

Victorian Default Offer 2026–27

Draft Decision Paper

12 March 2026

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.

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We invite submissions on the draft 2026–27 Victorian Default Offer

Formal submissions on this draft decision can be made via the [Engage Victoria website](#) until 5 pm on 10 April 2026. We will consider all submissions received by this date before making our final decision in May 2026.

Public forum

After releasing our draft decision, we will hold a public forum for interested parties to discuss the areas of our decision that we anticipate will matter most to them. For details regarding our public forum please visit our [Engage Victoria website](#).

Table 1: Milestones for the 2026–27 Victorian Default Offer review

Key milestone	Date
Draft decision released	12 March 2026
Public forum on the draft decision	23 March 2026
Consultation period on the draft decision	12 March – 10 April 2026
Final decision and determination	by 24 May 2026

Sensitive or confidential information

All submissions come under the commission's submissions policy. We will make submissions available on our website, except for any information that is commercially sensitive or confidential. Submissions should clearly identify which information is sensitive or confidential.

Visit Engage Victoria's website to make your submission: www.engage.vic.gov.au.

Summary

This document sets out our draft decision for the 2026–27 Victorian Default Offer.

- Our draft decision results in lower average representative bills for Victorian Default Offer customers in 2026–27 compared to 2025–26.
- The decrease in Victorian Default Offer prices in 2026–27 is driven by lower environmental costs with stable wholesale electricity costs. We carried over the 2025–26 network tariffs from our earlier decision and accounted for inflation however our final decision will reflect the 2026–27 network costs to be approved by the Australian Energy Regulator in May.
- For domestic customers on a flat tariff, the Victorian Default Offer will be \$46 (or three per cent) lower than in 2025–26 (based on an average of the five distribution zones and assuming annual usage of 4,000 kilowatt hours).
- Our draft decision shows the changes in domestic Victorian Default Offer customer bills range from \$43 lower in the United Energy area, to \$48 lower in Powercor area (based on annual usage of 4,000 kilowatt hours).
- For small business customers on a flat tariff, the Victorian Default Offer will be \$172 (or five per cent) lower than in 2025–26 (based on an average of the five distribution zones and based on annual usage of 10,000 kilowatt hours).
- Our draft decision shows the changes in small business Victorian Default Offer customer bills range from \$165 lower in the Jemena area, to \$179 lower in the Powercor area (based on annual usage of 10,000 kilowatt hours).
- In making our final decision, we will use updated data inputs, including 2026–27 network tariffs and their structure to be approved by the Australian Energy Regulator in May, to determine the 2026–27 Victorian Default Offer cost stack.
- We are seeking feedback on our draft decision by 10 April 2026, to be considered for our final decision which will be made by 24 May 2026.
- As requested by the Minister for Energy and Resources, we consulted on the suitability of a zero-charge daytime tariff and the outcomes of this consultation are described in this draft decision. We have not set a zero-charge daytime tariff within the Victorian Default Offer. We consider the introduction of a zero-charge daytime residential tariff is for further consideration of government.

The Victorian Default Offer provides a safeguard for customers

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.¹ 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.²

Standing offers

Standing offers are contracts that electricity retailers must make available to domestic and small business customers. A standing offer will apply if the 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.

Most customers are not on standing offers and are not directly affected by this decision. In Victoria, around 510,000 (or 17 per cent of) households and 61,000 (or 21 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 197,000 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 or office spaces.

¹ 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 as specified in footnote 6).

² Clause 3 of the pricing order.

³ Figures reflect contract type recorded through National Meter Identifier, as of December 2025. Recent increase in customers on electricity standing offers and subsequently have their price set through the Victorian Default Offer, is due to one retailer recently assigning customers with an expired contract on to a standing offer. Essential Services Commission, Energy Market Dashboard, available at: <https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/victorian-energy-market-report/energy-market-dashboard>, accessed 19 February 2026.

⁴ Figure is as of February 2026.

Summary

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 2000* (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

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 market⁷
- promoting the long-term interests of Victorian consumers⁸
- promoting the development of full retail competition⁹
- protecting consumers.¹⁰

Setting prices in the Victorian Default Offer based on efficient costs means that customers have access to a reasonable price which 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

The majority of 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. This

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. S 216 Tuesday 4 June 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'. See Appendix E for the current pricing order.

⁶ Clauses 10(1), 12(3) and 12(4) of the pricing order.

⁷ Clause 3 of the pricing order.

⁸ *Essential Services Commission Act 2001*, s 8.

⁹ *Electricity Industry Act 2000*, s 10(b).

¹⁰ *Electricity Industry Act 2000*, s 10(c).

Summary

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 by 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 26 May 2025 for the Victorian Default Offer to apply from 1 July 2025 to 30 June 2026 (the 2025–26 Victorian Default Offer).

Under the pricing order, we must make a new determination for the Victorian Default Offer to apply from 1 July 2026 to 30 June 2027 on or before 24 May 2026.¹¹ We refer to the new pricing arrangements for standing offers to apply from 1 July 2026, as the 2026–27 Victorian Default Offer.

Drivers of the 2026–27 Victorian Default Offer price changes

Electricity retailers incur environmental costs to meet their obligations under both Australian and Victorian environmental programs. The costs associated with these programs have decreased for the 2026–27 period due to lower certificate prices and reduced liability on retailers. Environmental costs make up four per cent of Victorian Default Offer bills for 2026–27.

For our draft decision, we observed stable wholesale electricity costs and used 2025–26 adjusted for inflation network costs which are the two largest cost components of Victorian Default Offer bills. Consequently, decreased environmental costs are a key driver of changes in Victorian Default Offer prices this year.

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.¹² Network tariffs and metering charges vary across Victoria's five distribution zones due to a range of factors, including costs related to geographical scale, population dispersion, overall demand, the age of the network and network investment needs.

The Australian Energy Regulator is currently assessing revised 2026–27 network tariffs and metering charges submitted by distribution providers in December 2025, as part of their five-year revenue reset proposals for the regulatory period of 2026–31. Therefore, our draft decision has

¹¹ Clause 10(1) of the pricing order.

¹² For our draft decision, we have used network tariffs for 2025–26 approved by the Australian Energy Regulator. Our final decision will use network tariffs for 2026–27 as approved by the Australian Energy Regulator, expected in May 2026.

used 2025–26 network tariffs and metering charges approved by the AER in May 2025, adjusted for inflation.¹³

Our final decision will use 2026–27 network tariffs, and their structures (including a three-period time of use tariff for residential customers) and metering charges to be approved by the Australian Energy Regulator in May.

Overall, all other cost components of the Victorian Default Offer, including retail operating costs and retail operating margin have remained relatively stable.

Average annual bills for Victorian Default Offer customers will be lower in 2026–27

Average domestic annual bills

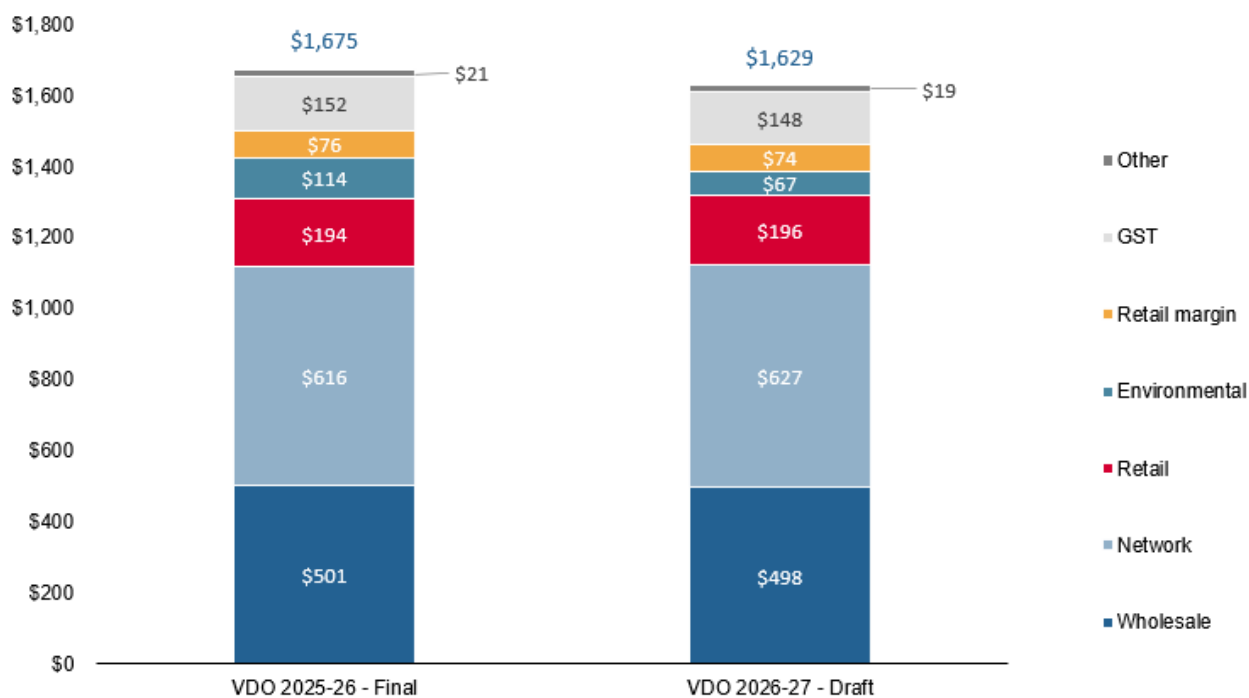
The average annual bill for a 2026–27 Victorian Default Offer domestic customer on a flat tariff will be \$1,629. This is \$46 (or three per cent) lower compared to our 2025–26 decision. This price is the average of representative annual bills across the five electricity distribution zones in Victoria.¹⁴

Environmental costs components for the average domestic flat tariff Victorian Default Offer customer have reduced compared to 2025–26 (see Figure 1). Overall, most other cost components are stable or held constant compared to 2025–26 making the reduction in environmental costs the key driver of changes in Victorian Default Offer prices this year.

¹³ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data. We applied the CPI from June 2025 (98.43) to 31 December 2025 (100.32). Australian Bureau of Statistics, [Table 17, CPI: Quarterly All Groups, Index Numbers and Percentage Change: ID A2325846C 31 December 2025](#), 28 January 2026, accessed 19 February 2026.

¹⁴ 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 2026–27 Victorian Default Offer annual bills for domestic customers (assuming annual usage of 4,000 kWh) compared to 2025–26



Victorian electricity distribution zone comparisons – domestic

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

Victorian Default Offer domestic customers will see bill changes ranging from a \$43 decrease (around three per cent) in the United Energy area to a \$48 decrease (around three per cent) in the Powercor area.

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 2025–26 (assuming 4,000-kilowatt hours annual usage).

Table 2: Change in average annual representative Victorian Default Offer bills for domestic customers on flat tariff (nominal assuming 4,000 kWh/year)¹⁵

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2025–26 (final decision)	\$1,908	\$1,546	\$1,638	\$1,703	\$1,579	\$1,675
2026–27 (draft decision)	\$1,863	\$1,500	\$1,592	\$1,655	\$1,536	\$1,629
Change in \$	-\$45	-\$46	-\$46	-\$48	-\$43	-\$46
Change in %	-2%	-3%	-3%	-3%	-3%	-3%

Average small business annual bills

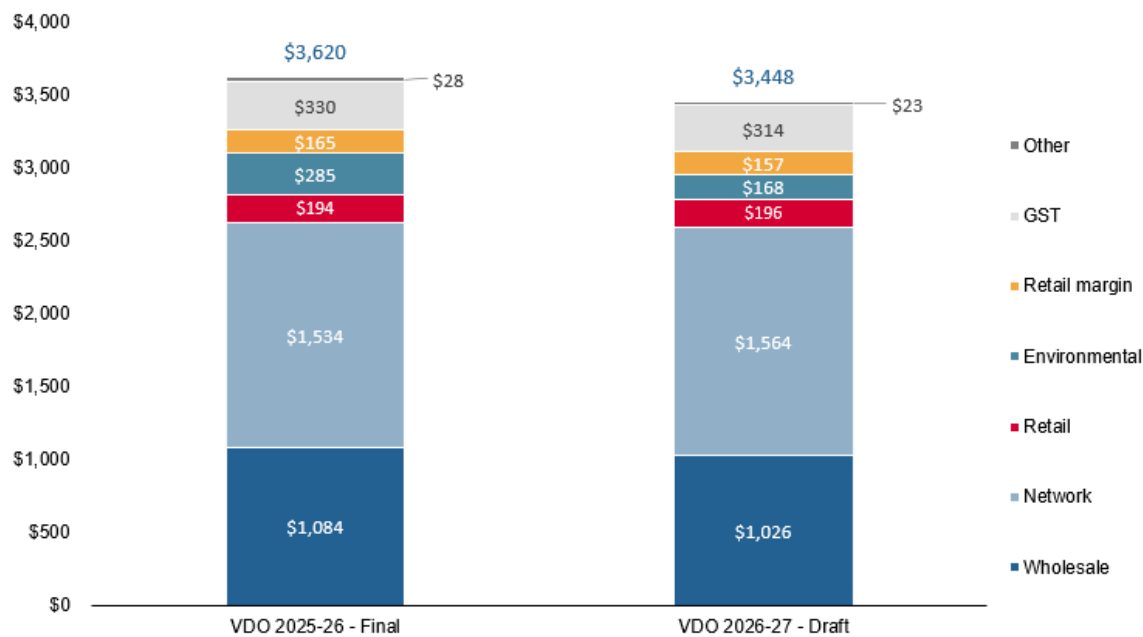
The average annual bill for a 2026–27 Victorian Default Offer small business customer on a flat tariff will be \$3,448. This is \$172 (or five per cent) lower compared to our 2025–26 decision. This price is the average of representative annual bills across the five electricity distribution zones in Victoria.¹⁶

Environmental and wholesale electricity costs for the average small business flat tariff 2026–27 Victorian Default Offer customer have decreased compared to 2025–26 (see Figure 2). Overall, most other cost components are stable or held constant compared to 2025–26 making the reduction in environmental and wholesale electricity costs key drivers of changes in Victorian Default Offer prices for small businesses this year.

¹⁵ Values in the table may not sum to exact total due to rounding.

¹⁶ According to pricing order clause 15(5)(a) the annual reference consumption amount for small business customers is 20,000 kilowatt hours per year, this consumption amount is used in setting our Price Determination. However, when presenting bill impacts the average consumption assumes 10,000 kilowatt hours per year, we call this 'representative' usage. We have used 10,000 kilowatt hours per year to align with how small businesses prices are reported in default market offers in other states.

Figure 2: Change in 2026–27 Victorian Default Offer annual bills for small business customers (assuming annual usage of 10,000 kWh) compared to 2025–26



Victorian electricity distribution zone comparisons – small business

Changes in representative small business customer bills compared to the 2025–26 Victorian Default Offer vary across the five distribution zones in Victoria. Victorian Default Offer small business customer bills range from decreases of \$165 (around four per cent) in the Jemena area to \$179 (around five per cent) in the Powercor area. The difference in representative annual bills across distribution zones is 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 representative Victorian Default Offer bills for small business customers on flat tariff (nominal assuming 10,000 kWh/year)¹⁷

	AusNet	CitiPower	Jemena	Powercor	United Energy	Victorian average
2025–26 (final decision)	\$4,398	\$3,186	\$3,720	\$3,508	\$3,290	\$3,620
2026–27 (draft decision)	\$4,230	\$3,014	\$3,555	\$3,329	\$3,112	\$3,448
Change in \$	-\$168	-\$172	-\$165	-\$179	-\$178	-\$172
Change in %	-4%	-5%	-4%	-5%	-5%	-5%

Our draft decision is informed by submissions on selected matters

On 14 November 2025, we released the *2026–27 Victorian Default Offer: Request for Comment Paper* seeking submissions on select matters related to our methodology for determining the Victorian Default Offer, which we were considering for further refinement. These included:

- Continuing to account for a wholesale cost of exports, how best to calculate this cost including the data source or any other alternative approaches.
- Whether we should transition the residential Victorian Default Offer time of use tariff from a two-period to a three-period to align with network tariff structure proposed by distribution network services providers in Victoria, or any other matters proposed we should consider.
- Views on the suitability of, and safeguards needed, to implement a ‘Free Power Period’ tariff in Victoria.
- Support for our approach to pass-through upcoming structural changes to National Electricity Market participant fees, and data used to estimate ancillary service fees.

