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Essential Services Commission (ESC)
Submitted via email VDO@esc.vic.gov.au

To whom it may concern,

Submission on 2026–27 Victorian Default Offer: Request for Comment Paper

Energy On, as an Embedded Network Operator (ENO) and Australian Energy Market Operator accredited Embedded Network Manager (ENM), appreciates the opportunity to provide feedback on the Essential Services Commission (ESC) Request for Comment Paper for the Victorian Default Offer (VDO) 2026–27. This submission outlines the views of exempt sellers and the specific circumstances encountered by ENOs and ENMs.

We support the ESC's objective to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market. The Victorian Default Offer serves a crucial protection role for embedded network customers. However, the proposed changes under the 2026-27 VDO will create significant operational and financial challenges for exempt sellers that require careful consideration.

We would also like to note that many embedded networks operate under a model where the building owner (Strata Owner, Network Owner) receives the financial benefit and has a say in setting energy rates for customers. [redacted] To that extent, the following comments are not made primarily as an "Embedded Network Operator", but on behalf of our clients across Victoria.

Please refer to our responses to the applicable questions below, as we have only addressed those matters relevant to our operations and have not responded to every question in the Comment Paper.

Response to Consultation Questions:

General Matters

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

Varied Load Profiles

Embedded networks serve a broad spectrum of customer types, including residential apartments, affordable housing, student accommodation, retirement villages, and shopping centres, as examples. These customers often exhibit consumption patterns that differ significantly from the standard residential or small business profiles used in VDO modelling. If the VDO price fails to consider these differences, it may not accurately reflect the true cost of supplying embedded network customers, leading to potential misalignments.

Unique Cost Structures of Embedded Networks

Embedded networks and exempt sellers face a distinct set of cost pressures compared to traditional electricity retailers. Their financial obligations include ongoing internal network maintenance, specialised metering and data management, tailored invoicing systems, and the need to manage wholesale energy procurement and risk for the entire embedded network through a single parent meter. This means that price risk management strategies must be designed to cover the aggregated consumption of all customers within the network, rather than individual accounts. Additionally, heightened administrative overheads are associated with managing multiple sites and diverse customer types. Applying a uniform Victorian Default Offer (VDO) without acknowledging these unique cost components risks insufficient recovery of efficient operating costs for embedded networks and exempt sellers. This could jeopardise the long-term sustainability of embedded networks and diminish the quality of service delivered to their customers, particularly in environments where operational flexibility and tailored solutions are essential.

Customer Considerations and Implementation

Embedded networks encounter distinct challenges when implementing tariff changes, largely due to metering constraints (basic or legacy meters that may not support complex tariff structures) and the complexity of coordinating across multiple sites. These complexities are heightened by the involvement of several stakeholders such as building owners, strata managers, network operators, and end consumers. Each of whom plays a role in the approval, communication, and technical implementation of any changes. This multi-layered process can cause delays and requires clear coordination to ensure compliance and effective communication.

To address these challenges, we recommend that the Commission provide tailored guidance for embedded networks, including minimum notification periods, clear communication expectations, and stakeholder engagement protocols. Such measures will help streamline tariff changes and ensure all parties are informed and prepared for implementation.

Network Costs

4. ***Given the objective of the VDO 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 tariff? And if not, is continuing our pass-through appropriate or are there other approaches we should consider?***

The introduction of the three-period time of use (ToU) tariff as a 'solar soak' period brings substantial operational challenges for embedded networks and their customers. While we understand the policy intent to encourage electricity use during high solar generation, there is uncertainty on how this change will impact embedded networks.

We request clarification from the ESC as to whether exempt sellers and embedded network operators are required to offer three-period ToU tariffs to customers who do not have access to smart meters.

Infrastructure Limitation

For customers without smart meters, accessing a three-period ToU tariff is not feasible due to the limitations of basic metering infrastructure and the absence of interval data. Upgrading to smart meters

prior to the next VDO release on 01/07/2026 or the 2030 deadline (set by the AEMC's Accelerating Smart Meter Deployment rule change) would impose substantial financial burdens on embedded network operators, as it often involves not only replacing meters but also undertaking costly switchboard upgrades to accommodate the new technology. Many embedded networks simply do not have the funds available for such investments.

Risk of Customer Complaints and Disputes

We anticipate that the transition to three-period ToU tariffs, especially with the introduction of the 'free' solar soak period, may lead to an increase in customer complaints and disputes. Customers with basic (manual) meters could feel they are unfairly excluded from benefiting from the solar soak period. Furthermore, there may be concerns among customers about potential changes to rates during ToU periods outside the 'free' window, which could contribute to uncertainty and dissatisfaction. Any additional charges, such as daily supply charges, excluded usage periods, are also likely to prompt invoice reviews and possible escalations to the Energy Ombudsman.

Complexity in Price Comparison for Customers

Introducing a three-period ToU tariff will make it much harder for customers to compare different offers and accurately calculate percentage discounts relative to the VDO reference cost. Without clear guidelines and standardised consumption benchmarks from the ESC, the process becomes even more complex.

