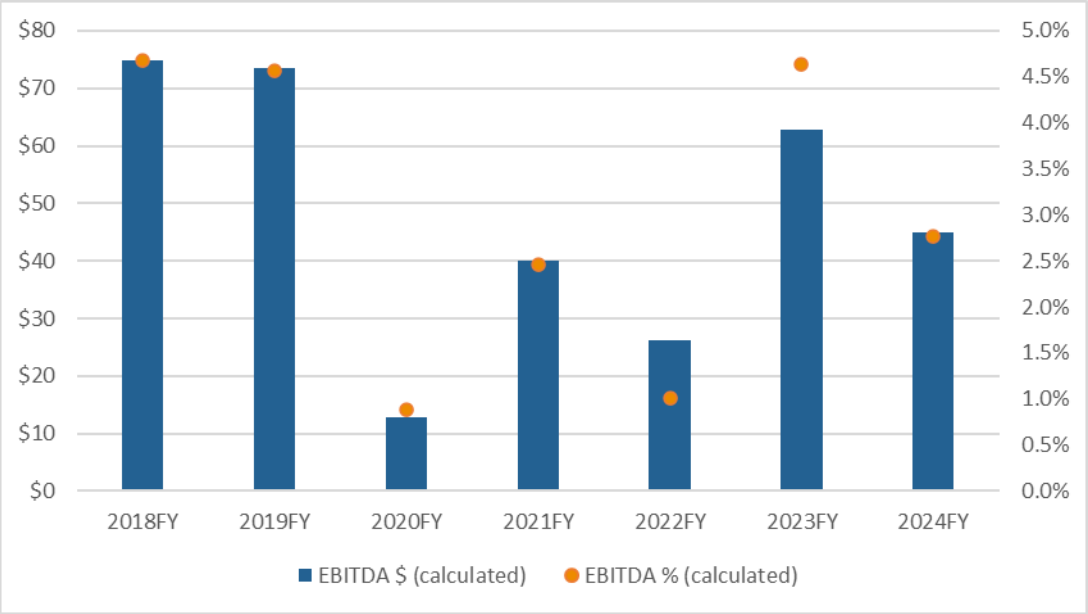
We have monitored retailers' actual operating margins to cross check our decision on the benchmark retail operating margin for 2025–26. We have calculated actual retail margins as retail businesses' earnings before interests, tax, depreciation and amortisation (EBITDA).

Actual margin based on Victorian retailers' cost data

Based on revenue and cost data we collected from retailers using our compulsory information gathering powers, retailers' actual, average operating margin in Victoria has reduced from 4.6 per cent in 2023 to about 2.5 per cent in 2024. These are lower than our proposed regulated margin at five per cent.

Historical actual margins in Victoria based on our data and calculations are listed in Figure 6. Comparing the actual margin data with our draft decision shows that our draft decision still provides a sufficient margin for electricity retailers operating in Victoria.

Figure 6: Historical average EBITDA in Victoria, as a proportion of residential customers revenues, excluding GST



Source: Essential Services Commission analysis based on data requested and received from a sample of Victorian retail electricity businesses.

Actual margin based on Australian Competition and Consumer Commission's electricity market inquiry data

We also had regard to actual retail operating margins calculated by the Australian Competition and Consumer Commission as part of its inquiry into the electricity market. The latest publication reported actual margins by jurisdiction in the National Electricity Market including Victoria.[127]

The findings from this inquiry suggest that the actual retail margin in Victoria averaged five per cent, which aligns with our draft decision margin. The average operating margin across the National Electricity Market region was about six per cent.

Retailers' actual margins by jurisdiction are listed below.

- National Energy Market: 6%[128]
- Victoria: 5%
- New South Wales: 4%
- South Australia: 13%

[127] Australian Competition and Consumer Commission, *Inquiry into National Electricity Market, Report December 2024*, 30 December 2024.

[128] Actual margins from ACCC analysis based on retailers' data. Australian Competition and Consumer Commission, *Inquiry into National Electricity Market, Report December 2024*, Appendix C – Supplementary spreadsheet, Supplementary Table C11.5, 30 December 2024.

- South-East Queensland: 9%

Five per cent is within the range from the expected returns approach

When we recommended our Victorian Default Offer prices in 2019, we engaged Frontier Economics to provide a report on retailers' retail operating margins. This report included two approaches: the regulatory benchmarking approach and the expected returns approach.[129] The reasonable range using the expected return approach was between 4.8 to 6.1 per cent.

Recently, the Independent Competition and Regulatory Commission engaged Frontier Economics to undertake similar work for their draft decision on standing offer prices to apply between 2024–25 and 2026–27. Frontier Economics' estimated range from the expected returns approach was 4.5 to 5.9 per cent. [130]

Our draft decision to set the retail operating margin at five per cent is within the range estimated by Frontier Economics in 2019 and updated in 2024.

We have considered submissions from interested parties on the retail margin

We received 16 submissions on the retail operating margin; five submissions from consumers and consumer advocates and 11 submissions from the retail industry including the Australian Energy Council. [131] [132]

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[129] Frontier Economics, *Retail Costs and Margin: A report for the Essential Services Commission*, Chapter 5 and Chapter 6, April 2019.

[130] Independent Competition and Regulatory Commission, Final Report: Retail electricity price investigation 2024-27, 23 May 2024, p. 45.

[131] Consumer Action Law Centre, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, pp. 4-7; Joint submission from Victorian Council of Social Service (VCOSS), Brotherhood of St Laurence, Consumer Action Law Centre, Council Of The Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission '*2025–26 Victorian Default Offer: Request for Comment'* December 2024, pp. 1-4; Anonymous 1, submission to the Essential Services Commission '*2025–26 Victorian Default Offer: Request for Comment'* December 2024; Anonymous 2, submission to the Essential Services Commission '*2025–26 Victorian Default Offer: Request for Comment'* December 2024

[132] 1st Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 1; AGL Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2; Alinta Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 1; Australian Energy Council, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 1; Energy Locals, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2; EnergyAustralia, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, pp. 3-5; ENGIE, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2; Momentum Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2; Origin Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, pp. 1-2; Red Energy & Lumo Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2; Shell Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

In general, consumer groups recommended that the retail margin be lower, while retailers were of the view that retail margin should be higher.

Consumer groups highlighted the cost-of-living pressure on Victorians

Consumer groups have raised concerns that Victorians are still struggling with significant cost-of-living pressures. The Consumer Action Law Centre reported a rise, with 20,000 more Victorians owing electricity retailers at least $300 in 2023–24 compared to the previous year.[133] Energy costs remain elevated, forcing many consumers to make difficult choices, such as reducing food expenses to cover electricity bills.[134]

The joint submission led by the Victorian Council of Social Service highlighted that energy hardship remains a significant issue in Victoria. Citing our Victorian Energy Market Report 2023–24, they noted an increase in the number of Victorians missing electricity bill payments compared to the previous financial year. The consumer groups emphasised the need for greater focus on supporting the wellbeing of Victorians who are struggling with financial pressures.[135]

Submissions provided varying views on the retail operating margin.

In our Request for Comment Paper, we requested feedback from interested parties on the retail operating margin.

ENGIE generally supported that our current methodology stays the same.[136]

AGL Energy also submitted that the retail margin should be assessed along with other elements of the cost stack.[137]

Joint submissions by consumer groups suggested that we should take a holistic approach in setting the Victorian Default Offer prices.[138]

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[133] Consumer Action Law Centre, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p.4.

[134] Consumer Action Law Centre, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p.7.