We received 37 submissions in response to our Request for Comment Paper, 32 non-confidential submissions are [on our website](#). In making this draft decision we have considered all submissions received. We have addressed submission themes in the sections of this draft decision to which they relate.

We sought views on a Free Power Period within the Victorian Default Offer

The Minister for Energy and Resources asked the commission to seek views on the suitability of, and safeguards needed to implement, a regulated electricity tariff that provides domestic customers with a window of usage at zero-charge.

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

We received 26 submissions responding to this call for views in our Request for Comment Paper. We received submissions from electricity retailers, their peak body, distribution network service providers, embedded network providers, consumers, and consumer groups.¹⁸ We have shared these submissions with government and they can be found [on our website](#).

We heard in principle support for a zero-charge daytime tariff, including that it would:

- Help share low daytime electricity costs with consumers who cannot access self-generation or storage technologies.
- Provide system efficiencies by moving energy consumption (shifting load) from peak times into the middle of the day was also noted.

Support was balanced with some concerns that:

- Multiple objectives for such a tariff could create conflicting principles that create challenges for its design.
- There may be some customers who benefit, and some customers could be worse off.
- There could be negative impacts for localised electricity networks if the tariff is taken up in large numbers.
- Additional consumer protections may be needed.

Existing time of use tariffs, like that set in the Victorian Default Offer since 2021 and available as market offers, also endeavour to shift consumption from peak times into the middle of day by sending high evening rates as a price signal. If a consumer has high evening consumption that will be difficult to shift to another time, they may not be best suited to a time of use tariff. However, we acknowledge that increasingly, consumers have access to technology (like smart or timed appliances) that support shifting consumption to lower cost times of the day and enables them to more consistently respond to price signals.

We acknowledge in September 2025, the AER approved the five Victorian distribution network service providers to introduce a lower-cost daytime network tariff for residential time of use tariffs, known as a 'solar soak' tariff from 11 am to 4 pm. This tariff structure will be reflected in the Victorian Default Offer for 2026–27 residential time of use tariffs.

¹⁸ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 3–4; AGL, pp. 2–8; Alinta, pp. 1–2; Anonymous 3, pp. 1–2; Anonymous 6 – Part 1, p. 3; AusNet, pp. 1–2; Australian Energy Council, pp. 1–5; Aziz Haque, p. 3; Brian Burleigh, p. 3; Caravan and Residential Parks, pp. 1–4; CitiPower, Powercor and United Energy, pp. 1–5; Electrify Boroondara, pp. 1–3; EnergyAustralia, pp. 3–4; Energy Locals, pp. 1–2; Energy On, pp. 3–5; ENGIE, pp. 1–5; Etrog Consulting, p. 1–5; Flow Power, pp. 3–7; Ingenia, pp. 1–4; Joint community sector and consumer advocates Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information and Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria and Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria, Uniting Vic Tas, and Westjustice, pp. 1–2, 7–9, 14; Lighter Footprints, pp. 2–3, 5–10; M2 Energy T/A dodo Power and Gas, pp. 2–3; Network Energy Services, pp. 1–2; Origin, pp. 1–2, 4–5; Pacific Blue, pp. 2–3; Powershop and Shell Energy, pp. 1–2.

Victoria has strong rules in place to protect energy consumers. The Energy Retail Code of Practice has existing consumer protections that could apply to a zero-charge period electricity tariff. These protections could help reduce risks for Victorian consumers. Protections that could apply include:

- standard retail contract terms and conditions (for example, zero exit fees for switching to a different plan)
- requirements for retailers to give clear advice and information to consumers before sign-up, and
- assistance if a customer is experiencing payment difficulty, including being automatically switched to cheaper offers (new reforms take effect from 1 October 2026).

These existing protections could be applied to a new regulated zero-charge period tariff. This can help support implementation of the tariff and appropriately manage risks in the long-term interests of Victorian consumers.

We have not set a zero-charge daytime tariff within the Victorian Default Offer. We consider the introduction of a zero-charge daytime residential tariff is for further consideration of government.

We have maintained a consistent approach

Our draft decision maintains the same approach that we used in the 2025–26 Victorian Default Offer.

We consider our overall approach to calculating the Victorian Default Offer is sound. We review our methodology each year and it 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 Request for Comment Paper show general support for the overall methodology we use.¹⁹

We consider our approach to the various cost components in this draft decision best meet the requirements of all relevant provisions, and account for all 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 details.

¹⁹ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: AGL, pp. 1–2; EnergyAustralia, p. 1; ENGIE, p. 1; Lighter Footprints, p. 2; Origin, p. 1.

Our final decision will include updated costs

We will use up-to-date cost inputs in our final decision, including:

- network tariffs and metering charges to be approved by the Australian Energy Regulator, including a three-period time of use tariff for residential customers, expected in May 2026
- final ASX Energy futures contract prices as at April/May 2026, noting that as futures contract prices change daily, the wholesale electricity cost benchmark adopted in our final decision is likely to be different to the one in this draft decision
- other (smaller) inputs to our cost stack, dependent on available data.

We will also consider all submissions received on this draft decision and make any necessary updates in our final decision.

We will continue to uphold other protections for customers

Victorian customers have strong protections, beyond the Victorian Default Offer. These are enforceable obligations on retailers, in the Energy Retail Code of Practice. We have also recently introduced more protections for customers to access cheaper energy deals and payment support.²⁰

Key consumer protections include:

- **Entitlements to payment assistance.** Customers anticipating or facing payment difficulty are entitled to assistance.²¹ Retailers must also help customers apply for Utility Relief Grants – a grant offered by the Victorian Government to provide up to \$1,300 every two years for eligible customers.
- **Notifying customers of their best offer.** Retailers must place a best offer message on their customer’s bills. Retailers must also notify customers of upcoming price changes.²² This helps customers know whether they are receiving their retailers’ best offer. It can also prompt customers to find lower prices from other retailers.
- **Helping customers receive concessions (applying from 1 July 2026).** Eligible customers can access annual electricity and winter gas concessions to reduce energy bills. Retailers must ask customers for concession information and help them receive it, if eligible.
- **Protections for those paying high prices (applying from 1 July 2026).** Retailers must ensure customers on contracts older than four years are paying a reasonable price.

²⁰ Essential Services Commission, [Reviewing the Energy Retail Code of Practice](#), accessed 19 February 2026.

²¹ Energy Retail Code of Practice, Version 5, 1 February 2026, Part 6.

²² Energy Retail Code of Practice, Version 5, 1 February 2026, Part 5, Division 5.

- **Automatic best offer for customer experiencing payment difficulty** (*applying from 1 October 2026*). Retailers must automatically switch these customers onto its best offer.
- **Increasing the minimum debt amount for disconnection from \$300 to \$1,000** (*applying from 1 October 2026*).

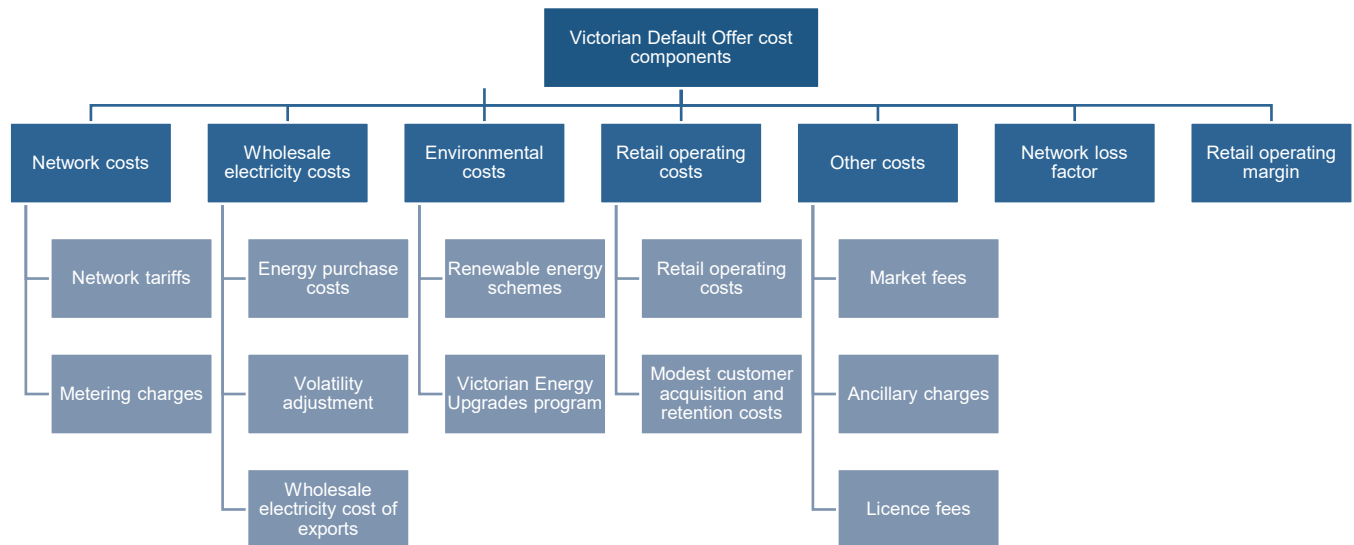
These are important protections for Victorian consumers. We will continue to use our compliance and enforcement powers in the public interest, especially for consumers experiencing vulnerability.

We will also be consulting on further reforms to the Energy Retail Code of Practice, with a final decision expected by the end of 2026.

Victorian Default Offer cost components

We must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.²³ In doing this, we must have regard to specific cost components.²⁴ Figure 3 shows the cost components included in our Victorian Default Offer cost stack in 2026–27.

Figure 3: 2026–27 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, a wholesale cost of exports where appropriate 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.

²³ Clause 12(3) of the pricing order.

²⁴ Clause 12(4) of the pricing order.

- **Other costs** – National Electricity Market Participant fees, ancillary service fees, licence fees, and market intervention costs.
- **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 draft decision is to continue using a cost pass-through approach for network costs. Passing through the network tariffs, including their structures, and metering charges approved by the Australian Energy Regulator each year.
- For our draft decision, we have based network costs on the 2025–26 network tariffs and metering charges approved by the Australian Energy Regulator in May 2025 adjusted for CPI.
- We will update the network costs for our final decision once the Australian Energy Regulator approves the network tariffs and metering charges for 2026–27, expected in May 2026.
- Our draft decision is to transition the domestic time of use (ToU) Victorian Default Offer from a two-period to a three-period tariff structure, maintaining alignment with the underlying network ToU tariff cost structure. Key changes include the introduction of a lower-cost solar soak period from 11 am to 4 pm daily, and an adjustment of the peak period from 3 pm–9 pm to 4 pm–9 pm. The three price periods for the domestic ToU Victorian Default Offer will be:
 - solar soak period between 11 am–4 pm
 - peak period 4 pm–9 pm
 - off-peak period 9 pm–11 am.
- For domestic customers, network costs are \$627 and make up around 39 per cent of a representative annual flat tariff bill (averaged across the five distribution zones and based on 4,000 kWh annual consumption).

The pricing order requires that we have regard to **network costs** in estimating the efficient costs of the sale of electricity by a retailer.²⁵ Network costs cover the construction, operation, maintenance and expansion of electricity transmission and distribution infrastructure.

Distribution Network Service Providers (distribution providers) and Transmission Network Service Providers (transmission providers) submit revenue proposals to the Australian Energy Regulator (AER) every five years. The AER in turn makes a five-year revenue determination, setting the maximum revenue providers can recover and the structure to the tariffs the revenue is recovered through. Every year, electricity distribution and transmission businesses are required to submit their respective pricing proposals to the AER that contain the tariffs and metering charges they propose to charge their customers. These pricing proposals follow the revenue path set out in their respective five-year revenue determinations (with adjustments) and together form network tariffs.

The AER approves network tariffs and metering charges each May for the following financial year. Network tariffs include:

- **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.

In turn, electricity retailers must pay approved network tariffs and metering charges to access network services and then pass these costs on to their customers.

Structure of network tariffs

Domestic network tariffs are structured in one of two ways:

- **Flat network tariffs** – a daily supply charge and a flat usage charge.
- **Three-period time of use network tariffs** – a daily supply charge and solar soak, peak and off-peak usage charges.²⁶

Small business network tariffs are structured in one of two ways:

- **Flat network tariffs** – a daily supply charge and a flat usage charge.
- **Two-period time of use network tariffs** – a daily supply charge and peak and off-peak usage charges.

²⁵ Clause 12(4)(b) of the pricing order.

²⁶ Three-period time of use network tariff structure to take effect from 1 July 2026.

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

In line with our established approach to network costs, we consider it appropriate to continue to apply a cost pass-through approach, in the Victorian Default Offer, reflecting network tariffs and metering charges as approved by the AER. This is consistent with the AER's role in regulating networks focused on efficiency and the long-term interests of consumers.

The AER is assessing revised network tariffs and metering charges submitted by distribution providers in December 2025, as part of their five-year revenue reset proposals. Therefore, for our draft decision, we have used 2025–26 network tariffs and metering charges approved by the AER in May 2025, adjusted for CPI.²⁷ Our final decision will use updated 2026–27 network tariffs including their structure and metering charges as approved by the AER, expected in May 2026.

Distribution tariff reforms – 'solar soak' period

The AER is reviewing 2026–31 revenue proposals from distribution providers, with new tariff structures and metering charges to take effect from 1 July 2026. In their Tariff Structure Statement draft decisions, published in September 2025, the AER approved the residential tariff structures proposed by each distribution provider.²⁸

Key tariff structure changes include:

- Introduction of a 'solar soak' period in the residential time of use (ToU) tariff between (11 am–4 pm daily) to encourage electricity use during high solar generation.²⁹
- Adjustment of the residential time of use (ToU) peak period from 3 pm–9 pm to 4 pm–9 pm to better reflect demand patterns.³⁰

Since 2021, the Victorian Default Offer domestic ToU tariff has included two price periods, reflecting the underlying structure of distribution tariffs.³¹

²⁷ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data. We applied the CPI from June 2025 (98.43) to 31 December 2025 (100.32). Australian Bureau of Statistics, [Table 17. CPI: Quarterly All Groups. Index Numbers and Percentage Change: ID A2325846C 31 December 2025](#), 28 January 2026, accessed 19 February 2026.

²⁸ AER, [AusNet Draft Decision, Attachment 13, Tariff Structure Statement](#), p. 8, September 2025; AER, [Jemena Draft Decision, Attachment 13, Tariff Structure Statement](#), p. 8, September 2025; AER, [CitiPower, Powercor, United Energy Draft Decision, Attachment 13, Tariff Structure Statement](#), p. 8, September 2025, accessed 3 March 2026.

²⁹ The AER uses the term 'residential' in each distribution provider's Issue Paper, and distribution providers also use 'residential' in their draft decision documents. However, the VDO refers to this customer category as 'domestic', in accordance with clause 5(a) of the pricing order.

³⁰ Ausnet, [2026–31 Tariff Structure Statement explanatory paper](#), January 2025; CitiPower, [2026–31 Tariff Structure Statement explanatory statement](#), January 2025; Jemena, [2026–31 Tariff Structure Statement](#), January 2025; Powercor, [2026–31 Tariff Structure Statement explanatory statement](#), January 2025; United Energy, [2026–31 Tariff Structure Statement explanatory statement](#), January 2025, accessed 19 February 2026.

