ESSENTIAL SERVICES COMMISSION

Victorian Default Offer 2025–26

Final Decision Paper

21 May 2025

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

An appropriate citation for this paper is:

Essential Services Commission 2025, *Victorian Default Offer 2025–26*: *Final Decision Paper*, 21 May

Contents

We considered all submissions received

We released our 2025–26 Victorian Default Offer draft decision on 13 March 2025, followed by a four-week consultation period. During this time, we hosted a public forum attended by consumer and industry groups, and electricity retailers. We also hosted a workshop with electricity retailers on the wholesale electricity cost change outlined in our draft decision.

We received 14 submissions in response to our draft decision from a range of interested parties. This included electricity retailers and industry representatives as well as consumers and community groups. The views expressed in submissions have been considered by the commission in reaching our final decision.

A list of the interested parties who made a submission are outlined in Appendix C and copies of all submissions can be found on our website.

Table 1: Milestones for the 2025–26 Victorian Default Offer review

Key milestone	Date
Draft decision released	13 March 2025
Public forum on the draft decision	31 March 2025
Consultation period on the draft decision	13 March – 11 April 2025
Final decision and determination	21 May 2025
Prices take effect	1 July 2025

Summary

This document sets out our final decision for the 2025–26 Victorian Default Offer.

- Our final decision results in relatively flat average bills for Victorian Default Offer customers in 2025–26 compared to 2024–25.
- For domestic customers on a flat tariff, the Victorian Default Offer will be $20 (or one per cent) higher than in 2024–25 (based on an average of the five distribution zones and assuming annual usage of 4,000 kilowatt hours).
- Our final decision shows the changes in domestic Victorian Default Offer customer bills range from $26 lower in the Jemena area, to $90 higher in the CitiPower area (based on annual usage of 4,000 kilowatt hours).
- For small business customers on a flat tariff, the Victorian Default Offer will be $90 (or three per cent) higher than in 2024–25 (based on an average of the five distribution zones and based on annual usage of 10,000 kilowatt hours).
- Our final decision shows the increases in small business Victorian Default Offer customer bills range from $10 in the AusNet area, to $177 in the Powercor area (based on annual usage of 10,000 kilowatt hours).
- The slight overall increase in Victorian Default Offer prices in 2025–26 is mostly driven by higher network costs. These costs are pass-through costs reflecting network tariffs and metering charges submitted to the Australian Energy Regulator.
- Our final decision results in slightly higher average bills for Victorian Default Offer customers than estimated in our draft decision. This is due to increases in wholesale future contract prices between our draft and final decision, resulting in a slight increase to the wholesale electricity cost component.
- Overall, most other Victorian Default Offer cost components have remained relatively constant, noting environmental costs in representative domestic and small business customer bills decreased in our final decision mainly due to lower liability in Commonwealth programs and the removal of the social cost of carbon.
- In our draft decision we refined our methodology for forecasting wholesale electricity costs from our approach in previous default offers. We now use load only interval metering data (excluding exports) to estimate customer load profiles. This reflects new data that has become available which improves our estimate of efficient retailer costs. We have continued this approach for our final decision.

- Our use of a load only profile, combined with the recent legislative change to remove the mandatory regulated minimum feed-in tariff, means we have now accounted for a wholesale electricity cost of exports in our final decision.
- The wholesale electricity cost component is slighter higher in the 2025–26 Victorian Default Offer for average domestic customers compared to 2024–25. Wholesale electricity cost movements vary across Victoria's five distribution zones.
- Consistent with our draft decision, we have reduced the retail operating margin to 5 per cent of the total Victorian Default Offer cost stack, down from 5.3 per cent in 2024–25.
- The final decision has used updated data inputs where available to determine the 2025–26 Victorian Default Offer cost stack.

The Victorian Default Offer provides a safeguard for customers

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.[1] The Victorian Default Offer sets the maximum prices a retailer can charge for electricity sold to domestic and small business customers in Victoria, who are on a standing offer.[2]

Standing offers

The Victorian Default Offer applies to standing offers only. Standing offers for electricity are offers to supply and sell electricity that electricity retailers must make available to domestic and small business customers under section 35 of the *Electricity Industry Act 2000*. A standing offer will apply if a customer has:

- never signed up for an electricity contract
- entered into an electricity contract, cancelled the contract within the cooling-off period, but continues to use electricity without entering into a new contract
- moved into a new address and uses electricity without entering into a contract
- specifically asked for a standing offer
- moved onto a standing offer after their market offer contract came to an end.

[1] Clause 3 of the pricing order.

[2] A standing offer is defined in section 3 of the *Electricity Industry Act 2000*; A 'domestic customer' for purposes of the Victorian Default Offer is a customer who purchases electricity principally for personal, household or domestic use (see clause 4 of the pricing order); A 'small business customer' for purposes of the Victorian Default Offer is a customer who is not a domestic customer and whose aggregate consumption of electricity is not more than 40 MWh per annum (see clause 4 of the pricing order).

Most customers are not on standing offers and are not directly affected by this decision. In Victoria around 348,000 (or 12 per cent of) households and 55,000 (or 19 per cent of) small businesses are on standing offers.[3]

Embedded network customers

The Victorian Default Offer also applies as a maximum price for most embedded network customers (covering around 190,000 customers).[4] Electricity providers in embedded networks may set prices below the Victorian Default Offer. Embedded networks supply electricity for many domestic and small business customers in apartment buildings, caravan parks, retirement villages or office spaces.

The Victorian Default Offer is based on efficient retailer costs

The Victorian Default Offer was introduced by the Victorian Government in 2019 by an order made under section 13 of the *Electricity Industry Act* (pricing order).[5] Under the pricing order, we must set the Victorian Default Offer each year, based on the efficient costs of the sale of electricity by a retailer, having regard to specific cost components. [6] [7]

In setting the Victorian Default Offer, we are guided by requirements set out in the pricing order. This includes adopting an approach and methodology that best meets a range of objectives (detailed in Appendix F) including:

- providing a simple, trusted and reasonably priced electricity option that safeguards consumers who are unable or unwilling to engage in the electricity retail market[8]
- promoting the long-term interests of Victorian consumers[9]
- promoting the development of full retail competition[10]

---

[3] Figures are as of 31 March 2025, based on data reported by Victorian retailers under the Compliance and Performance Reporting Guideline version 8.

[4] Figure is as of 2 March 2025.

[5] The Order in Council made under section 13 of the *Electricity Industry Act 2000* was published in the *Victorian Government Gazette* No. S 208 on Thursday 30 May 2019. Minor amendments to this Order have subsequently been made by Orders in Council made under section 13 of the Act and respectively published in the *Victorian Government Gazette* No. S208 Thursday 30 May 2019 and the *Victorian Government Gazette* No. G50 14 December 2023. The original Order in Council as amended is referred to in this paper as the 'pricing order'.

[6] Clause 12(3) of the pricing order.

[7] Clause 12(4) of the pricing order.

[8] Clause 3 of the pricing order.

[9] *Essential Services Commission Act 2001*, s 8.

[10] *Electricity Industry Act 2000*, s 10.

- protecting consumers.[11]

Setting prices in the Victorian Default Offer based on efficient costs means customers have access to a reasonable price that reflects retailers' efficient costs. Setting a price below efficient costs may mean, in the longer term, less retail competition and less investment in the industry. As a result, there would likely be less innovation focused on delivering customer value, while the reliability of electricity services could also suffer. This would not be in the long-term interests of Victorian consumers.

The Victorian Default Offer acts as a comparison price

Most Victorians are on market offers, not standing offers. Most market offers are available at prices below the Victorian Default Offer.

The Victorian Default Offer is therefore also a reference price for these market offers. Retailers must compare their market offer prices to Victorian Default Offer prices when advertising.[12] This enables customers to easily compare market offer prices with our benchmark prices and choose a plan that best suits their needs.

We must determine Victorian Default Offer prices in May each year

Our first determination of Victorian Default Offer prices came into effect on 1 January 2020. We have been responsible for setting Victorian Default Offer prices annually since then.

We released our last determination on 20 May 2024 for the Victorian Default Offer to apply from 1 July 2024 to 30 June 2025 (the 2024–25 Victorian Default Offer).

Under the pricing order, we must make a new determination for the Victorian Default Offer to apply from 1 July 2025 to 30 June 2026 on or before 24 May 2025.[13] We refer to the new pricing arrangements for standing offers to apply from 1 July 2025, as the 2025–26 Victorian Default Offer.

Drivers of the 2025–26 Victorian Default Offer price changes

Network costs are the largest cost component of the Victorian Default Offer, comprising around 37 per cent of the cost stack in 2025–26. They represent the costs associated with delivering electricity to customers' homes and businesses.

---

[11] *Electricity Industry Act 2000*, s10.

[12] Energy Retail Code of Practice, Version 3, 1 October 2024, Part 4, Sub-division 4, Clause 49.

[13] Clause 10(1) of the pricing order.

For our final decision, network costs for domestic customers are four per cent higher compared to 2024–25 (on average, across the five distribution zones), and are the primary driver of increased Victorian Default Offer prices.

Network costs in the Victorian Default Offer are directly passed through from the network tariffs and metering charges approved by the Australian Energy Regulator each year, reflecting its role in regulating networks focused on efficiency and the long-term interests of consumers.[14] The network tariffs and metering charges vary across Victoria's five distribution zones due to a range of factors. They include costs related to:

- geographical scale
- population dispersion
- overall demand
- and the age of network substations, transformers, lines and other capital equipment and network investment needs.

For our final decision (see page 22), wholesale electricity costs in representative domestic customer bills are $9 higher compared to the 2024–25 Victorian Default Offer (on average, across the five distribution zones). These costs are also 6.4 per cent higher compared to our 2025–26 draft decision due to our use of updated ASX Energy future contract prices (up to 16 April 2025) which reflects increased contract prices and the inclusion of a wholesale cost of exports between our draft and final decision.

The wholesale electricity cost component of the Victorian Default Offer is slightly higher compared to 2024–25 and our draft decision for 2025–26. This is an outcome of higher wholesale future contract prices offsetting the impact of our decision to change the load profile, which lowered daily average prices. We have also included a wholesale electricity cost of exports which has contributed slightly to this increase. Wholesale future contract prices, a wholesale electricity cost of exports and the load profile had a balancing effect in our final decision.

Our proposed change from using a balanced load (the net of customers' imports and exports) to a load only profile (customers' imports only) to generate the customer load profiles used in forecasting wholesale electricity costs was used in this final decision (see page 24 for details).

Wholesale electricity cost movements vary for representative domestic customer bills across all five Victorian distribution zones. This is because the impact of excluding solar exports from the

[14] We used 2025–26 network tariffs for this final decision, approved by the Australian Energy Regulator in May 2025.

customer load profile (by moving to a load only profile) is more pronounced in zones with higher solar uptake.

Our final decision has applied a retail operating margin of 5 per cent of the total Victorian Default Offer cost stack, down from 5.3 per cent in 2024–25 (see page 55). This reduced margin was set having regard to:

- margins set by other Australian regulators
- market offer prices relative to default offer prices
- the expected returns approach
- retailers' observed margins
- submissions.[15]

Overall, all other cost components of the Victorian Default Offer, including retail operating costs, have remained relatively stable compared to 2024–25. There were minor decreases in the environmental costs for representative domestic and small business customer bills because of reduced retailer costs associated with Australian Government environmental programs and the removal of the social cost of carbon.

Average annual bills for Victorian Default Offer customers will be slightly higher in 2025–26 compared to 2024–25

Average domestic annual bills

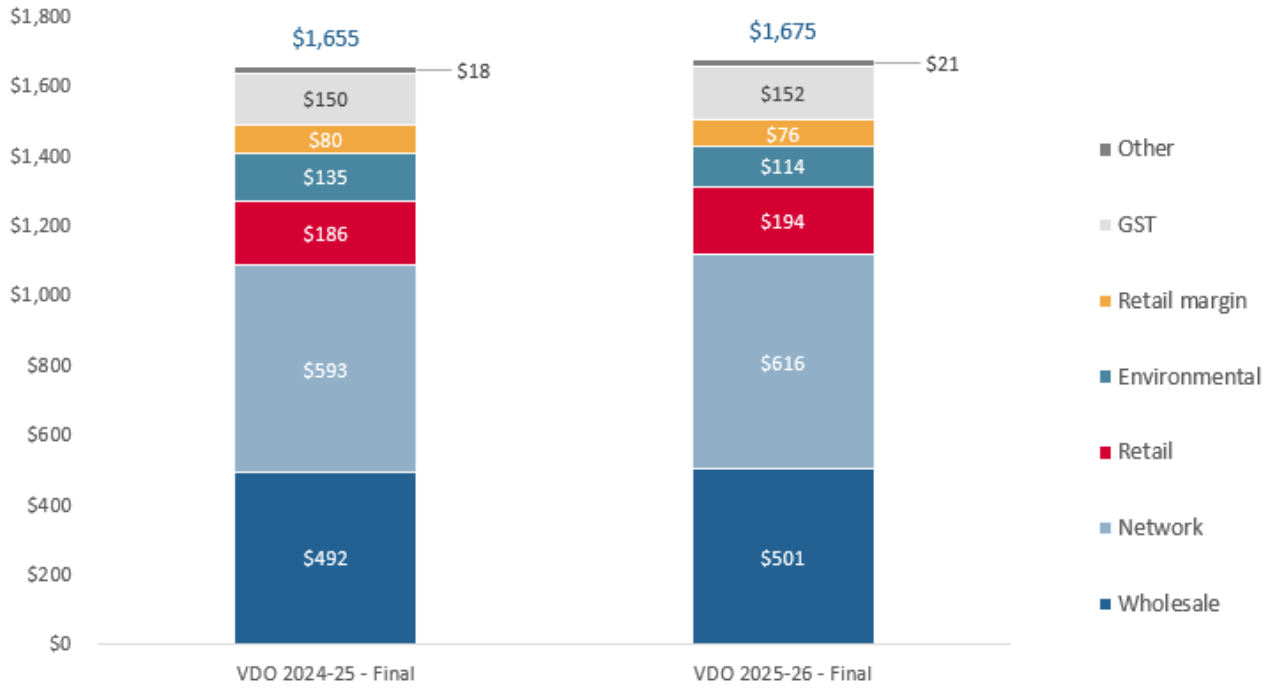
The average annual bill for a 2025–26 Victorian Default Offer domestic customer on a flat tariff will be $1,675. This is $20 (or one per cent) higher compared to our 2024–25 decision. This is the average of representative annual bills across the five electricity distribution zones in Victoria.[16]

Environmental costs for the average domestic flat tariff Victorian Default Offer customer have reduced compared to 2024–25 (see Figure 1). Lower environmental costs, as well as a lower retail operating margin, are offset by the increases in network costs, retail operating costs and wholesale electricity costs.

[15] The expected returns approach seeks to estimate the minimum retail margin required to compensate equity investors in a notional electricity retailer for the systematic (i.e., non-diversifiable) risk they bear when committing equity capital to the firm.

[16] The annual reference consumption amount reflects pricing order clause 15(5)(a). For domestic customers the average consumption assumes 4,000 kilowatt hours per year, we call this 'representative' usage.

Figure 1: Average change in 2025–26 Victorian Default Offer annual bills for domestic customers (assuming annual usage of 4,000 kWh) compared to 2024–25



Victorian electricity distribution zone comparisons – domestic

Figure 1 outlines the average bill for all domestic customers. However, movements in representative annual bills vary across the five distribution zones in Victoria.

Victorian Default Offer domestic customers will see bill changes ranging from a $90 increase (around six per cent) in the CitiPower area to decreases of $26 (around two per cent) in the Jemena area. CitiPower has the highest forecast increase, however domestic customers in this area continue to have the lowest representative bills in Victoria.

Table 2 shows the movement in representative annual bills for domestic Victorian Default Offer customers in each zone and on average across the zones, as compared to 2024–25 (assuming 4,000 kilowatt hours annual usage).

Table 2: Change in average annual Victorian Default Offer bills for domestic customers on flat tariff (nominal assuming 4,000 kWh/year)[17]

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2024–25 (final decision)	$1,902	$1,456	$1,664	$1,699	$1,554	**$1,655**
2025–26 (final decision)	$1,908	$1,546	$1,638	$1,703	$1,579	**$1,675**
Change in $	$6	$90	-$26	$4	$25	**$20**
Change in %	0.3%	6.2%	-1.6%	0.2%	1.6%	**1.2%**

Average small business annual bills

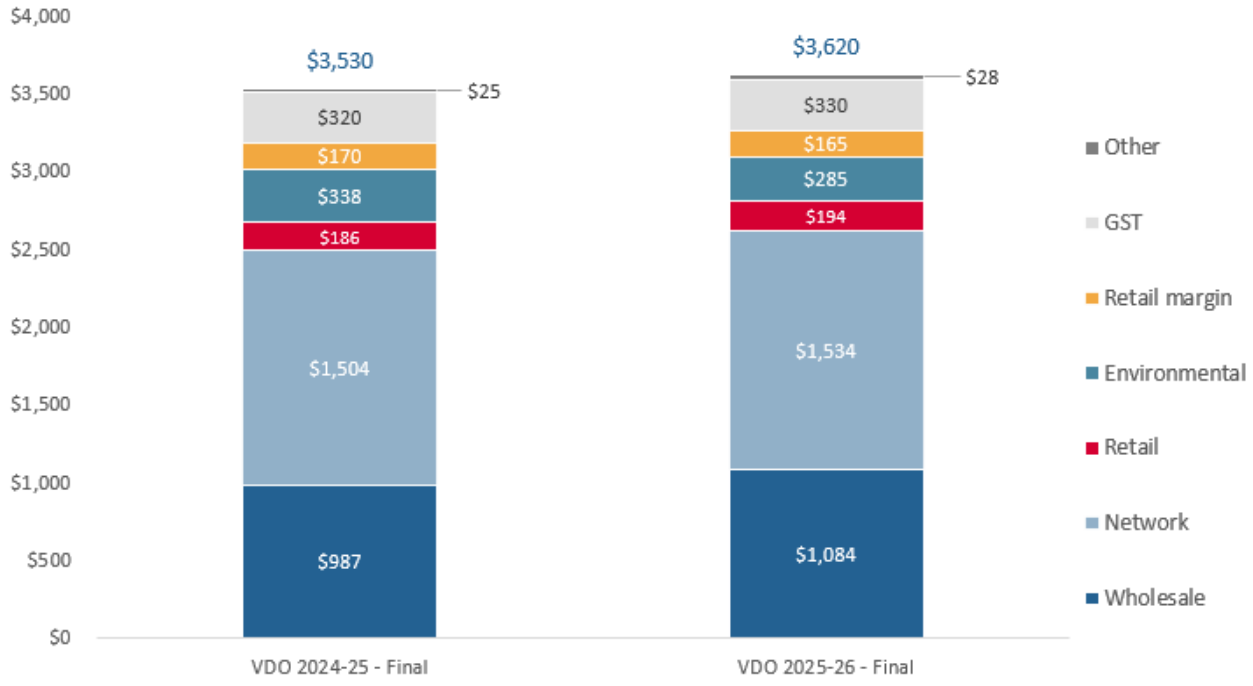
The average annual bill for a 2025–26 Victorian Default Offer small business customer on a flat tariff will be $3,620. This is $90 (or three per cent) higher compared to our 2024–25 decision. This is the average of representative annual bills across the five electricity distribution zones in Victoria.

Network costs and wholesale electricity costs for the average small business flat tariff 2025–26 Victorian Default Offer customer increased compared to 2024–25 (see Figure 2).[18] Increases in these costs are the main contributors to increased bills overall.

[17] Values in the table may not sum to exact total due to rounding.

[18] The annual reference consumption amount reflects pricing order clause 15(5)(a). For small business customers the average consumption assumes 10,000 kWh per year, we call this 'representative' usage. The commission has historically reported Victorian Default Offer average annual bills for small business customers assuming an average usage of 20,000 kWh per year. We have used 10,000 kWh per year to align with how small businesses prices are reported in default market offers in other states.

Figure 2: Change in 2025–26 Victorian Default Offer annual bills for small business customers (assuming annual usage of 10,000 kWh) compared to 2024–25



Victorian electricity distribution zone comparisons – small business

Changes in representative small business customer bills compared to the 2024–25 Victorian Default Offer vary across the five distribution zones in Victoria. Victorian Default Offer small business customer bills range from increases of $10 (less than one per cent) in the AusNet area to $177 (around five per cent) in the Powercor area. The difference in representative annual bills across distribution zones is mainly due to differing network tariffs and wholesale electricity costs.

Table 3 shows the movement of representative annual bills for small business Victorian Default Offer customers in each zone and on average across zones (assuming 10,000-kilowatt hours annual usage).

Table 3: Change in average annual Victorian Default Offer bills for small business customers on flat tariff (nominal assuming 10,000 kWh/year)[19]

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2024–25 (final decision)	$4,388	$3,025	$3,695	$3,331	$3,212	**$3,530**
2025–26 (final decision)	$4,398	$3,186	$3,720	$3,508	$3,290	**$3,620**
Change in $	$10	$161	$25	$177	$78	**$90**
Change in %	0.2%	5.3%	0.7%	5.3%	2.4%	**2.6%**

We have considered all submissions on our draft decision in making this final decision

Our final decision has adopted the same approach as the draft decision, which is also broadly the same approach we used in the 2024–25 Victorian Default Offer, with some changes to cost benchmarks and methodology.

We consider our overall approach for calculating the Victorian Default Offer to be sound. Our methodology has remained largely the same for a number of years. During this time, it has achieved the objective of providing a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market, including over a period of fluctuating and volatile electricity market conditions.

Submissions received on our Draft Decision Paper showed general support for the overall pricing methodology.[20] However, some submissions opposed specific changes we proposed, including our revised approach to customer load profile used to estimate wholesale electricity costs.

