12 December 2025

2026-27 Victorian Default Offer: Request for Comment Paper
Essential Services Commission
Level 8/570 Bourke Street
Melbourne, VIC 3000

Via: email vdo@esc.vic.gov.au

**Re: 2026-27 Victorian Default Offer: Request for Comment Paper**

I refer to your 2026-27 Victorian Default Offer: Request for Comment Paper and thank the Essential Services Commission (ESC) for its consideration of stakeholder views.

1st Energy is a non-integrated, second-tier electricity and gas retailer serving customers across New South Wales, Queensland, South Australia, Tasmania, and Victoria. Since our establishment in 2015, we have been committed to offering competitive energy products in an increasingly complex and evolving market.

We appreciate the opportunity to provide feedback on the ESC's 2026-27 Victorian Default Offer: Request for Comment Paper. We remain committed to supporting a stable and sustainable retail market and our submission reflects our experience as a second-tier retailer operating in an increasingly dynamic energy environment and welcome the continued focus on ensuring the VDO remains transparent, cost-reflective and adaptive to our evolving market.

Our responses to the questions raised in the paper can be found in **Appendix A**.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, [redacted]

Yours sincerely

[redacted]

Liam Foden
Managing Director
1st Energy Pty Ltd

**Appendix A**

**1. Are there matters that you would like to raise including methodological approaches to other cost components not mentioned in this paper?**

We recommend the ESC recognise several refinements and additional cost components to ensure the VDO remains cost-reflective:

a. Treat new or updated AEMO and NEM participant fees, including the “Cyber Security & Resilience” fee as discrete pass-through line items, this ensures transparent allocation and reconciliation.
b. Ensure wholesale modelling reflects efficient retailer procurement on a gross-consumption basis, not net of exports. Retailers remain exposed to the full wholesale impact created by rooftop PV, particularly during negative-price intervals.
c. Update operating cost assumptions to reflect current industry conditions, including bad debt, billing systems, compliance obligations, cybersecurity and resilience requirements.
d. Adopt a risk-adjusted retail margin or a margin range to reflect volatility, working-capital pressure and growing cash-flow risk under evolving wholesale and network environments.

AEMO has also signalled a shift toward recovering energy fees on gross energy, and we anticipate that residential and small customers will incur proportionately more AEMO costs than is currently allocated.

**2. We propose to continue the approach adopted in our final 2025–26 Victorian Default Offer decision to account for the wholesale cost of exports within the Victorian Default Offer. This includes a forecast export volume weighted wholesale price, multiplied by small customer export volumes, and divided by total forecast consumption. Do you agree with this approach? If not, why, and what alternative approach should we consider?**

We do not support the current method that nets exports within the wholesale cost model. This approach removes the real wholesale risk created by rooftop PV and does not reflect the true cost exposures faced by retailers.

Solar exports materially reshape load profiles by pushing daytime net load lower (including into negative territory) and contributing to more frequent negative spot price intervals. Retailers pay the settlement outcomes of these intervals, and these costs are not recovered through feed-in tariffs. Removing exports from the load shape therefore understates wholesale costs.

Our preferred approach is for the ESC to incorporate the full shape, including gross exports, within the wholesale cost model. This better aligns the VDO with actual retailer settlement exposure and reflects the genuine cost implications of increasing solar penetration.

If the ESC chooses to retain its current export-adjusted method for consistency reasons, we strongly recommend the continued inclusion of a specific risk-adjusted wholesale allowance to account for procurement mismatch, negative-price exposure, and cash-flow volatility associated with growing export volumes.

**3. We propose to continue to use data sourced from the Australian Energy Market Operator and the Australian Energy Regulator to inform our estimate of the wholesale cost of exports. Do you agree with these data sources? If not, why, and what alternative data sources should we consider?**

AEMO and AER data provide transparency, but they do not fully capture retailer-level export settlement exposure, or the hedging and cash-flow impacts of export-driven negative prices.

If the ESC continues to model export-related wholesale costs, we recommend incorporating:

- ASX Energy forward prices to reflect hedge market conditions
- anonymised retailer settlement data to capture negative-price exposure
- temporal mismatch considerations (e.g., five-minute negative-price volatility)

If the ESC instead adopts the preferred gross-shape approach, the need for additional export-specific data sources is reduced because load and export effects are captured within a unified profile.