³¹ We amended the 2021 Victorian Default Offer price determination in July 2021 to incorporate a two-period time of use tariff.

Submissions to our Request for Comment Paper

In our recent Request for Comment Paper, we sought feedback on transitioning from a two-period to a three-period domestic time of use (ToU) Victorian Default Offer.³²

We received strong support from retailers and the Australian Energy Council for transitioning to a three-period domestic ToU Victorian Default Offer.³³ Retailers continue to support our cost pass-through approach for network and metering charges and expressed a preference for retail tariffs to align exactly with underlying network tariffs.³⁴ Many retailers and the Australian Energy Council cautioned against any misalignment with network tariffs.³⁵ EnergyAustralia warned that misalignment with the underlying network tariff structure would not reflect price signals, therefore undermining the intention of time of use pricing.³⁶

Consumers were generally supportive of the transition to a three-period time of use tariff.³⁷ However, the joint submission from consumer groups cautioned that customers may not fully understand the tariff structures, while acknowledging that the cost pass-through approach aligns with our established methodology and the objectives of the Victorian Default Offer, and therefore expressed support for this approach.³⁸

Submissions from embedded network providers did not support time of use tariffs, as these providers are less likely to have smart meters and are unable to bill based on timed usage.³⁹ Some raised concerns that the flat rate Victorian Default Offer would be affected by the proposed network changes; however, this is not the case. The flat rate Victorian Default Offer will not be impacted by

³² Essential Services Commission, *Victorian Default Offer 2026–27: Request for Comment Paper*, 14 November 2025, pp. 2, 9, 10.

³³ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, p. 3; AGL Energy, p. 3; Alinta Energy Part 1, p. 2; Australian Energy Council, pp. 2–3; EnergyAustralia, pp. 2–3; ENGIE, pp. 2–5; Origin Energy, pp. 2–4; Pacific Blue, p. 2.

³⁴ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, p. 3; AGL Energy, p. 3; Alinta Energy Part 1, p.2; Australian Energy Council, pp. 2–3; EnergyAustralia, pp. 2–3; ENGIE, pp. 2–5; Origin Energy, pp. 2–4; Powershop & Shell Energy Part 1, p. 2.

³⁵ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Alinta Energy Part 1, p.2; Australian Energy Council, pp. 2–3; EnergyAustralia, pp. 2–3; Powershop & Shell Energy Part 1, p. 2.

³⁶ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: EnergyAustralia, pp. 2–3.

³⁷ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Lighter Footprints p. 4.

³⁸ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, Westjustice, pp. 9–10.

³⁹ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Energy On, pp. 2–3.

Victorian Default Offer cost components

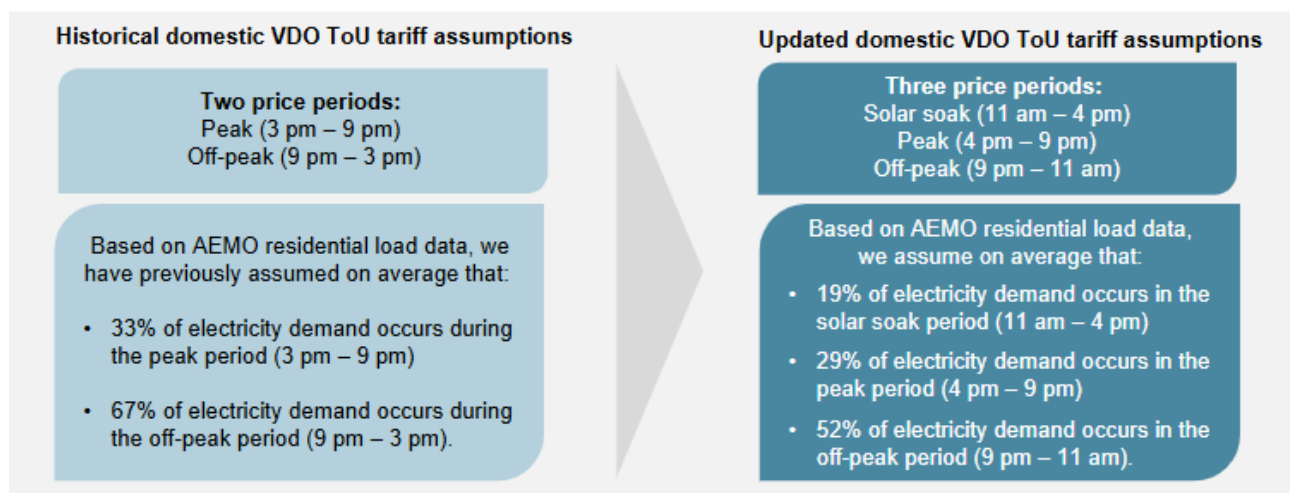
the transition to a three-period time of use Victorian Default Offer and will remain available for embedded network service providers that cannot bill by timed usage.

Submissions from distribution providers AusNet and CitiPower, Powercor and United Energy strongly supported the transition to a three-period time of use tariff structure, as it reflects the underlying network tariff structure they have proposed and supports continued alignment between retail and network tariffs.⁴⁰

Overall, submissions supported the transition to a three-period time of use Victorian Default Offer to enable the continuation of the cost pass-through approach and maintain alignment with underlying network tariff structures. Continued alignment allows retailers to better match underlying costs and more accurately reflect cost signals. Maintaining the cost pass-through approach also ensures consistency and reliability in the assessment of the Victorian Default Offer and aligns with expectations of interested parties.

We have considered the views raised in submissions and have decided to transition from a two-period to a three-period time of use tariff in the 2026–27 Victorian Default Offer. Figure 4 illustrates the changes to our model assumptions to incorporate this three-period structure.

Figure 4: Historical and updated Victorian Default Offer time of use tariff assumptions



Wholesale electricity costs

- Our draft decision is to use our futures market approach to forecast wholesale electricity costs.
- We will continue to use a load only profile to estimate wholesale electricity costs.

⁴⁰ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: AusNet, p. 1; CitiPower, Powercor, United Energy, pp. 1–2.

- We sought views on how we estimate a wholesale electricity cost of exports. Our draft decision uses the same approach as our final decision for the 2025–26 Victorian Default Offer.
- Overall, our draft decision is a lower forecast wholesale electricity costs for domestic customers compared to 2025–26 Victorian Default Offer. However, wholesale electricity costs vary across distribution zones.
- For representative average domestic customers on the flat tariff Victorian Default Offer, wholesale electricity costs are \$4 (or one per cent) lower in the total annual bill for 2026–27 compared to 2025–26.
- For domestic customers, wholesale electricity costs are \$498 and make up around 31 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 \$58 (or five per cent) lower in the total annual bill for 2026–27 compared to 2025–26.
- For small businesses, wholesale electricity costs are \$1,026 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 pricing order requires that we have regard to **wholesale electricity costs** in estimating the efficient costs of electricity retailers.⁴¹

Retailers face wholesale electricity costs when they buy 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' demand. The generators bid every five minutes and prices 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 buy electricity.

There are many ways retailers can hedge this risk including by contracting directly with a generator, through a financial market transaction on ASX Energy (a futures market), or with another financial intermediary.

⁴¹ Clauses 12(3) and 12(4)(a) of the pricing order.

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.

Our draft decision keeps 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 its exposure to high wholesale electricity spot prices.

Our draft decision uses a load only profile

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 when buying electricity for their residential and small business customers across the coming financial year.

We have kept the approach from our final decision on the 2025–26 Victorian Default Offer. This approach uses load profile data from the Australian Energy Market Operator (market operator) 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 interval.

This 'load only' profile also aligns with the Australian Energy Regulator's approach to setting the Default Market Offer.⁴²

We have published on our website aggregated Victorian small customers' 30-minute metered data from 2021 to 2025, as provided to us from the market operator.⁴³ This data displays aggregated small customer usage in each distribution zone, split by imports, exports and a balance position. To estimate customers' load profiles, we use a similar data set, but we have disaggregated customer types and therefore may not exactly reflect the data published.

We did not specifically consult on the load profile in our Request for Comment Paper, but some submissions provided their views.⁴⁴ Some retailers and the Australian Energy Council said they were not in favour of removing solar exports from the load profile:

⁴² Australian Energy Regulator, [2025–2026 Default market offer prices: Final determination](#), 26 May 2025, p. 24, accessed 19 February 2026.

⁴³ Requested via email on 15 January 2026.

⁴⁴ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, p. 2; Alinta Energy, p. 1; Australian Energy Council, p. 3; ENGIE, p. 2.

“The Australian Energy Council opposes the commission’s move from a 30-minute import-export load profile to the 5-minute import only profile for the Victorian Default Offer. We submit that the new approach is inefficient and less accurate for reflecting retailer hedging costs, particularly for volatile load.”⁴⁵

We have considered the points raised by submissions but remain of the view that a load only profile reflects an efficient load profile for the Victorian Default Offer. We consider this is the appropriate load profile and our advice on load profiles is unchanged.⁴⁶

We also note, the pricing order states we must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.⁴⁷ The pricing order does not require us to determine tariffs based on the actual costs of an individual retailer and therefore the hedging practices of any individual retailer.⁴⁸

Retailers may use different approaches than we do in the Victorian Default 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.

We have not included a wholesale electricity cost of exports

The forecast solar-weighted wholesale electricity price for 2026–27 is \$1.15 per megawatt hour, resulting in an overall positive value.⁴⁹ As the forecast solar-weighted wholesale electricity price is positive, we have not included a wholesale electricity cost of exports.

We included this in the 2025–26 Victorian Default Offer as the forecast solar-weighted wholesale electricity price was negative and was a cost retailers were unable to recover.

The main drivers of this change in price (from overall negative to positive) are less severe negative intervals and higher daytime prices. This is in part due to less volatility in the wholesale electricity market, and large solar and wind generators bidding higher prices during daytime hours.⁵⁰

⁴⁵ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Australian Energy Council, p. 3.

⁴⁶ Essential Services Commission, *Victorian Default Offer 2025–26: Final Decision Paper*, 26 May 2025, p. 25.

⁴⁷ Clause 12(3) of the pricing order.

⁴⁸ Clause 12(8) of the pricing order.

⁴⁹ Frontier Economics 2026, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 24 February 2026, p. 47.

⁵⁰ Australian Energy Market Operator, [Quarterly Energy Dynamics Q4 2025](#), July 2025, pp. 17–18, accessed 19 February 2026.

Previously, we accounted for the social cost of carbon included in the mandatory minimum feed-in tariff as an environmental cost. From 1 July 2025, retailers set their own feed-in tariffs provided they do not fall below \$0.00 per kWh.⁵¹

When the forecast solar-weighted wholesale electricity price is overall negative, and a retailer's customer exports electricity, that retailer must make a settlement payment to the market operator but cannot recover this cost by charging their solar customers that exported that electricity. However, when the forecast solar-weighted wholesale electricity price is overall positive, retailers do not incur settlement payments to the market operator overall, that need to be accounted for in the Victorian Default Offer.

Overall negative prices can result in an added expense that retailers would face for their customers' exports (a wholesale electricity cost of exports). To account for this, we previously added a wholesale electricity cost to the 2025–26 Victorian Default Offer.

Our Request for Comment Paper proposed to keep our approach for the 2026–27 Victorian Default Offer when setting a wholesale cost of exports. We sought feedback from interested parties on this approach, including whether it was accurate to continue using data from the market operator to estimate this cost.

Submissions did not express any significant issue with using data from the market operator and most submissions supported including the wholesale cost of exports in the Victorian Default Offer.⁵²

EnergyAustralia did express concern that we only considered the value up to a zero feed-in tariff. They argued there is a market expectation that retailers will offer their customers a positive feed-in tariff:

“In a competitive market, retailers offer feed-in to deliver value to customers. However, the commission's framework appears to reflect only the legal minimum (the feed-in tariff floor of zero), which we do not consider is realistic...”⁵³

⁵¹ 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, s97C(2)*.

⁵² Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2–3; Anonymous 1, p. 2; Australian Energy Council, p. 4; Aziz Haque, p. 2; EnergyAustralia, p. 2; M2 Energy, p. 1; Pacific Blue, p. 2.

⁵³ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: EnergyAustralia, p. 2.

We agree that retailers face settlement costs when wholesale prices are negative and retailers cannot recover this cost by charging customers to export. The pricing order does not require us to reflect retailers' actual costs and retailers are free to make their own business decisions to offer a feed in tariff.⁵⁴

We explained in our 2025–26 Victorian Default Offer that the forecast solar-weighted wholesale electricity price is suitable and we are still of the view that this cost is efficient.⁵⁵ Our approach multiplies total exports for the calendar year (provided in market operator metering data) by the forecast solar-weighted wholesale electricity price for the upcoming financial year then divided by forecast consumption for that same period.

Prior to our final decision, we will take an updated reading of wholesale electricity contract prices so this forecast solar-weighted wholesale electricity price may vary.

Our draft 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 use the most recent three years of interval meter data and wholesale electricity spot prices (both recorded at 5-minute intervals). We source this data from the market operator for use in the Monte Carlo simulation.⁵⁶

In our view, a three-year sample period reflects a reasonable balance of providing a time series to analyse wholesale costs, while accounting for changes in demand patterns. A shorter period would place greater emphasis on short-term market dynamics or one-off events. We have therefore kept this approach in our draft decision.

The Monte Carlo simulation randomly generates a year of five-minute observations. This process is repeated 500 times to generate a range of simulated years.⁵⁷ Each simulated year is normalised to keep load shape and the correlation between load and price and scaled to five-minute prices.

⁵⁴ Clause 12(3) of the pricing order.

⁵⁵ Essential Services Commission, *Victorian Default Offer 2025–26: Final Decision Paper*, 26 May 2025, p. 30.

⁵⁶ 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 2026, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 20 February 2026, pp. 15–16.

⁵⁷ 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 2026–27, subtracting a contract premium.⁵⁸ Our methodology excludes days on which participants exercise their contract options from these trade-weighted averages, because of the influence the volume of trades would have on the swaps and caps.⁵⁹

These simulations give a range of possible outcomes for demand and the relationship between price and demand for 2026–27.

Our draft decision is to keep our approach to forecasting an efficient hedging position

With this range of possible demand conditions, we estimate 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 draft decision. The STRIKE model finds an efficient position a prudent retailer would use to cover its required load with a mix of hedging products that is the lowest energy purchase cost for the lowest level of risk.

The model uses:

- ASX Energy base swap and base cap future contract prices
- three years of historical load data
- spot prices from the market operator, and the spot price and demand conditions from the Monte Carlo simulations.

To estimate the cost of this hedging position, we use the 12-month trade-weighted contract prices from ASX Energy for base swap and base cap contracts. There are many different hedging products available from ASX Energy and the over-the-counter market. We use futures prices from ASX Energy as participants publicly trade ASX Energy contracts, so prices and volumes are transparent.

We consider that the STRIKE model will naturally adjust to changes in the load profile over time. We have therefore not made any explicit adjustments to the hedging position we have used.

⁵⁸ Frontier Economics 2026, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 20 February 2026, p. 46.

⁵⁹ Frontier Economics, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 20 February 2026, p. 26.

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

For our draft 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 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. We completed this for 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 method means in general we would expect there to be relatively little unhedged load. 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, we must consider the costs of an efficient retailer, and we do not have to set our cost benchmarks to reflect the actual costs of individual retailers.⁶⁰

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 an equal decrease in hedging contract purchase costs.