A strong rationale is always required for us to depart from the methodology in prior use. In making our final decision, we carefully considered expert advice, existing and new data, broader regulatory practice, and the evidence presented in submissions. Where we refined or changed elements of our approach, we have provided clear justification and supporting evidence.

[19] Values in the table may not sum to exact total due to rounding.

[20] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p.1; Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1; EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1–3.

We consider our approach to the various cost components in this final decision best meet the requirements of the relevant legislative provisions, and accounts for the matters we must have regard to under the *Essential Services Commission Act 2001*, *Electricity Industry Act 2000*, and the pricing order. See Appendix F for more details.

Updated cost inputs have been used in our final decision

In making our final decision, we have used up-to-date cost inputs including:

- network tariffs and metering charges approved by the Australian Energy Regulator
- final ASX Energy futures contract prices on 16 April 2025
- other (smaller) inputs to our cost stack, dependent on available data.

We have considered all submissions received on our draft decision and addressed them in the relevant sections of this paper.

Proposing new rules to help reduce energy bills in Victoria

In response to our Draft Decision Paper, we heard from consumer groups about electricity bills and their impact on energy hardship.[21] Submissions suggested several measures that could help reduce the effect of higher retail electricity prices, such as helping customers access retailers' best offers, and preventing customers being on prices above the Victorian Default Offer.

We have recently published a Regulatory Impact Statement (RIS) proposing new rules to enhance consumer protections and reduce energy bills.[22] The RIS follows a request from the Victorian Minister for Energy and Resources.[23] The proposed changes to the Energy Retail Code of Practice will provide lower energy prices for customers experiencing payment difficulty and those who have been on the same plan for over 4 years.

---

[21] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, 1, 3–4; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1–2, 8–9.

[22] Essential Services Commission, Reviewing the Energy Retail Code of Practice, https://www.esc.vic.gov.au/electricity-and-gas/codes-guidelines-and-policies/energy-retail-code-practice/reviewing-energy-retail-code-practice. Accessed 10 March 2025.

[23] This follows a package of energy consumer reforms proposed by the Energy and Climate Change Ministerial Council (ECMC) on 19 July 2024, which submitted several related rule change requests to the Australian Energy Market Commission.

Retailers would be required to move:

- customers receiving assistance under the Payment Difficulty Framework onto their cheapest electricity plan
- customers in arrears for at least 3 months and with arrears above $1,000 onto their cheapest electricity plan
- customers whose contracts are over 4 years old onto a reasonable price, considering their circumstances.

Our analysis shows potential savings of up to $730 for some electricity customers receiving payment difficulty support.

We are also proposing a range of other energy protections including:

- requiring retailers to make it easier for customers to move to their best offer
- prohibiting retailers from making a particular payment method like direct debit or a communication channel like e-billing a prerequisite for accessing a particular electricity plan
- increasing the minimum debt a customer can be disconnected for from $300 to $500.

We are engaging with stakeholders on the reforms, which are proposed to be implemented in 2026.

We will continue to uphold other protections for customers

In addition to setting the Victorian Default Offer, the commission administers the Energy Retail Code of Practice, which includes important protections for energy customers. Retailers must provide customers with clear information about their best offer and offer payment assistance if a bill is missed.[24]

They must also support eligible customers to apply for Utility Relief Grants of up to $1,300 every two years.[25]

Additional help is available to energy customers through government programs. Eligible concession card holders can access ongoing electricity and gas concessions. From 1 July 2025, the Commonwealth and Victorian Governments will provide an additional $150 in energy bill relief to eligible households under the Energy Bill Relief Fund.[26]

---

[24] Energy Retail Code of Practice, Version 3, 1 October 2024, Part 5, Division 5. Energy Retail Code of Practice, Version 3, 1 October 2024, Part 5 and Part 6.

[25] Energy Retail Code of Practice, Version 3, 1 October 2024, Division 12, 128(1)(d-e).

[26] Victorian Government, Energy Bill Relief Fund for households and small business, accessed 4 May 2025.

This includes people on Centrelink, veterans' or seniors' payments, and those receiving family tax benefits. The rebate will be applied automatically to electricity bills – most customers do not need to apply.

The Victorian Government will also provide targeted energy bill relief of $100 for eligible households with a concession card.[27]

We monitor retailer compliance with the Energy Code of Practice and take enforcement action where necessary, with a particular focus on protecting consumers experiencing vulnerability.

A proposed social electricity tariff requires government consideration

To further reduce the effect of higher retail electricity prices, submissions from consumer groups also proposed the introduction of a social electricity tariff that uses components of the Victorian Default Offer to provide an electricity price available to low-income consumers.[28]

A social electricity tariff would require new supporting policies, and current regulatory settings. We are therefore of the view that this matter is best considered by government, separate to the Victorian Default Offer price determination process.

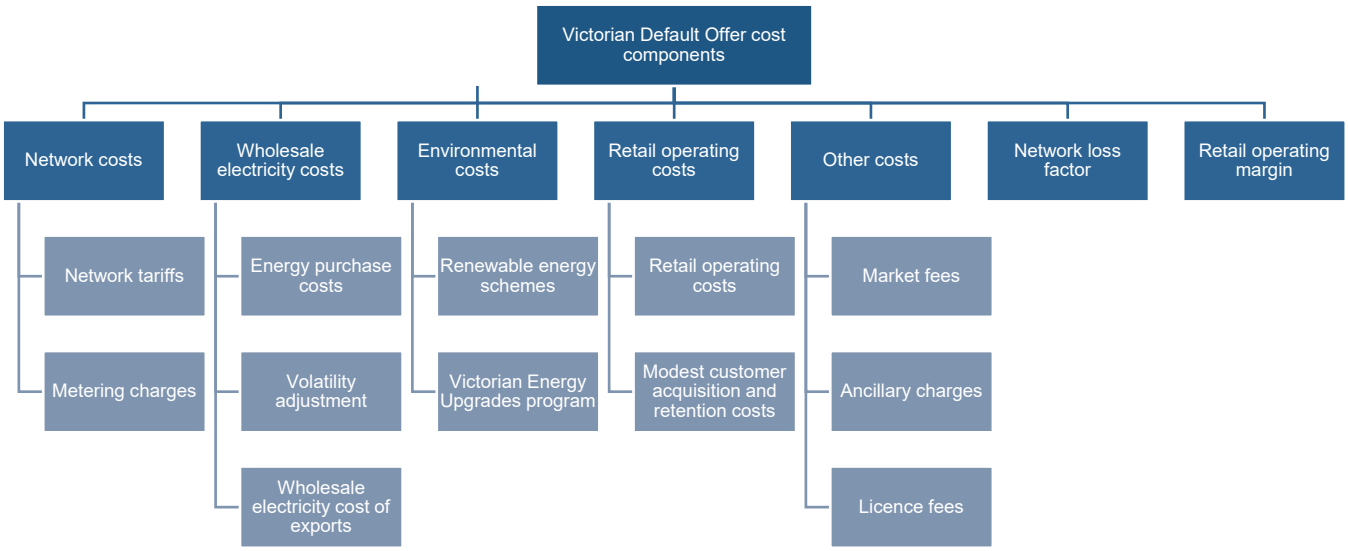
[27] Victorian Government, Victorian Budget 2025/26; Helping Victorians reduce power bills, accessed 21 May 2025.

[28] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 12; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 2, 11.

Victorian Default Offer cost components

We must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.[29] In doing this, we must have regard to specific cost components.[30] Figure 3 shows the cost components included in our 2025–26 Victorian Default Offer cost stack.

Figure 3: Victorian Default Offer cost stack



The inputs we use to determine the Victorian Default Offer cost components are as follows:

- Network costs – based on distributors' network tariffs and metering charges approved by the Australian Energy Regulator.
- Wholesale electricity costs – based on the forecast cost of purchasing electricity in the futures market, including a wholesale cost of exports and factoring in a volatility allowance.
- Environmental costs – based on retailers' costs of complying with environmental obligations imposed under Commonwealth and Victorian law or regulation.
- Retail operating costs – based on the customer-weighted average of retailers' actual retail operating costs for domestic and small business customers. These costs include modest customer acquisition and retention costs – based on the 2013–14 average acquisition cost benchmark updated for inflation.
- Other costs – Australian Energy Market Operator fees, ancillary service fees, licence fees and market intervention costs (see pages 49 to 53).

[29] Clause 12(3) of the pricing order.

[30] Clause 12(4) of the pricing order.

- Network loss factor – based on information from the Australian Energy Market Operator, and applied to wholesale electricity costs, environmental costs and variable other costs.
- Retail operating margin – based on a retail operating margin benchmark and having regard to market offer prices relative to default offer prices, the expected returns approach and retailers' actual margins.

Network costs

- Our final decision is to continue using a cost pass-through approach for network costs, passing through the network tariffs and metering charges approved by the Australian Energy Regulator each year.
- For our final decision on network costs, we have used the 2025–26 network tariffs and metering charges approved by the Australian Energy Regulator on 14 May 2025.
- Under the 2025–26 Victorian Default Offer, network costs represent about $616 (or 37 per cent) of the average annual domestic flat tariff bill (averaged across the five distribution zones).
- Overall, network costs are about four per cent higher (on average), compared to the 2024–25 Victorian Default Offer.

The pricing order requires that we have regard to **network costs** in estimating the efficient costs of the sale of electricity by a retailer.[31] Network costs are costs associated with building, operating, maintaining and growing the transmission and distribution networks that deliver electricity to customers.

There are five electricity distribution networks operating in five separate zones across Victoria. Each year, the Australian Energy Regulator approves network tariffs and metering charges submitted by Victorian distributors for each of Victoria's five distribution zones. Retailers must pay these network tariffs and metering charges to distributors to access transmission and distribution services.

Network tariffs consist of three main elements:

- distribution charges – for the use of the distribution network
- transmission charges – for the use of the transmission network
- jurisdictional charges – for the payments distributors are required to make within each jurisdiction. This includes jurisdictional scheme amounts.

[31] Clause 12(4)(b) of the pricing order.

Network tariffs are structured in one of two ways:

- a daily supply charge and a flat usage charge (flat network tariffs)
- a daily supply charge and peak and off-peak usage charge (two-period time of use tariffs).[32]

We have maintained a cost pass-through approach to network costs

Our final decision is to continue to apply a cost pass-through approach, with network costs reflecting network tariffs and metering charges as approved by the Australian Energy Regulator, reflecting its role in regulating networks focused on efficiency and the long-term interests of consumers. We used network tariffs and metering charges approved by the Australian Energy Regulator, on 14 May 2025.[33]

Overall, network costs in a representative domestic Victorian Default Offer bill are higher than they were in 2024–25 as a result of the higher network costs approved by the Australian Energy Regulator. Table 4 shows the change in network cost across each distribution zone in Victoria. The change in network cost for representative domestic customers ranges from -3 to 7 per cent, depending on the distribution zone. The variation in network cost across distribution zones is due to factors including geographical scale, population dispersion, forecast demand profiles, the age of network assets and network investment needs.

The Australian Energy Regulator has identified a range of reasons for higher network tariffs for 2025–26 (which are the major component of network costs), including:

- higher return on debt: due to significant changes in relevant financial markets since its 2021–26 Victorian distribution determinations
- large incentive scheme rewards, including deferred incentive scheme rewards from previous years
- cost pass-throughs [34]
- inflation
- increased transmission costs
- for some networks the increase in network costs is partially offset by the return of previously over-recovered revenues.[35]

---

[32] We amended the 2021 Victorian Default Offer price determination in July 2021 to incorporate a two-period time of use tariff.

[33] AER 2025–26 pricing proposals for electricity distributors. Accessed 22 April 2025.

[34] A cost pass-through is a mechanism through which regulated entities can directly recover costs incurred beyond the reasonable control of the business, such as new statutory obligations or damage to infrastructure caused by a natural disaster.

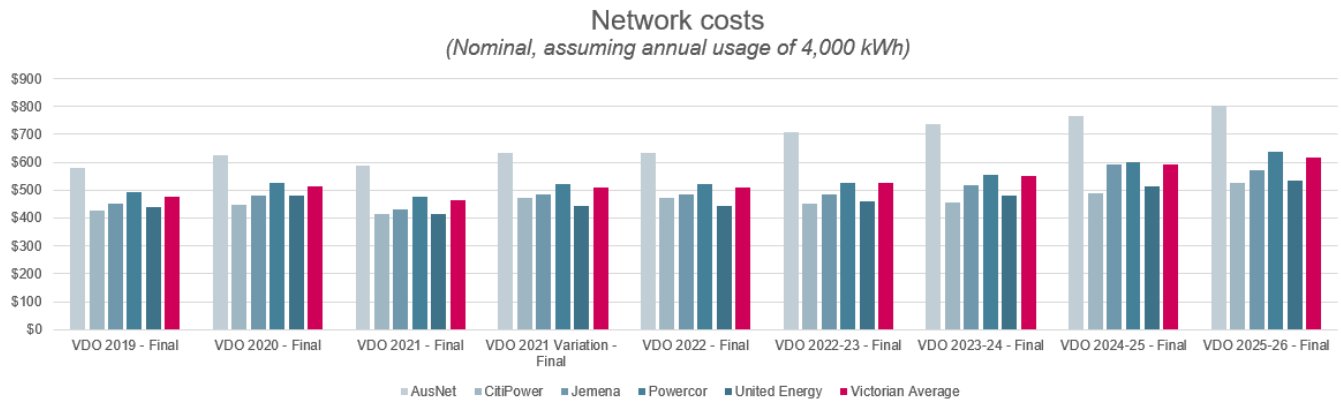
[35] For Jemena, lower network tariffs for 2025–26 reflect that return of previously over-recovered revenues wholly offsets other drivers as advised by the Australian Energy Regulator via email on 14 May 2025.

Table 4: Change in network costs for domestic flat tariffs (nominal)[36]

	AusNet	CitiPower	Jemena[37]	Powercor	United Energy	Victorian average
2024–25 (final decision)	$766	$491	$594	$600	$514	$593
2025–26 (final decision)	$805	$527	$573	$637	$535	$616
Change in $	$40*	$37*	-$21	$37	$21	$23
Change in %	5%	7%	-3%	6%	4%	4%

Figure 4 presents network costs across Victorian distribution zones. It shows an upward trend in network costs since 2019 across the five distribution zones, despite the variance.

Figure 4: Historical network costs across Victorian distribution zones



[36] Values in the table may not sum to exact total due to rounding.

[37] On 15 October 2024 Jemena applied to the Australian Energy Regulator to revoke and substitute its distribution determination for the 2021–26 regulatory control period, to adjust the total forecast capital expenditure approved in the April 2021 final decision. On 14 May 2025, the AER has approved the pricing proposal provided by Jemena without its proposed adjustments to the forecast capital expenditure, therefore this is the network cost scenario considered by the commission in the 2025-26 VDO.

Stakeholders generally support our approach to network costs

We received six submissions on network costs.[38] Retailers generally supported our approach to incorporate Australian Energy Regulator approved network tariffs in our final decision. Some submissions highlighted that network costs are the largest component of the retail bill and raised concerns about the likelihood of a continual increase in network prices amplifying affordability challenges for future Victorian Default Offer price reviews.

The joint community groups and consumer advocates submission urged the commission to more closely examine and interrogate the network cost portion of the price stack. Alinta Energy proposed that we and other regulatory bodies review the effectiveness of the current Regulatory Investment Test for transmission projects to reduce the impact on all consumers. Additionally, Alinta Energy perceived a disproportionate commission emphasis on smaller cost stack components given the significance of rising network costs in the Victorian Default Offer.

We will pass-through the Australian Energy Regulator approved network costs, given its role in assessing efficiency of these costs. These costs also represent the actual cost that retailers must pay to access transmission and distribution services based on the maintenance needs and growth rate in their area.

Wholesale electricity costs

- Our final decision is to use our futures market approach to forecast wholesale electricity costs.
- We have maintained the change to the load only profile used to estimate wholesale electricity costs presented in our draft decision. We have included a wholesale electricity cost of exports due to using a load only profile.
- The load profile we used is based on customers' 5-minute import only data. Previously, we used a profile reflecting the balance of customers' imports and exports at the end of each 30-minute interval.

[38] AGL, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Draft Decision Paper* April 2025 pp. 1–2; 1st Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Draft Decision Paper* April 2025 p. 2; Alinta Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Draft Decision Paper,* April 2025, pp. 1–3; Origin Energy, submission to the Essential Services Commission *2025–26 Victorian Default Offer: Draft Decision Paper,* April 2025, p. 2, Consumer Action Law Centre, submission to the Essential Services Commission, *2025–26 Victorian Default Offer: Draft Decision Paper* April 2025 p. 11; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 7.

- This change is informed by expert advice, supported by newly available interval metering data from the Australian Energy Market Operator and is aligned to the approach used by the Australian Energy Regulator in setting Default Market Offer prices.
- Changing to a load only profile reduces the wholesale electricity cost relative to using a balance profile, because it lowers the daily average wholesale electricity price used to set this cost component. The impact of the change to a load only profile has been offset by the inclusion of a wholesale electricity cost of exports and higher wholesale electricity futures prices compared to our draft decision.
- Overall, our final decision to change our methodology, balanced by the inclusion of a wholesale electricity cost of exports and higher wholesale future contract prices, has led to slightly higher forecast wholesale electricity costs for domestic customers in 2025–26. However, wholesale electricity movements vary across distribution zones, some areas of Victoria see lower wholesale electricity costs. This is because the impact of removing solar exports from the load profile used to calculate wholesale electricity costs is more pronounced in zones with higher solar uptake, such as the Powercor and AusNet areas.
- For representative average domestic customers on the flat tariff Victorian Default Offer, wholesale electricity costs are $9 (or two per cent) higher in the total annual bill for 2025–26 compared to 2024–25.
- For domestic customers, wholesale electricity costs are $501 and make up around 30 per cent of a representative annual flat tariff bill (averaged across the five distribution zones and based on 4,000 kWh annual consumption).
- For representative average small business customers on the flat tariff Victorian Default Offer, wholesale electricity costs are $97 (or 10 per cent) higher in the total annual bill for 2025–26 compared to 2024–25.
- For small businesses, wholesale electricity costs are $1,084 and make up around 30 per cent of a representative annual small business flat tariff bill (averaged across the five distribution zones and based on 10,000 kWh annual consumption).
- The wholesale electricity cost component in our final decision is slightly higher than estimated in our draft decision. This is mainly due to increases in wholesale future contract prices between our draft and final decision. We use two volume weighted future contract types, base swaps and base caps, and update these inputs to best reflect the future wholesale electricity cost to a retailer. Compared to our draft decision base swap contracts have increased by four per cent and base caps by 10 per cent on average across all quarters.

The pricing order requires that we have regard to **wholesale electricity costs** in estimating the efficient costs of electricity retailers.[39]

Retailers incur wholesale electricity costs when they purchase electricity from the wholesale market to supply to their customers. In the wholesale electricity market, generators bid to have their electricity sent to the grid and retailers buy electricity to meet their customers' demands. Electricity prices are reset through this bidding every five minutes and can fluctuate markedly. Buying electricity from the wholesale electricity spot market exposes retailers to the risk that electricity prices may be high when they need to purchase electricity.

Futures markets allow retailers to engage in hedging as a way of managing this risk. When a retailer hedges its wholesale electricity spot risk, the price it pays for electricity can be set, capped, or offset in advance. There are many ways retailers can hedge their risk including by contracting directly with a generator, through a financial market transaction on ASX Energy, or with another financial intermediary.

Our final decision retains a futures market approach

A futures market-based approach forecasts wholesale electricity costs by reference to the costs a retailer faces in supplying electricity to their customers using financial hedging products. We use this approach in setting the Victorian Default Offer because hedging reflects how a prudent retailer would limit exposure to high wholesale electricity spot prices and ensure its wholesale electricity costs are efficient.

Our final decision is to change our methodology for estimating customers' load profiles

A key input into forecasting annual wholesale electricity costs in the Victorian Default Offer is the customer load profile. We aim to use load profile data that is reflective of the costs to retailers of purchasing electricity for their residential and small business customers across the coming financial year.

Since first setting the Victorian Default Offer in 2020, we have used 30-minute interval meter data at a 'balanced' position (the balance of customers' imports and exports) to produce load profiles. This approach was informed by the structure of load profile data available from the Australian Energy Market Operator (market operator) at the time. While we previously relied on interval meter data at a balanced position, new load profile data is now available for the last three years, with interval meter data split by imports (customers' demand for electricity) and exports (from sources like rooftop solar), as recorded at the end of each 5-minute and 30-minute interval.

[39] Clauses 12(3) and 12(4)(a) of the pricing order.

We have maintained our approach to load profiles from our draft decision, but our approach is a change from previous decisions. We have moved from using interval meter data at a balanced position, to now using a load only (import) position recorded every 5-minutes. This decision was made after considering advice from Frontier Economics (the Fronter Economics Advice) and their report (the Frontier Economics Final Report) on wholesale electricity costs for the 2025–26 Victorian Default Offer.[40]

We also had regard to:

- available data and evidence
- consultation and consideration of submissions responding to our Request for Comment Paper and Draft Decision Paper
- views expressed during our public forum and retailer workshop
- our obligations and objectives under legislation and the pricing order, particularly with respect to setting the Victorian Default Offer based on retailers' efficient costs of selling electricity.

The advice from Frontier Economics outlined that:

- In practice, retailers charge customers for all their imports, and then separately credit a feed-in tariff for exports.
- Because wholesale prices are lower during the day when exports are occurring, using a load profile based on the balance of customers' imports and exports results in a lower proportion of load occurring during low price periods than under a load only profile.
- A balance load profile leads to a higher daily average price, compared to a profile based on customers' load only.
- A load only profile is a better estimate of retailers' wholesale costs because it reflects customers' demand in isolation of the wholesale cost of customers' exports.

