

# Customers on older plans significantly better off on their retailer's best offer

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Some residential electricity customers pay significantly more for their energy. The amount of potential savings they could realise varies depending on the customer type, the customer's retailer, the amount of electricity used, and the age of their plan.

Customers on older plans have the highest potential savings compared to their retailer's best offer. Retailers can increase tariffs for customers on retail energy contracts once per year. This is common practice, and customers are notified when this takes place. Over time, these annual price increases move old contracts further away in price from new, more competitive market offers.

The potential annual savings for some customers compared to their retailer's best offer are up to<sup>1</sup>:

- \$730 for customers receiving payment difficulty support (PDS)<sup>2</sup>
- \$1,200 for customers paying more than 50 per cent above the Victorian Default Offer (VDO)
- \$950 for customers on plans over 10 years old.

While the total number of customers in these circumstances is relatively low, cost-of-living pressures currently facing households put heightened importance on enabling customers to realise these savings.<sup>3</sup>

## Energy consumer reforms

This article provides data and evidence for two reforms currently being considered:

1. Automatic best offer for customers experiencing payment difficulty, and
2. Protections for customers paying higher prices.

These reforms seek to promote effective competition that delivers more efficient pricing and equity in essential services.



## Customers receiving payment difficulty support could save up to \$730 per year

Around one per cent of all Victorian electricity customers receive payment difficulty support and could save on their retailer's best offer.

While many are on lower-priced offers, around five per cent of them have not changed plans for over five years and could save by switching (Appendix Table 1).

<sup>1</sup> We obtain customer billing data from nine of the largest electricity retailers each year using our information gathering powers. This analysis is based on the latest available sample of bills from October to December 2023. We compare prices paid with those under each retailer's best offer using Victorian Energy Compare data. This provides an estimate for how much customers could save. For the purposes of this analysis, customers refer to those on flat-rate market offers only. We exclude customers that would save less than \$22 per annum on their retailer's best offer. This is the same threshold at which retailers are required to advise customers that a better price is available. The ERCoP draft reforms suggest consideration of a threshold above \$22 per year.

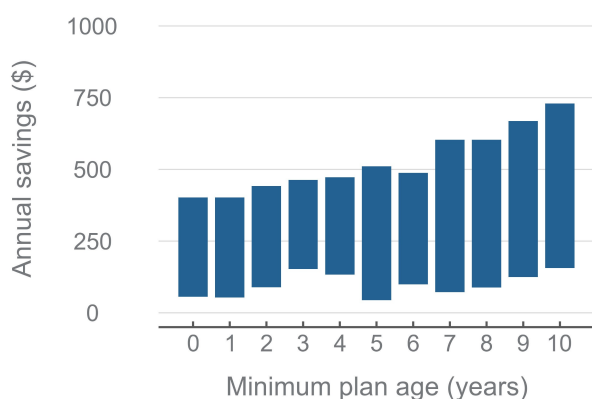
<sup>2</sup> Customer billing data identifies customers on hardship programs and payment plans with their retailer. We define payment difficulty support (PDS) customers as customers in either category. These customers would also be entitled to assistance under the Payment Difficulty Framework.

<sup>3</sup> Across Victoria, there are around 350 customers receiving payment difficulty support on plans aged 10 years or older that could save up to \$730 annually compared to their retailer's best offer. We estimate that over 80,000 customers are paying more than the VDO, and some could save up to \$1,200 annually compared to their retailer's best offer. We also estimate that over 50,000 customers on flat-rate market offers are on plans aged 10 years or older. These customers could save up to \$950 annually compared to their retailer's best offer.

The savings available for PDS customers increases the older their plan is (Figure 1).

PDS customers on plans aged 10 years or more could save the most by switching to their retailer's best offer (up to \$730 per year). PDS customers on plans aged two years or more could achieve more modest savings (up to \$440 per year).<sup>4</sup>

**Figure 1: Annual savings for PDS customers compared to their retailer's best offer, by plan age**



Source: ESC analysis of customer billing data

## Customers who have not changed plans for ten years could save around \$950 per year

Around 66 per cent of Victorian electricity customers could save on their retailer's best offer.

Over a quarter of these customers have not changed plans with their retailer for over two years. Additionally, nine per cent have not changed plans or retailer in over five years (Appendix Table 2).

