Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

12 December 2025

To Commissioners,

2026-27 Victorian Default Offer: Request for Comment Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Essential Services Commission (Commission) on the 2026-27 Victorian Default Offer (VDO) Request for Comment Paper.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE has been largely supportive of the Commission's methodological consistency, which in past VDO determinations has provided a relatively stable and predictable regulatory framework for both market participants and consumers. While ENGIE welcomes the Commission's commitment to maintaining this consistency for 2026-27, ENGIE maintains its concern around adjustments to the methodology for the 2025-26 VDO determination, which resulted in a further reduction in retail margins and the removal of customer exports from the wholesale cost methodology.

ENGIE also contends that introducing a 'free power period' tariff may represent a significant departure from the objectives of the VDO to provide a 'simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.'[1]

In this submission, ENGIE comments on elements of the methodology that require clarification, further review, or adjustment to ensure the VDO remains reasonably priced and reflects the efficient costs for a retailer to sell electricity in Victoria. ENGIE also outlines its position on a 'free power period' tariff, including concerns about its effectiveness and equity compared to more cost-reflective alternatives such as the upcoming 'solar soak' tariffs and greater participation in virtual power plants (VPPs).

[1] VDO Pricing Order, clause 3.

General Matters

As outlined in previous submissions, ENGIE has been concerned about the trend of constraining retail margins across VDO determinations. For the 2025-26 VDO determination, the Commission reduced the retail operating margin from 5.3 per cent to five per cent. This is significantly down from the 5.7 per cent retail margin that had been upheld prior to the 2023-24 VDO determination.

ENGIE recommends the Commission reinstate a retail margin of 5.7 per cent for the 2026-27 VDO and commit to maintaining a consistent margin for an extended period to provide regulatory certainty. The retail margin should reflect the level of risk that a retailer faces. In ENGIE's view, the downward trend in the retail margin risks competition and innovation needed in a rapidly changing energy market.

Wholesale electricity costs

Despite ENGIE's opposition to the Commission's proposed change to estimating customers' load profiles for the 2025-26 VDO determination, ENGIE was pleased that the Commission did include an allowance for the wholesale electricity cost of exports in the final determination. This approach acknowledges that retailers incur costs from solar exports due to being unable to charge customers for their solar exports during periods where wholesale prices are negative.

However, this allowance does not fully account for the actual wholesale costs that retailers incur in relation to solar exports. In particular, the Commission's approach to exclude customer exports from customers' load profiles flattens the load profiles and does not reflect that retailers enter into hedging contracts based on their net load. ENGIE's view is that this approach underestimates the costs of the contracts that retailers purchase. ENGIE encourages the Commission to reconsider this approach for the 2026-27 VDO.

Network costs

ENGIE supports the Commission's established pass-through approach to network costs that sets VDO tariffs based on the underlying network tariff structures. Retailers typically align their retail tariff structures with underlying network tariff structures to manage the risks they face from this significant cost component. ENGIE supports the Commission proceeding with a transition from a two-period to three-period time of use (ToU) tariff structures.

'Free power period' tariff

ENGIE notes that it has previously provided the Commission a copy of the confidential version of its submission to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) on the Solar Sharer Offer (SSO). ENGIE refers the Commission to that submission for detailed feedback on the merits of a 'free power period' tariff and likely implementation challenges.

While ENGIE is supportive of the intent to support households to benefit from cheaper daytime renewable electricity, ENGIE's view is that a 'free power period' tariff will likely have similar issues as other TOU pricing arrangements in the past, where many households have been unable or unwilling to respond to the TOU price signals.

In the below sections, ENGIE re-iterates aspects of the feedback in its SSO submission and provides feedback on the interaction between the SSO and the incoming 'solar soak' tariff structures in Victoria. ENGIE contends the new 'solar soak' tariff structure provides a more prudent and cost-reflective approach to incentivising behavioural change than the SSO, as well as avoiding the significant implementation costs of the SSO.