[135] Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council of the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission '*2025–26 Victorian Default Offer: Request for Comment'* December 2024, p.1-2.

[136] ENGIE, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

[137] AGL Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

[138] Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council of the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting, submission to the Essential Services Commission '*2025–26 Victorian Default Offer: Request for Comment'* December 2024, p. 3-4.

Some retailers commented that we should not rely on the Independent Competition and Regulatory Commission's margin in the benchmark because the Victorian market conditions differ significantly from those in the ACT.[139] Shell Energy further explained that it was because the retail market in the ACT is more concentrated and regulated than the Victorian market.[140] Alinta Energy proposed that we use the upper end of the range considered by Independent Competition and Regulatory Commissions.[141]

The Independent Competition and Regulatory Commission's latest estimate range was updated using the same expected returns approach from the evaluation adopted by the Independent Pricing and Regulatory Tribunal of NSW in 2013. We consider this estimate is close to our expected range approach estimated in 2019, with updated market conditions and assumptions.

After considering submissions, we have decided to continue our approach to using regulatory benchmarking to inform our retail operating margin, as well as having regard to other evidence such as estimated range from expected returns approach, market offer prices relative to default offer prices and retailers' actual margins.[142]

Risks associated with the energy transition

A few retailers submitted that the transition to more renewable energy sources and more Customer Energy Resource (CER) in the fuel mix poses uncertainty or places pressure on them. AGL Energy said it faces uncertainty from a higher portion of variable, renewable sources in the generation mix. Alinta Energy and Shell Energy expressed pressure from the increasing penetration of rooftop solar as well as other CER sources.[143]

Energy Australia stated that the growth in CER products presents a structural challenge to retailers in Victoria. It explained that retailers need to experiment with new CER products, which carries high risks in the short-term, with the aim of long-term benefits. AGL Energy and Shell Energy

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[139] AGL Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p.2, Origin Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p.2, EnergyAustralia, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p.3.

[140] Shell Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p.2.

[141] Alinta Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p.1.

[142] Clause 12(7) of the pricing order.

[143] AGL Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Alinta Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, Shell Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

echoed that the energy transition calls for rapid innovation in retail businesses; businesses need a higher margin allowance to support this innovation.[144]

We note the comments from retailers on growing risks associated with the energy transition, however, we consider that those risks are already, or can be, diversified through using financial instruments, hedging strategies, technological innovation, and long-term hedging contracts. We note that wholesale market risks are accounted for in the wholesale cost component of the cost stack. We consider that innovation costs and risks associated with consumer energy resources are accounted for in our approach to using a benchmark of actual retailer operating costs for that component of the cost stack.

We have set the retail margin at an industry level and consider it sufficient to enable competition

Three smaller retail businesses submitted that our retail margin was insufficient for small and new entrant retailers. They noted that cost recovery is challenging for small businesses who tend to have higher overheads and a smaller customer base to share costs. 1st Energy called for the commission to consult small and new retail businesses more in our decision making.[145]

While acknowledging the challenges for small and new retailers, we do not consider that the retail operating margin should be set at a level that reflects individual retailers' costs. Consistent with the pricing order, we seek to set the margin so that, at an industry level, it provides a suitable return to incentivise investment in the industry for an efficient retailer.

Other retailers submitted that the current retail margin is too low to ensure competition; they argued that the previous retail margin (before the 2023-24 final decision) at 5.7 per cent facilitated new entrants and price competition.[146] Origin Energy suggested an evidence-based review to examine the trend in margins, active retailers and the distribution of market share.[147]

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[144] AGL Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Request for Comment* December 2024, p. 2, EnergyAustralia, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 3, Shell Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

[145] 1st Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1, Energy Locals, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Momentum Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 1.

[146] AGL Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Origin Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2, Momentum Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

[147] Origin Energy, submission to the Essential Services Commission *2025-26 Victorian Default Offer: Request for Comment* December 2024, p. 2.

We are cognisant of the particularly acute financial pressures currently faced by many electricity consumers, and the importance of setting a Victorian Default Offer that promotes the long-term interests of Victorians. We consider there is evidence that a reduction to our 2024-25 margin would still provide a reasonable return for retailers, while also providing some additional relief for customers in the context of evidence that there is growing hardship. Having particular regard to the observed actual retail margin, we remain of the view that a 5 per cent margin will enable electricity retailers to continue investing in the electricity industry and delivering for Victorian consumers.

Calculating tariffs and the maximum annual bill

We determine prices for the Victorian Default Offer across three different elements, based on the cost components and inputs set out in Appendix A:

- **flat tariffs** – for standing offers with flat tariffs
- **two-period time of use tariffs** – for standing offers with two-period time of use tariffs[148]
- **the compliant maximum annual bill** – for standing offers with non-flat tariffs, other than two-period time of use tariffs (calculated based on the flat tariff).[149]

Tariff structure

All tariffs comprise fixed costs (reflected in a daily supply charge) and variable costs (reflected in a usage charge, per kilowatt hour).

For flat tariffs, the usage charge is calculated using a single methodology.

For two-period time of use tariffs, the usage charge is calculated differently depending on whether electricity is used during peak or off-peak periods. The usage charge is usually more expensive during peak periods.

Flat tariffs

Our draft decision is to use the same approach to setting standing offer rates for flat tariffs as we have in our past Victorian Default Offer price determinations.

Flat tariff methodology

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Usage charge (variable costs) =

(variable network costs + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

[148] Clause 10(2)(a)(ii)(A) of the pricing order.

[149] Clause 10(2)(a)(ii)(B) and clause 12(5) of the pricing order.

Two-period time of use tariffs

Our draft decision is to use the same approach to setting standing offer rates for two-period time of use tariffs as we have in our past Victorian Default Offer price determinations. Under this approach, we align our two-period time of use tariff structure with the Australian Energy Regulator's underlying network tariff structure for each distribution network.

For two-period time of use tariffs, the fixed and variable cost components are the same, except for variable network costs, which are different for peak and off-peak usage (we use the Australian Energy Regulator's approved peak and off-peak network rates).

Two-period time of use tariffs methodology

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Peak usage charge (variable costs) =

(variable network costs for peak period + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

Off-peak usage charge (variable costs) =

(variable network costs for off-peak period + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

Compliant maximum annual bill

For all other standing offers (for example, non-standard time of use and demand tariffs) we determine a compliant maximum annual bill amount, which is the maximum annual electricity amount that customers are to pay under these standing offers.

Amount based on flat tariffs

The pricing order requires that we base the compliant maximum annual bill amount on the standing offer tariffs determined to apply for Victorian Default Offer flat tariffs in 2025–26.[150] In our past three Victorian Default Offer price determinations, we based the compliant maximum annual bill amount

[150] Clause 12(5) of the pricing order.

on the standing offer tariffs that we determined to apply for two-period time of use tariffs. This approach did not comply with the requirements of the pricing order.

For customers on these standing offers, our previous approach resulted in compliant maximum annual bills being about $30 lower than if the bills had been calculated by reference to the correct flat tariff (on average over three pricing determination periods). We estimate that there are less than 200 domestic customers on these non-standard standing offers, which means the impact to retailers of this error is likely to be very low.

Annual reference consumption amount

The annual reference consumption amount used to determine the compliant maximum annual bill amount is as follows:

- For domestic customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 4,000 kWh per year.[151]
- For small business customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 20,000 kWh per year.[152]

For the purposes of calculating the compliant maximum annual bill amount, we assume customers use the same amount of electricity on each day of the year.