Wholesale electricity costs are lower in representative domestic customer bills compared to 2025–26

Wholesale electricity costs are the second largest component of annual bills, making up 31 per cent of domestic and 30 per cent small business Victorian Default Offer customers bills for 2026–27. This cost reflects both the wholesale electricity cost to service electricity customers' demand and the wholesale electricity cost of customers' exports. This component is a yearly cost of \$498 for a representative domestic customer and \$1,026 for a representative small business customer on the default offer.

For representative domestic customers, wholesale electricity costs are \$4 (or one per cent) **lower** than in our 2025–26 Victorian Default Offer. For representative small business customers this cost is \$58 (or five per cent) **lower** than in our 2025–26 Victorian Default Offer.

Wholesale electricity future contract prices are stable compared to 2025–26 due to less volatility in the wholesale electricity market compared to 2024. Our draft decision reflects contract prices up to

⁶⁰ Clauses 12(3) and 12(8) of the pricing order.

6 February 2026. We note global events since this date affecting international oil prices may have some corresponding impact on electricity contract pricing.

Prior to our final decision, we will take an updated reading of wholesale electricity contract prices so this amount may vary.

Environmental costs

- Our draft decision is to keep our approach for estimating costs for the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme, and the Victorian Energy Upgrades program.
- We no longer account for the social cost of carbon as legislation no longer requires it in Victoria.
- For domestic customers, environmental costs are \$67 and make up around four per cent of a representative annual flat tariff bill (averaged across the five distribution zones based on 4,000 kWh annual consumption).
- Our draft decision means environmental costs for domestic customers are \$47 (or 41 per cent) lower compared to the amount in our 2025–26 determination. This is mainly driven by decreased cost of liability and certificate prices in both Australian and Victorian government environmental programs.

The pricing order requires that we have regard to **environmental costs** in estimating the efficient costs of electricity retailers.⁶¹

Our approach to environmental costs

Our draft decision is to continue to forecast environmental costs based on the costs Victorian retailers incur in meeting the environmental obligations 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.

⁶¹ Clause 12(4)(c) of the pricing order.

Because these costs are unavoidable, we consider it appropriate to include them in the Victorian Default Offer, as they reflect a retailer's efficient costs of selling electricity.⁶²

As of 1 July 2025, the commission no longer sets a mandatory minimum feed-in tariff.⁶³ In setting the Victorian Default Offer, we no longer include the social cost of carbon as retailers no longer pay this cost.

Our draft decision is to keep 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 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.

Annual renewable generation targets and the amount of wholesale electricity bought by electricity retailers decides 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.

Calculating Large-scale Renewable Energy Target costs

Our draft decision uses the same approach as the previous Victorian Default Offer to calculate retailer costs for 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) for a retailer meeting its obligations under the program.

We take the applicable liability percentage set by the Clean Energy Regulator each calendar year (16.67 per cent in 2026) and multiply by the 12-month trade-weighted average market price for LGCs settled in 2026–27 (\$15.08).⁶⁴

⁶² Clause 12(3) of the pricing order.

⁶³ *Energy and Land Legislation Amendment (Energy Safety) Act 2025*, s97B.

⁶⁴ The Clean Energy Regulator uses the liability percentage to calculate amount of LGCs liable entities must surrender each year. The Clean Energy Regulator set the renewable power percentage at 16.67 per cent for 2026. The renewable power percentage, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-renewable-power-percentage>.

We have used the most recent 12-months of trade-weighted average market prices for LGCs settled in 2026–27 as of 6 February 2026. Frontier Economics, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 20 February 2026 p. 43.

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 (17.91 per cent in 2025) and the actual liability percentage for the 2025–26 period. We do this by reflecting the midpoint between the liability percentages used in our earlier and current decisions.

Draft decision: Large-scale Renewable Energy Target costs

The cost of compliance with the Large-scale Renewable Energy Target for 2026–27, is \$2.25 per megawatt hour for domestic and small business Victorian Default Offer customers.⁶⁵

This is a decrease of \$3.88 per megawatt hour from our 2025–26 Victorian Default Offer because of the lower liability percentage, regulatory adjustments, and certificate prices.⁶⁶

Our final decision will:

- include updated trade-weighted prices for LGCs
- continue to use the 2026 liability percentage
- include the regulatory period adjustment to account for the difference in liability percentages between 2025 and the midpoint for 2025–26.

Our draft decision is to keep our approach to the Small-scale Renewable Energy Scheme

Under the Small-scale Renewable Energy Scheme, electricity retailers must buy 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.⁶⁷ Retailers then buy the STCs.

Each year the Clean Energy Regulator sets a **binding** small-scale technology percentage (binding liability percentage) for the current calendar year, and a **non-binding** small-scale technology percentage (non-binding liability percentage) for future years.⁶⁸ These liability percentages set the amount of STCs electricity retailers must buy. Electricity retailers then surrender STCs to meet their obligation for that year.

⁶⁵ The regulatory period adjustment value accounts for retail operating margin, network line losses and GST.

⁶⁶ Renewable power percentage, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-renewable-power-percentage>.

⁶⁷ Small-scale renewable energy scheme, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/RET/About-the-Renewable-Energy-Target/How-the-scheme-works/Small-scale-Renewable-Energy-Scheme>.

⁶⁸ Small-scale technology percentage, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-small-scale-technology-percentage>.

Calculating Small-scale Renewable Energy Scheme costs

Our draft decision is to keep our approach to calculate the cost of the Small-scale Renewable Energy Scheme including a regulatory period adjustment of our 2025–26 decision.

For our draft decision we used the mid-point between the 2026 binding and 2027 non-binding liability percentages, multiplied by the STC clearing house price (\$40 excluding GST).⁶⁹ Our draft decision uses 11.21 per cent, the mid-point between the 2026 binding percentage of 11.67 and the 2027 non-binding percentage of 10.75.

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 earlier decision (12.84 per cent) and the actual liability percentage for the 2025–26 period.⁷⁰ We do this by reflecting the midpoint between the binding liability percentages used in our earlier and current decisions.

Draft decision: Small-scale Renewable Energy Scheme costs

The cost of compliance with the Small-scale Renewable Energy Scheme for 2026–27, is \$4.45 per megawatt hour for domestic and small business Victorian Default Offer customers. This is a decrease of \$0.13 per megawatt hour from our 2025–26 Victorian Default Offer because of the lower liability percentages.⁷¹

Our final decision will continue to include the mid-point 2026–27 liability percentage, multiplied by the known price of Small-scale Renewable Technology Certificates. We will also include a regulatory period adjustment to account for the difference between the midpoint liability percentage used in the 2025–26 Victorian Default Offer final decision and the actual midpoint for 2025–26.

Our draft decision is to keep our approach to the Victorian Energy Upgrades program 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 products and services.⁷²

⁶⁹ 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). STC clearing house, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/OSR/REC/STC-clearing-house>.

⁷⁰ The regulatory period adjustment accounts for retail operating margin, network line losses and GST.

⁷¹ Small-scale technology percentage, Clean Energy Regulator, accessed 19 February 2026, <https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-small-scale-technology-percentage>.

⁷² About the Victorian Energy Upgrades program, Essential Services Commission, accessed 19 February 2026, <https://www.esc.vic.gov.au/victorian-energy-upgrades/about-victorian-energy-upgrades-program>.

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).

Electricity retailers must buy and surrender VEECs to meet annual targets set in Victorian legislation.

Draft decision: Victorian Energy Upgrades program costs

For our draft decision, we multiplied the volume-weighted average certificate price of \$94.62 (excluding GST) by 9.71 per cent, which produced a cost per domestic Victorian Default Offer customer of \$9.18 per megawatt hour. This resulted in a total cost of \$36.73 in a representative domestic Victorian Default Offer bill. This is a decrease of \$6.97 per megawatt hour compared to our 2025–26 Victorian Default Offer.

The 2026 greenhouse gas reduction rate is lower than in our 2025–26 Victorian Default Offer.

Our final decision will use the most recent trade-weighted average prices for VEECs, and as a result may differ from our draft decision.

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

The commission no longer sets any mandatory minimum feed-in tariffs.⁷³ From 1 July 2025, the avoided social cost of carbon has not been accounted for in the Victorian Default Offer.

Environmental costs in our draft decision are lower compared to 2025–26

A representative average domestic Victorian Default Offer customer will pay \$67 per year in environmental costs out of a total annual bill of \$1,629 in 2026–27. This is \$47 lower compared to the amount included in the 2025–26 Victorian Default Offer cost stack. This change is mainly due to the decreased cost liability and certificate prices for retailers under the Australian and Victorian Government environmental programs.

Retail operating costs

- Our draft decision is to continue setting the retail operating cost benchmark using the customer-weighted average of retailers' actual retail operating costs, adjusted for inflation.

⁷³ *Energy and Land Legislation Amendment (Energy Safety) Act 2025, 97B.*

- Retail operating costs are \$148 per customer for the draft 2026–27 Victorian Default Offer.
- For domestic customers, retail operating costs make up nine per cent of a representative annual flat tariff bill (averaged across the five distribution zones and based on 4,000 kWh annual consumption).
- For small businesses, retail operating costs make up four per cent of a representative annual flat tariff bill (averaged across the five distribution zones and based on 10,000 kWh annual consumption).
- The retail operating costs in our draft decision are stable with less than \$1 increase compared to the 2025–26 Victorian Default Offer.

The pricing order requires that we have regard to **retail operating costs** in estimating the efficient costs of electricity retailers.⁷⁴

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

- cost to serve, which includes:
 - billing and revenue collection systems
 - related labour cost
 - information technology systems
 - call centre costs
 - corporate overheads
 - other costs (general, administrative, and miscellaneous costs related to retail operation and other cost to serve to small retail customers).⁷⁵
- bad and doubtful debt write-offs.

Our draft decision is to keep our approach to benchmarking retail operating costs

We will continue to set a single retail operating cost benchmark across domestic and small business customers using the customer-weighted average of retailers' actual retail operating costs for Victoria, adjusted for the difference in the Consumer Pricing Index (CPI).⁷⁶

⁷⁴ Clause 12(4)(d) of the pricing order.

⁷⁵ Other costs category only includes costs associated with retail operation. Cost items such as market fees, licence fees are separately accounted for in our cost stack.

⁷⁶ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach.

Data analysis

For our draft decision, we collected the most recent financial year's (2024–25) retail operating cost data from electricity retailers using information gathering notices issued under section 36 of the *Essential Services Commission Act 2001*. The retailers that provided data collectively represent over 98 per cent of Victoria's domestic and small business electricity market.

We analysed the data, identified outliers, excluded costs that are not reflective of an efficient retailer, and followed up with retailers to better understand the underlying cost drivers and emerging trends across the sector. Consistent with our previous approach, to improve transparency, accuracy and avoid double counting, we sought clarification on cost items where multiple costs are combined under aggregated categories (for example, 'Other costs') to ensure all relevant cost items are appropriately classified.

Based on this analysis, we calculated a retail operating cost benchmark using the customer-weighted average of retailers' reported costs.

Draft decision: retail operating cost benchmark

Our benchmark for retail operating costs per customer in 2024–25 is \$145 excluding GST and before CPI adjustment.⁷⁷ Consistent with the approach taken in previous reviews, we adjusted the 2024–25 benchmark for the change in the CPI.⁷⁸ The retail operating cost benchmark for 2026–27 will be \$148 excluding GST.⁷⁹

Individual retailers may have operating costs that differ from our benchmark. However, we are not required to set the benchmark for an individual retailer, or industry segments. Instead, we consider the costs faced by an efficient retailer when setting this benchmark.

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.

⁷⁷ Essential Services Commission internal calculation based on retailers' actual reported costs for FY 2024–25.

⁷⁸ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach.

⁷⁹ We applied the CPI from June 2025 (98.43) to 31 December 2025 (100.32). Australian Bureau of Statistics, [Table 17. CPI: Quarterly All Groups, Index Numbers and Percentage Change: ID A2325846C 31 December 2025](#), 28 January 2026, accessed 19 February 2026.

Our draft decision sets a uniform benchmark for domestic customers and small businesses

This year, we continued collecting the customer segment-specific retail operating cost data to build a historical and robust dataset on the cost components for domestic and small business customers separately. In our earlier review, we explored establishing separate benchmarks for the customer segments. However, our analysis showed that applying customer-specific benchmarks would have produced a slight reduction in the retail operating cost for domestic customers and a noticeable increase for small businesses. This year we found the same outcome. Based on this observation, we are not proposing a change to our current approach.

Retail operating cost comparisons across retailers

Table 4 shows the weighted average retail operating cost components over the last two completed financial years and Victorian Default Offer benchmarks. These estimates are based on actual retail operating cost data collected from retailers for the financial years 2023–24 and 2024–25 (latest). Labour and IT system costs in 2024–25 had the largest increase, offset by reduction in billing system expenses and other retail cost when compared to 2023–24.

Table 4: Breakdown of retail operating costs (not CPI adjusted and excluding GST)

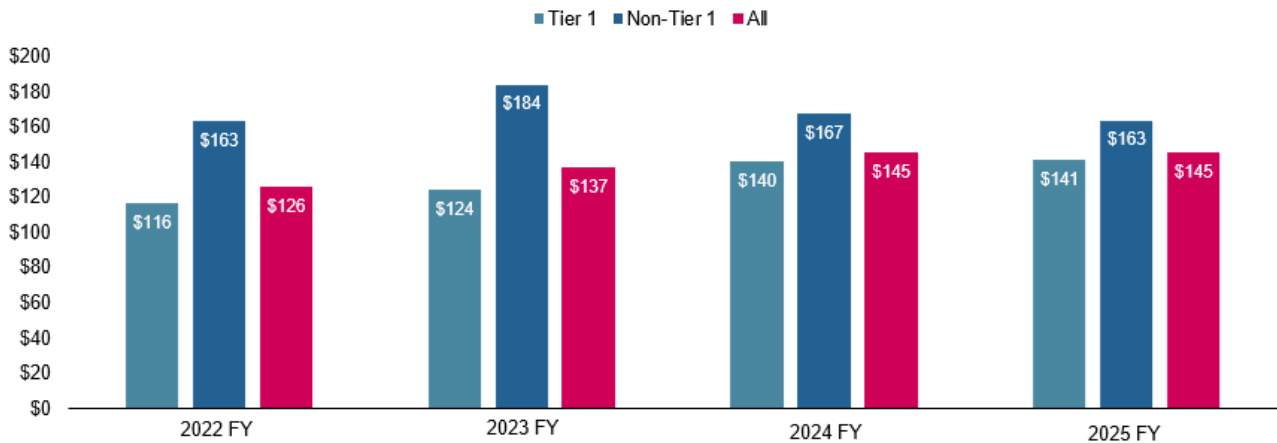
	2023–24 FY costs (2025–26 VDO)	2024–25 FY costs (2026–27 VDO)
Labor cost	\$37	\$41
Customer service (including call centres and support)	\$14	\$14
Debt collection	\$6	\$5
Billing functions	\$10	\$8
IT systems	\$14	\$17
Other cost to serve	\$17	\$13
Other retail costs	\$14	\$13
Bad debt costs	\$34	\$35
Retail operating costs (total)	\$145	\$145

Source: Essential Services Commission analysis based on data collected from a sample of Victorian retail electricity businesses on serving domestic and small business customers only. Values in the table may not sum to the exact total due to rounding.

We reviewed the retail operating cost components across different retailers. Figure 5 shows the weighted average retail operating costs for Tier 1 retailers, non-Tier 1 retailers, and the full sample of retailers.⁸⁰

⁸⁰ Tier 1 retailers: retailers with greater than five per cent market share; non-Tier 1 retailers: retailers with less than five per cent market share.