High-income and savvy households may be the primary beneficiaries of an SSO

ENGIE agrees with DCCEEW's position that an SSO-type offer provides an opportunity to share the benefits of cheap and abundant solar generation with households that do not have consumer energy resources (CER).[2] DCCEEW specifically identifies low-income households, renters and apartment dwellers as customer cohorts currently excluded from the benefits of CER. However, for these customer cohorts, ENGIE contends that relying on behavioural changes in response to the SSO price signals is unlikely to be successful, based on the experience with TOU tariff structures across the NEM since their introduction in 2014. In its submission to the SSO consultation, Energy Consumers Australia (ECA) echoed similar concerns with the ability for low-income households, renters and apartment dwellers to shift significant consumption to the zero-charge usage window.[3]

To the extent that low-income households are able to change their energy consumption, this may be to the detriment of their health if they are relying on cost savings due to changes in their use of heating and cooling. Relevantly, ECA published information on consumer responsiveness to price signals earlier this year, which suggested that low-income households may be more likely to adjust their use of heating and cooling in response to TOU prices and that low-income households have less ability to benefit from their response to TOU prices.[4]

In contrast, higher-income and savvy households with CER assets will likely have much higher capability and willingness to shift their consumption and maximise the value of the zero-charge usage window. If these households are permitted unlimited access to the SSO, without any fair use restrictions, they are likely to seek to maximise the value of battery storage during the zero-charge usage window. This consumption behaviour would impose significant costs on retailers, due to the variable network, wholesale hedging, and environmental costs that retailers will incur and cannot on-charge for consumption in the zero-charge usage window. ENGIE expects that these costs would likely be cross-subsidised by those households less able to benefit from the zero-charge usage window.

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[2] Department of Climate Change, Energy, the Environment and Water 2025, Solar Sharer Offer (SSO) – Consultation Paper 2025-26, November, p. 18.

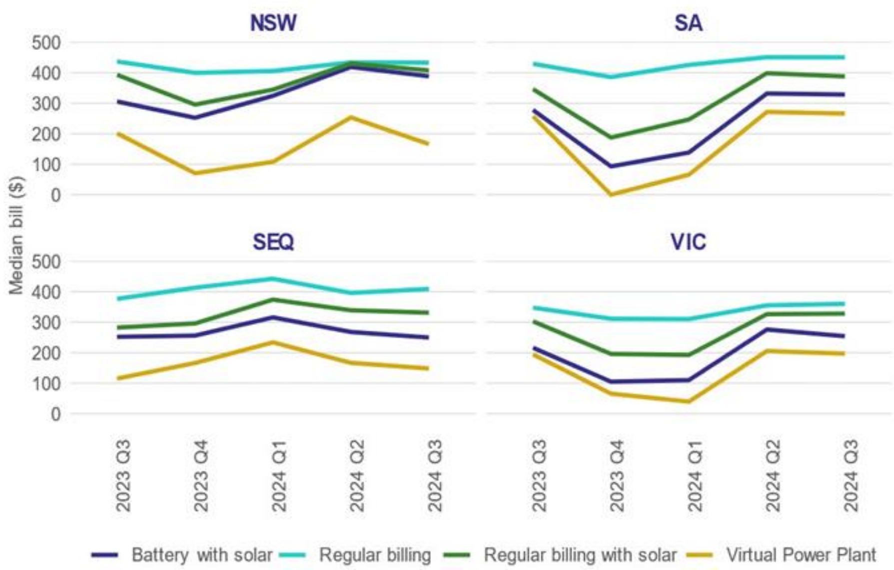
[3] Energy Consumers Australia 2025, Submission to DCCEEW – Solar Sharer Offer Consultation Paper 2025-26, p. 6.

[4] Energy Consumers Australia 2025, Consumer knowledge of electricity pricing and responsiveness to price signals, January, p. 9.