Potential savings for customers who switch to their retailer's best offer increase the longer they have been on the same plan (Figure 2).

This is because customers on older plans tend to pay higher prices than customers who have changed plans or retailer recently (up to 10 cents higher per kWh on average).

Customers who have not changed plans for 10 years or more could save the most (up to \$950 per year). Customers who have not changed plans for two years or more could achieve more modest savings (up to \$410 per year).

## Why are some customers on older plans?

Some customers stay with their electricity provider and plan, even when there are cheaper options available. These customers are often referred to as 'sticky'.

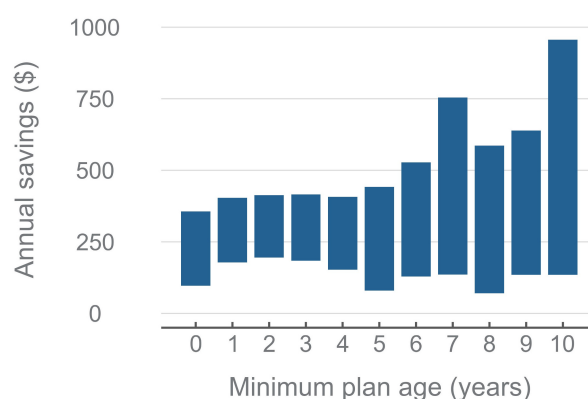
Sticky customers search less for lower-priced electricity or gas plans with their current retailer or others.

Barriers like search and switch costs, effort required to switch, consumer inertia (a preference for the status quo), and loss aversion (perceived risks of switching outweigh the potential savings) drive this behaviour.

In essential service markets, low consumer confidence can cause customers to be less willing to engage with alternative providers, even when switching would be in their best interests.



**Figure 2: Annual savings for customers compared to their retailer's best offer, by plan age**



Source: ESC analysis of customer billing data

<sup>4</sup> See our [March 2024 report](#) for more detail on prices paid by customers receiving payment difficulty support.

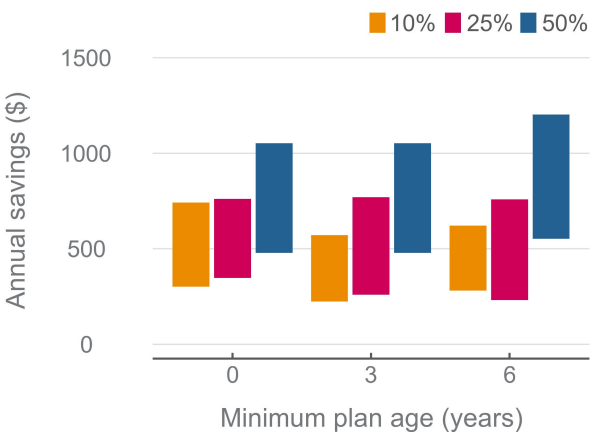
# Customers paying more than the VDO could save up to \$1,200 per year

Retailers set their best offers below the VDO. However, a small number of customers are on plans that are more expensive than the VDO.

These customers could save as much as \$1,200 on their annual bill if on their retailer's best offer.

Potential savings for customers grow the longer they have been on the same plan (Figure 3). This is clearest for those paying at least 50 per cent more than the VDO.

Figure 3: Annual savings for customers paying more than the VDO compared to their retailer's best offer, by plan age and per cent above VDO



Source: ESC analysis of customer billing data

Table 1: Summary of outcomes for customers paying above the VDO if switched to their retailer's best offer

Customers paying at least		
10% above VDO	25% above VDO	50% above VDO
3%	1%	0.1%
of customers	of customers	of customers
9 in 10	9 in 10	Almost all
have not engaged	have not engaged	have not engaged
in over two years	in over two years	in over two years
\$225 to \$740	\$230 to \$780	\$480 to \$1,200
in savings per year	in savings per year	in savings per year

Source: ESC analysis of customer billing data

## Appendix

**Table 1: Annual savings for customers receiving payment difficulty support on flat-rate market offers compared to their retailer's best offer, by plan age**

