12 December 2025

Mr Gerard Brody
Chair
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

Submitted by email: VDO@esc.vic.gov.au

Dear Mr Brody,

**Victorian Default Offer 2026-27 – Request for Comments Paper**

Origin Energy (Origin) appreciates the opportunity to provide a submission in response to the Essential Services Commission's (ESC) request for comments paper for the 2026-27 Victorian Default Offer (VDO).

Origin supports efforts to improve affordability and equity throughout the energy transition, particularly for low-income households and renters. We share a common objective of wanting to improve customer outcomes and to further develop an industry capable of navigating the energy transition.

In this regard, it is imperative the VDO is set at a level that allows the retail market to remain competitive. It is also crucial that managing the impact of broader cost of living pressures, particularly for low-income households and vulnerable customers is primarily done through targeted programs such as concession schemes, the payment difficulty framework, and direct bill subsidies.

Origin strongly supports the ESC's decision to apply a consistent method to calculate the VDO. A stable regulatory framework contributes to a well-functioning retail market and provides retailers with certainty so that they can appropriately manage their financial risks.

We do not support the introduction of a free power period tariff. We are concerned this tariff could create unintended consequences where lower income household pay more because they are less likely to be able to shift their load or install smart appliances such as batteries to benefit from this tariff.

***Wholesale Energy Cost (WEC)***

We support the continuation of the ESC's approach to calculating the wholesale cost allowance.

***Retail Costs***

We support the ESC applying a consistent approach to determine the retail operating cost allowance. Using the same source of data and benchmarking method provides regulatory consistency and certainty.

We consider that the ESC's approach to apply a weighted average of retailer costs derive the retail cost benchmark reflects an efficient cost of providing electricity that creates a continuous incentive for all retailers to pursue efficiency improvements.

***Retail Margin***

We retain our position that there has been no defined criteria or explanation of observed market outcomes that justified a change in the margin from 5.7% to 5.0%. At this point it is too soon to tell what impact these reductions will have on competition and the Victorian market more broadly.



Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000
GPO Box 5376, Barangaroo NSW 2000 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

Before any further changes to the margin, we consider that the ESC apply an evidence-based review to examine the trend in margins, active retailers and the distribution of market share. We also consider the ESC should consider setting defined criteria around current margins, the expected returns approach, and measures of competitiveness that set triggers for when a margin should be increased or decreased.

***Network Costs***

We support the ESC using AER approved network prices for 2026-27. In the event this is not possible because of timing issues associated with the AER's approval of network prices, the ESC should use the 2026-27 network tariffs submitted by the Victorian networks for approval to the AER and apply a "true-up" to account for any differences between proposed and approved network tariffs in future years.

***Free Power Period (FPP) Tariff***

We are concerned that a potential unintended consequence of an FFP tariff is that customers who can consistently shift load into the zero-cost period will likely be better off because their savings will outweigh the required tariff increase in the non-free period. In our experience, these are likely to be high-income households with flexible load, smart appliances and batteries. Conversely, lower-income households or customers who rent tend to have less discretionary load. As a result, the cohort of customer the FPP tariff is intended to benefit may be worse off.

These outcomes need to be properly modelled and assessed before any future consideration of this type of tariff

Origin's response to the issues raised in the request for comments paper are provided at Attachment 1.

If you wish to discuss any aspect of this submission further, please contact Sean Greenup [redacted] or Shaun Cole [redacted]

Yours Sincerely,

[redacted]

Steve Reid
General Manager, Regulatory Policy

## 1. Wholesale energy costs

[1] We support the continuation of the ESC's market-based approach to forecast the wholesale energy cost, including using a combination of ASX Energy cap and swap trade data to determine a retailer's hedging costs. We also support accounting for PV exports in the load profiles for wholesale forecasting.

## 2. Retail costs

[2] We support the ESC applying a consistent approach to determine the retail operating cost allowance. Using the same source of data and benchmarking method provides regulatory consistency and certainty.

[3] We consider that the ESC's approach to apply a weighted average of retailer costs derive the retail cost benchmark reflects an efficient cost of providing electricity, not the average or most common cost incurred by individual retailers – whether large or small. We consider that the ESC's approach of setting a weighted average considers economies of scale because costs are skewed towards efficient tier 1 retailers which is better suited in generating an efficient cost benchmark. As a result, it creates a continuous incentive for all retailers to pursue efficiency improvements to meet the cost benchmark and drive long-term operational savings.

## 3. Retail margin

[4] We retain our position that there has been no defined criteria or explanation of observed market outcomes that justified a change in the margin from 5.7% to 5.0%.

[5] We recognise that the ESC has placed a greater emphasis on cost of living pressures when setting the retail margin. We agree managing cost of living pressures and the impact of higher energy prices, particularly for vulnerable customers, is of utmost importance. However, the retail margin should reflect the level of risk that a retailer faces, not used to address policy issues related to affordability. This should be done outside of the VDO process and through concession schemes, the ESC's payment difficulty framework, and direct bill subsidies.

[6] The ESC has recently made changes to the Energy Retail Code that introduce significant price protections for customers including automatic switching to a retailer's best offer for eligible customers experiencing payment difficulty and customers on legacy plans over four years old. These are appropriate mechanisms with which to address affordability challenges.

[7] The current retail margin of 5 per cent is the lowest across the national energy market (NEM). This is despite already low and decreasing levels of retailer profitability in Victoria when compared to other jurisdictions. At this point it is too soon to tell what impact these reductions will have on competition and the Victorian market more broadly.