A load only profile approach is also similar to the Australian Energy Regulator's approach to the treatment of solar exports when setting the Default Market Offer.[41]

Based on these considerations, our final decision is to change from a balance load profile to a load only profile in setting the Victorian Default Offer, based on the market operator's load only interval meter data recorded at the end of each 5-minute interval. We consider this to be the most accurate available load profile data for forecasting a retailer's efficient wholesale electricity costs and best aligns with the objectives of the Victorian Default Offer.

---

[40] Frontier Economics 2025, *Advice on load profile to use for the VDO: A note for the* ESC, 12 February. Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025.

[41] Australian Energy Regulator, 2025–2026 Default market offer prices: Draft decision, March 2025, accessed 24 April 2025.

In our view, using 5-minute load only data (as opposed to 30-minute load only data) will also provide a more accurate relationship between load and price. Using 5-minute interval data does not change the overall load, as the load recorded at the end of a 30-minute interval is the same as the sum of the underlying six 5-minute intervals for that same time.

We published aggregated Victorian customers' 30-minute metered data for the last three years on our website (using data from the market operator).[42] This data displays aggregated small customer usage in each distribution zone, split by imports, exports and a balance position. To estimate customers' load profiles for the 2025–26 Victorian Default Offer, we used a similar data set, but it was disaggregated by customer types and therefore may not exactly reflect the data published.

We have considered submissions on how to account for wholesale electricity exports in customer load profiles

Our Draft Decision Paper sought feedback on our proposed change in load profile in the Victorian Default Offer. We received 14 submissions from retailers, the retailer peak body, a consumer group, a joint submission from seven consumer groups, and one consumer. Of these submissions, 12 commented on our change to a load only profile and the treatment of exports.

Overall, the submissions from electricity retailers and the retailer peak body opposed the change and supported reinstating a balance load profile that includes customers' exports.

Consumer groups and EnergyAustralia supported the use of a load only profile, with EnergyAustralia suggesting a transitional approach.[43] AGL opposed the change but also suggested a transitional approach to a load only profile.[44]

---

[42] Requested via email on 7 February 2025.

[43] EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper, April 2025*, p. 3. Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 5; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1, 6.

[44] AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 4.

The primary reasons submissions did not support the removal of exports from the load profile were:

- solar adds more risk to a retailer's ability to hedge accurately
- they considered the switch to a load only profile is a major and sudden change which should be phased in.

Retailers explained that solar load increases their hedging costs as their customer load becomes peakier and more difficult to hedge in the wholesale market.[45] The peakier load comes about as demand decreases during the day but then peaks more sharply in the evening.

Frontier Economics' STRIKE model will select the optimal mix of hedging contracts to match the load, naturally accommodating hedging costs. STRIKE estimates the retailer's exposure to the wholesale market based on its load and wholesale cost. This, along with hedging products, is used to calculate the lowest cost contract mix that a retailer must use to cover its wholesale risk.[46] We acknowledge that retailers may have wholesale electricity market costs and hedging strategies that differ to the approach we have taken.

Consistent with the advice we have received, an efficient approach to wholesale electricity costs for the purpose of the default offer is to use a load only profile and include a wholesale electricity cost of exports. This approach reflects the import and export wholesale costs to retailers and most efficient method of recovering them. Frontier Economics' Final Report explains:

> "it is logical to recognise that a retailer will be settled both for a residential customer's imports and a residential customer's exports, and likely will seek to hedge that combined load, but nevertheless to identify different WECs for these loads and set different prices for loads. Indeed, these different prices are the VDO and the FiT."[47]

In addition to this, we have observed that default offer customers are less likely to have solar, compared to the Victorian average, so default offer customers would have a lower solar load.[48] We

---

[45] 1st Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2; Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 3; Energy Locals, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1; ENGIE, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2; GloBird Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1-2; Red Energy and Lumo Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1-2.

[46] Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025.

[47] Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025, p.12. WEC is an acronym for wholesale electricity costs, VDO is an acronym for Victorian Default Offer and FiT is an acronym for feed-in tariff.

[48] Essential Services Commission analysis of customer billing data.

also regard the objective of the Victorian Default Offer, which includes to provide a simple electricity option for consumers unable or unwilling to engage in the electricity market.[49] Therefore we consider a load only profile to be an efficient approach to estimating wholesale electricity costs for the Victorian Default Offer, consistent with this objective.

GloBird Energy noted that many solar customers prefer flat rate tariffs but tend to have lower annual energy usage, which increases costs for retailers.[50] As a result, GloBird Energy argued that solar customers should be moved to time-of-use tariffs. We acknowledge that when customers switch to a standing offer, they generally retain their existing network tariff type. However, for solar customers on market offers (the vast majority of solar customers are on market offers), retailers are well placed to engage with them and promote demand management strategies – such as switching to retail time-of-use tariffs – to help manage their risk. Moreover, it is also consistent with Victorian legislation requirements that retailers must offer solar customers the same electricity tariffs and terms and conditions as they offer to other non-solar customers.[51] This includes such offers being made to customers on the Victorian Default Offer. Frontier Economics has responded to submissions, including the points raised by GloBird Energy, in its Final Report.[52]

Red Energy expressed that retailers would now need to change their approach to hedging wholesale electricity costs and their feed-in tariffs.[53]

We acknowledge that market settlements would be at a balance position and that retailers may seek to hedge their total customer load in line with their individual risk management strategies. However, when setting the Victorian Default Offer, we consider the manner in which settlement occurs differs to the approach taken to estimate the wholesale electricity cost.[54] The pricing order states we must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.[55] The pricing order doesn't require us to determine tariffs based on the actual costs of an individual retailer and therefore the hedging practices of any individual retailer.[56] As discussed above, we considered retailers may use different approaches than we do in the Victorian Default

---

[49] Clause 3 of the pricing order.

[50] GloBird Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1.

[51] *Electricity Industry Act 2000*, Section 23C(1).

[52] Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025, pp. 11-14.

[53] Red Energy and Lumo Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1.

[54] Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025, p. 11.

[55] Clause 12(3) of the pricing order.

[56] Clause 12(8) of the pricing order.

Offer, including different approaches to hedging their wholesale electricity costs and feed-in tariffs. For example, retailers can mitigate wholesale market risks through a range of hedging instruments and products, as well as consumer education and demand management strategies.

Other submissions suggested that the proposed change to the load profile and removal of solar exports was a significant change and should be phased in.[57] We consider there has been sufficient notice and consultation with industry on our proposed change to the load profile. In particular:

- We foreshadowed our intention to consider this change in the 2024–25 Victorian Default Offer Final Decision Paper, published May 2024.[58]
- That statement followed the Australian Energy Regulator adoption of a load only approach to interval metering data in its 2024–25 (DMO 6) draft and final determinations (March and May 2024).[59]

We consulted on this change through:

- our Request for Comment Paper
- our Draft Decision Paper
- a retailer workshop hosted with Frontier Economics.

We note the Australian Energy Regulator consulted on changes to its load profiles wider than the treatment of exports within interval metering data, including blended approaches to accumulation meter data sets. We use interval metering data, not accumulation meter data, therefore a blended approach is not relevant to the Victorian Default Offer.

Based on these actions, we consider stakeholders have had sufficient opportunity to understand and respond to the proposed change.

We have included a wholesale electricity cost of exports

Our Draft Decision Paper sought feedback on how to account for the wholesale electricity cost of exports if a load only profile is adopted. In considering whether to adopt a load only profile, we had regard to whether there are other costs associated with customers' exports that need to be accounted for in the Victorian Default Offer. We had regard to the interaction between the social cost of carbon in Victoria's regulated minimum feed-in tariff and the wholesale electricity cost component of the Victorian Default Offer.

---

[57] AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 4; EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper, April 2025*, p. 3.

[58] Essential Services Commission 2024, *Victorian Default Offer 2024–25: Final Decision Paper*, 20 May, p. 15.

[59] Australian Energy Regulator, 2024–2025 Default market offer prices: Draft decision, May 2024, accessed 28 April 2025.

Some retailers were concerned that removing exports from the load profile would leave them without sufficient revenue to cover the payment of exports when prices are negative while Victoria has a regulated minimum feed-in tariff.[60]

From 1 July 2025, the commission will no longer be required to determine the minimum feed-in tariffs, and instead retailers will be free to determine their own feed-in tariffs, however feed-in tariffs cannot fall below $0.00 per kWh.[61]

When the wholesale electricity price is negative, a retailer's customers' exports result in a settlement payment from the retailer to the market operator (which may be offset in part or in full by settlement payments for the customers' imports), yet retailers cannot recover this cost by charging their solar customers to export electricity. This is an additional cost that retailers would face for their customers' exports (a wholesale electricity cost of exports), so in our Draft Decision Paper we sought feedback on how to account for this cost in the Victorian Default Offer.

GloBird Energy made a submission that we should have regard to the Large-Scale Generation Certificate (LGC) prices when determining the wholesale electricity cost for solar exports:

> "The negative solar generation value may be calculated through determining the expected amount of customer exports sold and the expected wholesale price when this occurs…Typically, when there is excess rooftop solar, prices are negative. Large scale renewable plant tends to offer in their generation at around the prevailing negative LGC price. This results in the net revenue received (electricity + LGC) being breakeven."[62]

We consider that a solar-weighted wholesale electricity cost is an appropriate price for exports. This is because it is the wholesale price we applied to solar exports in the regulated minimum feed-in tariffs.[63] This solar-weighted wholesale electricity cost is derived from market outcomes which

---

[60] 1st Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2; Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1, 3; Energy Locals, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision* Paper, pp. 1-2; ENGIE, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2; GloBird Energy submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1-2; Powershop submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 2-3; Red Energy and Lumo Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 1-2.

[61] From 1 July 2025, the amount to be credited in each financial year against the charges payable to a retailer by a customer who is a relevant generator of the electricity the retailer supplies to the customer ('a general renewable energy credit') is no longer determined by the commission. Rather, the general renewable energy credit (often referred to as a 'solar feed-in tariff') is the amount determined by the retailer at the rate or rates published as part of the retailer's general renewable energy feed-in terms and conditions. This amount cannot be less than $0.00 per kilowatt-hour. Energy and Land Legislation Amendment (Energy Safety) Act 2025, s97A to s97D.

[62] GloBird Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p.2.

[63] Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February, p. 13.

would be influenced, in part, by LGC prices. Our final decision has included a wholesale electricity cost of exports using a solar-weighted wholesale price for 2025–26.

As mentioned above, when deciding to adopt a load-only profile, we considered the interaction between the social cost of carbon in Victoria's regulated feed-in tariff and the wholesale electricity cost component of the Victorian Default Offer. The draft decision reflected legislative requirements at the time by including the social cost of carbon. As this is no longer a mandated part of the feed-in tariff, it has been removed from the Victorian Default Offer.[64] In its place, the final decision includes a component for wholesale electricity cost of exports to ensure retailers can recover efficient costs. We will continue to consult on the approach and methodology for setting the Victorian Default Offer, including how wholesale electricity costs are treated, in future reviews.

We calculated the wholesale electricity cost of exports by multiplying the total exports (provided in the market operator metering data) by our forecast solar-weighted wholesale price for 2025–26. We then divided this cost by forecast consumption for the same period. This resulted in a cost of $1.85 per megawatt hour.

Our final decision is to continue using a Monte Carlo simulation to forecast demand and spot prices

To forecast customers' electricity demand and the relationship between price and demand, we analyse historical data on load and prices. We have previously used the most recent three years of interval meter data and wholesale electricity spot prices (both recorded at 30-minute intervals). We source this data from the market operator for use in the Monte Carlo simulation.[65]

In our view, a three-year sample period reflects a reasonable balance of providing an appropriate time series to analyse wholesale costs, while accounting for changes in demand patterns. Using a shorter period would place emphasis on short-term market dynamics or one-off weather events. We have therefore retained this approach in our final decision, aside from using demand and price data recorded at 5-minute intervals.

The Monte Carlo simulation randomly generates a year of 5-minute observations. This process is repeated 500 times to generate a range of simulated years.[66] Each simulated year is normalised to maintain load shape and the correlation between load and price and scaled to 5-minute prices.

---

[64] Energy and Land Legislation Amendment (Energy Safety) Act 2025, s97A to s97D.

[65] A Monte Carlo simulation is a mathematical technique used to estimate the possible outcomes of an uncertain event or process by running many random trials. Frontier Economics provides more detail in their report, Frontier Economics 2025, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, pp. 16–18, 2 May 2025.

[66] Frontier Economics use a random drawing of data from a pool of like days, where days are classified as either weekdays or weekends, from either Q1 (January to March), Q2 (April to June), Q3 (July to September) and Q4 (October to December).

This is done so that the time-weighted average price in each quarter is equal to the relevant quarterly ASX Energy base swap price for 2025–26, subtracting a contract premium.[67] Our methodology excluded days on which ASX market participants exercise their contract options from these trade-weighted averages, as our approach assumes that retailers use swaps and caps to hedge their load, but not options.

These simulations give a range of possible outcomes for demand and the relationship between price and demand for 2025–26.

Our final decision is to retain our approach to estimating an efficient hedging position

With this range of possible demand conditions, we estimated the hedging position a prudent retailer would adopt. The hedging position is the level of protection from spot prices, using a combination of hedging contracts, that a retailer selects.

We used Frontier Economics' STRIKE model to develop an efficient contracting position for making our final decision. The model used ASX Energy base swap and base cap future contract prices, three years of historical load data and spot prices from the market operator, and the spot price and demand conditions generated from this historical data by the Monte Carlo simulations. Using this data, the STRIKE model determined a hedging position that represents an efficient mix of hedging products that a prudent retailer would use to represent a position that is the lowest energy purchase cost for the lowest level of risk.

To estimate the cost of this hedging position, we used the 12-month trade-weighted contract prices from ASX Energy for base swap and base cap contracts. There are many different hedging products available. However, we continue to use futures prices from ASX Energy to estimate wholesale electricity costs, as participants publicly trade ASX Energy contracts, so prices and volumes are transparent.

We consider that our final decision to change to a load only profile in setting the Victorian Default Offer will naturally adjust the hedging position within the STRIKE model, because the underlying load to be serviced by the hedging contracts is different. We have therefore not made any explicit adjustments to the hedging position we have used.

Our final decision is to continue to apply a volatility allowance in forecasting wholesale electricity prices

For our final decision, we have continued to apply a volatility allowance to the wholesale electricity cost components of the Victorian Default Offer cost stack. This allowance covers the cost to

[67] The assumed contract premium is five per cent on the underlying prices.

retailers of holding working capital to fund spot market purchases during periods of very high spot prices (which are unexpected and hard to predict).

We calculated the volatility allowance based on the difference between our forecast wholesale electricity costs for the median simulated year and those for the costliest simulated year. This is completed for each of the five Victorian distribution areas.

In some years, actual costs will be higher than expected. In others, it will be lower. On average over time, we would expect the higher and lower costs to balance out.

Our methodology means in general we would expect there to be relatively little unhedged load. For example, during the very high spot prices experienced during 2022, we monitored the exposure retailers would face if they had adopted the hedging position assumed in our 2022–23 Victorian Default Offer wholesale electricity cost benchmark. We found that retailers hedged in this way would have had very little unhedged load and therefore little need for working capital to support the extreme market scenario that eventuated.

We acknowledge that some retailers may choose a riskier hedging position than assumed in our wholesale cost benchmark and therefore have higher working capital requirements. However, under the pricing order, the Victorian Default Offer must be based on the efficient costs of the sale of electricity by a retailer, and we are not required to set our cost benchmarks to reflect the actual costs of individual retailers.[68]

Further, those retailers with greater exposure to the wholesale spot price would also spend less on hedging contract costs. As a result, if we were to increase the volatility allowance, we would also have to make a commensurate decrease in hedging contract purchase costs.

Wholesale electricity costs are slightly higher in representative domestic customer bills compared to 2024–25

Wholesale electricity costs are the second largest component of annual bills, making up 30 per cent of both domestic and small business Victorian Default Offer customers' bills for 2025–26. This component is a yearly cost of $501 for a representative domestic customer and $1,084 for a representative small business customer on the default offer.

For representative domestic customers, wholesale electricity costs are $9 (or two per cent) **higher** than in our 2024–25 Victorian Default Offer. For representative small business customers this cost is $97 (or 10 per cent) **higher** than in our 2024–25 Victorian Default Offer.

Wholesale electricity future contract prices are slightly higher compared to our 2024–25 Victorian Default Offer balanced by the change in our approach to load profiles and the inclusion of a

[68] Clause 12(3) and (8) of the pricing order.

wholesale electricity cost of exports. For small business customers, the change in load profile has had a less pronounced impact due to their load profiles being flatter, with most electricity used during the day and less solar uptake.

Environmental costs

- Our final decision is to maintain our approach for estimating costs for the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme and the Victorian Energy Upgrades program.
- We have removed the social cost of carbon as legislation no longer requires it.
- Environmental costs represent about $114 (or seven per cent) of the average domestic flat tariff 2025–26 Victorian Default Offer bill (averaged across the five distribution zones).
- Our final decision means environmental costs for domestic customers are $21 (or 16 per cent) lower compared to the amount in our 2024–25 determination. This is mainly driven by decreased cost liability in Australian Government environmental programs and the removal of the social cost of carbon.

The pricing order requires that we have regard to **environmental costs** in estimating the efficient costs of electricity retailers.[69]

Our approach to environmental costs

Our final decision is to continue to forecast environmental costs based on the costs Victorian retailers incur in complying with environmental obligations imposed under Victorian or Commonwealth law or regulation. Environmental costs of this nature arise under the following Victorian and Commonwealth programs:

- Large-scale Renewable Energy Target
- Small-scale Renewable Energy Scheme
- Victorian Energy Upgrades program.

Because these costs are unavoidable, we consider it appropriate to include these costs in the Victorian Default Offer, as they reflect a retailers' efficient costs of selling electricity.[70]

The commission is no longer required to set a minimum feed-in tariff.[71] Our approach to environmental costs for the 2024–25 Victorian Default Offer included the avoided social cost of

[69] Clause 12(4)(c) of the pricing order.

[70] Clause 12(3) of the pricing order.

[71] Energy and Land Legislation Amendment (Energy Safety) Act 2025, s97A to s97D.

carbon the commission was obliged to have regard to when determining minimum feed-in tariffs. This is not required under the new arrangements for determining feed-in tariffs commencing 1 July 2025. This means in setting the Victorian Default Offer for 2025–26 the social cost of carbon is not required to be paid by retailers and therefore has not been included in the 2025–26 Victorian Default Offer.

Our final decision is to retain our approach to Large-scale Renewable Energy Target costs

The Large-scale Renewable Energy Target is an Australian Government program designed to reduce emissions in the electricity sector and encourage additional generation from renewable sources. It creates a financial incentive for the installation of large-scale renewable energy power stations.

Under the Large-scale Renewable Energy Target, eligible power stations create Large-scale Generation Certificates (LGCs) for every megawatt hour of renewable power they generate. Electricity retailers buy LGCs to meet their legally binding Renewable Energy Target obligations on an open market. Annual renewable generation targets and the amount of wholesale electricity purchased by electricity retailers determine the renewable power percentage (liability percentage). Electricity retailers must buy and surrender LGCs to the Clean Energy Regulator each year based on the liability percentage.

Our final decision maintains our approach to calculating retailer costs of complying with the Large-scale Renewable Energy Target. Our approach uses publicly available information and is a transparent and replicable method for estimating the efficient cost (per megawatt hour) of complying with the program.

We take the applicable liability percentage set by the Clean Energy Regulator each calendar year (17.91 per cent in 2025) and multiply by the 12-month trade-weighted average market price for LGCs settled in 2025–26 ($35.17). [72] [73]

As the liability percentage is set each calendar year and our decisions are for the financial year, we also include a ‘regulatory period adjustment’ to account for the difference between the estimated liability percentage used in our previous decision (18.48 per cent in 2024) and the actual liability percentage for the 2024–25 period that is now available. We do this by reflecting the midpoint between the liability percentages used in our previous and current decisions.

---

[72] Clean Energy Regulator set the renewable power percentage at 17.91 per cent for 2025. Clean Energy Regulator https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-renewable-power-percentage, accessed 8 April 2025.

[73] We have used the most recent 12 months of trade-weighted average market prices for LGCs settled in 2025–26 as of 16 April 2025. Frontier Economics, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025 p. 44.

Our final decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the Large-scale Renewable Energy Target for 2025–26, is $6.13 per megawatt hour.[74]

This is a decrease of $2.77 per megawatt hour from our 2024–25 Victorian Default Offer because of lower liability percentages and regulatory adjustment.

Our final decision is to retain our approach to the Small-scale Renewable Energy Scheme

Under the Small-scale Renewable Energy Scheme electricity retailers must purchase Small-scale renewable Technology Certificates (STCs). Individuals and small businesses create STCs when they install eligible small-scale renewable energy systems such as solar panels, solar hot water systems and air source heat pumps.[75] Retailers then purchase the STCs.

By March each year the Clean Energy Regulator sets a **binding** small-scale technology percentage (binding liability percentage) for the current year, and a **non-binding** small-scale technology percentage (non-binding liability percentage) for future years.[76] These liability percentages set the amount of STCs electricity retailers must purchase. Electricity retailers must surrender STCs to meet their obligation for that year.

Our final decision is to retain our approach to calculate the cost of the Small-scale Renewable Energy Scheme including performing a regulatory period adjustment of our previous decision.

For our final decision we used the mid-point between the 2025 binding and 2026 non-binding liability percentages, multiplied by the STC clearing house price ($40 excluding GST).[77] Our final decision used a mid-point of 12.84 per cent, derived from the 2025 binding percentage of 13.89 and the 2026 non-binding percentage of 11.79.

Our final decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the Small-scale Renewable Energy Scheme for 2025–26, is $4.59 per

[74] We also include an adjustment for the previous regulatory period. The regulatory period adjustment value accounts for changes to the liability percentage as well retail operating margin, network line losses and GST. The value of the adjustment to the 2024–25 period for the LRET is -0.17 cents.

