



EnergyAustralia

LIGHT THE WAY

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Essential Services Commission
Victorian Default Offer Comment Paper
By email: VDO@esc.vic.gov.au

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ESC Victorian Default Offer prices 2026-27 Comment paper

EnergyAustralia is one of Australia's largest energy companies with around 2.2 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) request for Comment Paper on the Victorian Default Offer (VDO) 2026-27. We appreciate the ESC's commitment to maintaining consistent methodologies, which supports regulatory predictability and enables retailers to plan effectively and make efficient decisions. We address the topics in the VDO Comment paper in turn.

1. General matters

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

We support the ESC continuing to use established methodologies for cost components unless there is compelling evidence to depart. Maintaining a stable and predictable framework provides retailers with greater investment certainty and supports efficient long-term planning. It also benefits customers, who value stability in pricing and are better able to understand and compare offers when the underlying approach remains consistent.

We also note that any changes to the framework should be made with a clear understanding of their cumulative impact on customers, retailers, and the broader energy market, especially given the breadth of reforms retailers are expected to deliver on 1 July 2026.

2. Wholesale electricity costs – calculating and recovering exports

Do you agree with the ESC's proposed approach to account for the wholesale cost of exports within the VDO? If not, why, and what alternative approach should we consider?

The ESC's current approach appears to focus on the value of exports in the wholesale cost allowance. While this is important, we consider the primary issue is cost recovery of feed-in tariffs (FiTs). In Victoria, retailers cannot charge for exports—even when the market value of exports is very low or negative.¹ As a result, retailers incur export-related costs that can exceed the actual market value of customers' exports.

In a competitive market, retailers offer FiTs to deliver value to customers. However, the ESC's framework appears to reflect only the legal minimum (the FiT floor of zero), which we do not consider is realistic or politically acceptable. Customers expect a FiT, and experience shows that a zero FiT would be unpopular, inconsistent with policy messaging, and would undermine trust in the energy market. The history of the ESC's own minimum FiT decisions and stakeholder feedback demonstrates that a zero FiT is not a viable option for retailers.

This creates a misalignment in the ESC's approach: while retailers offer a positive FiT, the ESC's method appears to only recognise the statutory minimum – resulting in a gap between the FiT offered in practice and what can be recovered.

We therefore support a cost-recovery mechanism in the VDO based on the following principles:

- **Transparent recognition of unavoidable FiT-related costs:** The VDO should reflect the costs associated with the FiT floor (which cannot be below zero), including a minimum positive FiT offered due to competitive and policy consideration.
- **Equitable allocation across customers:** These costs should be shared fairly across the customer base, rather than directed at specific groups or embedded in other charges.
- **Simple, consistent, and auditable:** Any mechanism should be straightforward, align with the existing VDO framework, and avoid introducing additional market distortions.

While this approach involves balancing different policy considerations, it provides a transparent and proportionate way to recover unavoidable costs that arise when wholesale prices are negative. It also avoids less desirable alternatives, such as solar-specific charges or opaque forms of cross-subsidy.

Do you agree with the use of AEMO and AER data to inform the estimate of the wholesale cost of exports?

We do not anticipate any issues with the ESC continuing to use data sourced from the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) to inform the estimate of the wholesale cost of exports.

3. Network Costs – residential time of use tariff with new solar soak period **Do you foresee any difficulties in transitioning from a two-period to three-period time of use (ToU) tariff? Is continuing the pass-through approach appropriate, or are there other approaches we should consider?**

¹ Negative wholesale prices in Victoria can occur regularly, particularly during midday periods of high solar generation. For example, in Q4 2024, wholesale prices in Victoria were negative in 86 intervals, representing 30% of all trading intervals during the quarter.

In considering the transition from a two-period to a three-period time-of-use (ToU) tariff, there will be operational challenges, such as system changes and customer communications that need to be considered.