Calculating the compliant maximum annual bill amount

The compliant maximum annual bill amount is calculated using the relevant:

- annual reference consumption amount[153]
- flat tariff determined by the commission for each distribution zone.

Retailers must show they comply with the maximum annual bill amount

If offering non-standard tariffs (standing offer tariffs that are not the flat or two-period time of use tariffs) a retailer must show those tariffs do not result in a total annual electricity bill that exceeds the relevant compliant maximum annual bill amount determined by the commission.

In determining non-standard tariffs, the retailer must use its representative usage profile, or relevant usage allocations, which reflects a reasonably representative estimate of consumption for the applicable group of customers over a 365-day period.

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[151] Clause 15(5)(a)(i) of the pricing order.

[152] Clause 15(5)(a)(iii) of the pricing order.

[153] Clause 15(5)(a)(i) and (iii) of the pricing order.

A retailer's estimated annual electricity bill for a non-standard tariff must be calculated using the relevant annual reference consumption amount for total annual usage as determined by the commission. This total usage amount must then be allocated according to the retailer's representative usage profile and multiplied by the retailer's relevant non-standard tariff rates.

The compliant maximum annual bill helps to ensure that all standing offer customers are covered by the Victorian Default Offer, without removing the option of other non-flat standing offer tariffs.

Appendix A: Calculating the cost stack

This appendix provides a summary of cost components and inputs used to determine the Victorian Default Offer tariffs and the compliant maximum annual bill set out in this draft decision.

Wholesale electricity costs

Draft wholesale electricity cost inputs and volatility adjustment for the 2025–26 Victorian Default Offer are presented in Table A.1.

Table A.1: Wholesale electricity forecasts for 2025–26 ($/MWh, nominal, GST exclusive)

Distribution zone	Domestic		Small business	
	Wholesale price	Volatility allowance	Wholesale price	Volatility allowance
AusNet Services	$111.42	$0.35	$95.40	$0.38
CitiPower	$107.83	$0.34	$93.66	$0.48
Jemena	$114.71	$0.33	$95.97	$0.50
Powercor	$109.92	$0.34	$93.70	$0.36
United Energy	$112.34	$0.35	$97.12	$0.49

Source: Frontier Economics, *Wholesale electricity costs for 2025–26: A draft report for the Essential Services Commission*, February 2025.

Network loss adjustment factor

Draft network loss factors for the 2025–26 Victorian Default Offer are presented in Table A.2.[154]

Table A.2: Network losses for 2025–26

Distribution zone	Distribution loss factor (DLF)	Marginal loss factor (MLF)	Network Loss Adjustment factor
AusNet Services	1.0768	1.0025	7.95%
CitiPower	1.0434	0.9998	4.32%
Jemena	1.0468	1.0010	4.78%
Powercor	1.0757	0.9901	6.50%
United Energy	1.0463	0.9983	4.45%

Source: Australian Energy Market Operator, Distribution Loss Factors 2024–25 and preliminary Marginal Loss Factors 2024–25.

[154] Australian Energy Market Operator, Distribution Loss Factors for the 2023-24 Financial Year, July 2023, p. 12; CitiPower, Powercor & United Energy, response to Distribution data: solar export and transmission lines, October 2023; AusNet, response to request on AusNet Services data - solar export and transmission lines, September 2023; Australian Energy Market Operator, Marginal Loss Factor: Financial Year 2023–24, March 2023, pp. 24-25.

Network tariffs (flat tariff)

Indicative flat network tariffs for the 2025–26 Victorian Default Offer are presented in Tables A.3 and A.4

Table A.3: Domestic electricity network charges, flat tariff, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Variable charge structure	Variable charge ($ per kWh)	Controlled load ($ per kWh)
AusNet Services	$147.37	Block 1 Block 2	$0.1432 $0.1432	$0.0498
CitiPower	$102.21	Anytime	$0.0879	$0.0249
Jemena	$124.61	Anytime	$0.1110	$0.0476
Powercor	$157.77	Anytime	$0.1036	$0.0277
United Energy	$101.40	Anytime	$0.0992	$0.0277

Source: indicative network tariffs that Victorian businesses submitted to the AER in February 2025.

Table A.4: Small business electricity network charges, flat tariff, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Variable charge structure	Variable charge ($ per kWh)
AusNet Services	$147.37	Block 1 Block 2	$0.2055 $0.2055
CitiPower	$166.79	Anytime	$0.0974
Jemena	$190.18	Anytime	$0.1502
Powercor	$206.70	Anytime	$0.1139
United Energy	$166.85	Anytime	$0.1103

Source: indicative network tariffs that Victorian businesses submitted to the AER in February 2025.

Network tariffs (two-period time of use)

Indicative two-period time of use network tariffs for the 2025–26 Victorian Default Offer are presented in Tables A.5 and A.6

Table A.5: Domestic electricity network charges, two-period time of use network tariffs, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Peak variable charge ($ per kWh)	Off-peak Variable charge ($ per kWh)	Controlled load ($ per kWh)
AusNet Services	$147.37	$0.2487	$0.0496	$0.0498
CitiPower	$102.21	$0.1692	$0.0423	$0.0249
Jemena	$124.61	$0.1863	$0.0525	$0.0476
Powercor	$157.77	$0.1965	$0.0494	$0.0277
United Energy	$101.40	$0.1864	$0.0464	$0.0277

Source: indicative network tariffs that Victorian businesses submitted to the AER in February 2025.

Table A.6: Small business electricity network charges, two-period time of use network tariffs 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Peak variable charge ($ per kWh)	Off-peak variable charge ($ per kWh)
AusNet Services	$147.37	$0.2112	$0.0493
CitiPower	$166.79	$0.1552	$0.0344
Jemena	$300.83	$0.1945	$0.0418
Powercor	$206.70	$0.2014	$0.0447
United Energy	$166.85	$0.1765	$0.0392

Source: indicative network tariffs that Victorian businesses submitted to the AER in February 2025.

Network metering charges

Indicative metering charges for the 2025–26 Victorian Default Offer are presented in Table A.7

Table A.7: Network metering charges, 2024–25 (GST exclusive)

Distribution business	Annual metering charge ($ per customer)
AusNet Services	$85.71
CitiPower	$77.81
Jemena	$66.59
Powercor	$73.44
United Energy	$52.88

Source: indicative metering charges that Victorian businesses submitted to the AER in February 2025.

Environmental costs

The draft environmental cost inputs (per megawatt hour) for the 2025–26 Victorian Default Offer are presented in Tables A.8

Table A.8: Cost of complying with environmental schemes (GST exclusive)

Environmental scheme	Certificate price, $/MWh	Scheme liability, %	Cost, $/MWh	Regulatory period adjustment	Total cost
Large-scale Renewable Energy Target	$40.60	17.91	$7.27	-$0.17	$7.10/MWh
Small-scale Renewable Energy Scheme	$40.00	12.84	$5.14	-$0.55	$4.59/MWh
Victorian Energy Upgrades	$102.29	15.13			$15.47/MWh
Feed-in Tariff (social cost of carbon)					$1.80/MWh

Source: ESC analysis and Frontier Economics, *Wholesale electricity costs for 2025–26: A draft report for the Essential Services Commission*, February 2025.