[75] For more information see https://www.cleanenergyregulator.gov.au/RET/About-the-Renewable-Energy-Target/How-the-scheme-works/Small-scale-Renewable-Energy-Scheme, accessed 8 April 2025.

[76] Clean Energy Regulator, https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-small-scale-technology-percentage, accessed 8 April 2025.

[77] Small-scale renewable energy system owners and registered agents have the option to sell STCs through the open market for an uncapped price, or through the STC clearing house at a fixed price of $40 (excluding GST). Clean Energy Regulator, https://www.cleanenergyregulator.gov.au/OSR/REC/STC-clearing-house, accessed 8 April 2025.

megawatt hour.[78] We also included a regulatory period adjustment to account for the difference between the midpoint liability percentage used in the 2024–25 Victorian Default Offer final decision and the actual midpoint for 2024–25.

This is a decrease of $3.69 per megawatt hour from our 2024–25 Victorian Default Offer because of lower liability percentages and regulatory adjustment.

Our final decision is to retain our approach to the Victorian Energy Upgrades costs

The Victorian Energy Upgrades program is a key mechanism for reducing Victoria's greenhouse gas emissions. The program helps Victorians reduce their energy bills and greenhouse gas emissions by providing access to discounted energy efficient product and services.[79]

Under the program, accredited persons install energy efficient products or perform energy efficiency upgrades for customers. Accredited persons that perform these energy efficient upgrades can create Victorian Energy Efficiency Certificates (VEECs).

Each VEEC represents one tonne of greenhouse gas emissions reduction. Large electricity retailers must buy and surrender VEECs to meet annual targets set in Victorian legislation.

Retailers expressed concern with Victorian Energy Efficiency Certificates prices, while a consumer group supported our approach

In response to our draft decision, we received five submissions from retailers that raised concerns with VEEC availability and pricing.[80] We also heard from one consumer group who supported our approach being upheld by collecting additional data.[81]

We collected retailers' VEEC cost data, including the trade-weighted amount paid. We found the average trade-weighted price paid for VEECs for the 2023–24 financial year was $85, while our

[78] We also include an adjustment for the previous regulatory period. The regulatory period adjustment value accounts for changes to the liability percentage as well retail operating margin, network line losses and GST. The value of the adjustment to the 2024–25 period for the SRES is -0.55 cents.

[79] Essential Services Commission, 'About the Victorian Energy Upgrades program', https://www.esc.vic.gov.au/victorian-energy-upgrades/about-victorian-energy-upgrades-program accessed 8 April 2025.

[80] 1st Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 3, Australian Energy Council, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2, AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 5, ENGIE submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 3, Origin Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 6

[81] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 5.

estimate for approximately that same time was $87.[82] This indicates our approach is comparable to the actual prices retailers are paying for VEECs.

In contrast, some retailers expressed concerns that they face risks when trying to procure VEECs and when they are unable to do so, must make shortfall penalty payments that have a tax liability. AGL and Origin argued that we should consider retailers' tax liabilities for shortfall penalty payments when estimating the Victorian Energy Upgrades program costs in the Victorian Default Offer.[83]

The remaining submissions noted the issues with supply within the VEEC market or questioned our methodology, suggesting that a shorter timeframe would be more appropriate.[84]

We acknowledge recent reforms led by the Department of Energy, Environment and Climate Action to increase the number of activities for the Victorian Energy Upgrades program. The department expects the reforms will increase the number of available Victorian Energy Efficiency Certificates.[85]

We consider that an efficient retailer would use different approaches or mechanisms to meet their obligations under the Victorian Energy Upgrades program and avoid paying a shortfall penalty. This may include a mix of different purchasing arrangements to meet its compliance costs. The actual costs borne by retailers may vary depending on the approach. We consider using the most recent 12-months of VEEC prices provides the best estimate of retailers' costs, without placing undue weight on recent prices which would occur if we used a shorter period. We have maintained a 12-month averaging period in the Victorian Default Offer and consider current VEEC prices will be accounted for in the next decision.

---

[82] Essential Services Commission analysis of cost data reported by a sample of licenced electricity retailers in Victoria with over 10,000 small customers, provided via information gathering notices under Section 36 of *Essential Services Commission Act 2001*. Essential Services Commission 2024, *Victorian Default Offer 2024–25: Final Decision Paper*, 20 May p. 27.

[83] AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 5; Origin Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2.

[84] ENGIE, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 4.

[85] Essential Services Commission, Industry market update and work program, https://www.energy.vic.gov.au/victorian-energy-upgrades/installers/industry-market-update-work-program, accessed 12 May 2025.

As with our draft decision, we used the most recent 12-month trade-weighted average spot price for VEEC's multiplied by the 2025 greenhouse gas reduction rate for electricity.[86] For our final decision we used trades up until 14 April 2025.[87]

For our final decision, this means we multiplied the volume-weighted average VEEC price of $106.77 (excluding GST) by 0.15126, which produced a cost per domestic Victorian Default Offer customer of $16.15 per megawatt hour. This resulted in a total cost of $64.60 in a representative domestic Victorian Default Offer bill. This is an increase of $2.89 per megawatt hour compared to our 2024–25 Victorian Default Offer.

The 2025 greenhouse gas reduction rate is lower than in our 2024–25 Victorian Default Offer. However, this was offset by an increase in the average trade-weighted VEEC price.

Our final decision no longer accounts for the social cost of carbon component of the minimum feed-in tariff

The commission is no longer required to determine minimum feed-in tariffs.[88] This means that from 1 July 2025 the avoided social cost of carbon is no longer a cost to be accounted for in the Victorian Default Offer. Previous Victorian Default Offer decisions included a cost for the social cost of carbon retailers were obliged to pay their customers for each kilowatt hour of electricity they export into the electricity grid. This is not required under the new arrangements for feed-in tariffs.

As the obligation for retailers to pay the social cost of carbon has been removed effective from 1 July 2025, we have removed this component from the 2025–26 Victorian Default Offer.

For all environmental costs, a representative average domestic Victorian Default Offer customer will pay $114 per year out of a total annual bill of $1,675 in 2025–26. This is $21 lower compared to the amount included in the 2024–25 Victorian Default Offer cost stack. This change is mainly due to decreased cost liability for retailers under the Australian Government environmental programs and the removal of the social cost of carbon.

---

[86] Greenhouse gas reduction rate for 2025 is 0.15126. Essential Services Commission, https://www.esc.vic.gov.au/victorian-energy-upgrades-program/participating-veu-program/energy-retailers-veu-program, accessed 8 April 2025.

[87] The date range for VEEC trades and volumes covered the period 15 April 2024 to 14 April 2025.

[88] Energy and Land Legislation Amendment (Energy Safety) Act 2025, s97A to s97D.

Retail operating costs

- Our final decision is to continue setting the retail operating cost benchmark using the customer-weighted average of retailers' actual retail operating costs, adjusted for inflation. This approach was first adopted for our 2023–24 Victorian Default Offer decision and is retained in our final decision.
- Retail operating costs represent $147 (or nine per cent) of the average domestic flat tariff bill and about four per cent of the average small business flat tariff bill (averaged across the five distribution zones).
- The retail operating costs in our final decision are about five per cent higher than the amount included in our 2024–25 Victorian Default Offer determination for both domestic and small business customers.

The pricing order requires that we have regard to **retail operating costs** in estimating the efficient costs of electricity retailers.[89]

Retail operating costs consist of a range of costs incurred by an electricity retailer, comprising:

- cost to serve, including:
  - billing and revenue collection systems
  - related labour cost
  - information technology systems
  - call centre costs
  - corporate overheads
  - other costs (general and administrative, corporate overhead, and other miscellaneous costs related to cost to serve)[90]
- bad and doubtful debt write-offs.

In response to submissions questioning the detailed cost components, we provided some additional cost breakdown

This year, we have taken additional steps at the time of collecting and analysing retail costs to improve the transparency and accuracy of our retail operating cost calculations for the Victorian Default Offer. As part of our process, we collected retail operating costs data for the most recent financial years (2023–24) from electricity retailers. The retailers that provided data collectively

[89] Clause 12(4)(d) of the pricing order.

[90] These other costs category only includes costs associated with retail operation. Cost items such as market fee, licence fee are separately accounted in the cost stack

represent over 95 per cent of Victoria's domestic and small business electricity market. We analysed the data, identified outliers, and followed up with retailers to better understand the underlying cost drivers and emerging trends across the sector.

To improve transparency, accuracy and avoid double counting, we sought clarification on cost items where multiple costs were combined under aggregated categories (for example 'Other costs'). These components were subsequently reallocated to the appropriate cost categories such as wholesale, environmental, and cost to serve. In addition, we ensured that 'Other costs' did not include cost components that have been captured separately in the cost stack (see Other costs).

As the pricing order requires us to consider efficient costs, this process enabled us to exclude inefficient and one-off costs from our calculation.

Based on this data, we calculated a single retail operating cost benchmark applicable to both customer segments by determining the customer-weighted average of retailers' actual reported costs adjusted for the difference in the Consumer Pricing Index (CPI).

The customer-weighted average of retail operating costs per customer in 2023–24 was $145 excluding GST before CPI adjustment.[91] Consistent with the approach used in previous reviews, we applied a CPI adjustment, resulting in a final retail operating cost benchmark of $147 excluding GST, for the 2025–26 Victorian Default Offer.[92] [93]

We acknowledge that individual retailers may incur operating costs that differ from our benchmark. However, we do not set the benchmark for each individual retailer, or industry segments. Instead, we consider the costs faced by an efficient retailer when setting this benchmark, which is best represented by a customer-weighted average approach.

The data collected reflects the most up-to-date cost information available. Basing our benchmark on the customer-weighted average of retailers' actual costs will ensure that our price determination allows retailers to recover the efficient costs associated with providing electricity to Victorian Default Offer customers.

Submissions on the 2025–26 draft decision mainly supported our approach to continue with a uniform retail operating cost benchmark but asked for more transparency

We received eight submissions on the Victorian Default Offer: Draft Decision Paper 2025–26 on retail operating cost. Five submissions were from retailers, two submissions were from consumer advocate groups and one from a peak industry body.

---

[91] Essential Services Commission's internal calculation based on retailers' actual reported costs.

[92] Australian Bureau of Statistics, All groups CPI, Australia Series ID A2325846C, accessed 30 April 2025.

[93] We applied the CPI from June 2024 (138.80) to 31 March 2025 (140.70).

The Consumer Action Law Centre supported the commission's continued scrutiny of retailer-reported costs, including the use of customer-weighted benchmarking and comparisons with regulatory benchmarks from other jurisdictions. It emphasised that any cost increases must be clearly justified, reflect the actual cost to serve, and avoid the risk of cost over recovery. It also advocated for greater transparency in the collection of key retail operating cost components – particularly in relation to bad debt.[94]

The Victorian Council of Social Service supported the commission gaining a clearer understanding of actual retailer costs and behaviours to enhance transparency. It recommended publishing data where possible, including costs such as acquisition, bad debts, overheads, and IT systems, and suggested comparing large and small retailers to assess market competitiveness.[95]

Alinta Energy supported the commission's approach to continue benchmarking retail operating costs using a single, uniform benchmark for the Victorian Default Offer in 2025–26. It also supported scrutiny of cost to serve and bad debt costs but argued that continually targeting these modest components, along with the retail margin, creates an imbalanced approach that may ultimately reduce competition and customer choice.[96]

ENGIE did not support the continued use of a uniform benchmark noting that the commission's analysis suggests the uniform benchmark likely underestimates small business costs. ENGIE argued that adopting separate benchmark retail operating cost for different customer profiles would improve the accuracy and transparency of the Victorian Default Offer, reinforcing the credibility of the methodology. [97]

The commission is committed to ensuring transparency and fairness in the development of retail operating cost benchmarks. The 2025–26 Victorian Default Offer is the first time the commission has collected segment specific cost data.

We noted that despite cost to serve and bad debt costs being lower on average for residential customers, individual retailer data does not support this cost allocation assumption. Some retailers have higher costs for residential customers while others have higher costs for small business customers.

---

[94] Consumer Action Law Centre, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 6–7.

[95] Victorian Council of Social Service, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 10.

[96] Alinta Energy, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1.

[97] ENGIE, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2.

In addition, several retailers also noted that they do not maintain cost records separated by customer type. Therefore, we have concluded that a single benchmark is the most reliable and consistent approach for the purpose of this decision. As data quality improves in future years, we may reconsider the development of separate benchmarks for different customer profiles.

ENGIE also argued that using customer-weighted averages in calculating the retail cost benchmark may skew cost estimates toward large retailers and disadvantage smaller ones. ENGIE recommended exploring alternative methods, such as the median, and called for robust testing and transparent justification for the current approach.[98]

We understand the concern regarding the potential for customer-weighted averages to favour larger retailers. However, the purpose of the benchmark is to reflect the efficient cost of providing electricity, not the average or most common cost incurred by individual retailers – whether large or small. While the median may provide a measure that aligns more closely with the cost of certain retailers, it does not fully reflect an efficient cost level across the sector. In contrast, the weighted average approach considers economies of scale and relative cost distribution and is therefore better suited in generating an efficient retail operating cost benchmark.

The Australian Energy Regulator has evaluated alternative statistical measures, such as simple average or median for calculating the retail cost benchmark for 2025–26 Default Market Offer draft determination.[99] It identified that while alternative measures may yield higher benchmarks and accommodate a broader range of retailers, they are more prone to volatility due to year-on-year cost and retailer variation. In contrast, the weighted average approach provides greater stability over time.

Origin, EnergyAustralia and Powershop expressed general support for the commission's consistent methodology for estimating retail operating costs. However, all three retailers requested greater transparency in the 2025–26 retail operating cost benchmark which would assist in reconciling the retail cost allowance with similar benchmarks used by other jurisdictions.[100] In response to this, we have included more detailed information on retailer operating costs.

---

[98] ENGIE, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 3.

[99] Australian Energy Regulator, *Default market offer prices 2025–26: Draft determination*, March 2025, p. 63.

[100] Powershop, submission to Essential Services Commission, *2025–26 Victorian Default Offer Draft Decision*, April 2025, pp. 2-3.

'Other costs' have been included in our retail operating cost benchmark

Origin, EnergyAustralia and the Australian Energy Council sought further clarity on the treatment of 'Other retail costs' and indicated that other costs had been excluded from the commission's retail operating cost benchmark.[101] [102] [103]

The 'Other cost' category is intended for retailers to report costs that do not fall under the specific predefined categories. As part of the data review process, the commission requested detailed explanation from retailers regarding the nature of these costs. Where the costs were related to serving customers, they were reclassified and included under the relevant cost category, typically the 'Cost to serve'.

Table 5 shows the weighted average retail operating cost components over the last three financial years. This is the period over which the actual costs approach has been used in the Victorian Default Offer.

Table 5: Breakdown of retail operating cost (not adjusted by CPI)

	2021–22FY (VDO 2023–24)	2022–23FY (VDO 2024–25)	2023–24FY (VDO 2025–26)
Cost to serve	$35	$36	$37
Customer service (including call centres and support)	$5	$8	$14
Debt collection	$4	$4	$6
Billing functions	$8	$9	$10
IT systems	$14	$17	$14
Other cost to serve	$13	$18	$17
Other costs	$17	$17	$14
Bad debt costs	$30	$28	$34
Retail operating cost (total)	$126	$137	$145

Source: Essential Services Commission analysis based on data requested and received from a sample of Victorian retail electricity businesses. Values in the table may not sum to exact total due to rounding.

[101] Origin Energy, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 2, 4-5.

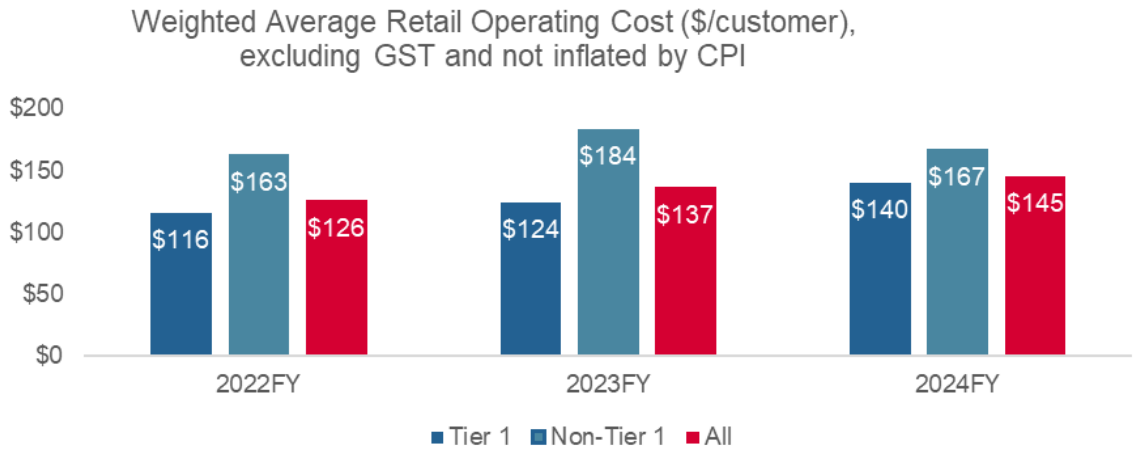
[102] EnergyAustralia, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 7-8.

[103] Australian Energy Council, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1.

EnergyAustralia requested some comparable charts used in presenting information on retail operating cost benchmarks by other jurisdictions. We have provided Table 5 and Figure 5 in response to its submission to help retailers better understand the benchmark calculation. EnergyAustralia also suggested publishing an interquartile chart of retailers' operating costs. While we acknowledge that retail operating costs can vary across individual retailers, the purpose of the benchmark is not to replicate or reflect the costs of any particular group. Instead, we use a customer-weighted average approach, which we consider a more appropriate method for estimating the efficient costs of electricity retailing. This approach better supports the objective of the retail operating cost benchmark in Victorian Default Offer. [104]

To support transparency, we have produced the time series of weighted average retail operating costs chart for Tier 1 retailers (those with greater than five per cent market share) and non-Tier 1 retailers, beginning from the 2021–22 financial year. Over the last three financial years, Tier 1 retailers have exhibited a consistent increase in overall cost to serve, including bad debt and other related retail costs such as overheads and administrative expenses. The difference in retail operating costs between Tier 1 and non-Tier 1 retailers has narrowed, particularly, in the 2023–24 financial year. This trend is consistent with the Australian Competition and Consumer Commission's findings that the cost-to-serve advantage previously held by the three largest retailers has been diminishing in 2023–24.[105]

Figure 5: Time series of weighted average retail operating cost per customer



Tier 1 (retailers having more than 5% of market share- AGL, Origin, EnergyAustralia, ENGIE, Red Energy and Lumo Energy), non-tier 1 and all retailers (excluding GST and before applying difference in CPI)

[104] EnergyAustralia, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 7–8.

[105] Australian Competition and Consumer Commission (ACCC), *Inquiry into the National Electricity Market*, December 2024, p. 79.

Retail operating cost covers efficient costs incurred based on actual retail cost

EnergyAustralia and Powershop submitted that the retail operating cost benchmark does not provide sufficient headroom to accommodate innovation-related expenditure, such as investments in virtual power plants or new technologies aimed at improving and evolving retail services.[106] [107]

It should be noted that retail operating cost covers efficient costs incurred based on actual retail cost. The pricing order doesn't allow for the Victorian Default Offer to include headroom.[108] Where innovation directly supports the efficient delivery of core retail functions – such as billing, customer service— these costs may be reasonably included in the operating cost benchmark.

We have reviewed the methodologies used by other regulators

The Australian Energy Regulator uses separate benchmarks for domestic and small business customers in determining the Default Market Offer for New South Wales, South Australia and South East Queensland.[109] Similarly, the Queensland Competition Authority also applies a benchmark methodology, adjusting for inflation and customer-specific distinct cost allocations.[110] In contrast, the Independent Competition and Regulatory Commission, and the Office of the Tasmanian Economic Regulator apply a uniform retail operating cost across customer segments, opting for blended benchmarks instead of customer-specific allocations.[111] [112]

Setting separate benchmarks will have minimal impact on domestic customers but could noticeably increase the bill for small businesses

We collected retail operating cost data separately for both customer segments from retailers.

Our analysis showed that while the average cost to serve and bad debt write-off amounts are lower for domestic customers compared to small businesses, applying customer-specific benchmarks would result in only a modest reduction in the domestic retail operating cost benchmark and a noticeable increase for small businesses. Additionally, individual retailers' data does not

---

[106] EnergyAustralia, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 4.

[107] Powershop, submission to Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 2-3.

[108] Clause 12(10) of the pricing order.

[109] Australian Energy Regulator, *Default market offer prices 2024–25: Final determination (track-changed comparison)*, June 2024, p. 46.

[110] Queensland Competition Authority, *Regulated retail electricity prices in regional Queensland for 2024–25*: *Final Determination*, June 2024, p. 23.

[111] Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27,* May 2024, p. 42.

[112] Office of the Tasmanian Economic Regulator, *Standing Offer Electricity Pricing Investigation: Final Report*, April 2022, pp. 19–20.

consistently support cost allocation assumptions based on customer type. Some retailers have higher costs for domestic customers while others have higher costs for small business customers.

Modest customer acquisition and retention costs

- Our final decision is to keep the same approach we have used in past reviews in estimating modest customer acquisition and retention costs (acquisition costs).
- Acquisition costs represent about $47 (or three per cent) of the average domestic flat tariff bill (averaged across the five distribution zones).
- Due to inflation, acquisition and retention costs in the cost stack have slightly increased compared to those in the 2024–25 Victorian Default Offer.