Figure 5: Weighted average retail operating cost per customer across Tier-1 and non-Tier 1 retailers (\$ nominal)

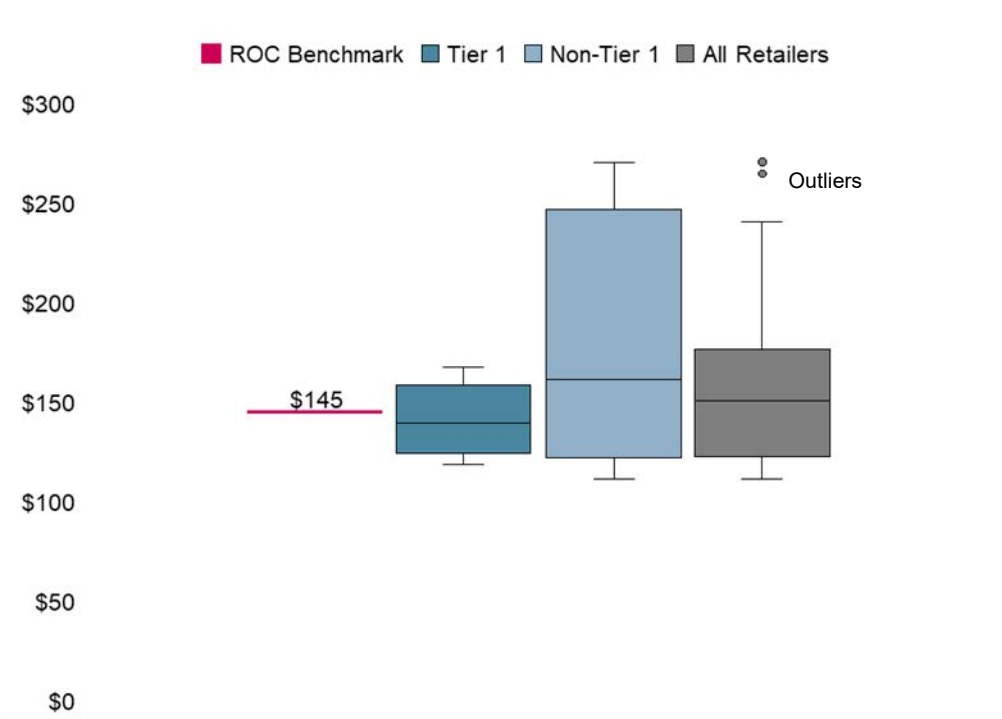


Tier 1 (retailers having more than 5 per cent of market share are AGL, Origin, EnergyAustralia, ENGIE, Red Energy and Lumo Energy), non-Tier 1 and all retailers (excluding GST and before adjusting to CPI).

Tier 1 retailers saw a slight rise in bad debt cost in 2024–25 compared to 2023–24. Non-Tier 1 retailers, on the other hand, had a modest decrease in overhead and other retail cost and their bad debt cost stayed stable.

Figure 6 shows the range of retail operating costs (cost to serve, bad debt costs and other retail costs) reported by retailers compared to our benchmark. Excluding two outlier retailers’ costs, we observed 50 per cent of retailers in our sample that had retail operating costs at or below our benchmark. This shows that the commission’s efficient benchmark is representative of Victorian retailers’ actual costs.

Figure 6: Range of retail operating costs across Victorian retailers



We considered submissions on retail operating costs

We did not seek views about how we set retail operating costs in our *2026–27 Victorian Default Offer: Request for Comment Paper*. However, two retailers and one embedded network energy provider submitted feedback related to retail operating costs.

1st Energy asked the commission to update the underlying cost assumptions to reflect current industry conditions related to bad debts, billing systems, compliance obligations, cyber security, and resilience requirements.⁸¹

Energy On raised that the current Victorian Default Offer benchmark doesn't consider the unique cost drivers of embedded network providers, such as higher administrative overheads from managing multiple sites and diverse customer bases. Energy On considers that a uniform benchmark does not provide sufficient recovery of these costs.⁸²

Our retail operating costs benchmark includes cost-to-serve components such as billing systems, labour and IT costs associated with compliance obligations, and other information technology and overhead costs. These costs reflect a weighted average based on retailers' actual submitted data.

⁸¹ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, p. 2.

⁸² Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Energy On, p. 2.

During our information-gathering process, we engage with retailers to identify any industry-wide developments affecting the retail cost components by issuing follow-up requests for information. Where retailers demonstrate that changes are ongoing, material, and not retailer-specific or one-off in nature, we update the relevant cost definitions, which are then reflected in the Victorian Default Offer benchmark.

Consistent with the pricing order, the commission must have regard to the efficient retail operating costs of electricity retailers when estimating costs. Individual retailers may have operating costs that differ from our benchmark. However, we do not set the benchmark for an individual retailer, or industry segments (for example, embedded network providers). Instead, we consider the costs faced by an efficient retailer when setting this benchmark.

Origin Energy supported the commission's approach of using the same source of data and continuing the same methodology for benchmarking as this provides regulatory consistency and certainty for retailers. Origin Energy also noted that the current approach utilises economies of scale and incentivises retailers to strive for efficient operating costs.⁸³

Modest customer acquisition and retention costs

- Our draft decision keeps the same approach we have used in past reviews to estimate modest customer acquisition and retention costs (acquisition costs).
- Acquisition costs will be \$48 per customer. The costs make up three per cent of a representative annual flat tariff bill for domestic customers (averaged across the five distribution zones and based on 4,000 kWh annual consumption).
- Due to inflation, acquisition costs in the cost stack have slightly increased compared to the 2025–26 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).⁸⁴

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

⁸³ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment*, December 2025: Origin Energy, p. 1.

⁸⁴ Clause 12(4)(d) and Clause 12(6) of the pricing order.

- marketing costs targeted at driving customer acquisition and retention.

Our draft decision keeps our current approach to estimating acquisition costs

For our draft decision, we used an acquisition cost benchmark based on the average National Electricity Market-wide acquisition costs from the Australian Competition and Consumer Commission's (ACCC) retail electricity pricing inquiry report.⁸⁵ 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.

Draft decision: benchmark for acquisition costs

We update our acquisition cost benchmark for inflation during each Victorian Default Offer review.⁸⁶ 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 \$47.83 (excluding GST), which is slightly higher than the benchmark of \$46.58 for the 2025–26 Victorian Default Offer due to inflation.

Our draft benchmark is below the national average

Our acquisition benchmark for the 2026–27 Victorian Default Offer is about 25 per cent below the weighted average acquisition costs reported by Victorian retailers.⁸⁷ It is also 25 per cent below the national average for domestic customers as reported by the ACCC in 2024.⁸⁸ This indicates that our acquisition benchmark is modest, which aligns with our requirements under the pricing order.⁸⁹

Figure 7 compares our acquisition benchmark with the national average for domestic consumers (as reported by the ACCC) and the weighted average acquisition costs reported by Victorian retailers.

⁸⁵ Australian Competition and Consumer Commission, *Retail electricity pricing inquiry*, final report July 2018, p. 222.

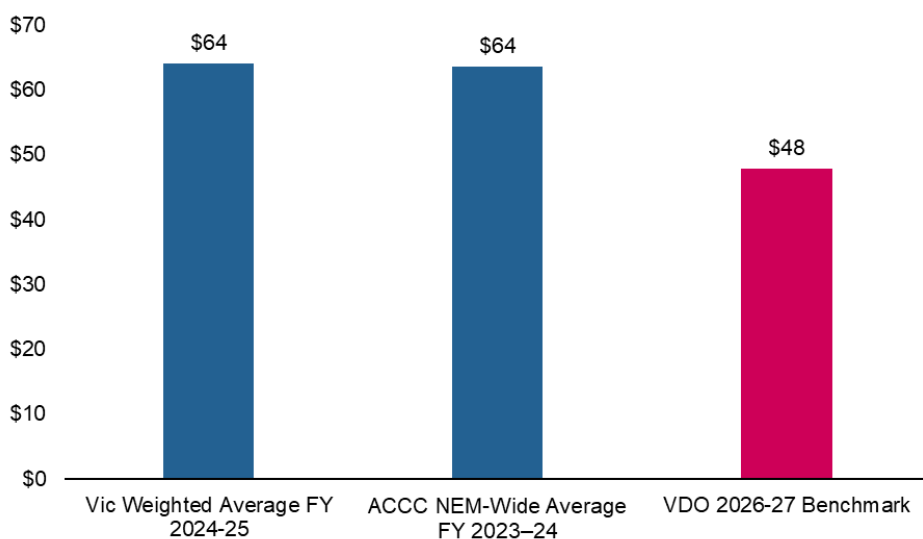
⁸⁶ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach; Australian Bureau of Statistics, [Table 17. CPI: Quarterly All Groups, Index Numbers and Percentage Change: ID A2325846C 31 December 2025](#), 28 January 2026, accessed 19 February 2026.

⁸⁷ Based on our internal analysis of retailers' submitted financial information for FY 2024–25, adjusted for CPI differences to December 2025.

⁸⁸ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market report*, December 2024, [Appendix C](#), figure C11.20, accessed 19 February 2026, adjusted by CPI difference to December 2025.

⁸⁹ Clause 12(4)(d) and Clause 12(6) of the pricing order.

Figure 7: Comparison of Victorian Default Offer benchmark acquisition costs (adjusted to Dec 2025 CPI)



We considered submissions on acquisition costs

We did not request feedback about how we set the acquisition costs benchmark in our *2026–27 Victorian Default Offer: Request for Comment Paper*. However, we received two submissions: one from an electricity retailer and one joint submission from customer groups.

M2 Energy Pty Ltd submitted that the current benchmark is based on 2013–14 data and does not reflect the cost environment faced by modern energy retailers.⁹⁰ They noted that retailers (particularly smaller retailers) now face higher compliance, technology, cybersecurity and customer support costs and encouraged the commission to review and update the benchmark to better reflect current operating conditions.

We acknowledge that the acquisition costs benchmark is based on 2013–14 data. However, this benchmark is indexed to inflation to reflect changes in costs over time and is intended to represent the modest acquisition costs of an efficient retailer.⁹¹

A joint submission by consumer groups submitted that there is no place for acquisition costs in the Victorian Default Offer cost stack.⁹² They noted that standing offer customers and those on

⁹⁰ Submission to the Essential Services Commission *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: M2 Energy Pty Ltd, p. 1.

⁹¹ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach.

⁹² Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting and Westjustice, pp. 6–7.

embedded networks receive no benefit from the inclusion of acquisition costs in the cost stack and, in the case of embedded networks, have no ability to change their offer or retailer. Furthermore, large retailers are more likely to have customers on the standing offer and would likely not incur the significant costs to acquire or retain these customers.

The Victorian Default Offer is designed to reflect the efficient costs borne by retailers operating in a competitive retail market. Acquisition costs are part of an efficient retailer's cost structure, and the pricing order requires us to consider a modest acquisition cost in setting the Victorian Default Offer.⁹³ Therefore, we consider a modest allowance for these costs to remain appropriate.

Other costs

- Other costs make up slightly more than one per cent of total costs for a representative domestic Victorian Default Offer customer (averaged across the five distribution zones) on a flat rate tariff.
- Our draft decision marginally reduces the amount included for these costs compared with the 2025–26 Victorian Default Offer, primarily due to decreases in market intervention costs, Reliability and Emergency Reserve Trader costs and National Electricity Market Participant 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).⁹⁴

Our draft 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 (slightly more than one per cent) but are part of a retailer's efficient costs in selling electricity.

Other costs include:

- market intervention costs
- National Electricity Market (NEM) Participant fees
- ancillary services fees
- Reliability and Emergency Reserve Trader costs
- Essential Services Commission licence fees.

⁹³ Clause 12(4)(d) and Clause 12(6) of the pricing order.

⁹⁴ Clause 12(4)(f) of the pricing order.

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

We sought feedback in our Request for Comment Paper on a pass-through approach for the Australian Energy Market Operator's recently introduced 'Cyber Security & Resilience' fee and possible new National Electricity Market Participant fee structure, as well as updated data for estimating ancillary service fees.

We received 18 submissions on these topics, from retailers, the retailer peak body, an embedded network, a community organisation, a joint submission from consumer groups and eight consumers.⁹⁵

Overall, we received mixed views. Retailers were supportive of a pass-through approach as these costs are unavoidable and required to operate in the electricity market.⁹⁶ However, consumers and consumer groups asked for further information and were concerned that any change in approach could increase bills.⁹⁷

Market intervention events

Our draft decision does not include any market suspension event costs

There are no market suspension events for our draft decision that result in costs recovered from Victorians. If any market suspension events costs occur and are known, we may consider including them in the future.

Our draft decision includes three market direction events from 2024

Last year, the Australian Energy Market Operator (market operator) advised of six events which occurred in 2024 that may result in costs being recovered from Victorians. Of the six events, three were accounted for in our 2025–26 Victorian Default Offer final decision. The market operator has

⁹⁵ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Anonymous 1, pp. 2–3; Anonymous 2, p. 2; Anonymous 4, p. 2; Anonymous 6 – Part 1, p. 3; Anonymous 7, p. 3; AusNet, p. 2; Australian Energy Council, p. 4; Aziz Haque, p. 1, 4; Brian Burleigh, p. 3; Caravan & Residential Parks Victoria, p. 3; EnergyAustralia, p. 4; Gordon McMenemy, p. 3; Lighter Footprints, p. 10; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3; Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting and Westjustice, p. 10.

⁹⁶ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Australian Energy Council, p. 4; EnergyAustralia, p. 4; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3.

⁹⁷ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting and Westjustice, p. 10; Anonymous 1, pp. 2–3; Anonymous 4, p. 2; Anonymous 6 – Part 1, p. 3; Anonymous 7, p. 3; Aziz Haque, pp. 1, 4; Brian Burleigh, p. 3; Gordon McMenemy, p. 3.

now confirmed the costs for the three remaining events, which we have included in this draft decision.

The first event was on 24 October 2024, where a planned outage of the Moorabool-Sydenham No.1 500 kV line required 8 Latrobe Valley units to be online for system strength. Following that, there was an outage of Yallourn W1, and the market operator directed Murray2 to operate as synchronous condensers to maintain system strength.

The circumstances on the 14 and 15 of November 2024 were similar, where there was a planned outage of the Moorabool-Sydenham No.2 500 kV line. Loy Yang A2 then had an unplanned outage, which resulted in only 6 Latrobe Valley units online. The market operator directed Jeeralang B to operate as a synchronous condenser, resulting in approximately 2,005 megawatt hours of synchronous generation being directed into the market for system security.⁹⁸

The market operator has also advised of two intervention events not yet confirmed for cost recovery. Our draft decision does not include these costs. Should these events impose a cost on Victorian retailers and once finalised, we may consider them in our final decision, or in future Victorian Default Offer price determinations.

Draft decision: market intervention event costs

Our draft decision results in market intervention event costs to an average domestic Victorian Default Offer customer \$0.13 in 2026–27. This is a decrease of 16 cents from the 2025–26 Victorian Default Offer, reflecting the lower costs incurred by market intervention events affecting Victorians.

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.⁹⁹

Since our final decision on the 2025–26 Victorian Default Offer, the market operator has confirmed that no Interim Reliability Reserves were contracted for the Victorian region.¹⁰⁰

⁹⁸ AEMO, [NEM Event Directions Report 24 October 2024 & 14/15 November 2024](#), July 2025, pp. 5 and 7, accessed 19 February 2026.

⁹⁹ Australian Energy Market Operator, [RERT Contracted Report for 18 Dec 2025](#), January 2026; [RERT End of Financial Year Report 2024–25](#), August 2025, accessed 19 February 2026.

¹⁰⁰ Confirmed via email with the Australian Energy Market Operator on 15 Jan 2026.

National Electricity Market Participant fees

The market operator charges retailers National Electricity Market (NEM) Participant fees to retailers to recover the costs of market operation.¹⁰¹ 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)
- Cyber Security & Resilience fee.