For households with CER assets, ENGIE questions whether a retail offer with a static, off-peak, and zero-charge usage window is an efficient approach to incentivising consumption changes that will benefit both households and the market. As these CER assets can be optimised in response to dynamic market signals, ENGIE contends that incentivising greater participation in VPPs would be a more effective approach to address concerns with the 'duck curve'. This is because VPP operators can orchestrate batteries to dynamically respond to price signals that may differ on a day-to-day basis due to factors such as seasonality and weather patterns. The Australian Competition and Consumer Commission (ACCC) published data earlier this year, included below, that demonstrated that households participating in VPPs paid lower bills than other customer cohorts across the NEM.[5]

Figure 3.16: Virtual power plant customers pay lower bills across NEM

Median bills paid by virtual power plant and battery customers, by region, quarter 3 of 2023 to quarter 3 of 2024



The ACCC has identified that around 41 per cent of installed home batteries were participating in VPPs in January 2025.[6] ENGIE consider this proportion has likely declined since the launch of the Australian Government's 'Cheaper Home Batteries Program', which has seen a significant escalation in battery installations[7] and does not include any additional subsidies or eligibility requirements related to participating in a VPP.[8] There is likely a significant opportunity to encourage greater participation in VPPs across Victoria and for Victorian households with batteries to further lower their energy costs through VPPs.

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5 Australian Competition and Consumer Commission 2025, Inquiry into the National Electricity Market – July 2025 report, July, p.69.

6 Australian Competition and Consumer Commission 2025, Inquiry into the National Electricity Market – July 2025 report, July, p.65.

7 Australian Energy Market Commission 2025, Residential Electricity Price Trends 2025, December, p. 46.

8 DCCEEW, Cheaper Home Batteries Program, accessed at; https://www.dcceew.gov.au/energy/programs/cheaper-home-batteries

The upcoming introduction of 'solar soak' tariffs diminishes the potential benefits of an SSO in Victoria

As noted in the Request for Comment Paper, the Victorian distribution network service providers (DNSPs) are introducing a new 'solar soak' period in the residential ToU tariff structure, which will provide a discounted network tariff between 11am and 4pm each day to encourage households to use more electricity during periods of high solar generation.[9] The new 'solar soak' tariffs have a similar objective as the SSO, to incentivise households to use more of the energy generated in the middle of the day to reduce energy bills and help address network stability issues arising from excess solar generation. In ENGIE's view, the 'solar soak' tariffs are a more prudent and cost-reflective approach to achieving this objective, as the pricing during the 'solar soak' window would comprise relatively low-priced tariffs that reflect the lower cost of wholesale energy and network costs incurred in that window. Setting cost-reflective tariffs for consumption in the 'solar soak' window can help avoid the need to re-allocate costs to peak tariffs or to other customer cohorts.

With the introduction of the new 'solar soak' tariff structure, retailers will be creating new market offers with equivalent tariff structures that pass through the lower 'solar soak' usage charges to households. While the marketing of 'free' electricity in the SSO may be appealing, ENGIE contends that the 'solar soak' pricing approach is likely to be more beneficial for low-income households due to the smaller 'penalty' for peak period consumption than will likely be included in DCCEEW's final SSO tariff design.

Due to the introduction of 'solar soak' tariffs on 1 July 2026, ENGIE recommends the Commission does not introduce the SSO in Victoria at this time. Instead, ENGIE recommends that the 'solar soak' VDO and associated market offers be promoted as the preferred option for households that have the capability to shift consumption to daytime hours to reduce their energy bills.

Concluding remarks

ENGIE remains committed to working closely with the Commission to ensure that the 2026-27 VDO delivers a reasonably priced electricity offer that reflects the efficient costs incurred by a prudent retailer. ENGIE also welcomes further engagement around our concerns on a 'free power period' tariff.

[9] Essential Services Commission 2025, 2026-27 Victorian Default Offer: Request for Comment Paper, November, p. 10.

Should you have any queries in relation to this submission please do not hesitate to contact me on,

[redacted]

Yours sincerely,

[redacted]

[redacted]
Manager, Regulation and Policy