The pricing order requires that in having regard to retail operating costs in estimating the efficient costs of electricity retailers, we include a **modest allowance for customer acquisition and retention** (acquisition costs).[113] Acquisition costs include the:

- cost of customer acquisition channels (such as third-party comparison websites or sign-up bonuses/credit)
- cost of customer retention teams
- marketing costs targeted at driving customer acquisition and retention.

Our final decision maintains our approach to estimating modest acquisition costs

For our final decision we have used an acquisition cost benchmark based on the average National Energy Market-wide acquisition costs from the Australian Competition and Consumer Commission's retail electricity pricing inquiry report.[114] We selected average costs from 2013–14 on the basis that it was the most robust data available prior to large increases in spending on acquisition costs observed across most jurisdictions.

We update our acquisition cost benchmark for inflation during each Victorian Default Offer review.[115] In adjusting for inflation, we are maintaining the value of our benchmark in real terms over time. This approach resulted in a modest benchmark for acquisition costs of $46.57 excluding GST, slightly higher than the benchmark of $45.50 for the 2024–25 Victorian Default Offer due to inflation.

[113] Clause 12(4)(d) and Clause 12(6) of the pricing order.

[114] Australian Competition and Consumer Commission, *Retail electricity pricing inquiry: Final report,* July 2018.

[115] Australian Bureau of Statistics, All groups CPI, Australia Series ID A2325846C, accessed 30 April 2025.

Our final acquisition benchmark is below the national average

Our acquisition benchmark for the 2025–26 Victorian Default Offer is about 27 per cent below the weighted average acquisition costs reported by Victorian retailers and is 26 per cent below the national average for domestic consumers as reported by Australian Competition and Consumer Commission.[116] [117]

This indicates that our acquisition benchmark is modest, which aligns with our requirement under the pricing order.[118]

We have considered submissions on acquisition costs

We received two submissions on acquisition costs from customer advocacy groups, and one submission from a retailer.[119] [120]

The Consumer Action Law Centre supported that acquisition costs remain modest in the Victorian Default Offer, noting that our benchmark is significantly lower than the weighted average for Victorian retailers, and the National Electricity Market-wide average acquisition costs. However, both the Consumer Action Law Centre and Victorian Council of Social Service argued that acquisition costs should not be included in the Victorian Default Offer.

The Consumer Action Law Centre questioned the value of retailers' marketing spending and best offer messaging and cited Australian Competition and Consumer Commission's report that 38 per cent of flat rate customers were on market offers higher than default offers across the whole National Electricity Market.[121] The Consumer Action Law Centre also expressed concern about the potential inclusion of telemarketing costs in the acquisition cost benchmark, given that telemarketing is prohibited in Victoria.[122] The commission confirms that telemarketing is not an explicit input in the benchmark, nor have retailers reported such costs in their responses to our information request.

---

[116] Based on Essential Services Commission's internal analysis.

[117] Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market: December 2024 Report*, Appendix C – figure C11.20, accessed 22 January 2025.

[118] Clause 12(4)(d) and Clause 12(6) of the pricing order.

[119] Joint submission with Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 10; Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 7–8.

[120] EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 8–9.

[121] Australian Competition and Consumer Commission, *Inquiry into National Electricity Market: Report December 2024*, December 2024.

[122] *Electricity Industry Act 2000,* s 40EB.

The Victorian Council of Social Service further argued that including acquisition costs as a separate cost element may enable over-recovery, as it considers investment in market share expansion in a competitive environment should be funded through deferred profits rather than through recovery from customers. Both the Consumer Action Law Centre and Victorian Council of Social Service recommended that acquisition costs be excluded in future determinations – either through an Order in Council to amend the pricing order or by setting the benchmark to a nominal amount close to zero.

The Victorian Default Offer serves a dual purpose. While it aims to safeguard disengaged customers and embedded networks customers from unreasonably high prices, it also serves as a reference price for market offers. To do this role, it must reflect the efficient costs that a retailer would reasonably incur in delivering electricity in a competitive environment. Acquisition and retention costs form part of this efficient cost structure, and the pricing order requires us to consider modest allowances for these costs. The pricing order may only be amended by the minister following relevant policy considerations.

EnergyAustralia supported the commission's consistent methodology but questioned the use of the Australian Competition and Consumer Commission's 2013–14 benchmark (adjusted for inflation), arguing it may not reflect current market conditions given substantial changes in technology, consumer behaviour, and regulatory pressures.[123]

The commission considers a modest allowance appropriately balances the interests of all stakeholders – recognising that some acquisition and retention costs are necessary in a competitive market, while remaining mindful of affordability impacts, particularly for vulnerable customers. In terms of our approach to establishing a modest customer acquisition cost, we note a previous review of the Victorian Default Offer pricing order found our interpretation of the term 'modest' appears to balance all interested parties' concerns.[124]

[123] EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 8–9.

[124] Department of Environment, Land, Water and Planning 2022, *Review of the Victorian Default Offer Order in Council Final decision*, pp. 26–27.

Other costs

- Other costs make up 1.25 per cent of total costs for a representative Victorian Default Offer customer (averaged across the five distribution zones) on a flat rate tariff.
- Our final decision marginally increases the amount included for these costs compared with the 2024–25 Victorian Default Offer, primarily due to increases in market intervention costs, Reliability and Emergency Reserve Trader costs and Australian Energy Market Operator fees.

The pricing order gives us discretion to have regard to any **other costs** considered appropriate or relevant in our estimation of the efficient costs of the sale of electricity by a retailer (with the exception of headroom).[125]

Our final decision is to pass-through other costs that retailers incur when they are specific and discrete to their obligations and requirements to operate as an electricity retailer. These costs are generally minor in relation to the total Victorian Default Offer cost stack (1.25 per cent) but are part of a retailer's efficient costs in selling electricity.

Other costs include:

- market intervention costs
- Australian Energy Market Operator fees
- ancillary services fees
- Reliability and Emergency Reserve Trader costs
- Essential Services Commission licence fees.

These other costs comprise both fixed costs (per customer) and variable costs (per megawatt hour).

We did not receive any comments on other costs in submissions on our draft decision for the 2025–26 Victorian Default Offer.

Our final decision includes recovery of market intervention costs

The Australian Energy Market Operator manages the power system that supports the National Electricity Market (NEM). If the power system is interrupted, the market operator can act to maintain a secure operating state by suspending the NEM. In the event the NEM is suspended, the cost of electricity traded on the NEM during that time is determined through market suspension

[125] Clause 12(4)(f) of the pricing order.

pricing schedules set out in the National Electricity Rules.[126] This cost is recovered by the market operator from electricity retailers that contributed to electricity demand during the suspension event.

Suspension events in 2024

The Australian Energy Market Operator has advised of six events which occurred in 2024 which may result in costs being recovered from Victorians.[127]

Of the six events, three are still pending cost recovery confirmation and final market operator reports. As these three events are yet to be finalised, they have not been included in our final decision. Should these events impose a cost on Victorian retailers once finalised after our final decision, they will be considered in subsequent Victorian Default Offer price determinations.

The market operator has confirmed costs have been recovered from Victorian retailers for three events in 2024. Two of these events occurred 13 and 14 February 2024, resulting from a severe storm cell which developed near Ballarat and moved southeast.[128] The Moorabool-Sydenham No.1 and 2,500 kilovolt (kV) lines tripped, following a failure of six 500 kV towers. Approximately 2,690 megawatts (MW) of generation were lost and 1,000 MW of load was shed in Victoria following the disturbance. As a result of this incident, the market operator directed Mortlake Units 11 and 12 to remain synchronised to maintain power system security in Victoria.

The third event occurred on 5 September 2024. This involved an IT failure that occurred during a planned electricity market management system transfer which impacted the entire dispatch process.[129] The incident involved the suspension of the spot market in all NEM regions from trading for two hours in the afternoon.

Our 2024–25 Victorian Default Offer decision otherwise noted potential market intervention costs relating to outstanding compensation payable for a significant market intervention event in June 2022. The market operator has since confirmed that compensation relating to this event will not be recovered from Victorian electricity retailers.[130]

---

[126] For more information see: NER Rule 3.14: Administered Price Cap and Market Suspension - AEMC Energy Rules Accessed 8 April 2025.

[127] Advised by the Australian Energy Market Operator by email on 15 April 2025.

[128] AEMO System security (energy) directions report 03 Feb 2024- 02 March 2024, 'Directions Summary' tab, row 21 and table 3. Accessed 8 April 2025.

[129] Australian Energy Market Operator, Preliminary Report: NEM Market Suspension on 5 September 2025. Accessed 8 April 2025.

[130] Confirmed by the Australian Energy Market Operator via email on 15 October 2024.

This results in a cost to an average domestic Victorian Default Offer customer of $0.28 in 2025–26. This is an increase of $0.27 from the 2024–25 Victorian Default Offer and is driven by the market suspension events in February and September 2024.

Reliability and Emergency Reserve Trader costs

The Reliability and Emergency Reserve Trader scheme is a mechanism that the market operator can use to maintain power system reliability and system security using reserve contracts. The market operator publishes reports detailing when their reliability and emergency trader functions have been activated.[131]

Since our final decision on the 2024–25 Victorian Default Offer, the market operator has confirmed that additional Interim Reliability Reserves were contracted to cover the period from 1 January 2024 to 31 March 2024 for the Victorian region, with costs incurred recovered from Victorian electricity retailers.[132]

Our final decision reflects a pass-through of these costs as advised by the market operator, setting Reliability and Emergency Reserve Trader costs at $0.38 per megawatt hour. This results in a cost to an average domestic Victorian Default Offer customer of $1.52 in 2025–26.

Australian Energy Market Operator fees

The Australian Energy Market Operator charges fees to retailers to recover the costs of market operation.[133] These fees include:

- General National Electricity Market (NEM) fees
- Distributed Energy Resources Integration Program costs
- IT and 5MS/GC compliance costs
- Energy Consumers Australia fees
- Electricity Retail Market fee (formally the Full Retail Contestability operations fee).

These are unavoidable costs incurred by electricity retailers when selling electricity.

Our final decision relied on fees provided by the market operator, based on its draft 2025–26 budget and fees report released in April 2025.[134]

---

[131] Australian Energy Market Operator, RERT reporting. Accessed 8 April 2025.

[132] Australian Energy Market Operator RERT Quarterly Report Q1 2024. Accessed 8 April 2025, value confirmed via email with AEMO 14 April 2025.

[133] For more information on the Australian Energy Market Operators core functions and responsibilities see: Energy market fees and charges, Accessed 22 April 2025.

[134] AEMO FY26 Draft Budget and Fees Report. Accessed 22 April 2025.

The total cost in our final decision for market operator fees for the average domestic Victorian Default Offer customer is $16.13. This an increase of $2.21 from $13.92 in the 2024–25 Victorian Default Offer. The market operator advised that the main drivers of the increase in cost are:

- The underlying costs of operating the energy system and markets and ongoing investment to prepare for and respond to an increasingly complex operating environment.
- The implementation of market reforms which have led to increases in capital costs depreciation and amortisation and ongoing operating costs.[135]
- The introduction of new Cyber Security roles, which is a new function for the market operator that commenced on 12 December 2024.

Ancillary service fees

Ancillary services are provided by the Australia Energy Market Operator to manage the power system safely, securely and reliably, for frequency, voltage and system restart processes.[136] The ancillary services are provided separately for each market region in which the market operator operates. Unlike other charges, the market operator's ancillary service fees differ across these different market regions and therefore are not included in the Australian Energy Market fees.

Applicable ancillary service fees depend on the amount of service required at any time, which means the costs will vary from period to period. Our final decision estimated Victorian ancillary service fees based on an average of ancillary service fee payments in Victoria over the 52-week period to April 2025.

Our final decision results in an average ancillary service fee of $0.15 per megawatt hour for the average Victorian Default Offer customer. This is a decrease of $0.13 per megawatt hour from the 2024–25 Victorian Default Offer determination.

Essential Services Commission licence fees

Holding an electricity licence incurs an annual licence fee. Licence fees and charges are determined by the Minister for Energy and Resources and Climate Action in consultation with the minister administering the *Essential Services Commission Act*.[137] Commission licence fees are based on the costs we incur in performing our regulatory functions. The specific fee for each retailer is contingent on the number of customers served by that retailer.

To estimate the cost of licence fees per customer for the 2025–26 Victorian Default Offer we used a market-wide total of all retailer licence fees for 2024–25, adjusted for inflation, divided by the total

---

[135] AEMO FY26 Draft Budget and Fees Report, Page 24, 4.1. Accessed 12 May 2025.

[136] For more information on ancillary services see: Australian Energy Market Operator, *Ancillary Services Payments and Recovery*. Accessed 8 April 2025.

[137] Section 22 of the *Electricity Industry Act 2000.*

number of customers as of 30 June 2024. The latest approved licence fees are for 2024–25. When adjusted by inflation this results in a benchmark of $2.13 per customer per year for our 2025–26 final decision.

This estimate is a decrease of $0.04 per customer from $2.17 in our 2024–25 Victorian Default Offer determination, due to using more recent licence fees, customer numbers and updated inflation.

Network loss factor

The pricing order requires the commission to consider any **matter or thing** that we consider appropriate or relevant in our estimation of the efficient cost of the sale of electricity by a retailer (except for headroom).[138]

When electricity is transported through transmission and distribution networks, some of this electricity is lost in the process. Electricity losses occur because of electrical resistance in the wires, converting some electricity to heat and noise. As a result, more electricity is generated than is consumed by end users. The Australian Energy Market Operator reports these losses, and we account for them by applying a network loss factor to variable cost components of the Victorian Default Offer.

Consistent with the approach we used in the 2024–25 Victorian Default Offer, our final decision is to estimate the network loss factor by calculating and adding the relevant marginal loss factor (energy losses for electricity transmitted on a transmission network) and distribution loss factor (energy losses for electricity transmitted on a distribution network).

To calculate the distribution loss factors in our final decision, we used:

- The market operator's short sub-transmission factor for the CitiPower, Jemena, and United Energy distribution zones
- The load-weighted average of the short and long sub-transmission factors for the Powercor and AusNet zones.[139]

To calculate the marginal loss factors in our final decision, we used a simple average of the market operator's regional reference node factor for each of the five Victorian distribution zones, removing transmission nodes that did not have any domestic or small business load.[140]

---

[138] Clause 12(4)(f) of the pricing order.

[139] Australian Energy Market Operator, *Distribution Loss Factors for the 2025–26 Financial Year*, April 2025, p. 12.

[140] Australian Energy Market Operator, *Marginal Loss Factors 2025–26 Financial Year*, April 2025, pp. 26–28.

Retail operating margin

- Our final decision is to reduce the retail operating margin to five per cent of the total cost stack (before GST), down from 5.3 per cent in the 2024–25 Victorian Default Offer.
- We continue to use a regulatory benchmark approach in setting an appropriate margin, while also having regard to other data and evidence. For example, the feasible range from the expected returns approach, market offer prices relative to default offer prices, retailers' actual margins and interested parties' concerns in the submissions.
- Our final decision means that the dollar value of the retail operating margin in the domestic cost stack will decrease by $4 (on average across Victoria's five distribution zones) compared to the margin in the 2024–25 Victorian Default Offer.

Under the pricing order, we are required to have regard to the **retail operating margin** when making a Victorian Default Offer pricing determination.[141]

The retail operating margin for an electricity retail business represents the return that a retailer requires to attract the capital needed to provide a retail service.[142]

The retail operating margin covers:

- systematic risk (non-diversifiable)
- tax
- depreciation and amortisation.

We are not required to base the retail operating margin on retailers' actual operating margins.[143] Under the pricing order, risks accounted for in other components of the Victorian Default Offer cost stack (such as wholesale electricity market risk) must not be included in the retail operating margin.[144]

[141] Clause 12(4)(e) of the pricing order.

[142] Australian Energy Market Commission, *Advice on Best Practice Retail Price Regulation Methodology*, September 2013, p. 64.

[143] Clause 12(9) of the pricing order.

[144] Clause 12(7) of the pricing order.

Our final decision is to reduce the retail operating margin to five per cent

Our final decision is to reduce the retail operating margin from 5.3 per cent to five per cent of the cost stack. In determining that five per cent is an appropriate margin we have considered the following factors:

- margins set by other Australian regulators
- the expected returns approach
- market offer prices relative to default offer prices
- retailers' actual margins
- submissions.

Each of these factors are discussed in further detail below.

Most Australian jurisdictions maintained their retail operating margin

For our final decision, we investigated the regulated retail margins adopted in other Australian jurisdictions using the latest information available. Victoria's retail margin continues to be among the lowest retail margins across jurisdictions, reflecting the level of market competition in Victoria.

Table 6 shows the retail margins across other jurisdictions reflecting their latest decisions.

Table 6: Comparison of regulated retail margins in Australia

Regulatory decision	Approach	2024–25	2025–26 (latest decision)
Australian Energy Regulator, Default Market Offer	Expected returns + regulatory benchmarking	6.0% in all regions, or $106-$153, for domestic customers without control load[145]	6.0% in all regions, or $118–$163, for domestic customers without control load[146]
Independent Competition and Regulatory Commission	Expected returns + regulatory benchmarking	5.2% of the total cost stack	5.2% of the total cost stack (continues to apply)[147]
Office of the Tasmanian Economic Regulator	Expected returns + regulatory benchmarking	Approximately 5.25%, or $113.[148]	Approximately 5.25%, or $117.[149]
Queensland Competition Authority	Overall retail cost allowance including retail margin; retail cost component equivalent to SEQ decision by the AER.	6.8%, or $123, calculated from QCA and AER 2024–25 final determinations	No change to last year's approach. Implied retail margin was 6.8% in 2024–25. We will update it using DMO 2025–26 retail cost
Essential Services Commission	Expected returns + regulatory benchmarking	5.3% of total cost stack, or $80	5.0% of total cost stack, or $76

Source: Published reports for each jurisdiction. See footnotes in table.

[145] Up until 2023–24, the Australian Energy Regulator's (AER's) retail allowance included retail margin as well as a competition allowance. This was not fully comparable to the retail margin that the commission is required to set (this is to ensure that retailers with higher-than-average costs are still able to compete in the market and make reasonable profits). However, in making Default Market Offer prices for 2024–25, the AER has excluded the competition allowance (or set allowance to zero) across all its tariffs. Therefore, we have included AER's retail allowance in our comparison.

[146] Australian Energy Regulator, *Default Market Offer prices 2025–26: Draft determination*, March 2025, p. 82. The Australian Energy Regulator determines a total retail allowance including both an efficient margin and a competition allowance. In decisions for the Default Market Offer 2024–25 and 2025–26, the Australian Energy Regulator excluded competition allowance from regulated prices.

[147] Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27*, Section 4.6 'Retail margin', May 2024, pp. 45–48.

[148] In our draft decision, we reported the dollar equivalent in 2023–24 dollars as per Office of the Tasmanian Economic Regulator's methodology paper. Its 2025 Standing Offer Draft Report has provided dollar equivalent by nominal terms in 2023–24 dollar and 2024–25 dollar.

[149] Office of the Tasmanian Economic Regulator, *2025 Regulated Retail Electricity Pricing Investigation: Draft Report*, February 2025, pp. 67–68.

Five per cent is within reasonable range from the expected returns approach

When we recommended our Victorian Default Offer prices in 2019, we engaged Frontier Economics to provide a report on retailers' retail operating margins. This report included two approaches: the regulatory benchmarking approach and the expected returns approach. The reasonable range using the expected returns approach was between 4.8 and 6.1 per cent.[150]

Recently, the Independent Competition and Regulatory Commission engaged Frontier Economics to undertake similar work for their draft decision on standing offer prices to apply between 2024–25 and 2026–27. Frontier Economics estimated range from the expected returns approach was 4.5 to 5.9 per cent.[151]

Our final decision to set the retail operating margin at five per cent is within the reasonable ranges estimated by Frontier Economics both in 2019 and updated in 2024.

There continues to be many market offers priced below the Victorian Default Offer

In the past year, we have continued to monitor market offer prices using Victorian Energy Compare data. Based on our internal analysis of bills paid, the prices consumers have generally paid retailers have been below the Victorian Default Offer prices. From July 2024 to February 2025, we continued to see median market offers priced below the Victorian Default Offer. This is consistent with a trend observed since 2020. This suggests that the Victorian Default Offer is not below the efficient cost.

We have monitored retailers' actual margins in Victoria and other jurisdictions

We have monitored retailers' actual operating margins to cross check our decision on the benchmark retail operating margin for 2025–26. We calculated actual retail margins as retail businesses' earnings before interests, tax, depreciation and amortisation (EBITDA).

EBITDA is measure of businesses' returns that reflects capital depreciation and amortisation, and which is also used by other regulators' in assessing observed retailer margins, for example the Australian Competition and Consumer Commission in its Retail Electricity Pricing Inquiry.[152]

Based on the revenue and cost data we collected from retailers, Victorian retailers' actual, average operating margin has reduced from about 4.6 per cent in the 2023 financial year to about 2.8 per cent in the 2024 financial year. These are lower than our regulated margin decision at five per cent.