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

Interested parties had mixed views about the changes to NEM Participant fees

In response to our Request for Comment Paper, we received 18 submissions on whether to pass through the market operator's recently introduced 'Cyber Security & Resilience' fee and if implemented, the updated NEM Participant fee structure.¹⁰² Retailers supported the pass-through approach, stating that it was the most efficient and consistent approach.¹⁰³

Most consumers and consumer advocate groups were apprehensive about the proposed approach. They asked for further information on the bill impacts of the changes and raised concern with another fee being passed onto consumers.¹⁰⁴

¹⁰¹ Energy market fees and charges, AEMO, accessed 19 February 2026, <https://www.aemo.com.au/about/corporate-governance/energy-market-fees-and-charges>.

¹⁰² Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Anonymous 1, pp. 2–3; Anonymous 2, p. 2; Anonymous 4, p. 2; Anonymous 6 – Part 1, p. 3; Anonymous 7, p. 3; AusNet, p. 2; Australian Energy Council, p. 4; Aziz Haque, p. 1, 4; Brian Burleigh, p. 3; Caravan & Residential Parks Victoria, p. 3; EnergyAustralia, p. 4; Gordon McMenemy, p. 3; Lighter Footprints, p. 10; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3; Joint submission from Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, and Westjustice, p. 10.

¹⁰³ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Australian Energy Council, p. 4; EnergyAustralia, p. 4; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3.

¹⁰⁴ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information & Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria, Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria Inc., Uniting, and Westjustice, p. 10; Anonymous 1, pp. 2–3; Anonymous 4, p. 2; Anonymous 6 – Part 1, p. 3; Anonymous 7, p. 3; Aziz Haque, pp. 1, 4; Brian Burleigh, p. 3; Gordon McMenemy, p. 3.

Victorian Default Offer cost components

The market operator introduced the ‘Cyber Security & Resilience’ fee in 2025, to fund their strengthened responsibilities in preventing and responding to cyber threats.¹⁰⁵ Our draft decision is to pass through this fee, as we consider it an unavoidable cost incurred by efficient retailers. We acknowledge consumers’ concerns, however, note that this fee is not a key cost driver for customers’ bills within our draft decision.

The final NEM Participant fee structure published by the market operator differs to as described in our Request for Comment Paper. General NEM fees, Electricity Retail Market fee and IT and 5MS/GC compliance fees won’t be consolidated and will remain separate fees.¹⁰⁶ We expect to reflect all the changes to the fee structure in our final decision when the market operator’s 2026–27 budget and fees report is released. Passing through the most up to date fee structure ensures that the default offer remains cost reflective and accurate.

The NEM Participant fee structure review has also introduced a gross charging approach for all variable NEM Participant fees. We will consider the implications of this change for our final decision.

AusNet’s submission raised an issue of possible double charging of NEM Participant fees

AusNet are charged NEM Participant fees as a transmission network, which they pass on in the form of network charges reflected in the Victorian Default Offer.¹⁰⁷ AusNet were concerned that the fees passed on in network charges double up with the NEM Participant fees we account for in ‘Other costs’.

We have confirmed with the market operator that there is no double counting.¹⁰⁸ The fees charged to AusNet are the portion charged to a transmission network, whereas the fees in ‘Other costs’ are charged to retailers. These are different charges, and not double counting of the same charge.

Our draft decision does not reflect the new NEM Participant fee structure, but our final decision will

Our draft decision relies on fees provided by the market operator, based on its final 2025–26 budget and fees report, escalated by a rate of 4.5 per cent applied across all fees.¹⁰⁹ This report

¹⁰⁵ Further information on the market operator’s strengthened cyber security role in the National Electricity Rules can be found on the Australian Energy Market Commission’s website: <https://www.aemc.gov.au/rule-changes/cyber-security-roles-and-responsibilities>, accessed 6 March 2026.

¹⁰⁶ Australian Energy Market Operator, [NEM Participant fee structure review](#), 12 February 2026, p. 6, accessed 19 February 2026.

¹⁰⁷ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: AusNet, p. 2.

¹⁰⁸ Confirmed with the market operator via email, 20 Jan 2026.

¹⁰⁹ Australian Energy Market Operator, [AEMO FY26 Budget and Fees](#), 26 June 2025, accessed 19 February 2026; Confirmed by the Australian Energy Market Operator via email on 10 Dec 2025.

includes the new 'Cyber Security & Resilience' fee, but does not follow the proposed fee structure in the NEM Participant Fee structure review.¹¹⁰ The market operator intends to release their 2026–27 budget and fees report in March 2026, which will follow the new fee structure. We plan to reflect the new fee structure in our final decision, when the 2026–27 budget and fees report is available.

Draft decision: NEM Participant fees

The total cost in our draft decision for NEM Participant fees for the representative domestic 2026–27 Victorian Default Offer customer is \$15.70. This is a decrease of 44 cents from \$16.13 in the 2025–26 Victorian Default Offer.

We note that the market operator's 2025–26 final budget and fees report has set fees lower than proposed in its' draft report. As we based our 2025–26 default offer on their draft report, using the market operator's final report for our 2026–27 draft decision has driven the decrease in total costs for NEM Participant fees.

Ancillary service fees

Ancillary services are provided by the market operator to manage the power system safely, securely, and reliably, for frequency, voltage, and system restart processes.¹¹¹ The ancillary services are provided separately for each market region in which the market operator operates. Unlike other market operator charges, ancillary service fees differ across these different market regions and therefore are not included in the standard NEM Participant 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.

Submissions supported using updated ancillary service recovery reports

To reflect a recent rule change, the market operator has updated the data in their ancillary service fee report. This change means the market operator can no longer produce an equivalent of the data used historically ('Recovery Rate Customer') and can only provide updated data 'Recovery Rate Adjusted Consumed Energy'.

Our Request for Comment Paper sought feedback on using the updated data to inform our ancillary service fee estimate. In response, we received 10 submissions, with the majority

¹¹⁰ Australian Energy Market Operator, [NEM Participant fee structure review](#), 12 February 2026, p. 6, accessed 19 February 2026.

¹¹¹ Ancillary Services Payments and Recovery, AEMO, accessed 19 February 2026, <https://aemo.com.au/energy-systems/electricity/national-electricity-market-nem/data-nem/ancillary-services-data/ancillary-services-payments-and-recovery>.

supporting the use of updated data.¹¹² Retailers said it would be the most accurate data to represent ancillary services recovery.¹¹³

Some consumers asked for more information or opposed the change but did not provide any reasons.¹¹⁴ We have used the updated data for our draft decision. We consider this approach the best fit to estimating the efficient costs of a retailer as the historical data set is no longer reported.

Our draft decision has used the latest and updated ancillary service recovery report

Our draft decision estimates Victorian ancillary service fees based on an average of ancillary service fee payments in Victoria over the 52-week period to 24 January 2026.

Draft decision: ancillary service fees

Our draft decision results in an average ancillary service fee of \$0.13 cents per megawatt hour for the representative Victorian Default Offer customer. This is a decrease of \$0.02 cents per megawatt hour from the 2025–26 Victorian Default Offer determination.

Our final decision will be updated to reflect average ancillary service fees over a more recent 52-week period.

Essential Services Commission licence fees

Holding an electricity licence incurs an annual licence fee.¹¹⁵ Licence fees and charges are determined by the Minister for Energy and Resources and Climate Action and the State Electricity Commission in consultation with the minister administering the Essential Services Commission Act.¹¹⁶ 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.

Draft decision: Essential Services Commission licence fees

To estimate the cost of licence fees per customer for the 2026–27 Victorian Default Offer we used a market-wide total of all retailer licence fees for 2025–26, adjusted for inflation, divided by the total

¹¹² Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Anonymous 1, pp. 2–3; Anonymous 7, p. 3; Australian Energy Council, p. 4; Brian Burleigh, p. 3; EnergyAustralia, p. 4; Lighter Footprints, p. 10; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3.

¹¹³ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, pp. 2, 4; Australian Energy Council, p. 4; EnergyAustralia, p. 4; M2 Energy, pp. 2–3; Origin Energy, p. 5; Pacific Blue, p. 3.

¹¹⁴ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Anonymous 1, pp. 2–3; Anonymous 7, p. 2.

¹¹⁵ Section 21 of the *Electricity Industry Act 2000*.

¹¹⁶ Section 22 of the *Electricity Industry Act 2000*.

number of customers as of 30 June 2025. The latest approved licence fees are for 2025–26. When adjusted by inflation this results in a benchmark of \$2.11 per customer per year for our 2026–27 draft decision.

This estimate is a decrease of \$0.02 per customer from \$2.13 in our 2025–26 Victorian Default Offer determination, due to using more recent licence fees, customer numbers, and updated inflation.¹¹⁷

Network loss factor

The pricing order requires the commission to consider any **other 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).¹¹⁸

Some electricity is lost when it is transported across the transmission and distribution networks. Electricity losses occur because of electrical resistance in the wires, converting some electricity to heat and noise. As a result, generators produce more electricity than the amount end users consume. The Australian Energy Market Operator (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 2025–26 Victorian Default Offer, our draft 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).

Draft decision: network loss factor

To calculate the distribution loss factors in our draft 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.¹¹⁹

¹¹⁷ The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach.

¹¹⁸ Clause 12(4)(f) of the pricing order.

¹¹⁹ Australian Energy Market Operator, *Distribution Loss Factors for the 2025–26 Financial Year*, April 2025, p. 12.

To calculate the marginal loss factors in our draft 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.¹²⁰

Our final decision will use the same approach with any available updated loss factors for 2026–27.

Retail operating margin

- Our draft decision is to maintain the retail operating margin at five per cent of the total cost stack (before GST).
- We continue to use the retail operating margin 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 submissions.
- Our draft decision means that the dollar value of the retail operating margin in the domestic cost stack will decrease by \$2 (on average across Victoria's five distribution zones) compared to the margin in the 2025–26 Victorian Default Offer because the total representative bill has decreased.

The pricing order requires the commission to consider the **retail operating margin** when making a Victorian Default Offer pricing determination.¹²¹

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.¹²²

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.¹²³

Under the pricing order, risks accounted for in other components of the Victorian Default Offer cost

¹²⁰ Australian Energy Market Operator, *Marginal Loss Factors 2025–26 Financial Year*, February 2026, pp. 30–32.

¹²¹ Clause 12(4)(e) of the pricing order.

¹²² Australian Energy Market Commission, *Advice on Best Practice Retail Price Regulation Methodology: Final Report*, September 2013, p. 64.

¹²³ Clause 12(9) of the pricing order.

stack (such as wholesale electricity market risk) must not be included in the retail operating margin.¹²⁴

Our draft decision is to maintain the retail operating margin of five per cent

Our draft decision is to maintain the retail operating margin of five per cent of the total cost stack (before GST). In determining that five per cent is an appropriate margin, we will continue to consider 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 is discussed in further detail below.

Other jurisdictions propose to keep retail operating margins unchanged

In this year's draft decision, we updated our survey of regulated retail margins adopted in other Australian jurisdictions using the latest information available. Other regulators have generally kept their approach and level of margin unchanged.

Victoria's retail margin also continues to be among the lowest across jurisdictions, reflecting the level of market competition in Victoria. Table 5 shows the regulated margins in peer jurisdictions' most recent decisions or proposals.

¹²⁴ Clause 12(7) of the pricing order.

Table 5: Comparison of regulated retail margins in Australia

Regulator	Approach	2025–26	2026–27 (proposed approach)
Australian Energy Regulator (AER)	Expected Returns + Regulatory Benchmarking	6% of total cost stack in all regions, for domestic customers without control load. ¹²⁵	6% of total cost stack in all regions for domestic customers; consulting on lowering small business margins from 11% toward 6%. ¹²⁶
Independent Competition and Regulatory Commission (ICRC)	Expected Returns + Regulatory Benchmarking for level of margin. Form of margin split between percentage and dollar. (Frontier)	Effectively 5.2% of the total cost stack. Split into \$8.28/MWh and 2.75% to fixed and variable costs excluding the margin. ¹²⁷	No change to approach. Method determined in price investigation 2024–27.
Office of the Tasmanian Economic Regulator (OTTER)	Expected Returns + Regulatory Benchmarking for level of margin. Form of margin split between percentage and fixed amount indexed.	Half is based on variable rate 5.25% of approved 2025–26 costs; half is fixed \$118 per customer. ¹²⁸	No change to approach. Method decided in 2025 determination for three years. ¹²⁹
Queensland Competition Authority (QCA)	Does not specify a value for margin. Only estimates an overall allowance that blends retail costs and margin.	We cross-checked AER’s retail costs for south-east Queensland and	No comparable regulated margin to benchmark against.

¹²⁵ Note that throughout 2024–25 and 2025–26, the Australian Energy Regulator set the legacy competition allowance at zero (or excluding it from retail allowance).

¹²⁶ Australian Energy Regulator, [Default Market Offer 2026–27: Issues Paper](#), 5 November 2025, p. 46, accessed 19 February 2026.

¹²⁷ Independent Competition and Regulatory Commission, [Retail electricity price recalibration 2025–26](#), 26 May 2025, p. 24, accessed 19 February 2026.

¹²⁸ Aurora Energy, [2025 Determination Pricing Proposal Period 1](#), 30 May 2025, p. 7. The Office of the Tasmanian Economic Regulator approved this pricing proposal on 20 June 2025, accessed 19 February 2026.

¹²⁹ Office of the Tasmanian Economic Regulator, [2025 Regulated Retail Electricity Pricing Investigation: Final Report](#), 12 May 2025, p. 56, accessed 19 February 2026.

Regulator	Approach	2025–26	2026–27 (proposed approach)
		found them not comparable. ¹³⁰	
Essential Services Commission (ESC)	Expected Returns + Regulatory Benchmarking.	5% of total cost stack including the margin.	Unchanged. 5% of total cost stack.

Sources: Published reports for each jurisdiction, see footnotes in table.

Five per cent is within the 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.¹³¹

Recently, the Independent Competition and Regulatory Commission engaged Frontier Economics to undertake similar work for its 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.¹³²

We consider our draft 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.

¹³⁰ In recent years, the QCA derived total retail allowance based on its estimated cost benchmark and applied largely the same allocator percentage to variable costs and indexing the set fixed retail costs by inflation. On the other hand, AER decides the retail costs for south-east Queensland by reviewing ‘cost-stack’ retail cost components informed by actual data collected by the ACCC and AER itself each year. These are different methods resulting in different retail cost estimates. Therefore, it is not informative to deduct an implied margin using the two sources.

¹³¹ Frontier Economics, *Retail Costs and Margin: A Report for the Essential Services Commission*, Chapter 6 ‘The expected returns approach’, April 2019, p. 29.

¹³² Independent Competition and Regulatory Commission, *Final Report: Retail electricity price investigation 2024–27*, May 2024, p. 45.

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

In the past year, we monitored market offer prices using Victorian Energy Compare data. Based on our internal analysis, the prices consumers have generally paid retailers have been below the Victorian Default Offer prices. From January 2025 to January 2026, we continued to see median market offers across Victoria priced below the Victorian Default Offer.¹³³ 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

We have monitored retailers' actual operating margins to crosscheck our decision on the benchmark retail operating margin for 2026–27. We calculated actual retail margins as retail businesses' earnings before interests, tax, depreciation, and amortisation (EBITDA).