[8] Before any further changes to the margin, we consider that the ESC apply an evidence-based review to examine the trend in margins, active retailers and the distribution of market share. We also consider the ESC should consider setting defined criteria around current margins, the expected returns approach, and measures of competitiveness that set triggers for when a margin should be increased or decreased.

## 4. Network costs

[9] We support the ESC using AER approved network prices for 2026-27. In the event this data is not available, the ESC should use the 2026-27 network tariffs submitted by the Victorian networks



Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000
GPO Box 5376, Barangaroo NSW 2000 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

for approval to the AER and to apply a “true-up” in account for any differences between proposed and approved network tariffs in future years

***Three period ToU***

[10] We consider a move to a three-period ToU tariff better reflects recent distribution tariff reform (i.e. addition of a solar-soak period) and the associated network signals. In applying this tariff, we support aligning the VDO time intervals with the underlying network tariffs.

[11] A three-period ToU tariff is more complex to explain and to compare with market offers, especially for less engaged customers such as those on standing offers. The ESC will need to provide sufficient bill comparison examples to ensure customers have a thorough understanding of the implications of adopting a three-period ToU tariff.

[12] The transition from the current two-period to a three-period ToU tariff represents a material systems change for retailers. Implementing a third time band requires updates across meter data management, billing engines, tariff configuration, customer invoicing, and settlement /reconciliation processes.

[13] Retailers must also revise product catalogues, VDO compliance settings, customer communication templates, and regulatory reporting frameworks.

[14] The change will involve substantial system development, testing and customer-facing adjustments. If adopted, we encourage the ESC to recognise the operational complexity and ensure adequate lead time, clear specifications, and consistent time-band definitions across DNSPs to support an orderly and consumer-friendly implementation.

## 5. Free power period tariff

[15] The Minister has requested the ESC to advise on the suitability of a regulated free power period (FPP) offer for residential electricity customers. We understand this is request is predicated on the objective of delivering lower prices.

[16] Origin supports efforts to improve affordability and equity throughout the energy transition, particularly for low-income households and renters. Encouraging energy use during relatively low demand periods can help customers realise cost savings while also supporting efficient market operations. The ESC is already considering this concept through aligning the VDO with the network solar soaker tariffs.

[17] Introducing a FPP tariff carries the risk of unintended consequences for low-income households—the very group this policy aims to benefit—as well as for the broader market.

[18] Energy is not costless, regardless of what time of the day it is delivered. Even during periods of low demand or excess supply, retailers incur wholesale, network and retail operating costs. To ensure the market functions effectively and efficiently, retailers must be able to recover the costs they incur in providing energy during the designated zero-cost period.

[19] To address the risk of cost under-recovery, a FFP tariff would need to be designed to ensure retailers recover the costs incurred in providing energy in the zero-cost period in the tariff that applies over the remainder of the day. To identify these costs, it will be necessary to undertake detailed analysis and modelling to develop robust forecasts of the likely uptake of the FFP tariff in terms of both customer numbers and the shifting of load into the zero-cost period.

[20] By way of example, in response to the Federal Government's proposed Solar Sharer Offer (SSO) tariff Origin provided analysis that estimated the average cost per customer of providing energy between the hours of 11am and 2pm based on our current residential load profile and assumed no load is shifted. The results of our modelling were costs of supply over the defined free period ranged from $XXXX to $ depending on the network. This would result in increases in the variable retail tariff that would need apply in the other times of the day to ensure that all costs are recovered of between 6.3% and 12.4% depending on the network.

[21] The greater the uptake and load shifter, the higher these costs are likely to be.

[22] We are concerned about potential unintended consequences of this outcome. Customers who can consistently shift load into the zero-cost period will likely be better off because their savings will outweigh the required tariff increase in the non-free period. In our experience, these are likely to be high-income households with flexible load, smart appliances and batteries. Conversely, lower-income households or customers who rent tend to have less discretionary load. As a result, they are less likely to be able to shift enough load into the free period to offset the higher tariffs in the non-free period.

[23] We believe that detailed analysis should be undertaken before the introduction of a FPP tariff to understand likely uptake and by which cohort. There also needs to be careful consideration given on how to protect low-income households who are attracted to the prospect of free energy only to realise they cannot shift enough load and end up worse off than if they had taken up a flat rate or TOU VDO.

[24] To address the risks that lower socio-economic households could be exposed to higher prices we consider the following safeguards should be considered in any future FPP:

- Cap the amount of load that is eligible for zero-cost because this will reduce the incentive for customers to shift excess usage into this period and thereby limit the amount of costs to be recovered in the non-free period. Capping dilutes the incentive to over-invest in batteries, lessens the potential financial downside for those customers who are unable to shift sufficient load, and is more likely to support a manageable transition to a smoother system load profile.

- Eligibility should be limited to those households without a battery. This will limit the risk of over subscription that could result in too much load being moved into the zero-cost period and would therefore reduce the risk of price distortions and system instability.

## 6. Other costs

[25] We support the proposed pass-through of the Cyber Security and Resilience fee and updated National Electricity Market Participant fee structure. Passing these costs through to the VDO is consistent with passing through other system fees and with the ESC's role of reflecting efficient retailer costs.

[26] We support using the 'Recovery Rate Adjusted Consumed Energy' dataset as the principal dataset if AEMO now considers it the best reflection of ancillary service recovery.