With that in mind, given that all Victorian distribution businesses aim to have the same three-period ToU network tariff structure – with the solar soak period – it appears reasonable for the VDO to specify a ToU retail tariff that mirrors the underlying network structure. Without this alignment, it will be difficult to establish accurate tariff caps for the VDO because the underlying network tariffs currently form the basis of cost recovery. Therefore, we recommend that the VDO network cost for ToU mirrors the actual network cost structure.

We consider that using other network tariffs or having to blend components as the basis for setting ToU tariff caps would not make as much sense. For example, a flat tariff does not reflect the cost signals or the underlying network cost structure associated with different time periods. This approach would undermine the intent of ToU pricing, which is to encourage efficient consumption and support integration of distributed energy resources. Additionally, blending network components to set TOU retail tariff caps would require additional assumptions about how different tariff elements should be combined, introducing unnecessary complexity and potential for regulatory uncertainty.

In contrast, aligning VDO ToU tariff caps with actual network tariffs ensures:

- Cost-reflectivity: Customers see price signals that match network costs.
- Fairness: Avoids cross-subsidies between customers on different tariff structures.
- Future readiness: Supports emerging patterns such as solar soak and peak demand management.

4. Free Power Period Tariff (Solar Sharer Offer)

What are your views on the suitability of a regulated residential tariff with a free power period in Victoria?

We support measures that encourage customers to shift consumption to periods of lower system cost and higher renewable generation, such as the proposed Solar Sharer Offer (SSO). We consider that the introduction of three-period ToU network tariffs in Victoria would go some way to providing price signalling that encourages load shifting - thereby reducing the need for a mandated 'free' period.

Our overall view on a free power period tariff, as set out in our submission to the Solar Sharer Offer consultation is summarised below:

- Retailers must not be required to absorb unrecoverable costs associated with the "free" period. Wholesale, network, environment and retail costs still accrue during these hours, and no current network tariff includes a zero-cost midday period. The SSO design must ensure retailers can recover these costs to maintain competition and protect customers from higher prices in the long term.
- Implementation timeframes must be realistic, with adequate lead time for retailers to adapt systems and communicate with customers. A phased approach is recommended, with all final details confirmed as early as possible, and explicit transitional arrangements if timelines are tight.
- Equity impacts must be carefully considered. It is unclear whether customers targeted by this policy will be able to shift significant load to the "free" period, especially those not home during the day. A "free" power period product like the SSO

risks disadvantaging customers unable to shift usage (often lower-income households) while benefiting those with batteries or flexible loads.

- Any “free” power period tariff like the SSO in Victoria should remain voluntary (opt-in), with a strong government-led communications campaign to ensure customers understand the offer and its suitability for their circumstances. Clear information and informed consent are essential to avoid unintended bill increases.
- Regulators and governments should build awareness of solar export pricing, as FiTs are expected to trend toward zero during high solar output periods. Transparent messaging will help maintain customer trust.

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

Any free period product like a Victorian SSO should remain voluntary (opt-in), with clear eligibility criteria (e.g., smart meter and ToU tariff required), and robust customer communications to ensure informed consent. Additional safeguards should also include:

- Behavioural testing and modelling of existing “free” period offers before mandatory rollout.
- Adequate lead time for retailers to implement system and communication changes.
- Ongoing review and sunset provisions to ensure that a free power product like the SSO in Victoria remains fit for purpose.

5. Other costs - including the ‘Cyber Security & Resilience’ fee

We support the ESC’s proposal to pass through the market operator’s NEM Participant Fees, including the recently introduced ‘Cyber Security & Resilience’ fee and any changes that may follow the market operator’s final NEM Participant Fee Structure Report (effective from 1 July 2026). Passing through these fees is appropriate because they reflect legitimate, externally determined costs associated with operating the NEM and strengthening system resilience.

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

We do not anticipate issues with continuing to use updated AEMO data to inform the ancillary service fee estimate, provided it remains the best publicly available option to reflect ancillary service fees.

If you have any questions in relation to this submission, please contact me

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Yours sincerely,

Maria Ducusin
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