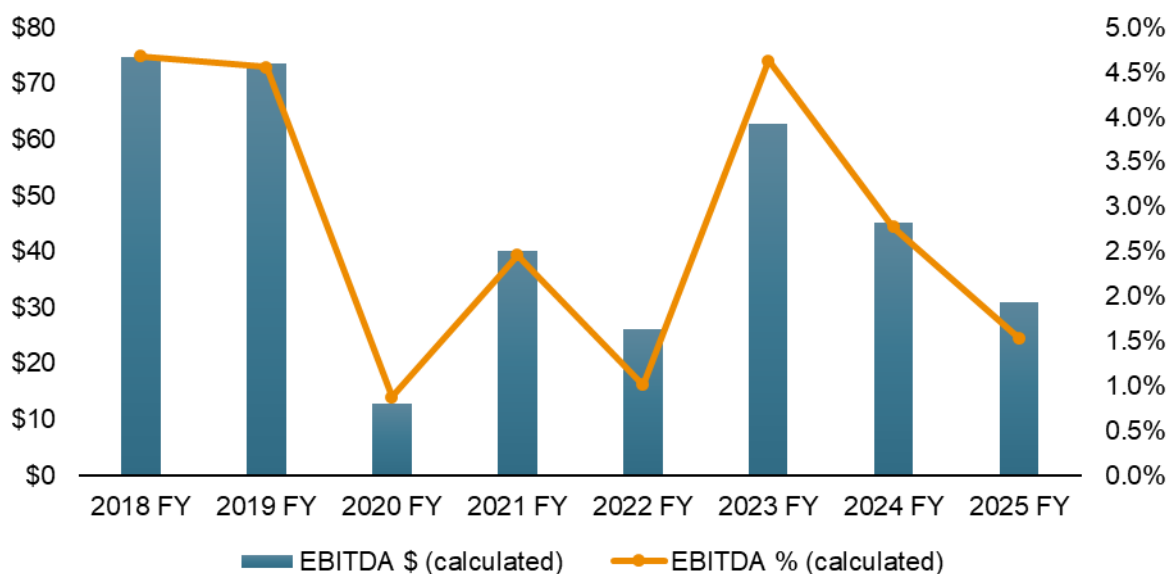
EBITDA is a measure of businesses' returns that reflects capital depreciation and amortisation, and which is also used by other regulators in assessing observed retailer margins. For example, the Australian Competition and Consumer Commission in its retail electricity pricing inquiry report.¹³⁴

Based on the revenue and cost data we collected from retailers, Victorian retailers' actual operating margin (weighted average by customer numbers) has reduced from about 2.8 per cent in the 2023–24 financial year to about 1.5 per cent in the 2024–25 financial year. These figures are lower than our regulated margin decisions over those years at 5.3 per cent. See Figure 8.

¹³³ We found on average the residential median market offer is about 10 per cent lower than Victorian Default Offer.

¹³⁴ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market: December 2024 Report*, 30 December 2024, data series quoted in figures on pp. 74–76.

Figure 8: Historical average retail margin in Victoria by level and a proportion of residential customer revenues, excluding GST



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

Figure 8 shows that the average margins in all past years are below our draft decision at five per cent. We consider that our draft decision provides a sufficient margin for electricity retailers operating in Victoria.

Figure 8 also presents changes and fluctuation in actual margins. Keeping our draft decision the same as our 2025–26 final decision provides regulatory stability.

We have considered submissions on the retail operating margin

In our Request for Comment Paper, we did not seek views on our retail operating margin. However, we received six submissions: one joint submission from consumer groups and five submissions from the retailers and their peak body.¹³⁵

We received support from consumer groups on a margin of five per cent

The joint submission from consumer groups highly supported our 2025–26 decision of lowering the margin to five per cent. The submission said the decision aligned with the Essential Services Commission Act (ESC Act), requiring the commission have regard to the benefits and costs for

¹³⁵ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information and Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria and Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria, Uniting Vic Tas, and Westjustice, pp. 6, 11–13; 1st Energy, p. 2; AGL, p. 1; Australian Energy Council, p. 3; ENGIE, pp. 1–2; Origin Energy, pp. 1–3.

consumers including low income and vulnerable consumers. The submission strongly recommended us to maintain our approach in setting the margin, therefore maintaining five per cent. The submission also restated their previous position that when a range of estimates are available, the commission shall consider the lower estimate as the regulated margin.¹³⁶

Some retailers said the level of regulated margin is too low

Origin Energy and ENGIE did not support the reduction of the retail margin to five per cent and proposed to reinstate to the level before 2023–24 at 5.7 per cent.¹³⁷ AGL considers the current margin is too low to be ‘efficient and sustainable’ for retailers in the long term.¹³⁸ They noted that the changes to the Energy Retail Code of Practice means retailers must sell energy at the default offer price to more customers. AGL discussed that if the retail operating margin is set below an efficient level, then retailers’ profits from the default offer customers would be insufficient.

The Victorian Default Offer provides a sufficient margin for an efficient retailer, so serving more customers at that price should not create financial stress for an efficient retailer. Further, the average actual margins among retailers are below five per cent which suggests our decision of five per cent is sufficient for an efficient retailer. Our decision is also within and toward the mid-point of the range for reasonable margin using the expected returns approach.

Competition level in the Victorian market remains stable

Origin Energy said it was too soon to tell how a reduced regulated margin might impact market competition in Victoria. They suggested we:

- give more thought to the recently declining profitability (in some parts of the industry)
- examine active retailers and market share
- consider defining decision triggers in changing the margin.¹³⁹

ENGIE’s submission also noted the lowered margin harms competition and innovation.¹⁴⁰

¹³⁶ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Joint submission from Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information and Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria and Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria, Uniting Vic Tas, and Westjustice, p. 6.

¹³⁷ Submissions to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Origin Energy, p. 3; ENGIE, p. 2.

¹³⁸ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: AGL Energy, pp. 1–2.

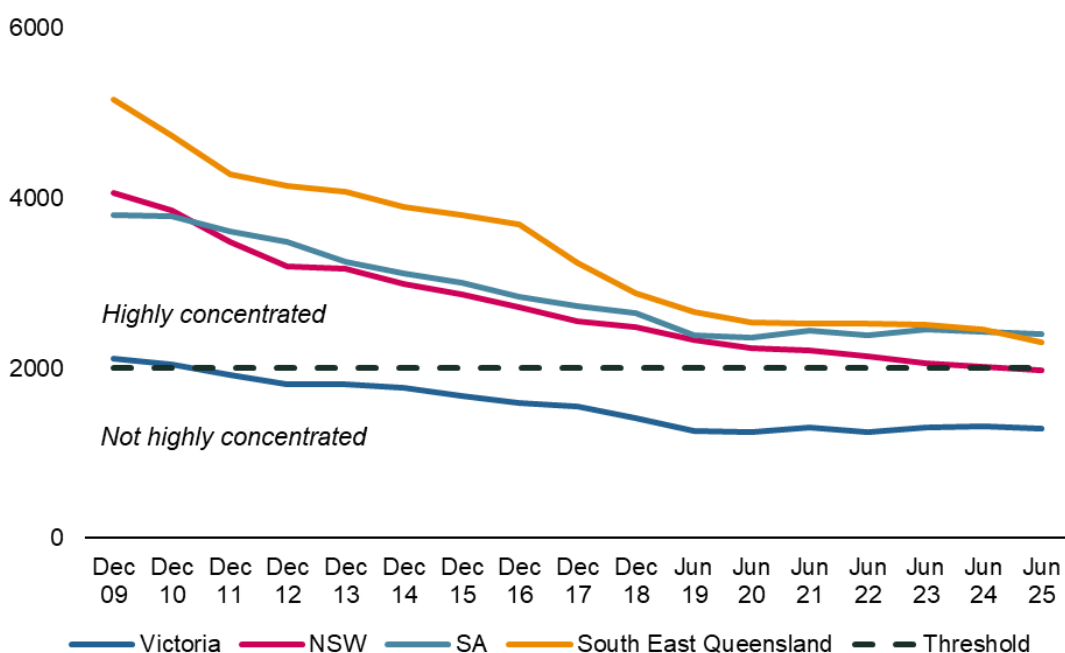
¹³⁹ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Origin Energy, p. 3.

¹⁴⁰ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: ENGIE, p. 2.

We consider that the retail margin in the Victorian Default Offer does not intend to guarantee profitability to retail businesses in the market. Retailers remain exposed to competitive pressures, and customer switching. The intention is to reflect the systematic risk for an efficient retailer in the cost stack.

Figure 9 shows the latest index value on market concentration for residential electricity customers in Victoria. Victoria has maintained the highest degree of market competition among National Electricity Market jurisdictions. Victoria's index has largely stayed below the threshold of 2,000, meaning the market is not being highly concentrated.

Figure 9: Market concentration by HHI, residential electricity customers¹⁴¹



Source: Australian Competition and Consumer Commission analysis of data from Australian Energy Market Commission, Australian Energy Regulator, Essential Services Commission.

Figure 9 also shows that since the introduction of Victorian Default Offer in 2019, the HHI index for Victoria has relatively been stable.¹⁴² Therefore at this stage, we consider our decision on the retail margin in the Victorian Default Offer is appropriate and reflects the competition level in the market.

¹⁴¹ HHI refers to Herfindahl-Herschman Index, a recognised measure of market concentration. Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market: December 2025 Report*, Figure 2.1, p. 13.

¹⁴² Reproduced based on data from: Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market: December 2025 Report*, Appendix C spreadsheet, Supplementary Table C1.1.

We have accounted for relevant risk and volatility in our cost stack

1st Energy had concerns about higher wholesale costs, cash-flow risks, and working capital volatilities.¹⁴³ Similarly, the Australian Energy Council opposed any reduction in the retail margin (from pre-2023–24 level), while they consider the volatility in the market has increased and regulatory requirements are more complex.¹⁴⁴ ENGIE noted that the lowered margin does not reflect enough retailers' risks.¹⁴⁵

The retail operating margin only compensates the business investor to a business for non-diversifiable risks, or systematic risks, while covering tax, depreciation and amortisation. Retailers can hedge or diversify their financial instruments to mitigate other risks. We have accounted for variability in our approach to calculate the wholesale costs applicable to the Victorian Default Offer. We consider 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.¹⁴⁶

Lastly, while costs to different businesses vary, the Victorian Default Offer is set at the industry level for all businesses, and for all customers.

We see no evidence from submissions that alter our method and our decision on the Victorian Default Offer's regulated retail operating margin.

¹⁴³ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: 1st Energy, p. 2.

¹⁴⁴ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: Australian Energy Council, p. 3.

¹⁴⁵ Submission to the Essential Services Commission, *2026–27 Victorian Default Offer: Request for Comment Paper*, December 2025: ENGIE, p. 2.

¹⁴⁶ Clause 12(7) of the pricing order.

Calculating tariffs and the maximum annual bill

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

- **Flat tariffs** – for standing offers with flat tariffs.
- **Time of use tariffs** – for standing offers with three-period time of use tariffs for domestic customers and two-period time of use tariffs for small business customers.¹⁴⁷
- **The compliant maximum annual bill** – for standing offers with non-flat tariffs, other than three-period time of use tariffs for domestic and two-period time of use tariffs for small business customers (calculated based on the flat tariff).¹⁴⁸

Tariff structure

All tariffs include 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 a single charge, applicable to the amount of electricity imported from the electricity network.

For time of use tariffs, the 2026–27 Victorian Default Offer tariff structure for domestic customers, will change from two period to three period tariffs. This reflects the Australian Energy Regulator’s (AER) September 2025 draft Tariff Structure Statement decision, which approved distribution network’s proposed residential tariff structure change. We have discussed network tariffs, tariff structures and cost pass throughs in detail in Network Cost section of this paper (see Distribution tariff reforms – ‘solar soak’ period, see page 18). We note that the draft decision on tariff structures are subject to the AER’s final determination, expected in May 2026. Therefore, our final tariff structure is also subject to AER’s final determination.

The usage charge in time of use tariffs is different during peak, off-peak and solar soak periods (solar soak is applicable for domestic customers only).

The usage charge is usually more expensive during peak periods and lower during solar soak periods.

¹⁴⁷ Clause 10(2)(a)(ii)(A) of the pricing order.

¹⁴⁸ Clause 10(2)(a)(ii)(B) and clause 12(5) of the pricing order.

Flat tariffs

Our draft 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)

Three-period time of use tariffs for domestic customers

Our draft decision is to adopt a three-period time of use tariff for domestic customers, this will use the same approach to basing our time of use standing offer structure on the tariff structure approved by the Australia Energy Regulator, similar to our past Victorian Default Offer price determinations.

While the time-of-use tariff structure is changing from a two-period to a three-period design, our approach to calculating and setting tariffs remains unchanged. Consistent with this approach, we align our time of use tariff structure with the Australian Energy Regulator's underlying network tariff structure for each distribution network, tariffs for 2026–27 are subject to approval in May.¹⁴⁹

For standing offer time of use tariffs, the fixed and variable cost components are the same as flat rate tariffs, except for variable network costs, which are different for peak, solar soak and off-peak times (we use the Australian Energy Regulator's approved peak, solar soak and off-peak network rates).

Three-period time of use tariffs methodology

Daily supply charge (fixed costs) =

¹⁴⁹ The AER is reviewing 2026–31 revenue proposals from distribution providers and, in its September 2025 draft Tariff Structure Statement decision, approved distribution networks' proposed residential tariff structures, with new tariffs and set to take effect from 1 July 2026 (see Distribution tariff reforms – 'solar soak' period, page 18). The draft decision on tariff structure is subject to the AER's final determination, expected in May 2026.

(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)

Solar soak usage charge (variable costs) =

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

Table 6: Three-period time of use tariff timing and reference usage split

	Peak	Solar soak	Off-peak
Timing	4:00 pm – 9:00 pm	11:00 am – 4:00 pm	9:00 pm – 11:00 am
Usage split %	0.29	0.19	0.52

Table 6 shows the reference usage split across a three-period time of use tariff. The usage breakdown is based on actual domestic load only profile for Victoria in the 2024–25 financial year, derived from total grid-supplied domestic consumption across all domestic customers with no distinction between flat and time of use tariffs.

Two-period time of use tariffs for small business customers

Our draft decision is to use the same approach to setting standing offer rates for a two-period time of use tariff for small business customers 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 small business customers for each distribution network.

For 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)

Table 7: Two-period time of use tariffs reference usage for small business customers

Usage	Peak	Off-peak
Timing	9:00 am – 9:00 pm weekdays	All other time
Usage split %	0.49	0.51

Table 7 shows the reference usage split for a two-period time of use tariff. The usage breakdown is based on actual small business load profile for Victoria in the 2024–25 financial year, derived from total small business grid-supplied consumption across all small business customers with no distinction between flat and time of use tariffs.

Compliant maximum annual bill

For all other standing offers (for example, non-standard time of use and demand tariffs) we determine a compliant maximum annual bill amount, which is the maximum annual electricity amount that customers are 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, and a customer's electricity usage.¹⁵⁰

Annual reference consumption amount

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

- **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.¹⁵¹
- **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.¹⁵²

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 amount¹⁵³
- 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 tariffs (standing offer tariffs that are not the flat or default time of use tariffs), a retailer must show those tariffs do not result in a total annual electricity bill that exceeds the relevant compliant maximum annual bill amount determined by the commission.

In determining non-standard tariffs, 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.

¹⁵⁰ Clause 12(5) of the pricing order.

¹⁵¹ Clause 15(5)(a)(i) of the pricing order.

¹⁵² According to the pricing order clause 15(5)(a), the annual reference consumption amount is 20,000 kilowatt hours per year, this consumption amount is used in setting our Price Determination. The commission has historically reported Victorian Default Offer average annual bills for small business customers based on the annual reference consumption amount. However, when presenting bill impacts the average consumption assumes 10,000 kilowatt hours per year for small business customers, we call this 'representative' usage. We have used 10,000 kilowatt hours per year to align with how small businesses prices are reported in default market offers in other states.

¹⁵³ Clause 15(5)(a)(i) and (iii) of the pricing order.

Calculating tariffs and the maximum annual bill

A retailer's estimated annual electricity bill for a non-standard tariff 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 tariff rates.

The compliant maximum annual bill helps to ensure that all standing offer customers are covered by the Victorian Default Offer, without removing the option of other non-flat standing offer tariffs.