Retail operating costs and margin

The draft retail operating costs inputs and margin for the 2025–26 Victorian Default Offer are presented in Tables A.9

Table A.9: Retail costs and margin (GST exclusive)

Retail costs and margin	Annual benchmark
Retail operating costs	$146.11
Modest customer acquisition and retention costs	$46.14
Retail margin	5.0%

Other costs

The draft fixed (per customer) and variable (per megawatt hour) other costs inputs for the 2025–26 Victorian Default Offer are presented in Tables A.10

Table A.10: Other costs (GST exclusive)

Charge	Rate
Essential Services Commission licence fee	$2.11/customer
Ancillary services	$0.16/MWh
Market suspension compensation	$0.00033/MWh
Directions – usage	$0.07/MWh
Administered price cap – usage	$0.00/MWh
Australian Energy Market Operator fees	
National Electricity Market fees	$0.31/MWh
National Electricity Market fees (fixed)	$5.03/customer
National Electricity Market (NEM) 2025 Reform Program	$0.10/MWh
National Electricity Market (NEM) 2025 Reform Program (fixed)	$2.81/customer
Electricity retail market fee (formally Full retail contestability fee) (fixed)	$1.97/customer
IT Upgrade and Five-minute and global settlement compliance fees	$0.10/MWh
IT Upgrade and Five-minute and global settlement compliance fees (fixed)	$1.68/customer
Distributed energy resources integration program fees	$0.01/MWh
Distributed energy resources integration program fees (fixed)	$0.23/customer
Energy Consumers Australia (fixed)	$0.73/customer
Reliability and Emergency Reserve Trader	$0.38/MWh
Total per MWh:	**$1.15/MWh**
Total per customer:	**$14.55/customer**[155]

[155] Values in the table do not sum to exact total due to rounding.

Appendix B: Network tariffs in the cost stack

Table B.1: Single network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential single rate, NEE11	Small business single rate, NEE12
CitiPower	Residential single rate, C1R	Small business single rate, C1G
Jemena	Residential single rate, A100/F100	Small business single rate, A200/F200
Powercor	Residential single rate, D1	Small business single rate, ND1
United Energy	Residential single rate, LVS1R	Small business single rate, LVM1R

Table B.2: Two period time of use network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential time of use, NAST11	Small business time of use, NAST12
CitiPower	Residential TOU, CRTOU	Small business TOU, CGTOU
Jemena	Residential TOU, A120/F120	Small business TOU weekdays, A210/F210
Powercor	Residential TOU, PRTOU	Small business TOU, NDTOU
United Energy	Residential TOU, URTOU	Small business TOU, LVTOU

Table B.3: Controlled load network tariff categories

Distribution zone	Domestic controlled load or dedicated circuit tariff code
AusNet Services	NEE13
CitiPower	CDS
Jemena	A180
Powercor	DD1
United Energy	LVDed

Table B.4: Metering configurations used to calculate metering costs for each DNSP

Distributor	Meter Configuration
AusNet Services	Single phase single element
AusNet Services	Single phase, two elements with contactor
AusNet Services	Multiphase
AusNet Services	Multiphase, direct connected with contactor
AusNet Services	Multiphase current transformer connected meter
CitiPower	Single Phase
CitiPower	Three phase direct connected meter
CitiPower	Three phase current transformer connected meter
Jemena	Single phase single element meter
Jemena	Single phase single element meter with contactor
Jemena	Three phase direct connected meter
Jemena	Three phase current transformer connected meter
Powercor	Single Phase
Powercor	Three phase direct connected meter
Powercor	Three phase current transformer connected meter
United Energy	Single phase single element meter
United Energy	Single phase single element meter with contactor
United Energy	Three phase direct connected meter
United Energy	Three phase current transformer connected meter

Appendix C: Submissions on the Request for Comment Paper

Name	Date received
Compton Harry	6 December 2024
Anonymous 1	14 December 2024
1st Energy	16 December 2024
Anonymous 2	16 December 2024
Hon Lily D'Ambrosio MP, Minister for Climate Action, Energy and Resources and the State Electricity Commission	19 December 2024
Origin	19 December 2024
Consumer Action Law Centre (CALC)	19 December 2024
Red Energy and Lumo Energy	19 December 2024
Joint submission with Victorian Council of Social Service (VCOSS), Brotherhood of St Laurence, Consumer Action Law Centre, Council Of The Ageing Victoria (COTA), Energy Consumers Australia, Financial Counselling Victoria Inc, Uniting	20 December 2024
Financial Counselling Victoria Inc	20 December 2024
Energy Locals	20 December 2024
EnergyAustralia	20 December 2024
AGL	23 December 2024
Alinta Energy	23 December 2024
ENGIE	23 December 2024
Paul W	24 December 2024
Momentum Energy	24 December 2024
Shell Energy	24 December 2024
Energy Consumers Australia (ECA)	24 December 2024
Australian Energy Council (AEC)	24 December 2024

Appendix D: Changes to cost component methodology

Table D.1 shows how our approach to estimating cost components has changed in this draft decision compared to the 2024–25 Victorian Default Offer.

Table D.1: Comparison of 2024–25 Default Offer final decision and 2025–26 Default Offer draft decision

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer draft decision
Victorian Default Offer costs		
Wholesale electricity costs	12-month trade weighted contract price is calculated from the daily settlement price for each day in the period except the date that options contracts are exercised. Final reading last Friday of April.	Change in load profile, from a balance position (imports and exports at the end of each interval) to load only.
Network costs	Australian Energy Regulator's approved network tariffs are treated as pass-through costs. Metering costs based on customer weighted average metering costs.	We used indicative network tariffs and metering charges from the pricing proposals of network businesses, as submitted to the Australian Energy Regulator. For the final decision, we will use the network tariffs and metering charges approved by the Australian Energy Regulator.
Environmental costs		
Large-scale Renewable Energy Target	Estimated based on the 2024 renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2023–24. Adjustment included to account for difference between 2022 RPP, used in 2022–23 Victorian Default Offer final decision, and the midpoint between 2022 and 2023 RPP's.	No change in approach. 2025 Renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2024–25. Adjustment was performed, we will include the adjustment in the final decision.

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer draft decision
Small-scale Renewable Energy Scheme	Estimated based on mid-point between 2023 binding and 2024 non-binding small-scale technology percentage multiplied by the clearing house price for small-scale technology certificates. Adjustment included to account for the difference between the 2023 non-binding, used in the 2022–23 Victorian Default Offer final decision, and the 2023 binding percentage.	No change in approach but updated small-scale technology percentage to reflect midpoint between the 2025 binding and 2025 non-binding percentages. Adjustment was performed, we will include the adjustment in the final decision.
Victorian Energy Upgrades	Estimated based on the 2024 greenhouse reduction rate for electricity multiplied by the historic 12-month trade-weighted average price for Victorian Energy Efficiency Certificates.	No change in approach but used 2025 greenhouse reduction rate and used more recent 12-month Victorian Energy Efficiency Certificates prices and trade volumes.
Minimum feed-in tariff (social costs of carbon)	Estimated based on total renewable exports for the 2023 calendar year, multiplied by the social cost of carbon applied to consumption.	No change in approach but used renewable export data for 2023–24 and forecast consumption for financial year 2024–25.
Retail operating costs	Estimated based on a benchmark, set by taking the customer weighted average of retailers' actual operating cost data from financial year 2022-23 and adjusting for the change in consumer price index since June 2023.	Estimated based on a benchmark, set by taking the customer weighted average of retailers' actual operating cost data from financial year 2023–24 and adjusting for the change in consumer price index since June 2024 to Dec 2024.
Modest customer acquisition and retention costs	Estimated based on cost levels from the Australian Competition and Consumer Commission's retail and electricity pricing inquiry's final report updated for inflation.[156]	No change in approach. Updated for inflation.