**4. Given 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, do you foresee any difficulties in transitioning from a two-period to three-period time-of-use (ToU) tariff? And if not, is continuing our pass-through appropriate or are there other approaches we should consider?**

Given the objective of the VDO, our preference is for any retail tariff structure to remain fully aligned to the underlying network tariff. Aligning the VDO to the distributor's tariff avoids unnecessary complexity, prevents mismatches in price signals, and ensures that retailers and customers are not managing two different frameworks for the same consumption behaviours. Where a transition to a three-period ToU tariff is being considered, this alignment becomes even more important, as introducing a tariff structure that diverges from the network tariff would add material administrative, billing and operational burden for retailers and increase the risk of customer confusion.

If the ESC proceeds with a three-period time-of-use structure, we do not anticipate any issues with a rollout supported by a clear and effective communication program.

**5. Are there any other matters proposed by distribution network service providers, or the Australian Energy Market Operator that you think we should consider in setting the Victorian Default Offer?**

We recommend the ESC consider AEMO and NEM participant fee changes, potential shifts in metering and cybersecurity costs as meter upgrades and enhanced security standards are implemented, emerging regulatory and data-reporting obligations, evolving customer load and export patterns driven by DER, and any potential distributor proposals to adjust tariff restructures.

**6. What is your view on the suitability of a regulated free power period for residential customers in the middle of the day?**

**7. Are there additional safeguards – such as eligibility requirements – that should be implemented before a customer could opt-in to such a product?**

We have reservations about introducing a regulated free-power period in the middle of the day. While such a product may encourage some customers to shift consumption into solar-rich hours, it also creates material wholesale, network and operational risks for retailers, and the benefits are unlikely to be evenly accessible across households. Many customers will be unable to shift meaningful load into the designated free window due to work patterns, housing constraints or appliance limitations, and may therefore see minimal benefit from the offer. This raises important equity considerations, as customers least able to change their usage may end up cross-subsidising those with greater flexibility.

While some retailers may receive free usage during the proposed period, retailers will remain liable for network charges and environmental scheme obligations throughout this time. Appropriate cost-recovery mechanisms will be essential to ensure these costs are not solely absorbed by retailers.

There is also a heightened risk of consumer misunderstanding. Time-varying tariff signals have become less familiar to customers as recent reforms have trended toward simpler, flatter structures. Without strong consumer protections, customers may incorrectly assume all daytime energy is free, misinterpret the timing window, or inadvertently shift load into periods that are not covered—leading to confusion or bill shock. These behavioural and comprehension challenges were a central concern in our Solar Sharer Offer submission.

Given these risks, we consider safeguards essential before customers can opt in. These should include clear eligibility requirements, standardised and prominent disclosures explaining the free-period conditions, and robust consumer-education obligations to ensure households understand their actual ability to benefit from load shifting. If the product is to be introduced, the ESC should also consider whether a risk premium or margin adjustment is warranted to reflect wholesale, cash-flow and operational volatility created by a regulated zero-priced window.

Together, these measures would help ensure that any regulated free-power period is implemented responsibly, protects consumers, and does not impose unrecoverable or inequitable costs on retailers or the broader customer base.

8. **Do you support our proposed approach to pass through the Australian Energy Market Operator's recently introduced 'Cyber Security & Resilience' fee and if implemented, the updated National Electricity Market Participant fee structure? If not, why, and what alternative approach should we consider?**

We support direct pass-through of AEMO's 'Cyber Security & Resilience' fee and any updated NEM participant fee structure as discrete line items with clear allocation and reconciliation. These are mandatory system-level costs outside retailer control. If direct pass-through is not adopted, the alternative is government funding; failing that, an explicit uplift to the retail operating cost allowance is required.

9. **Do you have any feedback on our proposed use of the Australian Energy Market Operator's updated data to inform our ancillary service fee estimate?**

We support using AEMO's updated 'Recovery Rate Adjusted Consumed Energy (ACE)' data to estimate ancillary service fees, combined with smoothing (e.g., multi-year rolling averages) and publishing ranges/sensitivities given volatility (FCAS, fast-frequency response). As DER penetration increases, ancillary service costs may become more volatile. Using a transparent, volatility-mitigated methodology aligns with a stable VDO framework.