



**EnergyAustralia**

LIGHT THE WAY

EnergyAustralia Pty Ltd  
ABN 99 086 014 968

Level 19  
Two Melbourne Quarter  
697 Collins Street  
Docklands Victoria 3008

Phone +61 3 8628 1000  
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au  
energyaustralia.com.au

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Essential Services Commission of Victoria

**Lodged electronically:** [VDO@esc.vic.gov.au](mailto:VDO@esc.vic.gov.au)

### Victorian Default Offer 2024-25 Draft Decision

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to provide this submission to the Essential Services Commission's (ESC) the Victorian Default Offer (VDO) 2024-25 draft decision. Overall, we broadly support the ESC's decision for regulatory consistency and using the same methodologies as in past reviews. We consider this is generally constructive as retailers rely on a level of predictability in the regulatory landscape to plan for and make efficient decisions which customers benefit from.

We support the VDO provision for known market intervention costs from 2023, as indicated in the ESC's comment paper.

### Victorian Energy Upgrades scheme

An issue that we consider should be revised relates to the cost of complying with the Victorian Energy Upgrades (VEU) scheme. The ESC estimates:

the cost of Victorian energy efficiency certificates (VEEC) using the trade-weighted average of 12-months of historic spot market prices. Based on the information available on 17 January 2024, we estimated an average price of \$77.15 per certificate for the draft decision.<sup>1</sup>

We consider that an average price of around \$77 per certificate or even slightly above understates the true cost of complying with the VEU scheme. The current spot market price for VEEC is around \$94.5.<sup>2</sup> Given the current low creation of certificates, we anticipate low liquidity in supply and higher spot prices will continue.

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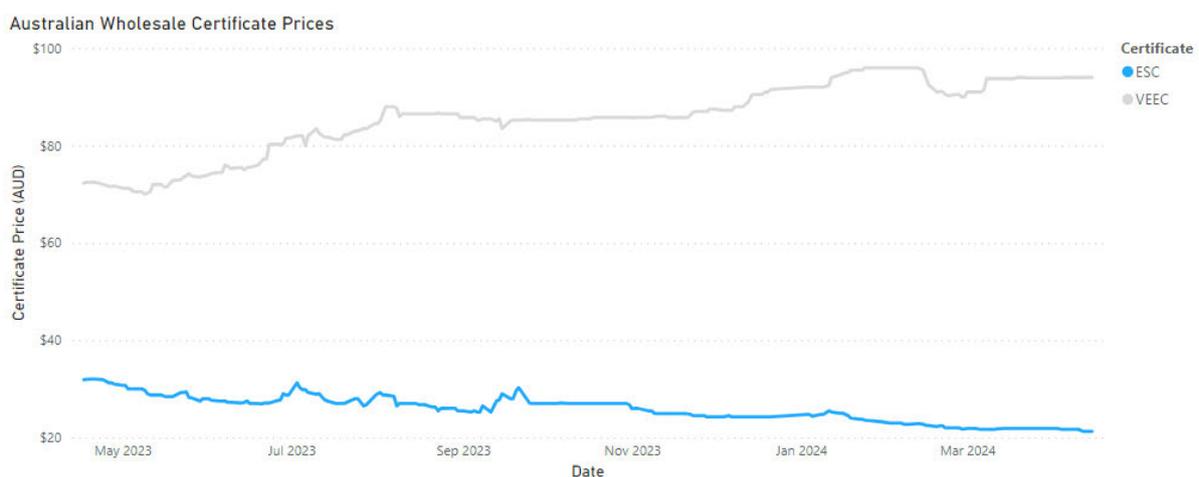
<sup>1</sup> Essential Services Commission, Victorian Default Offer 2024-25: Draft Decision Paper, 19 March 2024, p 51.

<sup>2</sup> As at 18 April 2024.

In our view, prices around \$90-\$128 per certificate are more reflective of the VEU scheme true cost for 2024-25. As such, it may be more appropriate that for the final reading expected in May to use the most recent 6 months' worth of historic spot market prices, instead of 12 months to better reflect the current market and state of shortage. Unless there are changes that address the shortfall in certificate creation, we anticipate that by 2025-26 there will not be an effective market and participants will face the \$95 penalty rate per certificate, which unlike the cost of a certificate is not tax deductible. This outcome is undesirable as the scheme will not deliver any intended benefit and retailers face unnecessary regulatory cost, which is ultimately borne by consumers. We encourage the ESC to clarify how this issue will be addressed in the upcoming and future VDO decisions.

By comparison, New South Wales has a similar scheme to encourage energy efficiency installations via the Energy Savings Certificate (ESC). The NSW scheme does not face the supply constraints that Victoria has. As a result the ESC price in NSW is around \$21, while the VEEC in Victoria is currently around \$94, illustrated in the figure below.<sup>3</sup>

Measures to streamline the administrative process or additional government incentives to encourage more energy efficient installations may help address this supply constraint in Victoria.



### Retail operating margin

As discussed in our previous submission, we support further clarity and certainty around the circumstances in which the ESC will consider changing the retail operating margin. This will establish clear expectations and help promote transparency in the regulatory framework.

If you have any questions in relation to our submission, please contact me ([REDACTED] or [REDACTED]).

Yours sincerely,

Maria Ducusin  
Regulatory Affairs Lead

<sup>3</sup> [Certificate Prices - Northmore Gordon](#), accessed 19 April 2024.