[156] Australian Competition and Consumer Commission, Retail electricity pricing inquiry – Final report, July 2018

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer draft decision
Other costs	Estimated and updated based on the latest available information on the: Australian Energy Market Operator's compensation updates, fees and charges; reliability and emergency reserve trader costs; and Essential Services Commission licence fees. Included amounts to reflect known market intervention compensations amounts determined by the Australian Energy Market Operator for directions, suspension pricing (provisional and revision amounts) and administered pricing compensations claims as of 28 April 2023 relating to the June 2022 market intervention event.	No change in approach but used more recent Australian Energy Market Operators final budget and fees and included known costs recovered due to market intervention events.
Retail operating margin	Set at 5.3% of cost stack having regard to benchmarks set by other regulators and the expected returns model. This better reflects current market conditions.	No change in approach but margin changed to 5.0% of cost stack having regard to benchmarks set by other regulators, market offer prices relative to default offer prices, the expected returns approach and retailers' actual margins. We also had regard to consistent feedback from interested parties we received in recent years.
Other matters		
Tariffs and structure	Flat tariffs Two-period time-of use tariffs Compliant maximum annual bill based on two period time-of use tariffs	Compliant maximum annual bill based on flat tariffs
Regulatory period	12 months	No change in approach.
Consultation papers	Replaced with one Request for Comment Paper at the beginning of each review.	No change in approach.

Table D.2: Changes in average domestic costs benchmarks, $ nominal (average across all five Victorian distribution zones)

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer draft decision
Wholesale electricity costs	$492	$471
Network costs	$593	$634
Environmental costs	$135	$122
Retail operating costs (including acquisition costs)	$186	$192
GST	$150	$152
Retail operating margin	$80	$76
Other costs	$18	$19
Total	**$1,655**	**$1,667**

Appendix E: Order in Council

Victoria Government Gazette

No. S 208 Thursday 30 May 2019
By Authority of Victorian Government Printer

Electricity Industry Act 2000

ORDER UNDER SECTION 13 OF THE
ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the **Electricity Industry Act 2000** (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The main purpose of this Order is to regulate the standing offer tariffs that retailers may charge prescribed customers, through the introduction of the Victorian default offer.

2. Commencement

This Order comes into operation on the date on which it is published in the Government Gazette and remains in force until it is revoked.

3. Objective of the Victorian default offer

The objective of the Victorian default offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.

4. Definitions

1. In this Order:

Act means the **Electricity Industry Act 2000**;

annual reference consumption has the meaning given in clause 15(5);

controlled load tariff means a tariff for the supply or sale of electricity only for use in specific appliances that are permanently wired to the relevant electricity meter;

Example: A storage water heater is such an appliance.

controlled load usage means use by a specific appliance that is permanently wired to the relevant electricity meter;

customer type means a customer who is either a domestic customer or a small business customer, as the case may be;

distribution system means a system of electric lines and associated equipment (generally at nominal voltage levels of 66 kV or below) which a distribution company is licensed to use to distribute electricity for supply under its licence;

distribution zone means the area in which a distribution company is licensed to distribute and supply electricity under the Act;

domestic customer means a customer who purchases electricity principally for personal, household or domestic use at a supply point;

Energy Retail Code means the document of that name (version 12 dated 1 January 2019) published by the Commission as amended and in force from time to time;

ESC Act means the **Essential Services Commission Act 2001**;

flat tariff means a tariff for the supply or sale of electricity where the tariff components do not vary by reference to:

(a) the time of day;

(b) the amount of electricity distributed or supplied during the day;

SPECIAL

(c) temperature, whether actual or forecast; or

(d) other characteristics that vary during the day.

Notes:

1. A tariff with a daily supply charge as one tariff component and a usage charge calculated by $ per kWh as another tariff component, is a flat tariff;
2. Paragraph (b) does not exclude block tariffs from being flat tariffs;
3. The definition does not exclude tariffs that vary seasonally, from being flat tariffs;

flexible tariff means a tariff for the supply or sale of electricity where the tariff components vary (wholly or partly) according to the time of day when the electricity is supplied;

former franchise customer means a person described in section 37 of the Act who is either a domestic customer or a small business customer;

general usage means any electricity usage that is not controlled load usage;

headroom means an allowance that does not reflect an efficient cost borne by firms operating in the market;

Example: An allowance that is added, so that retail prices do not act as a barrier to new entrants, is headroom.

kWh means kilowatt hour;

Minister means the Minister administering the Act;

MWh means megawatt hour;

objective of the Victorian default offer means the objective specified in clause 3;

Order means this Order;

prescribed customer: see clause 5;

quarter means a period of 3 consecutive months;

regulatory period means a period over which a VDO price determination is to apply;

Note: the first regulatory period commences on 1 January 2020.

relevant customer has the same meaning as in section 39 of the Act;

small business customer means a customer who is not a domestic customer and whose aggregate consumption of electricity taken from a supply point is not, or in the case of a new supply point is not likely to be, more than 40 MWh per annum;

standing offer tariffs means the tariffs determined by a licensee under section 35(1) of the Act and published in the Government Gazette in accordance with that section, as varied from time to time by the licensee as provided for under section 35(3) of the Act;

supply charge means a fixed charge for supplying electricity to a customer (whether charged on a daily basis or over any other period);

Note: A supply charge is also sometimes called a service charge.

supply point means, in relation to a supply of electricity to a person, the point at which that supply of electricity last leaves the distribution system owned or operated by a distribution company before being supplied to the person, whether or not the electricity passes through facilities owned or operated by any other person after leaving that point before being so supplied;

tariff component, in respect of a tariff for the supply or sale of electricity, includes the supply charge, the usage charge and any other charge that is part of the tariff for the supply or sale of electricity;

usage charge means a charge for the amount of electricity supplied or sold to a customer;

Note: A usage charge is sometimes called a consumption charge.

VDO compliant maximum annual bill has the meaning given it in clause 10(2);

VDO price determination means a price determination pursuant to clause 10;

Victorian default offer or ***VDO*** means an offer a retailer must make pursuant to this Order.

2. Despite subclause (1), in:
   (a) clause 6;
   (b) clause 7;
   (c) clause 10(2)(a)(i),
   (d) schedule 1; and
   (e) schedule 2,

   the following definitions instead apply:
   (f) ***domestic customer*** means a domestic customer within the meaning of the definition of 'domestic or small business customer' in the Act; and
   (g) ***small business customer*** means a small business customer within the meaning of that definition.

   Notes:
   1. The following terms are defined in section 3 of the Act:
      Commission;
      domestic or small business customer;
      distribution company;
      electricity bill;
      regulated tariff standing offer;
      retailer;
      standing offer.
   2. As at the date of the commencement of this Order, the Order in Council made under section 35 of the Act and published in the Government Gazette No. S 315 on 25 November 2008 applies for the purposes of the definition of 'domestic or small business customer' in the Act.
   3. 'price determination' is defined in section 13(6) of the Act.

5. Declaration of Prescribed customers

The following customers are declared, pursuant to section 13(5) of the Act, to be prescribed customers:

(a) a domestic or small business customer;
(b) a former franchise customer who is a party to a deemed contract under section 37 of the Act; and
(c) a relevant customer who is a party to a deemed contract under section 39 of the Act.