Minimum plan age	Customers impacted	Proportion of all Victorian electricity consumers	Proportion of all PDS customers that could save at least \$22	Range of average annual saving per customer switched (\$)
No minimum	31,956	1.3%	100%	56-402
1 year and older	13,163	0.6%	41%	53-402
2 years and older	5,341	0.2%	17%	89-442
3 years and older	4,126	0.2%	13%	153-463
4 years and older	2,619	0.1%	8%	133-473
5 years and older	1,473	0.06%	5%	44-511
6 years and older	899	0.04%	3%	99-488
7 years and older	715	0.03%	2%	72-603
8 years and older	530	0.02%	2%	88-603
9 years and older	395	0.02%	1%	125-669
10 years and older	349	0.01%	1%	156-730

Source: ESC analysis of customer billing data

**Table 2: Annual savings for customers on flat-rate market offers compared to their retailer's best offer, by plan age**

Minimum plan age	Customers impacted	Proportion of all Victorian electricity consumers	Proportion of all customers that could save at least \$22	Range of average annual saving per customer switched (\$)
No minimum	1,564,984	66%	100%	97-356
1 year and older	865,125	36%	55%	178-404
2 years and older	403,179	17%	26%	195-413
3 years and older	323,032	14%	21%	184-416
4 years and older	210,236	9%	13%	153-407
5 years and older	140,539	6%	9%	80-442
6 years and older	73,676	3%	5%	129-528
7 years and older	64,761	3%	4%	136-754
8 years and older	59,650	3%	4%	70-586
9 years and older	54,079	2%	3%	135-639
10 years and older	50,723	2%	3%	135-956

Source: ESC analysis of customer billing data

**Table 3: Annual savings for customers paying more than the VDO on flat-rate market offers compared to their retailer's best offer, by plan age**

	Customers paying more than 10% above the VDO				Customers paying more than 25% above the VDO				Customers paying more than 50% above the VDO			
Minimum plan age	Customers impacted (per cent of customers on market offers)	Proportion of all Victorian electricity customers	Proportion of all customers paying >10% above VDO	Range of average annual savings per customer switched (\$)	Customers impacted (per cent of customers on market offers)	Proportion of all Victorian electricity customers	Proportion of all customers paying >25% above VDO	Range of average annual savings per customer switched (\$)	Customers impacted (per cent of customers on market offers)	Proportion of all Victorian electricity customers	Proportion of all customers paying >50% above VDO	Range of average annual savings per customer switched (\$)
No minimum	80,553 (4%)	3%	100%	302-742	34,606 (2%)	1%	100%	348-761	1,397 (0.1%)	0.1%	100%	479-1,052
1 year and older	77,977 (4%)	3%	97%	302-732	34,240 (2%)	1%	99%	286-759	1,373 (0.1%)	0.1%	98.3%	479-1,052
2 years and older	70,910 (4%)	3%	88%	294-572	32,418 (2%)	1%	94%	265-769	1,373 (0.1%)	0.1%	98.3%	479-1,052
3 years and older	65,613 (3%)	3%	81%	224-572	32,162 (2%)	1%	93%	259-770	1,373 (0.1%)	0.1%	98.3%	479-1,052
4 years and older	53,391 (3%)	2%	66%	224-588	27,729 (1%)	1%	80%	259-783	1,373 (0.1%)	0.1%	98.3%	479-1,052
5 years and older	38,281 (2%)	2%	48%	276-595	17,688 (1%)	1%	51%	248-741	979 (0.05%)	0.04%	70.1%	479-1,027
6 years and older	27,318 (2%)	1%	34%	281-621	14,308 (1%)	1%	41%	231-759	149 (0.01%)	0.01%	10.7%	552-1,203
7 years and older	24,135 (2%)	1%	30%	347-645	13,835 (1%)	1%	40%	759-764	149 (0.01%)	0.01%	10.7%	552-1,203
8 years and older	21,476 (1%)	1%	27%	491-671	13,135 (1%)	1%	38%	749-769	84 (0.004%)	0.004%	6%	552-922
9 years and older	18,767 (1%)	1%	23%	500-721	12,335 (1%)	1%	36%	740-770	0	-	0%	-
10 years and older	16,694 (1%)	1%	21%	492-736	11,032 (1%)	0.46%	32%	767-776	0	-	0%	-

Source: ESC analysis of customer billing data