Appendix A: Calculating the cost stack

This appendix provides a summary of the cost components and inputs used to determine the Victorian Default Offer tariffs and the compliant maximum annual bill set out in this draft decision.

Wholesale electricity costs

Table A.1 presents the draft wholesale electricity cost inputs and volatility adjustment for the 2026–27 Victorian Default Offer.

Table A.1: Wholesale electricity forecasts for 2026–27 (\$/MWh, nominal, GST exclusive)

Distribution zone	Domestic		Small business	
	Wholesale price	Volatility allowance	Wholesale price	Volatility allowance
AusNet Services	\$116.86	\$0.43	\$96.05	\$0.54
CitiPower	\$114.03	\$0.44	\$95.49	\$0.59
Jemena	\$120.81	\$0.46	\$97.92	\$0.62
Powercor	\$115.06	\$0.44	\$94.32	\$0.51
United Energy	\$119.21	\$0.45	\$98.63	\$0.60

Source: Frontier Economics, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, February 2026.

Network loss adjustment factor

Table A.2 shows the draft network loss factors for the 2026–27 Victorian Default Offer.¹⁵⁴

Table A.2: Network losses for 2026–27

Distribution zone	Distribution loss factor (DLF)	Marginal loss factor (MLF)	Network loss adjustment factor
AusNet Services	1.0770	0.9994	7.63%
CitiPower	1.0416	1.0002	4.18%
Jemena	1.0476	1.0017	4.94%
Powercor	1.0745	1.0009	7.55%
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*.

¹⁵⁴ Australian Energy Market Operator, *Distribution Loss Factors for the 2025–26 Financial Year*, April 2025, p. 12; CitiPower, Powercor & United Energy, response to Distribution data: solar export and transmission lines, January 2026; AusNet, response to request on AusNet Services data – solar export and transmission lines, January 2026; Australian Energy Market Operator, *Marginal Loss Factors: Financial Year 2025–26*, February 2026, pp. 30–32.

Network tariffs (flat tariff)

Indicative flat network tariffs for the 2026–27 Victorian Default Offer are presented in Tables A.3 and A.4.

Table A.3: Domestic electricity network charges, flat tariff, 2026–27 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Variable charge structure	Variable charge (\$ per kWh)	Controlled load (\$ per kWh)
AusNet Services	\$152.97	Block 1 Block 2	\$0.1451 \$0.1451	\$0.0502
CitiPower	\$107.03	Anytime	\$0.0883	\$0.0249
Jemena	\$113.28	Anytime	\$0.1008	\$0.0429
Powercor	\$152.90	Anytime	\$0.1059	\$0.0278
United Energy	\$107.03	Anytime	\$0.0963	\$0.0279

Source: 2025–26 network tariffs, approved by the AER in May 2025, adjusted for CPI.

Table A.4: Small business electricity network charges, flat tariff, 2026–27 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Variable charge structure	Variable charge (\$ per kWh)
AusNet Services	\$152.97	Block 1 Block 2	\$0.1982 \$0.1982
CitiPower	\$173.28	Anytime	\$0.0966
Jemena	\$226.79	Anytime	\$0.1355
Powercor	\$224.25	Anytime	\$0.1167
United Energy	\$173.28	Anytime	\$0.1040

Source: 2025–26 network tariffs, approved by the AER in May 2025, adjusted for CPI.

Network metering charges

Indicative metering charges for the 2026–27 Victorian Default Offer are presented in Table A.5.

Table A.5: Network metering charges, 2026–27 (GST exclusive)

Distribution business	Annual metering charge (\$ per customer)
AusNet Services	\$87.48
CitiPower	\$77.55
Jemena	\$67.90
Powercor	\$72.71
United Energy	\$53.19

Source: 2025–26 metering charges, approved by the AER in May 2025, adjusted for CPI.

Environmental costs

The draft environmental cost inputs (per megawatt hour) for the 2026–27 Victorian Default Offer are presented in Tables A.6.

Table A.6: Cost of complying with environmental schemes (GST exclusive)

Environmental scheme	Certificate price, \$/MWh	Scheme liability, %	Cost, \$/MWh	Regulatory period adjustment, \$/MWh	Total cost, \$/MWh
Large-scale Renewable Energy Target	\$15.08	16.67%	\$2.51	-\$0.27	\$2.25
Small-scale Renewable Energy Scheme	\$40.00	11.21%	\$4.48	-\$0.03	\$4.45
Victorian Energy Upgrades program	\$94.62	9.71%			\$9.18

Source: Essential Services Commission analysis and Frontier Economics, *Wholesale electricity costs for 2026–27: A draft report for the Essential Services Commission*, 20 February 2026.

Retail operating costs and margin

The draft retail operating costs inputs and margin for the 2026–27 Victorian Default Offer are presented in Tables A.7.

Table A.7: Retail costs and margin (GST exclusive)

Retail costs and margin	Annual benchmark
Retail operating costs	\$147.96
Modest customer acquisition and retention costs	\$47.83
Retail margin	5.0% of total cost stack

Other costs

The draft fixed (per customer) and variable (per megawatt hour) other costs inputs for the 2026–27 Victorian Default Offer are presented in Tables A.8.

Table A.8: Other costs (GST exclusive)

Charge	Rate
Essential Services Commission licence fees	\$2.11/customer
Ancillary services	\$0.13/MWh
Market suspension costs	\$0.00/MWh
Directions – usage	\$0.03/MWh
Administered price cap – usage	\$0.00/MWh
Reliability and Emergency Reserve Trader	\$0.00/MWh
Australian Energy Market Operator NEM Participant Fees	
National Electricity Market fees	\$0.32/MWh
National Electricity Market fees (fixed)	\$5.10/customer
National Electricity Market (NEM) 2025 Reform Program	\$0.12/MWh
National Electricity Market (NEM) 2025 Reform Program (fixed)	\$3.16/customer
Electricity retail market fee (formally Full retail contestability fee) (fixed)	\$2.36/customer
IT Upgrade and Five-minute and global settlement compliance fees	\$0.07/MWh
IT Upgrade and Five-minute and global settlement compliance fees (fixed)	\$1.14/customer
Distributed energy resources integration program fees	\$0.02/MWh
Distributed energy resources integration program fees (fixed)	\$0.38/customer
Energy Consumers Australia (fixed)	\$1.12/customer
Cyber security and resilience fee	\$0.01/MWh
Cyber security and resilience fee (fixed)	\$0.23/customer
Total per MWh:	\$0.72/MWh
Total per customer:	\$15.60/customer¹⁵⁵

¹⁵⁵ Values in the table may 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	Small Business Single Rate, A200
Powercor	Residential Single Rate, D1	Small Business Single Rate, ND1
United Energy	Residential Single Rate, LVS1R	Small Business Single Rate, LVM1R

Table B.2: Controlled load network tariff categories

Distribution zone	Domestic controlled load or dedicated circuit tariff code
AusNet Services	NEE19
CitiPower	CDS
Jemena	A180
Powercor	DD1
United Energy	LVDed

Table B.3: Metering configurations used to calculate metering costs for each Distribution Network Service Provider

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 the Request for Comment Paper

Name	Date received
1st Energy	12 December 2025
AGL Energy	15 December 2025
Alinta Energy	12 December 2025
Anonymous 1	14 December 2025
Anonymous 2	15 November 2025
Anonymous 3	15 November 2025
Anonymous 4	20 November 2025
Anonymous 5	21 November 2025
Anonymous 6	11 December 2025
Anonymous 7	12 December 2025
AusNet	12 December 2025
Australian Energy Council	12 December 2025
Aziz Haque	10 December 2025
Brian Burleigh	22 November 2025
Caravan & Residential Parks Victoria	12 December 2025
CitiPower, Powercor, United Energy	9 December 2025
Electrify Boroondara	1 December 2025
EnergyAustralia	12 December 2025
Energy Locals	12 December 2025
Energy On	12 December 2025
ENGIE	12 December 2025
Etrog Consulting	12 December 2025
Flow Power	13 December 2025
Gordon McMenemy	27 November 2025

Name	Date received
Ingenia	27 November 2025
Joint community sector and consumer advocates — Victorian Council of Social Service, Brotherhood of St. Laurence, Community Information and Support Victoria, Consumer Action Law Centre, Council on the Ageing Victoria and Seniors Rights Victoria, Energy Consumers Australia, Financial Counselling Victoria, Uniting, and Westjustice	12 December 2025
Lighter Footprints	11 December 2025
M2 Energy (trading as Dodo Power and Gas)	11 December 2025
Network Energy Services	12 December 2025
Origin Energy	12 December 2025
Pacific Blue	12 December 2025
Powershop & Shell Energy	12 December 2025

Appendix D: Changes to cost component methodology

Table D.1 shows how our approach to estimating cost components has changed in this draft decision compared to the 2025–26 Victorian Default Offer.

Table D.1: Comparison of 2025–26 Default Offer final decision and 2026–27 Default Offer draft decision

Item	2025–26 Victorian Default Offer final decision	2026–27 Victorian Default Offer draft decision
Victorian Default Offer costs		
Wholesale electricity costs	12-month trade weighted contract price is calculated from the daily settlement price for each day in the period except the date that options contracts are exercised. Final reading was taken 16 April 2025.	No change in approach. Our draft decision does not include a wholesale electricity cost of exports as the solar weighted forecast wholesale electricity price is positive. We took the final reading on 6 February 2026.
Network costs	Australian Energy Regulator’s approved network tariffs and metering charges are treated as pass-through costs.	Australian Energy Regulator approved 2025–26 network tariffs and metering charges, adjusted for CPI, are treated as pass-through costs. The domestic ToU VDO transitioned from a two-period to three-period structure to align with the underlying network tariff structure.
<i>Environmental costs</i>		
Large-scale Renewable Energy Target	Estimated based on the 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 RPPs.	No change in approach. 2026 RPP multiplied by the futures market price for large-scale generation certificates for 2026–27. Adjustment included to account for difference between 2025 RPP, used in 2025–2026 Victorian Default Offer final decision, and the midpoint between 2025 and 2026 RPPs. We will include the adjustment in the final decision.

Item	2025–26 Victorian Default Offer final decision	2026–27 Victorian Default Offer draft decision
Small-scale Renewable Energy Scheme	<p>Estimated based on mid-point between 2025 binding and 2026 non-binding small-scale technology percentage multiplied by the clearing house price for small-scale technology certificates.</p> <p>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.</p>	<p>No change in approach but updated small-scale technology percentage to reflect midpoint between the 2026 binding and 2027 non-binding percentages.</p> <p>We performed an adjustment in our draft decision and will continue to do so in our final decision.</p>
Victorian Energy Upgrades program	Estimated based on the 2025 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 2026 greenhouse reduction rate and used more recent 12-month Victorian Energy Efficiency Certificates prices and trade volumes.
Minimum feed-in tariff (social costs of carbon)	The commission no longer produces a minimum feed-in tariff. There is no requirement for retailers to pay the social cost of carbon. We have removed this from the cost stack.	Our draft decision did not include a cost for the social cost of carbon.
Retail operating costs	Estimated based on a benchmark, set by taking the customer weighted average of retailers' actual operating cost data from financial year 2023–24 and adjusting for the change in consumer price index since June 2024.	Estimated based on a benchmark, set by taking the customer weighted average of retailers' actual operating cost data from financial year 2024–25 and adjusting for the change in consumer price index since June 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 final report updated for inflation. ¹⁵⁶	No change in approach.

¹⁵⁶ Australian Competition and Consumer Commission, *Electricity Pricing Inquiry: Final report*, June 2018.

Item	2025–26 Victorian Default Offer final decision	2026–27 Victorian Default Offer draft decision
Other costs	<p>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.</p> <p>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 16 April 2025.</p>	Used 2025–26 Australian Energy Market Operator’s final budget and fees (including new Cyber Security & Resilience fee), updated ancillary services data, and included known costs recovered due to market intervention events.
Retail operating margin	<p>Set at 5 per cent of the cost stack including the margin, having regard to benchmarks set by other regulators and the expected returns model.</p> <p>This also reflected market conditions.</p>	No change in approach.
Other matters		
Tariffs and structure	<p>Flat tariffs.</p> <p>Two-period time of use tariffs.</p> <p>Compliant maximum annual bill based on flat tariffs.</p>	<p>Flat tariffs.</p> <p>Three-period time of use tariffs for domestic and two-period time of use tariff for small business customers.</p> <p>Compliant maximum annual bill based on flat tariffs.</p>
CPI	Quarterly CPI indices published by Australian Bureau of Statistics (ABS).	The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation has been applied using quarterly CPI data, consistent with our previous approach.
Regulatory period	12 months.	No change in approach.

Item	2025–26 Victorian Default Offer final decision	2026–27 Victorian Default Offer draft 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) from 2025–26 to 2026–27

Item	2025–26 Victorian Default Offer final decision	2026–27 Victorian Default Offer draft decision
Wholesale electricity costs	\$501	\$498
Network costs	\$616	\$627
Retail operating costs (including acquisition costs)	\$194	\$196
Environmental costs	\$114	\$67
Other costs	\$21	\$19
Retail operating margin	\$76	\$74
GST	\$152	\$148
Total	\$1,675	\$1,629

Note: Totals may not be equal to the sum of individual cost components due to rounding. The CPI base year has been updated this year to align with the latest base adopted by the Australian Bureau of Statistics (ABS). However, CPI indexation continues to be applied using quarterly CPI data, consistent with our previous approach.

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;

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- (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*'):
 - one flat tariff that is available to each domestic customer;
 - one flat tariff with a controlled load tariff that is available to each domestic customer with a controlled load; and
 - one flat tariff that is available to each small business customer,
 which tariffs must be:
 - for the period from 1 July 2019 to 31 December 2019, those fixed in accordance with clause 6(2) and clause 6(3);
 - 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:
 - are not flat tariffs; or
 - 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;

UA_s 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
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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 provides the commission power to make a Victorian Default Offer price determination and imposes some constraints on that power. This appendix explains the requirements for, and 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 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.¹⁵⁷ 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.¹⁵⁸

The pricing order gives the commission discretion to decide the approach and methodology to be used for making this Victorian Default Offer price determination.¹⁵⁹ However, this is 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:¹⁶⁰

- wholesale electricity costs
- network costs
- environmental costs
- retail operating costs, including only modest costs of customer acquisition and retention¹⁶¹
- retail operating margin¹⁶²
- any other costs, matters or things we consider appropriate or relevant.

¹⁵⁷ Clause 12(1) of the pricing order.

¹⁵⁸ Best meeting the objective of the Victorian Default Offer is a requirement of clause 12(2) of the pricing order.

¹⁵⁹ Clause 10(3) of the pricing order read with section 33(5) of the *Essential Services Commission Act 2001*.

¹⁶⁰ 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; Clause 12(4) of the pricing order.

¹⁶¹ Clause 12(6) of the pricing order specifies that this is to be an amount determined by the commission in its discretion.

¹⁶² 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.

The pricing order also specifies that we must not include headroom.¹⁶³

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.¹⁶⁴

The commission has further stated objectives in the EI Act, including that 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).¹⁶⁵

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.¹⁶⁶

As mentioned, when making a Victorian Default Offer price determination, the approach and methodology adopted by the commission must be one that best meets all these objectives.

Other 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
- 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

¹⁶³ 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.'

¹⁶⁴ *Essential Services Commission Act 2001*, s 8.

¹⁶⁵ *Electricity Industry Act 2000*, s 10.

¹⁶⁶ Clause 3 of the pricing order sets out the objective of the Victorian Default Offer.

- 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 under section 33 of the ESC Act, 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.¹⁶⁷

¹⁶⁷ Under clause 12(11) of the pricing order, section 33(4)(a) does not apply to a Victorian Default Offer determination.