6. Victorian default offer tariffs

1. A retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with this clause.
2. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a domestic customer, in respect of the distribution zone specified in column 1 of the table in Schedule 1, are fixed at the amounts specified in columns 2, 4 and 5 of the table for the tariff components specified in those columns.
3. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a small business customer, in respect of the distribution zone specified in column 1 of the table in Schedule 2, are fixed at the amounts specified in columns 2 and 4 of the table for the tariff components specified in those columns.
4. Subclauses (2) and (3) do not apply to standing offer tariffs other than:
   (a) a flat tariff; or
   (b) a flat tariff with a controlled load tariff.

5. During any regulatory period commencing on or after 1 January 2020, a retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with any VDO price determination made by the Commission that is in force.

Note: The VDO price determination will be in respect of both standing offer tariffs that are flat tariffs and standing offer tariffs that are not flat tariffs. See also clause 10.

7. Retailer must make Victorian default offer

1. A retailer's regulated tariff standing offer for sale of electricity to prescribed customers must include (specified as the '*Victorian default offer in respect of flat tariffs*'):

(a) one flat tariff that is available to each domestic customer;

(b) one flat tariff with a controlled load tariff that is available to each domestic customer with a controlled load; and

(c) one flat tariff that is available to each small business customer,

which tariffs must be:

(d) for the period from 1 July 2019 to 31 December 2019, those fixed in accordance with clause 6(2) and clause 6(3);

(e) for any regulatory period commencing on or after 1 January 2020, standing offer tariffs complying with the VDO price determination in respect of that regulatory period.

2. In addition, for any regulatory period commencing on or after 1 January 2020 and in the case of standing offer tariffs that:

(a) are not flat tariffs; or

(b) are any combination of a flat tariff, and a tariff that is not a flat tariff,

a retailer's regulated tariff standing offer must include standing offer tariffs and terms and conditions (both specified as the '*Victorian default offer in respect of the VDO compliant maximum annual bill*') that ensure the retailer's compliance with the VDO price determination in respect of that regulatory period.

8. Information about the VDO on electricity bills

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(b) come into force.

2. A retailer's electricity bill issued to a prescribed customer on or after 1 October 2019 must include information about how the customer may access the Victorian default offer from the retailer.

3. The information required by subclause (2) must be in plain and clear English and prominent on the electricity bill.

9. Conferral of functions and powers on the Commission

1. For the purposes of Part 3 of the ESC Act and section 12(1)(b) of the Act, the supply or sale of electricity under the Act is specified as prescribed goods and services in respect of which the Commission has the power to regulate prices.

2. The Commission may not make a price determination regulating tariffs for the supply or sale of electricity under the Act except as contemplated under this Order.

Note: See section 32 in Part 3 of the ESC Act. This Order is an empowering instrument for the purposes of Part 3 of the ESC Act: see paragraph (d) of the definition of 'empowering instrument' in section 3 of the ESC Act.

10. Commission to make VDO price determination

1. At least 37 days before the commencement of a regulatory period, the Commission must make a price determination in respect of the regulatory period that determines, for each distribution zone in Victoria:

(a) the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period; or

(b) the manner in which the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period are to be determined or calculated.

2. Without limiting subclause (1), the price determination that the Commission makes in respect of the first regulatory period:

(a) must determine:

i. the standing offer tariffs that are to apply in respect of flat tariffs, including, in the case of domestic customers, both flat tariffs and flat tariffs with a controlled load tariff; and

ii. in the case of a prescribed customer who is on:

A. a tariff that is not a flat tariff; or

B. any combination of a flat tariff, and a tariff that is not a flat tariff,

the maximum annual electricity bill amount that the prescribed customer is to pay under a standing offer in the regulatory period (***VDO compliant maximum annual bill***); and

(b) may provide, in the case of the customers specified in subclause (2)(a)(ii), for how any overpayment by those customers in that regulatory period, or any year (or part year) thereof, is to be dealt with; and

(c) may also include any other decisions or determinations that are required by this Order.

3. Despite subclause (2), the Commission may after its first price determination, determine another manner pursuant to which the standing offer tariffs referred to in that subclause are to be determined or calculated.

11. Regulatory periods for VDO price determinations

1. The first regulatory period commences on 1 January 2020.

2. Subject to subclause (3), the duration of each regulatory period is 12 months.

3. Before the commencement of a regulatory period, if the Commission considers that special circumstances exist, the Commission may, after consulting the Minister:

(a) extend the duration of the regulatory period by up to 6 months; or

(b) reduce the duration of the regulatory period, provided the duration of the regulatory period as so reduced is not less than 6 months.

12. Approach and methodology for making a VDO price determination

1. In making a VDO price determination, the Commission must adopt an approach and methodology that is in accordance with section 33(2) of the ESC Act and this Order.

Note: section 33(2) of the ESC Act requires the Commission to adopt an approach and methodology that best meets the objectives of the ESC Act and of the **Electricity Industry Act 2000**.

2. In addition, the Commission must adopt an approach and methodology which the Commission considers will best meet the objective of the Victorian default offer.

3. The tariffs determined by the Commission pursuant to the VDO price determination are to be based on the efficient costs of the sale of electricity by a retailer.

4. For the purposes of subclause (3), the Commission must have regard to:

(a) wholesale electricity costs;

(b) network costs;

(c) environmental costs;

(d) retail operating costs, including modest costs of customer acquisition and

retention;

(e) retail operating margin; and

(f) subject to subclause (10), any other costs, matters or things the Commission, in the exercise of its discretion, considers appropriate or relevant.

Note: Section 33(3)(e) of the ESC Act similarly requires the Commission to have regard to any other factors that it considers relevant.

5. The VDO compliant maximum annual bill must be based on:

(a) the standing offer tariffs that the Commission determines are to apply in respect of flat tariffs; and

(b) the prescribed customer's electricity usage.

6. For the purposes of subclause (4)(d), the Commission must, in the exercise of its discretion, determine the amount of modest costs of customer acquisition and retention.

7. For the purposes of subclause (4)(e), the Commission must, in the exercise of its discretion, determine a maximum retail operating margin, and in doing so must have regard to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs.

8. Subclauses (3), (4), (5) and (6) do not require the Commission to determine tariffs based on the actual costs of a retailer.

9. Subclause (7) does not require the Commission to determine tariffs based on the actual retail operating margin of a retailer.

10. In making a VDO price determination the Commission must not include headroom.

11. Section 33(4)(a) of the ESC Act does not apply to the making of a VDO price determination.

12. Otherwise, section 33 of the ESC Act applies to the making of a VDO price determination only to the extent that the section is not contrary to this Order.

Notes:

1. This Order, as an 'empowering instrument' in terms of the ESC Act, can modify the application of section 33 of the ESC Act: see section 33(1) of the ESC Act.

2. Pursuant to section 33(3)(d) of the ESC Act, the Commission must have regard to relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries.

13. Variation of VDO price determinations

1. Before or during a regulatory period, the Commission may, on its own initiative, vary a VDO price determination in respect of the regulatory period.

2. The Commission must specify, in a VDO price determination, the circumstances under which the Commission will consider, and the basis on which the Commission will decide on, a proposed variation and (subject to subclauses (4) and (5)) the processes to be followed to enable the Commission to make such a variation.

3. Without limiting subclause (1), the Commission may vary a VDO price determination:

(a) if an event has occurred or will occur that was uncertain or unforeseen by the Commission at the time of making the VDO price determination; or

(b) to correct a clerical error, miscalculation, misdescription or other deficiency.