---

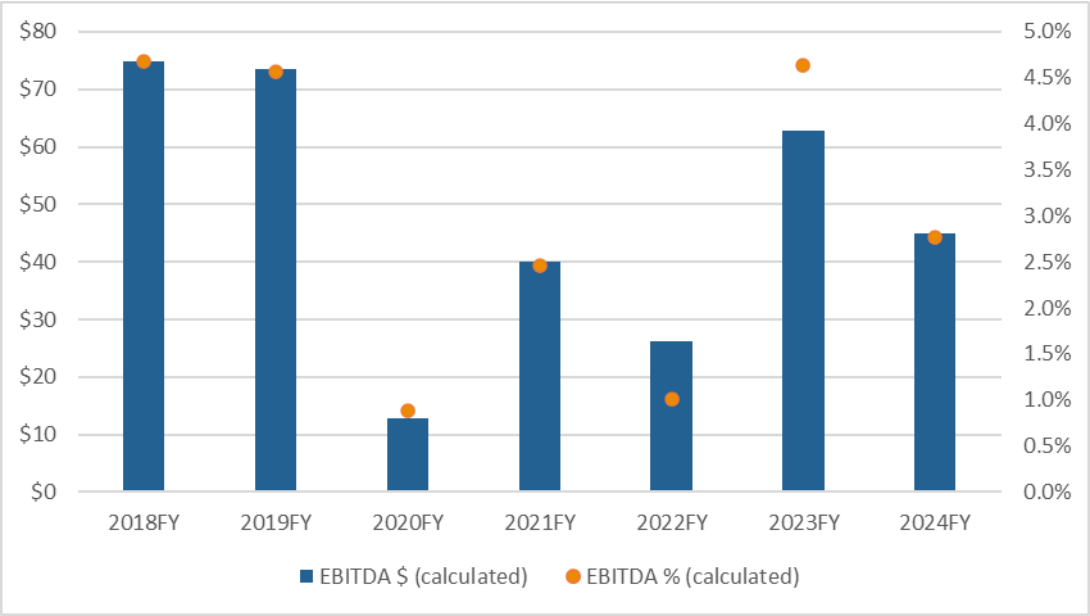
[150] Frontier Economics, *Retail Costs and Margin: A Report for the Essential Services Commission*, Chapter 6 'The expected returns approach', April 2019, p. 29.

[151] Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27*, May 2024, p. 45.

[152] Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27*, May 2024, p. 37.

Historical actual margins in Victoria based on our data and calculations are listed in Figure 6. Comparing the actual margin data with our final decision shows that our final decision still provides a sufficient margin for electricity retailers operating in Victoria.

Figure 6: Historical average EBITDA in Victoria, as a proportion of domestic customers revenues, excluding GST



Source: Essential Services Commission analysis based on data requested and received from a sample of Victorian retail electricity businesses.

Actual margin based on Australian Competition and Consumer Commission's electricity market inquiry data

We also had regard to actual retail operating margins calculated by the Australian Competition and Consumer Commission as part of its inquiry into the electricity market. The latest publication reported actual margins by jurisdiction in the National Electricity Market including Victoria:

- Victoria: 5%
- New South Wales: 4%
- South Australia: 13%
- South-East Queensland: 9%
- National Energy Market: 6%.[153]

[153] Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market, December 2024 Report*, Appendix C – Supplementary spreadsheet, Supplementary Table C11.5, 30 December 2024, accessed 7 April 2025. The Australian Competition and Consumer Commission collected data from retailers to derive the actual margin averages.

The findings from this inquiry suggest that the actual retail margin in Victoria averaged five per cent, which aligns with our final decision margin. The average operating margin across the National Electricity Market region was six per cent.

The report also showed that while actual margins fluctuated significantly in other jurisdictions in recent years, such as New South Wales and South-East Queensland, margins in Victoria have stayed very close to 5 per cent.[154]

We have considered submissions on the retail margin

We received 10 submissions to our Draft Decision Paper on the retail operating margin: two submissions from consumer advocates and eight submissions from the retail industry including the Australian Energy Council. [155] [156]

In general, consumer groups supported the reduction in retail margin, while retailers opposed the reduction and commented that businesses need a higher margin for cost risk compensation.

Submissions provided mixed views on our decision to lower the retail margin

The Customer Action Law Centre strongly supported our draft decision to reduce the margin as it balances relief for vulnerable consumers against the retailers making reasonable returns.[157] The Customer Action Law Centre reported in the 2024 calendar that 16 per cent of Victorian callers to their national debt helpline raised energy debt as a key financial difficulty (compared to 12 per cent in the previous year). In its latest Energy Assistance Report, the amount of average electricity debt in 2023 also increased 27 per cent from the 2019–2020 level.[158]

---

[154] Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market, December 2024 Report,* 30 December 2024, Figure 3.15, p. 75.

[155] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 11; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 9.

[156] 1st Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2; AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 3-4; Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 3-4; Australian Energy Council, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1; EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 2-3; ENGIE, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 3; Origin Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, pp. 3-4; Powershop, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 2.

[157] Consumer Action Law Centre, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 11.

[158] Ibid, p. 3.

A joint submission from consumer groups led by Victorian Council of Social Service considered the reduction 'entirely appropriate'. It considers that the Essential Services Commission Act requires us to have regard to the benefits and costs of regulation to the consumers.[159] Energy Consumers Australia published a Consumer Energy Report Card based on its survey, where 82 per cent of Victorian respondents were concerned about the cost of electricity, and 88 per cent were concerned about cost of living generally.[160]

Retailers on the other hand disagreed with margin reduction considering cost-of-living pressure. Collectively, the retailers said consumer affordability is better addressed by government energy bill relief or by hardship assistance payment programs.[161] The Australian Energy Council also said the review on the Energy Retail Code of Practice provides a better avenue to address cost-of-living issues and protections.[162]

The commission considers cost-of-living impacts through multiple regulatory levers – including both the setting of Victorian Default Offer prices and the Energy Retail Code of Practice. The Victorian Default Offer plays a critical role in protecting customers who are unwilling or unable to engage in the competitive market, as it often determines the prices these customers pay. We have decided to reduce the retail margin to five per cent and note that this margin remains within the reasonable range estimated using the expected return approach. This is consistent with the requirements of the pricing order, that the Victorian Default Offer be based on the efficient costs of the sale of electricity by a retailer.

Expected return approach produces a reasonable range to inform our decision on retail margin

Some retailers have raised concerns about the relevance of referencing the expected returns range estimated by Frontier Economics in 2024 for the Independent Competition and Regulatory Commission in the context of the Victorian Default Offer. However, it is important to note that the expected returns approach is based on the forecast returns of both the retailer and the broader market to derive the implied systematic risk of an electricity retailer. As such, this methodology is

[159] Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 9.

[160] Ibid, p. 8.

[161] 1st Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 2; EnergyAustralia, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 2.

[162] Australian Energy Council, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 1.

not jurisdiction-specific and can be appropriately applied across different regulatory settings, including Victoria.[163]

A submission by AGL argued that the range can be supported only if there are empirical factors leading to an assessment that the input parameters be between low and mid-range scenario.

It should be noted that Frontier Economics performed 81 scenarios in its analysis for Essential Services Commission and 243 potential scenarios in its analysis for the Independent Competition and Regulatory Commission using various combinations of input assumptions to estimate the retail margin.[164] Given the wide number of scenarios modelled by Frontier, we consider that overall this model provides a reasonable range to inform our decision on the appropriate retail margin. The estimated range was between 4.5 per cent and 5.9 per cent in 2024. We have set the margin at 5 per cent which is close to the midpoint of this range at 5.2 per cent. In addition, in setting the margin within this range, we have regard to other inputs such as other regulators' margin and retailers' observed margin.[165]

We consider the risks associated with the energy transition are accounted for in various cost stack

Retailers also submitted that the transition to more renewable energy sources and more customer energy resources in the fuel mix poses uncertainty or places pressure on them.

Powershop said that reasonable retail margin allowances provide sufficient incentives to improve and evolve services; this is crucial in the context of the energy transition which decentralises energy flows.[166]

Alinta Energy submitted that our draft decision to lower the margin will impact retailers' capacity to invest in product innovation, which supports coordinating the growing penetration of consumer energy resources. The Australian Energy Council said a sufficient margin is vital for supporting retailers' ability to innovate, which is an important factor in enabling the energy transition. Both submissions recommended increasing the retail margin back to the upper end of Frontier Economics' estimated range or setting it at 5.7 per cent.[167]

---

[163] Frontier Economics, *Retail Costs and Margin: A Report for the Essential Services Commission*, Chapter 6 'The expected returns approach', April 2019, p. 28

[164] Frontier Economics, *Retail Costs and Margin: A Report for the Essential Services Commission*, Chapter 6 'The expected returns approach', April 2019, p. 28, Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27*, May 2024, p. 45.

[165] AGL Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper*, April 2025, p. 4.

[166] Powershop, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 2.

[167] Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, pp. 3–4; Australian Energy Council, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 1.

We note the comments from retailers on growing risks associated with the energy transition. However, we consider that those risks are already reflected in the retail margin, or can be diversified by retailers using financial instruments, hedging strategies, technological innovation, and long-term hedging contracts.

Overall, we do not consider that the innovation costs (investments) that retailers expect to incur in response to the energy transition should be added to the cost stack by the operating margin.

Powershop discussed that actual wholesale, and environmental costs 'are volatile and fluctuate daily'. When risks and costs are 'not accurately priced', there is insufficient buffer in the margin to compensate taking these risks; and the Victorian Default Offer margin should be higher to address this.[168] Powershop also argued that retailers are facing pressure to manage the rise of wholesale, network and retail risk, which requires them to invest heavily in their business operation and IT systems, that are being capitalised and need to be recovered over multiple years. We note that electricity retailers are not asset heavy businesses, and the operating cost of those investments are reflected in the retail operating cost component of the Victorian Default Offer.

We also note that the retail margin is applied as a percentage rather than as a dollar value. When wholesale and environmental costs in the cost stack increase, the retail margin also increases in dollar terms, as it is calculated as a percentage of total energy costs.

In addition, we have accounted for variability in our approach to calculate the wholesale and environmental costs applicable to the Victorian Default Offer. We consider that our cost stack provides an appropriate compensation for the costs that an efficient retailer incurs. Considering a higher margin to further compensate for those risks would be double-counting and goes against the requirement of the pricing order.[169]

We have sufficiently set the retail margin to enable competition

Alinta Energy and the Australian Energy Council said the reduced retail margin will impact market competition, and a sufficient margin should be restored.[170]

1st Energy noted that a sustained reduction in retail margins could discourage competition by making it harder for smaller or new entrants to operate sustainably.[171]

---

[168] Powershop, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 2.

[169] Clause 12(7) of the pricing order.

[170] Alinta Energy, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, pp. 3–4; Australian Energy Council, submission to the Essential Services Commission, *Victorian Default Offer 2025–26: Draft Decision Paper,* April 2025, p. 1.

[171] 1st Energy, submission to the Essential Services Commission, *2025–26 Victorian Default Offer: Draft Decision, April 2025*, p. 2.

Having particular regard to the observed actual retail margin, we remain of the view that five per cent is an appropriate benchmark allowance for the Victorian Default Offer. In addition, retailers that outperform on other elements of the cost stack will be able to earn returns above this benchmark.

We are cognisant of the financial pressures currently faced by many electricity consumers, and the importance of setting a Victorian Default Offer that promotes the long-term interests of Victorian consumers. We consider there is sufficient evidence that our 2025–26 margin for the Victorian Default Offer would still provide a reasonable return for retailers.

Calculating tariffs and the maximum annual bill

We determine prices for the Victorian Default Offer based on the cost components and inputs set out in Appendix A:

- flat tariffs – for standing offers with flat tariffs[172]
- two-period time of use tariffs – for standing offers with two-period time of use tariffs[173]
- the Victorian Default Offer compliant maximum annual bill (compliant maximum annual bill) – for standing offers with non-flat tariffs, other than two-period time of use tariffs (calculated based on the flat tariff), or any combination of a flat tariff and non-flat tariff.[174]

Tariff structure

All tariffs comprise fixed costs (reflected in a daily supply charge) and variable costs (reflected in a usage charge, per kilowatt hour).

For flat tariffs, the usage charge is calculated using a single methodology.

For two-period time of use tariffs, the usage charge is calculated differently depending on whether electricity is used during peak or off-peak periods. The usage charge is usually more expensive during peak periods.

Flat tariffs

Our final decision is to use the same approach to setting standing offer rates for flat tariffs as we have in our past Victorian Default Offer price determinations.

Flat tariff methodology

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Usage charge (variable costs) =

(variable network costs + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

[172] Clause 10(2)(a)(i) of the pricing order.

[173] Clause 10(2)(a)(ii)(A) of the pricing order.

[174] Clause 10(2)(a)(ii)(B) and clause 12(5) of the pricing order.

Two-period time of use tariffs

Our final decision is to use the same approach to setting standing offer rates for two-period time of use tariffs as we have in our past Victorian Default Offer price determinations. Under this approach, we align our two-period time of use tariff structure with the Australian Energy Regulator's underlying network tariff structure for each distribution network.

For two-period time of use tariffs, the fixed and variable cost components are the same, except for variable network costs, which are different for peak and off-peak usage (we use the Australian Energy Regulator's approved peak and off-peak network rates).

Two-period time of use tariffs methodology

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Peak usage charge (variable costs) =

(variable network costs for peak period + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

Off-peak usage charge (variable costs) =

(variable network costs for off-peak period + (wholesale electricity costs + environmental costs + variable 'other' costs) x (1 + network loss factor)) x (1 + retail operating margin) x (1 + GST rate)

Compliant maximum annual bill

For all other standing offers (for example, non-standard time of use and demand tariffs) we determined a compliant maximum annual bill amount, which is the maximum annual electricity amount that a customer is to pay under these standing offers.

Amount based on flat tariffs

The pricing order requires that we base the compliant maximum annual bill amount on the standing offer tariffs determined to apply for Victorian Default Offer flat tariffs in 2025–26.[175] In our past three Victorian Default Offer price determinations, we based the compliant maximum annual bill

[175] Clause 12(5) of the pricing order.

amount on the standing offer tariffs that we determined to apply for two-period time of use tariffs. This approach did not comply with the requirements of the pricing order.

For customers on these standing offers, our previous approach resulted in compliant maximum annual bills being about $30 lower than if the bills had been calculated by reference to the correct flat tariff (on average over three pricing determination periods). We estimate that there are less than 200 domestic customers on these non-standard standing offers, which means the impact to retailers of this error is likely to be very low.

Annual reference consumption amount

The annual reference consumption amount used to determine the compliant maximum annual bill amount is as follows:

- For domestic customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 4,000 kWh per year.[176]
- For small business customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 20,000 kWh per year.[177]

For the purposes of calculating the compliant maximum annual bill amount, we assume customers use the same amount of electricity on each day of the year.

Calculating the compliant maximum annual bill amount

The compliant maximum annual bill amount is calculated using the relevant:

- annual reference consumption amount[178]
- flat tariff determined by the commission for each distribution zone.

Retailers must show they comply with the maximum annual bill amount

If offering non-standard standing offers, a retailer must show the tariffs charged under these offers do not result in a total annual electricity bill that exceeds the relevant compliant maximum annual bill amount determined by the commission.

In determining the tariff for non-standard standing offers, the retailer must use its representative usage profile, or relevant usage allocations, which reflects a reasonably representative estimate of consumption for the applicable group of customers over a 365-day period.

---

[176] Clause 15(5)(a)(i) of the pricing order.

[177] Clause 15(5)(a)(iii) of the pricing order.

[178] Clause 15(5)(a)(i) and (iii) of the pricing order.

A retailer's estimated annual electricity bill for a non-standard standing offer must be calculated using the relevant annual reference consumption amount for total annual usage as determined by the commission. This total usage amount must then be allocated according to the retailer's representative usage profile and multiplied by the retailer's relevant non-standard standing offer tariff rates.

The compliant maximum annual bill helps to ensure that all standing offer customers are covered by the Victorian Default Offer.

Appendix A: Calculating the cost stack

This appendix provides a summary of the cost components and inputs used to determine the 2025–26 Victorian Default Offer tariffs and the compliant maximum annual bill set out in the commission's final decision.

Wholesale electricity costs

Wholesale electricity cost inputs and volatility adjustment for the 2025–26 Victorian Default Offer are presented in Table A.1.

Table A.1: Wholesale electricity forecasts for 2025–26 ($/MWh, nominal, GST exclusive)

Distribution zone	Domestic		Small business		Both
	Wholesale price	Volatility allowance	Wholesale price	Volatility allowance	Wholesale electricity cost of exports
AusNet Services	$116.17	$0.42	$100.16	$0.41	$1.85
CitiPower	$113.00	$0.38	$98.75	$0.50	$1.85
Jemena	$119.87	$0.40	$101.28	$0.53	$1.85
Powercor	$114.60	$0.41	$98.22	$0.39	$1.85
United Energy	$117.58	$0.39	$102.49	$0.50	$1.85

Source: Frontier Economics, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025. Essential Services Commission 2025, *Minimum Electricity Feed-in Tariffs from 1 July 2025: Final Decision*, 27 February, p. 13.

Network loss adjustment factor

Network loss factors for the 2025–26 Victorian Default Offer are presented in Table A.2.[179]

Table A.2: Network losses for 2025–26

Distribution zone	Distribution loss factor (DLF)	Marginal loss factor (MLF)	Network loss adjustment factor
AusNet Services	1.0769	1.0004	7.74%
CitiPower	1.0416	1.0002	4.18%
Jemena	1.0476	1.0018	4.94%
Powercor	1.0744	1.0008	7.53%
United Energy	1.0460	0.9984	4.43%

Source: Australian Energy Market Operator, Distribution Loss Factors 2025–26 and preliminary Marginal Loss Factors 2025–26.

[179] Australian Energy Market Operator, Distribution Loss Factors for the 2023–24 Financial Year, July 2023, p. 12; CitiPower, Powercor and United Energy, response to Distribution data: solar export and transmission lines, October 2023; AusNet, response to request on AusNet Services data – solar export and transmission lines, September 2023; Australian Energy Market Operator, Marginal Loss Factor: Financial Year 2023–24, March 2023, pp. 24–25.

Network tariffs (flat tariff)

Indicative flat network tariffs for the 2025–26 Victorian Default Offer are presented in tables A.3 and A.4.

Table A.3: Domestic electricity network charges, flat tariff, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Variable charge structure	Variable charge ($ per kWh)	Controlled load ($ per kWh)
AusNet Services	$150.09	Block 1 Block 2	$0.1423 $0.1423	$0.0492
CitiPower	$105.01	Anytime	$0.0866	$0.0244
Jemena	$111.15	Anytime	$0.0989	$0.0421
Powercor	$150.02	Anytime	$0.1039	$0.0273
United Energy	$105.01	Anytime	$0.0945	$0.0274

Source: 2025–26 Australian Energy Regulator approved network tariffs.

Table A.4: Small business electricity network charges, flat tariff, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Variable charge structure	Variable charge ($ per kWh)
AusNet Services	$150.09	Block 1 Block 2	$0.1945 $0.1945
CitiPower	$170.02	Anytime	$0.0948
Jemena	$222.52	Anytime	$0.1330
Powercor	$220.02	Anytime	$0.1145
United Energy	$170.02	Anytime	$0.1020

Source: 2025–26 Australian Energy Regulator approved network tariffs.

Network tariffs (two-period time of use)

Indicative two-period time of use network tariffs for the 2025–26 Victorian Default Offer are presented in tables A.5 and A.6

Table A.5: Domestic electricity network charges, two-period time of use network tariffs, 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Peak variable charge ($ per kWh)	Off-peak variable charge ($ per kWh)	Controlled load ($ per kWh)
AusNet Services	$150.09	$0.2464	$0.0492	$0.0492
CitiPower	$105.01	$0.1644	$0.0411	$0.0244
Jemena	$111.15	$0.1671	$0.0468	$0.0421
Powercor	$150.02	$0.1930	$0.0483	$0.0273
United Energy	$105.01	$0.1768	$0.0440	$0.0274

Source: 2025–26 Australian Energy Regulator approved network tariffs.

Table A.6: Small business electricity network charges, two-period time of use network tariffs 2025–26 (GST exclusive)

Distribution zone	Daily charge ($ per year)	Peak variable charge ($ per kWh)	Off-peak variable charge ($ per kWh)
AusNet Services	$150.09	$0.2075	$0.0491
CitiPower	$170.02	$0.1508	$0.0335
Jemena	$250.52	$0.1708	$0.0368
Powercor	$220.02	$0.1981	$0.0440
United Energy	$170.02	$0.1635	$0.0362

Source: 2025–26 Australian Energy Regulator approved network tariffs.

Network metering charges

Indicative metering charges for the 2025–26 Victorian Default Offer are presented in Table A.7

Table A.7: Network metering charges, 2025–26 (GST exclusive)

Distribution business	Annual metering charge ($ per customer)
AusNet Services	$85.83
CitiPower	$76.09
Jemena	$66.62
Powercor	$71.34
United Energy	$52.19

Source: 2025–26 Australian Energy Regulator approved metering charges.

Environmental costs

The environmental cost inputs (per megawatt hour) for the 2025–26 Victorian Default Offer are presented in Table A.8.

Table A.8: Cost of complying with environmental schemes (GST exclusive)

Environmental scheme	Certificate price, $/MWh	Scheme liability, %	Cost, $/MWh	Regulatory period adjustment	Total cost
Large-scale Renewable Energy Target	$35.17	17.91	$6.30	-$0.17	$6.13/MWh
Small-scale Renewable Energy Scheme	$40	12.84	$5.14	-$0.55	$4.59/MWh
Victorian Energy Upgrades program	$106.77	15.126			$16.15/MWh
Feed-in tariff (social cost of carbon)					$0.00/MWh

Source: Essential Services Commission analysis and Frontier Economics, *Wholesale electricity costs for 2025–26: A final report for the Essential Services Commission*, 2 May 2025.

Retail operating costs and margin

The retail operating costs inputs and margin for the 2025–26 Victorian Default Offer are presented in Table A.9.

Table A.9: Retail costs and margin (CPI adjusted-GST exclusive)

Retail costs and margin	Annual benchmark
Retail operating costs	$147.47
Modest customer acquisition and retention costs	$46.57
Retail margin	5%

Other costs

The fixed (per customer) and variable (per megawatt hour) other costs inputs for the 2025–26 Victorian Default Offer are presented in Table A.10.