While the intent of the three-period ToU tariff is understood, its implementation within embedded networks faces operational, financial, and customer-facing challenges. Continuing the current pass-through approach may be appropriate in the short term; however, we strongly recommend that the ESC consider alternative approaches and provide tailored guidance for embedded networks. This should include clear eligibility criteria, support for infrastructure upgrades, and communication protocols to ensure a smooth and equitable transition for all customers.

5. ***Are there any other matters proposed by distribution network service providers, or the AER that you think we should consider in setting the VDO?***

Embedded networks purchase network energy from the grid for the parent meter and on-sell to the private customers. The ESC and distribution network service providers should ensure VDO network cost methodologies adequately reflect the aggregated nature of embedded network loads and consider whether embedded networks require differential treatment given the cost structure differences between ENO wholesale purchases and the tariff structures being passed to embedded network customers.

Should VDO pricing fail to appropriately account for the costs faced by embedded networks, ENOs will have limited capacity to invest in essential upgrades such as smart metering, efficiency improvements, and ongoing network maintenance. This situation could adversely affect the long-term reliability and quality of service for embedded network customers.

Free Power Period Tariff

6. ***What are your view on the sustainability of a regulated residential tariff with a free power period in Victoria?***

We have concerns regarding the long-term sustainability of a regulated residential tariff that includes a free power period in Victoria, particularly if such arrangements are extended to embedded networks.

Metering Infrastructure

Access to free power period tariffs is inherently inequitable where customers do not have smart meters. Basic metering infrastructure lacks the capability to provide interval data, meaning only those residing in buildings equipped with smart meters can benefit. This disparity raises concerns about fairness and equal access for all customers within embedded networks.

Viability of Embedded Networks

It is our understanding that free power period pricing structures may not apply to energy and network charges for large customers or aggregated embedded network purchases.

As a result, embedded networks may experience a significant financial impact: while revenue from small customers drops to zero during the free period, the cost of supplying energy remains constant.

For example, an Energy On embedded network comprising 671 residential apartments recorded a total annual electricity usage of 506 MWh during the solar soak period (11am–4pm daily). Supplying this energy incurs a cost of approximately $89,000 (GST exclusive), which must be paid to the parent meter retailer. If exempt sellers are required to offer a free solar period to residents and cannot recover these costs, they face a direct financial loss.

These financial pressures challenge the ongoing viability of embedded networks. Without appropriate mechanisms to recover costs, embedded networks may struggle to maintain their service and invest in necessary infrastructure improvements. This threatens the long-term reliability and quality of supply for residents in embedded networks, as highlighted earlier in this submission.

Customer Impact and Tariff Transparency

The VDO sets an annual maximum reference price as well as both single consumption and ToU tariffs. Introducing a free power period raises the question of whether customers will face higher rates at other times of the day to ensure the overall annual price remains consistent across different tariffs. It is essential that these potential impacts are clearly communicated to customers to avoid confusion or misrepresentation, allowing them to make informed decisions about the most suitable tariff for their needs.

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

Eligibility and Customer Profile Challenges

Embedded networks often serve unique residential profiles and therefore require clear guidance from the ESC regarding eligibility for the new tariff structures. This is particularly relevant for consolidated residential accounts that operate in a business-like fashion (such as Airbnb or other short-term rentals) and for sub-metered arrangements within embedded networks.

Metering Requirements and Optional Participation

Smart metering capability should be made a mandatory prerequisite for participation in free power period tariff structures, as only smart meters enable accurate measurement and billing of electricity usage during the designated free power timeframe. However, embedded network operators must also have the flexibility to opt-out or delay implementation without penalty where system and infrastructure limitations exist, ensuring fairness for operators and residents alike.

Cost Recovery Mechanisms

Clear guidance is required on how embedded networks can recover costs when free power period uptake leads to significant revenue reductions while supply costs remain constant.

Transition Support

Extended implementation timeframes and potential cost recovery support for system upgrades if participation becomes mandatory for embedded networks.

Clarification Required from the ESC

Energy On requests that the Essential Services Commission (ESC) provide detailed clarification on several key aspects relating to the proposed introduction of a free power period within the Victorian Default Offer (VDO) framework, particularly as these changes may affect embedded networks and their customers.

1. Will the ESC confirm whether existing electricity consumption benchmarks and calculation methodologies will remain unchanged under the new tariff structures?
2. If changes to benchmarks or methodologies are anticipated, will the ESC provide updated time-of-use (ToU) consumption benchmarks? This information is necessary to accurately assess the effective discount being applied relative to the VDO reference price.
3. How will the introduction of a free power period affect other tariff rates, and what measures will ensure customers are not disadvantaged by additional charges outside the free period?
4. What specific cost recovery mechanisms will be available to embedded networks experiencing revenue shortfalls due to the free power period?
5. Will there be transitional support or funding for system upgrades if participation in the free power period becomes mandatory for embedded networks?
6. How will the ESC ensure that communication about the free power period is clear and reaches all stakeholders, especially those within embedded networks?

In summary, while Energy On acknowledges the potential benefits of introducing a free power period into the VDO framework, this initiative must be supported by clear communication and robust safeguards to protect all stakeholders, particularly those within embedded networks. To ensure fair outcomes and address the operational impacts identified, comprehensive guidance and support mechanisms must be in place before proceeding. Energy On urges the ESC to address these uncertainties and provide detailed guidance to facilitate a successful transition to the new tariff structures.

Regards,

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