4. Before making a variation, the Commission must consult in accordance with clause 14.

5. Subclause (4) does not apply if:

(a) the variation is not sufficiently material to warrant consultation in accordance with clause 14; or

(b) the need for the variation is sufficiently urgent to warrant consultation in accordance with clause 14 not being undertaken.

6. If, as a result of a variation of a VDO price determination, a retailer is or will be required to vary the retailer's standing offer tariffs, the Commission must ensure the retailer is given adequate notice before the variation to the VDO price determination takes effect.

14. Consultation

1. The Commission may decide the nature and extent of stakeholder consultation it will undertake when making a VDO price determination or a decision to vary a VDO price determination.
2. For the purposes of subclause (1), the Commission must have regard to its Charter of Consultation and Regulatory Practice (as amended from time to time) developed and published under section 14 of the ESC Act.

15. Victorian default offer tariffs to be the reference tariffs for discounts

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(a) come into force.

   Provided that, if those amendments do not provide for any matter provided for in this clause, then this clause continues to apply in respect of that matter.
2. A retailer that offers a discount to a domestic customer or a small business customer must:
   (a) if the discount is in respect of the period from 1 July 2019 to 31 December 2019, disclose how the discount is calculated as against the tariffs in Schedule 1 or Schedule 2 (as the case may be), and what (in percentage or dollar terms) the reduction in tariff is in terms of those tariffs; and
   (b) if the discount is in respect of a regulatory period, disclose how the discount is calculated as against the flat tariffs determined by the Commission pursuant to the VDO price determination that applies in respect of that period, and what (in percentage or dollar terms) the reduction in tariffs is in terms of those tariffs.
3. For the purposes of subclause (2), the reduction in tariffs is to be expressed as the difference between the estimated annual cost of the Victorian default offer for the customer type and distribution zone, and the estimated annual cost of the offer to which the discount relates after the discount is applied, using the annual reference consumption.
4. For the purposes of subclause (3):
   (a) the estimated annual cost of the Victorian default offer is:
      i. during the period from 1 July 2019 to 31 December 2019, determined by applying Schedule 3;
      ii. during a regulatory period, determined by applying Schedule 3 or any other approach or methodology determined by the Commission; and
   (b) the retailer must determine the estimated annual cost of the retailer's offer to which the discount relates:
      i. if the tariff is a flat tariff or a flexible tariff (in either case, with or without a controlled load), by applying Schedule 3;
      ii. otherwise, based on a reasonable estimate having regard to any relevant information available to the retailer; and

5. The annual reference consumption is:
   (a) during the period from 1 July 2019 to 31 December 2019:
      i. for domestic customers without a controlled load – 4,000 kWh general usage per annum;
      ii. for domestic customers with a controlled load – 4,000 kWh general usage plus 2,000 kWh controlled load usage per annum;
      iii. for small business customers (with or without a controlled load) – 20,000 kWh general usage per annum.
   (b) during a regulatory period:
      i. the consumption amount determined by the Commission (if any); or
      ii. if no amount is determined by the Commission pursuant to subclause (5)(b)(i), the amount specified in subclause (5)(a).
6. For the purposes of subclause (5), the amount of electricity consumed is assumed to be the same on each day of the year.
7. Any percentage or dollar amount disclosed pursuant to this clause must be expressed as a whole percentage or dollar, rounded to the nearest percentage or dollar.
8. Otherwise, Division 2 of Part 2A (*Customers entitled to clear advice*) of the Energy Retail Code applies to the disclosures required by this clause.

16. Direction to the Commission pursuant to section 13(3)(b) of the Act

1. The Commission must, as soon as practicable after the commencement of this Order, amend the Energy Retail Code and any other instrument of the Commission to give effect to the Victorian default offer and this Order.
2. Without limiting subclause (1), the Commission must amend the Energy Retail Code (and any other instrument of the Commission) so that the Code:
   (a) provides for tariffs determined by the Commission pursuant to the VDO price determination being the reference tariffs for discounts and for the methodology of that comparison; and
   (b) requires a retailer's electricity bill to include information about how the customer may access the Victorian default offer from the retailer.
3. For the purposes of subclause (2)(a), the Commission must have regard to the following principles:
   (a) There must be a consistent methodology for comparison of tariffs that applies to:
      i. all offers of discounts by retailers; and
      ii. the advertising in respect of those discounts.
   (b) The methodology must apply in respect of flat tariffs and tariffs that are not flat tariffs;
   (c) The methodology must (without limitation) readily allow, in respect of a regulatory period, a comparison between:
      i. the discounted tariffs offered by a retailer; and
      ii. the tariffs determined by the Commission pursuant to the VDO price determination in respect of that period; and
   (d) Any actual comparison in accordance with the methodology must be readily understandable by a prescribed customer.

4. Subclause (3) does not limit:
   (a) the matters the Commission may have regard to; or
   (b) the matters the Commission may provide for by way of the amendments required by subclause (2).

17. Review of the operation of this Order

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before the third anniversary of the Order coming into operation.

SCHEDULE 1

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – domestic customers

Charges are inclusive of GST.

Distribution zone	Supply charge ($ per day)	Usage charge structure	Usage charge (not controlled load) ($ per kWh)	Usage charge: controlled load ($ per kWh)
AusNet Services	$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	$0.2763 $0.3113	$0.2024
CitiPower	$1.1055	Anytime	$0.2325	$0.1809
Jemena	$1.0037	Anytime	$0.2547	$0.1618
Powercor	$1.2333	Anytime	$0.2403	$0.1561
United Energy	$0.9115	Anytime	$0.2620	$0.1873

SCHEDULE 2

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – small business customers

Charges are inclusive of GST.

Distribution zone	Supply charge ($ per day)	Usage charge structure	Usage charge ($ per kWh)
AusNet Services	$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	$0.3154 $0.3605
CitiPower	$1.2972	Anytime	$0.2464
Jemena	$1.1450	Anytime	$0.2682
Powercor	$1.3611	Anytime	$0.2394
United Energy	$0.9691	Anytime	$0.2717

SCHEDULE 3

1. Estimated annual cost for flat tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flat tariff is to be calculated as follows:

$$EAC = SC \times 365 + UC \times ARC$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge;

UC is the general usage charge; and

ARC is the annual reference consumption for general usage.

2. Estimated annual cost for flexible tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flexible tariff is to be calculated as follows:

$$EAC = SC \times 365 + ARC \times UC_P \times UA_P + ARC \times UC_S \times UA_S + ARC \times UC_{OP} \times UA_{OP}$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge; and

ARC is the annual reference consumption for general usage;

and where, in respect of the relevant tariff type specified in column 1 of Table 1:

UC_P is the retailer's peak usage charge;

UA_P is the peak usage allocation specified in column 2 of Table 1;

UC_S is the retailer's shoulder usage charge;

UAs is the shoulder usage allocation specified in column 3 of Table 1;

UC_{OP} is the retailer's off-peak usage charge; and

UA_{OP} is the off-peak usage allocation specified in column 4 of Table 1.

3. Estimated annual cost for offers that include a controlled load tariff

The estimated annual cost for an offer for the supply or sale of electricity that includes a controlled load tariff is to be calculated as follows:

$$EAC = EAC_{GU} + UC_{CL} \times ARC_{CL}$$

where:

EAC is the estimated annual cost of the offer;

EAC_{GU} is the estimated annual cost of the offer for general usage only, calculated in accordance with clause 1 or 2 of this Schedule 3 (as the case may be);

UC_{CL} is the usage charge for controlled load usage; and

ARC_{CL} is the annual reference consumption for controlled load usage.