Table A.10: Other costs (GST exclusive)

Charge	Rate
Essential Services Commission licence fee	$2.13/customer
Ancillary services	$0.15/MWh
Market suspension compensation	$0.00032/MWh
Directions – usage	$0.07/MWh
Administered price cap – usage	$0.00/MWh
Reliability and Emergency Reserve Trader	$0.38/MWh
Australian Energy Market Operator fees	
National Electricity Market fees	$0.31/MWh
National Electricity Market fees (fixed)	$4.96/customer
National Electricity Market (NEM) 2025 Reform Program	$0.11/MWh
National Electricity Market (NEM) 2025 Reform Program (fixed)	$3.07/customer
Electricity retail market fee (formally Full retail contestability fee) (fixed)	$2.26/customer
IT Upgrade and Five-minute and global settlement compliance fees	$0.11/MWh
IT Upgrade and Five-minute and global settlement compliance fees (fixed)	$1.82/customer
Distributed energy resources integration program fees	$0.04/MWh
Distributed energy resources integration program fees (fixed)	$0.65/customer
Energy Consumers Australia (fixed)	$1.07/customer
Total per MWh:	$1.18/MWh
Total per customer:	**$15.96/customer** [180]

[180] Values in the table do not sum to exact total due to rounding.

Appendix B: Network tariffs in the cost stack

Table B.1: Single network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential single rate, NEE11	Small business single rate, NEE12
CitiPower	Residential single rate, C1R	Small business single rate, C1G
Jemena	Residential single rate, A100/F100	Small business single rate, A200/F200
Powercor	Residential single rate, D1	Small business single rate, ND1
United Energy	Residential single rate, LVS1R	Small business single rate, LVM1R

Table B.2: Two period time of use network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential time of use, NAST11	Small business time of use, NAST12
CitiPower	Residential TOU, CRTOU	Small business TOU, CGTOU
Jemena	Residential TOU, A120/F120	Small business TOU weekdays, A210/F210
Powercor	Residential TOU, PRTOU	Small business TOU, NDTOU
United Energy	Residential TOU, URTOU	Small business TOU, LVTOU

Table B.3: Controlled load network tariff categories

Distribution zone	Domestic controlled load or dedicated circuit tariff code
AusNet Services	NEE13
CitiPower	CDS
Jemena	A180
Powercor	DD1
United Energy	LVDed

Table B.4: Metering configurations used to calculate metering costs for each distributor

Distributor	Meter configuration
AusNet Services	Single phase single element
AusNet Services	Single phase, two elements with contactor
AusNet Services	Multiphase
AusNet Services	Multiphase, direct connected with contactor
AusNet Services	Multiphase current transformer connected meter
CitiPower	Single Phase
CitiPower	Three phase direct connected meter
CitiPower	Three phase current transformer connected meter
Jemena	Single phase single element meter
Jemena	Single phase single element meter with contactor
Jemena	Three phase direct connected meter
Jemena	Three phase current transformer connected meter
Powercor	Single Phase
Powercor	Three phase direct connected meter
Powercor	Three phase current transformer connected meter
United Energy	Single phase single element meter
United Energy	Single phase single element meter with contactor
United Energy	Three phase direct connected meter
United Energy	Three phase current transformer connected meter

Appendix C: Submissions on Draft Decision Paper

Name	Date received
Anonymous 1	02 April 2025
GloBird Energy	07 April 2025
Consumer Action Law Centre (CALC)	10 April 2025
1st Energy	11 April 2025
Australian Energy Council (AEC)	11 April 2025
Alinta Energy	11 April 2025
ENGIE	11 April 2025
Origin Energy	11 April 2025
Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting	11 April 2025
Energy Locals	11 April 2025
AGL Energy	14 April 2025
EnergyAustralia	15 April 2025
Powershop	16 April 2025
Red Energy and Lumo Energy	30 April 2025

Appendix D: Changes to cost component methodology

Table D.1 shows how our approach to estimating cost components has changed in this final decision compared to the 2024–25 Victorian Default Offer.

Table D.1: Comparison of 2024–25 Default Offer final decision and 2025–26 Default Offer final decision

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer final decision
Victorian Default Offer costs		
Wholesale electricity costs	A 12-month trade-weight contract price was calculated from the daily settlement price for each day in the period (except the date that options contracts are exercised). Final reading last Friday of April 2024.	Retained the futures approach, but changed load profile from a balance position (imports and exports at the end of each interval) to load only. Our final decision included a wholesale electricity cost of exports. The final reading was taken 16 April 2025.
Network costs	Australian Energy Regulator's approved network tariffs are treated as pass-through costs. Metering costs based on customer-weighted average metering costs.	Used the network tariffs and metering charges approved by the Australian Energy Regulator.
Environmental costs		
Large-scale Renewable Energy Target	Estimated based on the 2024 renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2024–25. Adjustment included to account for difference between 2023 RPP, used in 2023–24 Victorian Default Offer final decision, and the midpoint between 2023 and 2024 RPP's.	No change in approach. 2025 Renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2025–26. Adjustment included to account for difference between 2024 RPP, used in 2024–25 Victorian Default Offer final decision, and the midpoint between 2024 and 2025 RPP's.

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer final decision
Small-scale Renewable Energy Scheme	Estimated based on mid-point between 2024 binding and 2025 non-binding small-scale technology percentage multiplied by the clearing house price for small-scale technology certificates. Adjustment included to account for the difference between the 2024 non-binding, used in the 2023–24 Victorian Default Offer final decision, and the 2024 binding percentage.	No change in approach but updated small-scale technology percentage to reflect midpoint between the 2025 binding and 2026 non-binding percentages. Adjustment was performed and included in the final decision. Adjustment included to account for the difference between the 2025 non-binding, used in the 2024–25 Victorian Default Offer final decision, and the 2025 binding percentage.
Victorian Energy Upgrades program	Estimated based on the 2024 greenhouse reduction rate for electricity multiplied by the historic 12-month trade-weighted average price for Victorian Energy Efficiency Certificates.	No change in approach but used 2025 greenhouse reduction rate and used more recent 12-month Victorian Energy Efficiency Certificates prices and trade volumes. Volume weighted trades taken up until 14 April 2025.
Minimum feed-in tariff (social costs of carbon)	Estimated based on total renewable exports for the 2023 calendar year, multiplied by the social cost of carbon applied to consumption.	The minimum feed-in tariff has been deregulated. There is no requirement for retailers to pay the social cost of carbon. This has been removed from the cost stack.
Retail operating costs	Estimated based on a benchmark, set by taking the customer-weighted average of retailers' actual operating cost data from financial year 2022–-23 and adjusted for the change in consumer price index since June 2023.	Estimated based on a benchmark, set by taking the customer weighted average of retailers' actual operating cost data from financial year 2023–24 and adjusted for the change in consumer price index from June 2024 to Mar 2025.
Modest customer acquisition and retention costs	Estimated based on cost levels from the Australian Competition and Consumer Commission's retail and electricity pricing inquiry's	No change in approach. Updated for inflation.

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer final decision
	final report, updated for inflation.[181]	
Other costs	Estimated and updated based on the latest available information on the: Australian Energy Market Operator's compensation updates, fees and charges; Reliability and Emergency Reserve Trader costs; and Essential Services Commission licence fees. Included amounts to reflect known market intervention compensations amounts determined by the Australian Energy Market Operator for directions, suspension pricing (provisional and revision amounts) and administered pricing compensations claims as of 28 April 2023 relating to the June 2022 market intervention event.	No change in approach but used more recent Australian Energy Market Operator's final budget and fees and included known costs recovered due to market intervention events.
Retail operating margin	Set at 5.3% of cost stack having regard to benchmarks set by other regulators and the expected returns model.	No change in approach but margin changed to 5% of cost stack having regard to benchmarks set by other regulators, the expected returns approach, market offer prices relative to default offer prices and retailers' actual margins.
Other matters		
Tariffs and structure	Flat tariffs. Two-period time-of use tariffs. Compliant maximum annual bill based on two-period time-of use tariffs.	Flat tariffs. Two-period time-of use tariffs. Compliant maximum annual bill based on flat tariffs.
Regulatory period	12 months	No change in approach.

[181] Australian Competition and Consumer Commission, Retail electricity pricing inquiry – Final report, July 2018

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer final decision
Consultation papers	Replaced with one Request for Comment Paper at the beginning of each review.	No change in approach.

Table D.2: Changes in average domestic costs benchmarks, $ nominal (average across all five Victorian distribution zones)[182]

Item	2024–25 Victorian Default Offer final decision	2025–26 Victorian Default Offer final decision
Wholesale electricity costs	$492	$501
Network costs	$593	$616
Environmental costs	$135	$114
Retail operating costs (including acquisition costs)	$186	$194
GST	$150	$152
Retail operating margin	$80	$76
Other costs	$18	$21
Total	**$1,655**	**$1,675**

[182] Values in the table may not sum to exact total due to rounding.

Appendix E: Order in Council

Victoria Government Gazette

No. S 208 Thursday 30 May 2019
By Authority of Victorian Government Printer

Electricity Industry Act 2000

ORDER UNDER SECTION 13 OF THE
ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the **Electricity Industry Act 2000** (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The main purpose of this Order is to regulate the standing offer tariffs that retailers may charge prescribed customers, through the introduction of the Victorian default offer.

2. Commencement

This Order comes into operation on the date on which it is published in the Government Gazette and remains in force until it is revoked.

3. Objective of the Victorian default offer

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.

4. Definitions

1. In this Order:

Act means the **Electricity Industry Act 2000**;

annual reference consumption has the meaning given in clause 15(5);

controlled load tariff means a tariff for the supply or sale of electricity only for use in specific appliances that are permanently wired to the relevant electricity meter;

Example: A storage water heater is such an appliance.

controlled load usage means use by a specific appliance that is permanently wired to the relevant electricity meter;

customer type means a customer who is either a domestic customer or a small business customer, as the case may be;

distribution system means a system of electric lines and associated equipment (generally at nominal voltage levels of 66 kV or below) which a distribution company is licensed to use to distribute electricity for supply under its licence;

distribution zone means the area in which a distribution company is licensed to distribute and supply electricity under the Act;

domestic customer means a customer who purchases electricity principally for personal, household or domestic use at a supply point;

Energy Retail Code means the document of that name (version 12 dated 1 January 2019) published by the Commission as amended and in force from time to time;

ESC Act means the **Essential Services Commission Act 2001**;

flat tariff means a tariff for the supply or sale of electricity where the tariff components do not vary by reference to:

(a) the time of day;

(b) the amount of electricity distributed or supplied during the day;

SPECIAL

(c) temperature, whether actual or forecast; or

(d) other characteristics that vary during the day.

Notes:

1. A tariff with a daily supply charge as one tariff component and a usage charge calculated by $ per kWh as another tariff component, is a flat tariff;
2. Paragraph (b) does not exclude block tariffs from being flat tariffs;
3. The definition does not exclude tariffs that vary seasonally, from being flat tariffs;

flexible tariff means a tariff for the supply or sale of electricity where the tariff components vary (wholly or partly) according to the time of day when the electricity is supplied;

former franchise customer means a person described in section 37 of the Act who is either a domestic customer or a small business customer;

general usage means any electricity usage that is not controlled load usage;

headroom means an allowance that does not reflect an efficient cost borne by firms operating in the market;

Example: An allowance that is added, so that retail prices do not act as a barrier to new entrants, is headroom.

kWh means kilowatt hour;

Minister means the Minister administering the Act;

MWh means megawatt hour;

objective of the Victorian default offer means the objective specified in clause 3;

Order means this Order;

prescribed customer: see clause 5;

quarter means a period of 3 consecutive months;

regulatory period means a period over which a VDO price determination is to apply;

Note: the first regulatory period commences on 1 January 2020.

relevant customer has the same meaning as in section 39 of the Act;

small business customer means a customer who is not a domestic customer and whose aggregate consumption of electricity taken from a supply point is not, or in the case of a new supply point is not likely to be, more than 40 MWh per annum;

standing offer tariffs means the tariffs determined by a licensee under section 35(1) of the Act and published in the Government Gazette in accordance with that section, as varied from time to time by the licensee as provided for under section 35(3) of the Act;

supply charge means a fixed charge for supplying electricity to a customer (whether charged on a daily basis or over any other period);

Note: A supply charge is also sometimes called a service charge.

supply point means, in relation to a supply of electricity to a person, the point at which that supply of electricity last leaves the distribution system owned or operated by a distribution company before being supplied to the person, whether or not the electricity passes through facilities owned or operated by any other person after leaving that point before being so supplied;

tariff component, in respect of a tariff for the supply or sale of electricity, includes the supply charge, the usage charge and any other charge that is part of the tariff for the supply or sale of electricity;

usage charge means a charge for the amount of electricity supplied or sold to a customer;

Note: A usage charge is sometimes called a consumption charge.

VDO compliant maximum annual bill has the meaning given it in clause 10(2);

VDO price determination means a price determination pursuant to clause 10;

Victorian default offer or ***VDO*** means an offer a retailer must make pursuant to this Order.

2. Despite subclause (1), in:
   (a) clause 6;
   (b) clause 7;
   (c) clause 10(2)(a)(i),
   (d) schedule 1; and
   (e) schedule 2,

   the following definitions instead apply:
   (f) ***domestic customer*** means a domestic customer within the meaning of the definition of 'domestic or small business customer' in the Act; and
   (g) ***small business customer*** means a small business customer within the meaning of that definition.

   Notes:
   1. The following terms are defined in section 3 of the Act:
      Commission;
      domestic or small business customer;
      distribution company;
      electricity bill;
      regulated tariff standing offer;
      retailer;
      standing offer.
   2. As at the date of the commencement of this Order, the Order in Council made under section 35 of the Act and published in the Government Gazette No. S 315 on 25 November 2008 applies for the purposes of the definition of 'domestic or small business customer' in the Act.
   3. 'price determination' is defined in section 13(6) of the Act.

5. Declaration of Prescribed customers

The following customers are declared, pursuant to section 13(5) of the Act, to be prescribed customers:

(a) a domestic or small business customer;
(b) a former franchise customer who is a party to a deemed contract under section 37 of the Act; and
(c) a relevant customer who is a party to a deemed contract under section 39 of the Act.

6. Victorian default offer tariffs

1. A retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with this clause.
2. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a domestic customer, in respect of the distribution zone specified in column 1 of the table in Schedule 1, are fixed at the amounts specified in columns 2, 4 and 5 of the table for the tariff components specified in those columns.
3. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a small business customer, in respect of the distribution zone specified in column 1 of the table in Schedule 2, are fixed at the amounts specified in columns 2 and 4 of the table for the tariff components specified in those columns.
4. Subclauses (2) and (3) do not apply to standing offer tariffs other than:
   (a) a flat tariff; or
   (b) a flat tariff with a controlled load tariff.

5. During any regulatory period commencing on or after 1 January 2020, a retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with any VDO price determination made by the Commission that is in force.

Note: The VDO price determination will be in respect of both standing offer tariffs that are flat tariffs and standing offer tariffs that are not flat tariffs. See also clause 10.

7. Retailer must make Victorian default offer

1. A retailer's regulated tariff standing offer for sale of electricity to prescribed customers must include (specified as the '*Victorian default offer in respect of flat tariffs*'):

(a) one flat tariff that is available to each domestic customer;

(b) one flat tariff with a controlled load tariff that is available to each domestic customer with a controlled load; and

(c) one flat tariff that is available to each small business customer,

which tariffs must be:

(d) for the period from 1 July 2019 to 31 December 2019, those fixed in accordance with clause 6(2) and clause 6(3);

(e) for any regulatory period commencing on or after 1 January 2020, standing offer tariffs complying with the VDO price determination in respect of that regulatory period.

2. In addition, for any regulatory period commencing on or after 1 January 2020 and in the case of standing offer tariffs that:

(a) are not flat tariffs; or

(b) are any combination of a flat tariff, and a tariff that is not a flat tariff,

a retailer's regulated tariff standing offer must include standing offer tariffs and terms and conditions (both specified as the '*Victorian default offer in respect of the VDO compliant maximum annual bill*') that ensure the retailer's compliance with the VDO price determination in respect of that regulatory period.

8. Information about the VDO on electricity bills

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(b) come into force.

2. A retailer's electricity bill issued to a prescribed customer on or after 1 October 2019 must include information about how the customer may access the Victorian default offer from the retailer.

3. The information required by subclause (2) must be in plain and clear English and prominent on the electricity bill.

9. Conferral of functions and powers on the Commission

1. For the purposes of Part 3 of the ESC Act and section 12(1)(b) of the Act, the supply or sale of electricity under the Act is specified as prescribed goods and services in respect of which the Commission has the power to regulate prices.

2. The Commission may not make a price determination regulating tariffs for the supply or sale of electricity under the Act except as contemplated under this Order.

Note: See section 32 in Part 3 of the ESC Act. This Order is an empowering instrument for the purposes of Part 3 of the ESC Act: see paragraph (d) of the definition of 'empowering instrument' in section 3 of the ESC Act.

10. Commission to make VDO price determination

1. At least 37 days before the commencement of a regulatory period, the Commission must make a price determination in respect of the regulatory period that determines, for each distribution zone in Victoria:

(a) the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period; or

(b) the manner in which the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period are to be determined or calculated.

2. Without limiting subclause (1), the price determination that the Commission makes in respect of the first regulatory period:

(a) must determine:

i. the standing offer tariffs that are to apply in respect of flat tariffs, including, in the case of domestic customers, both flat tariffs and flat tariffs with a controlled load tariff; and

ii. in the case of a prescribed customer who is on:

A. a tariff that is not a flat tariff; or

B. any combination of a flat tariff, and a tariff that is not a flat tariff,

the maximum annual electricity bill amount that the prescribed customer is to pay under a standing offer in the regulatory period (***VDO compliant maximum annual bill***); and

(b) may provide, in the case of the customers specified in subclause (2)(a)(ii), for how any overpayment by those customers in that regulatory period, or any year (or part year) thereof, is to be dealt with; and

(c) may also include any other decisions or determinations that are required by this Order.

3. Despite subclause (2), the Commission may after its first price determination, determine another manner pursuant to which the standing offer tariffs referred to in that subclause are to be determined or calculated.

11. Regulatory periods for VDO price determinations

1. The first regulatory period commences on 1 January 2020.

2. Subject to subclause (3), the duration of each regulatory period is 12 months.

3. Before the commencement of a regulatory period, if the Commission considers that special circumstances exist, the Commission may, after consulting the Minister:

(a) extend the duration of the regulatory period by up to 6 months; or

(b) reduce the duration of the regulatory period, provided the duration of the regulatory period as so reduced is not less than 6 months.

12. Approach and methodology for making a VDO price determination

1. In making a VDO price determination, the Commission must adopt an approach and methodology that is in accordance with section 33(2) of the ESC Act and this Order.

Note: section 33(2) of the ESC Act requires the Commission to adopt an approach and methodology that best meets the objectives of the ESC Act and of the **Electricity Industry Act 2000**.

2. In addition, the Commission must adopt an approach and methodology which the Commission considers will best meet the objective of the Victorian default offer.

3. The tariffs determined by the Commission pursuant to the VDO price determination are to be based on the efficient costs of the sale of electricity by a retailer.

4. For the purposes of subclause (3), the Commission must have regard to:

(a) wholesale electricity costs;

(b) network costs;

(c) environmental costs;

(d) retail operating costs, including modest costs of customer acquisition and

retention;

(e) retail operating margin; and

(f) subject to subclause (10), any other costs, matters or things the Commission, in the exercise of its discretion, considers appropriate or relevant.

Note: Section 33(3)(e) of the ESC Act similarly requires the Commission to have regard to any other factors that it considers relevant.

5. The VDO compliant maximum annual bill must be based on:

(a) the standing offer tariffs that the Commission determines are to apply in respect of flat tariffs; and

(b) the prescribed customer's electricity usage.

6. For the purposes of subclause (4)(d), the Commission must, in the exercise of its discretion, determine the amount of modest costs of customer acquisition and retention.

7. For the purposes of subclause (4)(e), the Commission must, in the exercise of its discretion, determine a maximum retail operating margin, and in doing so must have regard to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs.

8. Subclauses (3), (4), (5) and (6) do not require the Commission to determine tariffs based on the actual costs of a retailer.

9. Subclause (7) does not require the Commission to determine tariffs based on the actual retail operating margin of a retailer.

10. In making a VDO price determination the Commission must not include headroom.

11. Section 33(4)(a) of the ESC Act does not apply to the making of a VDO price determination.

12. Otherwise, section 33 of the ESC Act applies to the making of a VDO price determination only to the extent that the section is not contrary to this Order.

Notes:

1. This Order, as an 'empowering instrument' in terms of the ESC Act, can modify the application of section 33 of the ESC Act: see section 33(1) of the ESC Act.

2. Pursuant to section 33(3)(d) of the ESC Act, the Commission must have regard to relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries.

13. Variation of VDO price determinations

1. Before or during a regulatory period, the Commission may, on its own initiative, vary a VDO price determination in respect of the regulatory period.

2. The Commission must specify, in a VDO price determination, the circumstances under which the Commission will consider, and the basis on which the Commission will decide on, a proposed variation and (subject to subclauses (4) and (5)) the processes to be followed to enable the Commission to make such a variation.

3. Without limiting subclause (1), the Commission may vary a VDO price determination:

(a) if an event has occurred or will occur that was uncertain or unforeseen by the Commission at the time of making the VDO price determination; or

(b) to correct a clerical error, miscalculation, misdescription or other deficiency.

4. Before making a variation, the Commission must consult in accordance with clause 14.

5. Subclause (4) does not apply if:

(a) the variation is not sufficiently material to warrant consultation in accordance with clause 14; or

(b) the need for the variation is sufficiently urgent to warrant consultation in accordance with clause 14 not being undertaken.

6. If, as a result of a variation of a VDO price determination, a retailer is or will be required to vary the retailer's standing offer tariffs, the Commission must ensure the retailer is given adequate notice before the variation to the VDO price determination takes effect.