Victoria Government Gazette

No. S 216 Tuesday 4 June 2019
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Electricity Industry Act 2000

ORDER UNDER SECTION 13 OF THE
ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the **Electricity Industry Act 2000** (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The purpose of this Order is to make amendments to the Victorian default offer tariffs applying under the Order in Council made under section 13 of the **Electricity Industry Act 2000** and published in the Government Gazette No. S 208 on 30 May 2019 (***VDO Order***).

2. Commencement

This Order comes into effect on the date on which it is published in the Government Gazette.

3. Amendments

In column 5 ('Usage charge: controlled load') of the table in Schedule 1 to the VDO Order:

(a) for '$0.1618' **substitute** '$0.1917'; and

(b) for '$0.1561' **substitute** '$0.1831'.

Dated 4 June 2019

Responsible Minister

HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council

SPECIAL

ORDERS IN COUNCIL

Electricity Industry Act 2000

VICTORIAN DEFAULT OFFER ORDER IN COUNCIL

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The purposes of this Order are to amend the VDO Order in Council to:

(a) specify that the VDO Order in Council does not apply to the sale of electricity to an unmetered supply site; and

(b) require a review of the VDO Order in Council to commence before 31 May 2026 and every three years thereafter.

2. Definitions

In this Order:

VDO Order in Council means the Order in Council made on Thursday 30 May 2019 under section 13 of the **Electricity Industry Act 2000** and published in Special Gazette No. S 208.

3. Commencement

This Order comes into effect on the day it is published in the Government Gazette.

4. Amendments

(1) In clause 4(1) of the VDO Order in Council, **insert** the following definitions –

'***government agency*** includes:

(a) a Commonwealth, State or local government department; and

(b) a statutory authority or government owned corporation established under a law of the Commonwealth or a State or Territory;

unmetered supply means a supply of electricity to a particular piece of electrical equipment that draws a current and is connected to the distribution network without a meter; and

unmetered supply site means a site that consumes by way of unmetered supply, including a government agency, but excluding a site where electricity is supplied to and purchased by domestic or small business customers.'

(2) After clause 5 of the VDO Order in Council, **insert** –

'**5A. Unmetered supply sites are not covered by this Order**

Despite clause 5, this Order does not apply to the sale of electricity to an unmetered supply site.'

(3) For clause 17 of the VDO Order in Council, **substitute** –

'**17. Periodic reviews of the operation of this Order**

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before 31 May 2026 and every three years thereafter.'

Dated: 12 December 2023

Responsible Minister:

HON. LILY D'AMBROSIO MP
Minister for Energy and Resources

SAMUAL WALLACE
Clerk of the Executive Council

Table 1 – Usage allocation for flexible tariffs

Tariff type	Peak	Shoulder	Off-peak
Flexible price (3 part time of use)	0.25	0.45	0.30
5-day time of use	0.52	0.00	0.48
7-day time of use (small business customers only)	0.74	0.00	0.26
5-day time of day 9 pm off peak (United Energy distribution zone only)	0.25	0.20	0.55
5-day time of day (United Energy distribution zone only)	0.32	0.20	0.48

Dated 28 May 2019
Responsible Minister
HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council

Appendix F: Our legislative considerations

The pricing order provides the commission's power to make a Victorian Default Offer price determination and imposes some constraints on that power. This appendix explains the requirements for, and matters we must have regard to in, making the determination.

The commission's power to determine the Victorian Default Offer

The Victorian Default Offer price determination is a determination for purposes of section 33 of the *Essential Services Commission Act 2001* (ESC Act). In making a Victorian Default Offer price determination we must adopt an approach and methodology in accordance with section 33(2) of the ESC Act, and the pricing order.[157] Taken together, this means we must adopt an approach and methodology we consider will best meet the objectives specified in the ESC Act, the commission's objectives under the *Electricity Industry Act 2000* (EI Act) and the objective of the Victorian Default Offer.[158]

The pricing order gives the commission discretion to decide the approach and methodology to be used for making this Victorian Default Offer price determination.[159] This is however subject to the requirement that the Victorian Default Offer price determination must be based on the efficient costs of the sale of electricity by a retailer,[160] having regard to:[161]

- wholesale electricity costs
- network costs
- environmental costs
- retail operating costs, including only modest costs of customer acquisition and retention[162]
- retail operating margin[163]

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[157] Clause 12(1) of the pricing order.

[158] Best meeting the objective of the Victorian Default Offer is a requirement of clause 12(2) of the pricing order.

[159] Clause 10(3) of the pricing order read with section 33(5) of the *Essential Services Commission Act 2001*.

[160] Clause 12(3) of the pricing order. Further, clause 12(8) affirms that the pricing order does not require the commission to determine tariffs based on the actual costs of a retailer.

[161] Clause 12(4) of the pricing order.

[162] Clause 12(6) of the pricing order specifies that this is to be an amount determined by the commission in its discretion.

[163] Clause 12(7) of the pricing order specifies that this is to be an amount determined by the commission in its discretion, and in doing so regard must be had to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs. Clause 12(9) of the pricing order affirms that the commission is not required to determine tariffs based on the actual retail operating margin of a retailer.

- any other costs, matters or things we consider appropriate or relevant.

The pricing order also specifies that we must not include headroom.[164]

Our objectives in setting the Victorian Default Offer

The objective of the commission under the ESC Act is to promote the long-term interests of Victorian consumers, having regard to the price, quality and reliability of essential services.[165]

As objectives of the EI Act, the commission must adopt an approach which promotes protections for customers, the development of full retail competition and a consistent regulatory approach between the electricity and gas industries (noting there is currently no framework for the regulation of prices for retail gas services).[166]

The objective of the Victorian Default Offer under the pricing order is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.[167]

As mentioned, when making a Victorian Default Offer price determination, the approach and methodology adopted by the commission must be one that best meets all of these objectives.

Other matters the commission must have regard to when determining tariffs

Section 8A of the ESC Act provides that in seeking to achieve the commission's objective under the ESC Act to promote the long-term interests of Victorian consumers, the commission must have regard to the following matters to the extent that they are relevant in any particular case:

- efficiency in the industry and incentives for long term investment
- the financial viability of the industry
- the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries
- the relevant health, safety, environmental and social legislation applying to the industry

[164] Clause 12(10) of the pricing order; 'headroom' being defined in clause 4(1) as ‘an allowance that does not reflect an efficient cost borne by firms operating in the market.’

[165] *Essential Services Commission Act* 2001, s 8.

[166] *Electricity Industry Act 2000*, s 10.

[167] Clause 3 of the pricing order sets out the objective of the Victorian Default Offer.

- the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for consumers and users of products or services (including low income and vulnerable consumers) and regulated entities
- consistency in regulation between States and on a national basis
- any matters specified in the empowering instrument (that is, the pricing order).

Section 33(3) of the ESC Act specifies that in making a price determination under section 33 of the ESC Act, the commission must have regard to:

- the particular circumstances of the regulated industry (that is, retail electricity market) and the prescribed goods and services (that is, standing offers) for which the determination is being made
- the efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry
- the return on assets in the regulated industry
- any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries
- any other factors that the commission considers relevant.

In addition, section 33(4)(b) of the ESC Act provides that in making a determination, the commission must ensure that the determination takes into account and clearly articulates any trade-offs between costs and service standards.[168]

[168] Under clause 12(11) of the pricing order, section 33(4)(a) does not apply to a Victorian Default Offer determination.