14. Consultation

1. The Commission may decide the nature and extent of stakeholder consultation it will undertake when making a VDO price determination or a decision to vary a VDO price determination.
2. For the purposes of subclause (1), the Commission must have regard to its Charter of Consultation and Regulatory Practice (as amended from time to time) developed and published under section 14 of the ESC Act.

15. Victorian default offer tariffs to be the reference tariffs for discounts

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(a) come into force.

   Provided that, if those amendments do not provide for any matter provided for in this clause, then this clause continues to apply in respect of that matter.
2. A retailer that offers a discount to a domestic customer or a small business customer must:
   (a) if the discount is in respect of the period from 1 July 2019 to 31 December 2019, disclose how the discount is calculated as against the tariffs in Schedule 1 or Schedule 2 (as the case may be), and what (in percentage or dollar terms) the reduction in tariff is in terms of those tariffs; and
   (b) if the discount is in respect of a regulatory period, disclose how the discount is calculated as against the flat tariffs determined by the Commission pursuant to the VDO price determination that applies in respect of that period, and what (in percentage or dollar terms) the reduction in tariffs is in terms of those tariffs.
3. For the purposes of subclause (2), the reduction in tariffs is to be expressed as the difference between the estimated annual cost of the Victorian default offer for the customer type and distribution zone, and the estimated annual cost of the offer to which the discount relates after the discount is applied, using the annual reference consumption.
4. For the purposes of subclause (3):
   (a) the estimated annual cost of the Victorian default offer is:
      i. during the period from 1 July 2019 to 31 December 2019, determined by applying Schedule 3;
      ii. during a regulatory period, determined by applying Schedule 3 or any other approach or methodology determined by the Commission; and
   (b) the retailer must determine the estimated annual cost of the retailer's offer to which the discount relates:
      i. if the tariff is a flat tariff or a flexible tariff (in either case, with or without a controlled load), by applying Schedule 3;
      ii. otherwise, based on a reasonable estimate having regard to any relevant information available to the retailer; and

5. The annual reference consumption is:
   (a) during the period from 1 July 2019 to 31 December 2019:
      i. for domestic customers without a controlled load – 4,000 kWh general usage per annum;
      ii. for domestic customers with a controlled load – 4,000 kWh general usage plus 2,000 kWh controlled load usage per annum;
      iii. for small business customers (with or without a controlled load) – 20,000 kWh general usage per annum.
   (b) during a regulatory period:
      i. the consumption amount determined by the Commission (if any); or
      ii. if no amount is determined by the Commission pursuant to subclause (5)(b)(i), the amount specified in subclause (5)(a).
6. For the purposes of subclause (5), the amount of electricity consumed is assumed to be the same on each day of the year.
7. Any percentage or dollar amount disclosed pursuant to this clause must be expressed as a whole percentage or dollar, rounded to the nearest percentage or dollar.
8. Otherwise, Division 2 of Part 2A (*Customers entitled to clear advice*) of the Energy Retail Code applies to the disclosures required by this clause.

16. Direction to the Commission pursuant to section 13(3)(b) of the Act

1. The Commission must, as soon as practicable after the commencement of this Order, amend the Energy Retail Code and any other instrument of the Commission to give effect to the Victorian default offer and this Order.
2. Without limiting subclause (1), the Commission must amend the Energy Retail Code (and any other instrument of the Commission) so that the Code:
   (a) provides for tariffs determined by the Commission pursuant to the VDO price determination being the reference tariffs for discounts and for the methodology of that comparison; and
   (b) requires a retailer's electricity bill to include information about how the customer may access the Victorian default offer from the retailer.
3. For the purposes of subclause (2)(a), the Commission must have regard to the following principles:
   (a) There must be a consistent methodology for comparison of tariffs that applies to:
      i. all offers of discounts by retailers; and
      ii. the advertising in respect of those discounts.
   (b) The methodology must apply in respect of flat tariffs and tariffs that are not flat tariffs;
   (c) The methodology must (without limitation) readily allow, in respect of a regulatory period, a comparison between:
      i. the discounted tariffs offered by a retailer; and
      ii. the tariffs determined by the Commission pursuant to the VDO price determination in respect of that period; and
   (d) Any actual comparison in accordance with the methodology must be readily understandable by a prescribed customer.

4. Subclause (3) does not limit:
   (a) the matters the Commission may have regard to; or
   (b) the matters the Commission may provide for by way of the amendments required by subclause (2).

17. Review of the operation of this Order

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before the third anniversary of the Order coming into operation.

SCHEDULE 1

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – domestic customers

Charges are inclusive of GST.

Distribution zone	Supply charge ($ per day)	Usage charge structure	Usage charge (not controlled load) ($ per kWh)	Usage charge: controlled load ($ per kWh)
AusNet Services	$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	$0.2763 $0.3113	$0.2024
CitiPower	$1.1055	Anytime	$0.2325	$0.1809
Jemena	$1.0037	Anytime	$0.2547	$0.1618
Powercor	$1.2333	Anytime	$0.2403	$0.1561
United Energy	$0.9115	Anytime	$0.2620	$0.1873

SCHEDULE 2

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – small business customers

Charges are inclusive of GST.

Distribution zone	Supply charge ($ per day)	Usage charge structure	Usage charge ($ per kWh)
AusNet Services	$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	$0.3154 $0.3605
CitiPower	$1.2972	Anytime	$0.2464
Jemena	$1.1450	Anytime	$0.2682
Powercor	$1.3611	Anytime	$0.2394
United Energy	$0.9691	Anytime	$0.2717

SCHEDULE 3

1. Estimated annual cost for flat tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flat tariff is to be calculated as follows:

$$EAC = SC \times 365 + UC \times ARC$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge;

UC is the general usage charge; and

ARC is the annual reference consumption for general usage.

2. Estimated annual cost for flexible tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flexible tariff is to be calculated as follows:

$$EAC = SC \times 365 + ARC \times UC_P \times UA_P + ARC \times UC_S \times UA_S + ARC \times UC_{OP} \times UA_{OP}$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge; and

ARC is the annual reference consumption for general usage;

and where, in respect of the relevant tariff type specified in column 1 of Table 1:

UC_P is the retailer's peak usage charge;

UA_P is the peak usage allocation specified in column 2 of Table 1;

UC_S is the retailer's shoulder usage charge;

UAs is the shoulder usage allocation specified in column 3 of Table 1;

UC_{OP} is the retailer's off-peak usage charge; and

UA_{OP} is the off-peak usage allocation specified in column 4 of Table 1.

3. Estimated annual cost for offers that include a controlled load tariff

The estimated annual cost for an offer for the supply or sale of electricity that includes a controlled load tariff is to be calculated as follows:

$$EAC = EAC_{GU} + UC_{CL} \times ARC_{CL}$$

where:

EAC is the estimated annual cost of the offer;

EAC_{GU} is the estimated annual cost of the offer for general usage only, calculated in accordance with clause 1 or 2 of this Schedule 3 (as the case may be);

UC_{CL} is the usage charge for controlled load usage; and

ARC_{CL} is the annual reference consumption for controlled load usage.

Victoria Government Gazette

No. S 216 Tuesday 4 June 2019
By Authority of Victorian Government Printer

Electricity Industry Act 2000

ORDER UNDER SECTION 13 OF THE
ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the **Electricity Industry Act 2000** (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The purpose of this Order is to make amendments to the Victorian default offer tariffs applying under the Order in Council made under section 13 of the **Electricity Industry Act 2000** and published in the Government Gazette No. S 208 on 30 May 2019 (***VDO Order***).

2. Commencement

This Order comes into effect on the date on which it is published in the Government Gazette.

3. Amendments

In column 5 ('Usage charge: controlled load') of the table in Schedule 1 to the VDO Order:

(a) for '$0.1618' **substitute** '$0.1917'; and

(b) for '$0.1561' **substitute** '$0.1831'.

Dated 4 June 2019

Responsible Minister

HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council

SPECIAL

ORDERS IN COUNCIL

Electricity Industry Act 2000

VICTORIAN DEFAULT OFFER ORDER IN COUNCIL

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The purposes of this Order are to amend the VDO Order in Council to:

(a) specify that the VDO Order in Council does not apply to the sale of electricity to an unmetered supply site; and

(b) require a review of the VDO Order in Council to commence before 31 May 2026 and every three years thereafter.

2. Definitions

In this Order:

VDO Order in Council means the Order in Council made on Thursday 30 May 2019 under section 13 of the **Electricity Industry Act 2000** and published in Special Gazette No. S 208.

3. Commencement

This Order comes into effect on the day it is published in the Government Gazette.

4. Amendments

(1) In clause 4(1) of the VDO Order in Council, **insert** the following definitions –

'***government agency*** includes:

(a) a Commonwealth, State or local government department; and

(b) a statutory authority or government owned corporation established under a law of the Commonwealth or a State or Territory;

unmetered supply means a supply of electricity to a particular piece of electrical equipment that draws a current and is connected to the distribution network without a meter; and

unmetered supply site means a site that consumes by way of unmetered supply, including a government agency, but excluding a site where electricity is supplied to and purchased by domestic or small business customers.'

(2) After clause 5 of the VDO Order in Council, **insert** –

'**5A. Unmetered supply sites are not covered by this Order**

Despite clause 5, this Order does not apply to the sale of electricity to an unmetered supply site.'

(3) For clause 17 of the VDO Order in Council, **substitute** –

'**17. Periodic reviews of the operation of this Order**

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before 31 May 2026 and every three years thereafter.'

Dated: 12 December 2023

Responsible Minister:

HON. LILY D'AMBROSIO MP
Minister for Energy and Resources

SAMUAL WALLACE
Clerk of the Executive Council

Appendix F: Our legislative considerations

The pricing order requires the commission to make a Victorian Default Offer price determination for each regulatory period and imposes some constraints on that power. This appendix explains the requirements for making a price determination and the matters we must have regard to in making the determination.

The commission's power to determine the Victorian Default Offer

The Victorian Default Offer price determination is a determination for the purposes of section 33 of the *Essential Services Commission Act 2001* (ESC Act). In making a Victorian Default Offer price determination we must adopt an approach and methodology in accordance with section 33(2) of the ESC Act, and the pricing order.[183] Taken together, this means we must adopt an approach and methodology we consider will best meet the objectives specified in the ESC Act, the commission's objectives under the *Electricity Industry Act 2000* (EI Act) and the objective of the Victorian Default Offer.[184]

The approach and methodology are subject to the requirement that the Victorian Default Offer price determination must be based on the efficient costs of the sale of electricity by a retailer, having regard to: [185] [186] [187]

- wholesale electricity costs
- network costs
- environmental costs
- retail operating costs, including only modest costs of customer acquisition and retention[188]
- retail operating margin[189]

---

[183] Clause 12(1) of the pricing order.

[184] Best meeting the objective of the Victorian Default Offer is a requirement of clause 12(2) of the pricing order.

[185] Clause 10(3) of the pricing order read with section 33(5) of the *Essential Services Commission Act 2001*.

[186] Clause 12(3) of the pricing order. Further, clause 12(8) affirms that the pricing order does not require the commission to determine tariffs based on the actual costs of a retailer.

[187] Clause 12(4) of the pricing order.

[188] Clause 12(6) of the pricing order specifies that this is to be an amount determined by the commission in its discretion.

[189] Clause 12(7) of the pricing order specifies that this is to be an amount determined by the commission in its discretion, and in doing so regard must be had to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs. Clause 12(9) of the pricing order affirms that the commission is not required to determine tariffs based on the actual retail operating margin of a retailer.

- any other costs, matters or things we consider appropriate or relevant.

The pricing order also specifies that we must not include headroom.[190]

Our objectives in setting the Victorian Default Offer

The objective of the commission under the ESC Act is to promote the long-term interests of Victorian consumers, having regard to the price, quality and reliability of essential services.[191]

Consistent with the objectives of the EI Act, the commission must adopt an approach which promotes protections for customers, the development of full retail competition and a consistent regulatory approach between the electricity and gas industries (noting there is currently no framework for the regulation of prices for retail gas services).[192]

The objective of the Victorian Default Offer under the pricing order is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.[193]

When making a Victorian Default Offer price determination, the approach and methodology adopted by the commission is one that best meets all of these objectives.

The matters the commission must have regard to when determining tariffs

Section 8A of the ESC Act provides that in seeking to achieve the commission's objective under the ESC Act to promote the long-term interests of Victorian consumers, the commission must have regard to the following matters to the extent that they are relevant in any particular case:

- efficiency in the industry and incentives for long-term investment
- the financial viability of the industry
- the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries
- the relevant health, safety, environmental and social legislation applying to the industry

[190] Clause 12(10) of the pricing order; 'headroom' being defined in clause 4(1) as 'an allowance that does not reflect an efficient cost borne by firms operating in the market'.

[191] *Essential Services Commission Act 2001*, s 8.

[192] *Electricity Industry Act 2000*, s 10.

[193] Clause 3 of the pricing order sets out the objective of the Victorian Default Offer.

- the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for consumers and users of products or services (including low income and vulnerable consumers) and regulated entities
- consistency in regulation between states and on a national basis
- any matters specified in the empowering instrument (that is, the pricing order).

Section 33(3) of the ESC Act specifies that in making a price determination the commission must have regard to:

- the particular circumstances of the regulated industry (that is, retail electricity market) and the prescribed goods and services (that is, standing offers) for which the determination is being made
- the efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry
- the return on assets in the regulated industry
- any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries
- any other factors that the commission considers relevant.

In addition, section 33(4)(b) of the ESC Act provides that in making a determination, the commission must ensure that the determination takes into account and clearly articulates any trade-offs between costs and service standards.[194]

[194] Under clause 12(11) of the pricing order, section 33(4)(a) does not apply to a Victorian Default Offer determination.

Appendix G: Assessment of how the Victorian Default Offer price determination has regard to relevant legislative considerations

Appendix G summarises our approach to making a the 2025–26 Victorian Default Offer price determination.

Our approach to this review

In making the 2025–26 Victorian Default Offer determination, we have had regard to our 2024–25 price determination, assessed developments in the retail electricity market since making our previous final decision and analysed the costs of providing retail electricity services, among other matters. Our determination has been made using largely the same methodology as we did in our 2024–25 price determination. As part of this review, the estimates included in the cost stack were updated to reflect changes in the market and new data that is now available. Our approach helped us establish the cost estimates that best meet our legislative objectives, including the requirement that the price determination be based on the efficient costs of the sale of electricity by a retailer and the matters we must have regard to in making a determination (see appendix F).

We analysed the efficient costs of electricity retailers

We collected cost data from electricity retailers which allowed us to understand the types of costs electricity retailers incur and elements of the efficient costs of supplying electricity to customers. The analysis of the cost data has informed our assessment of costs in our the 2025–26 Victorian Default Offer determination. We sought advice from independent consultants on forecasting retailers' wholesale electricity costs and retailers' costs of complying with environmental programs for 2025–26. Our approach and methodology include these elements to estimate the efficient costs of the sale of electricity by a retailer:

- **wholesale electricity costs** – based on the price of electricity in the futures market[195]
- **network costs** – taken directly from tariffs approved by the Australian Energy Regulator
- **environmental costs** – taken from public information on the costs of environmental initiatives
- **retail operating costs** – based on cost data from retailers

[195] Clauses 12(3) and 12(4) of the pricing order.

- **other costs** – taken directly from published reports from industry bodies
- **network losses** – taken from Australian Energy Market Operator and electricity distributors
- **retail operating margin** – based on a benchmark from comparable regulatory decisions.

Some elements of the cost-stack are estimated using market data such as wholesale electricity purchase costs. We updated estimates of these elements in our final determination to account for any changes in market data that occurred since our draft decision. Data provided by retailers was used to set the retail operating cost benchmark, as a cross check of our cost stack and allowed us to compare the cost stack elements across different segments of the retail market. We also used findings from other regulators (such as decisions on the retail operating margin) in assessing the cost stack.

The Victorian Default Offer amounts may differ from the actual costs of retailers. We have sought to estimate the efficient costs of retailers, which at times and for some retailers may diverge from actual costs. In addition, as required by the pricing order, we have not included headroom in our cost stack.

Objectives of the commission and the Victorian Default Offer

Our assessment approach helps us meet our objectives

In performing its functions and exercising its powers, including making the Victorian Default Offer price determination 2025–26 the objectives of the commission are to:

- promote the long-term interests of Victorian consumers, having regard to the price, quality and reliability of essential services[196]
- promote protections for customers, promote the development of full retail competition and to the extent that it is efficient and practicable to do so, adopt a consistent regulatory approach between the electricity and gas industries (noting there is currently no framework for the regulation of prices for retail gas services).[197]

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.[198]

---

[196] *Essential Services Commission Act 2001*, s8 and s 8A.

[197] *Electricity Industry Act 2000*, s 10.

[198] Clauses 3 and 12(2) of the pricing order. Also consistent with section 10(c), *Electricity Industry Act 2000*.

In seeking to achieve our objectives, the commission must have regard to the matters set out in section 8A of the *Essential Services Commission Act 2001* to the extent that they are relevant.[199]

In making a price determination, the commission must adopt an approach and methodology which the commission considers will best meet the objectives specified in the *Essential Services Commission Act 2001* and the *Electricity Industry Act 2000* and the objective of the Victorian Default Offer.[200]

We must also have regard to a number of further matters set out in section 33 of the Essential Services Commission Act 2001.

We have had regard to these matters as outlined below.

Relevant matters under section 8A and section 33 of the *Essential Services Commission Act 2001*

Efficiency

Efficiency in the electricity industry and the efficient costs of supplying electricity has been an important consideration in making the Victorian Default Offer price determination 2025–26.[201] Our approach helped us establish the tariffs that reflect the efficient costs of the sale of electricity by a retailer, including a retail operating margin.[202] Our review used largely the same approach as our 2024–25 price determination.

Financial viability

A related matter that the commission has had regard to is the long-term incentives for investment and financial viability within the electricity industry.[203] As our decision on the Victorian Default Offer reflects our estimates of efficient costs, we consider that it helps promote the financial viability of the electricity industry.

Competition within the industry

In considering the scope for competition within the electricity industry, we note that setting prices at efficient costs is consistent with competition and does not preclude innovation that may lead to

---

[199] *Essential Services Commission Act 2001*, ss 8A and 33(3).

[200] Clause 12(2) of the pricing order.

[201] *Essential Services Commission Act 2001*, ss 8A(1)(a) and 33(3)(b).

[202] Clause 12(4)(e) of the pricing order.

[203] *Essential Services Commission Act 2001*, s 8A(1)(b).

customers accepting market contracts that offer a better deal for them than the Victorian Default Offer. [204] Likewise, it does not prevent retailers, who can lower their costs, from attracting customers by making cheaper market offers available.

Other legislation applying to the industry

We considered other legislation applying to the electricity industry, including those that affect the efficient costs of a retailer.[205] Among other things, we considered costs associated with regulatory requirements on retailers (such as the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme, Victorian Energy Upgrades program, and consumer data rights). We also note that our benchmarks of retailer operating costs, customer acquisition and retention costs and retail operating margin reflect the costs and margins of Victorian retailers complying with regulatory and legislative requirements.

The benefits and costs of regulation

The Victorian Default Offer was introduced as part of an independent review of the gas and electricity markets in Victoria.[206] The Victorian Default Offer is a simple, trusted and reasonably priced electricity option that safeguards customers unable to engage in the electricity retail market. In formulating the Victorian Default Offer we are not required to revisit the costs and benefits of implementing the Victorian Default Offer.[207]

Consistency in regulation between states and on a national basis and any relevant interstate and international benchmarks in comparable industries

We looked at regulation of retail electricity prices on a national basis and considered relevant benchmarks from other jurisdictions. In considering benchmarks from other jurisdictions, we also had regard to the different policy intent of the relevant legislation of these jurisdictions.[208]

---

[204] *Essential Services Commission Act 2001*, s 8A(1)(c).

[205] *Essential Services Commission Act 2001*, s 8A(1)(d).

[206] The development of the Victorian Default Offer stemmed from the Independent Review into the Electricity and Gas Retail Markets in Victoria. The Victorian Government's final report from the Independent Review recommended a range of regulatory responses were required to protect the long-term interests of consumers. See Independent Review into the Electricity and Gas Retail Markets in Victoria: Final Report, August 2017, p. 52.

[207] Under clause 12(11) of the pricing order, section 33(4)(a) of the Essential Services Commission Act 2001 does not apply to a Victorian Default Offer price determination.

[208] *Essential Services Commission Act 2001*, ss 8A(1)(f) and 33(3)(d).

The particular circumstances of the regulated industry

As part of this review, in having regard to the current circumstances of the electricity industry, the estimates included in the cost stack have been updated to reflect changes in the market and new data that is now available.[209] We also had regard to actual cost data from retailers. We also considered the broader economic environment including the impact of wholesale electricity market intervention compensation and increased debt finance costs on retailers.

Accounting for trade-offs between costs and service standards

We must ensure that the determination takes into account and clearly articulates any trade-offs between costs and service standards.[210] In terms of quality and reliability of services, retailers are required to offer the Victorian Default Offer under the regulated terms and conditions for standard retail contracts. We consider the prices provided to retailers under the Victorian Default Offer will be sufficient for retailers to ensure the quality of service experienced by customers to at least continue to meet these regulated terms and conditions.

Clause 12 of the pricing order

Clause 12 of the pricing order provides that in making a Victorian Default Offer price determination, the tariffs determined by the commission are to be based on the efficient costs of the sale of electricity by a retailer. In doing so, the commission must have regard to:

- wholesale electricity costs
- network costs
- environmental costs
- retail operating costs
- including only modest costs of customer acquisition and retention
- retail operating margin
- and any other costs, matters or things we consider appropriate or relevant.

The commission has had regard to these matters as set out in the body of our decision including the 'Victorian Default Offer cost components' chapter.

[209] *Essential Services Commission Act 2001*, s 33(3)(a).

[210] *Essential Services Commission Act 2001*, s 33(4)(b).