

## Guideline: maximum cap for pay-on-time discounts

### 1. Purpose of this guideline

- 1.1. The purpose of this guideline is to provide information to energy retailers and other interested parties on the cap that applies to pay-on-time discounts offered as part of any market retail contract entered into on or after 1 July 2020.
- 1.2. This guideline is made under section 13 of the Essential Services Commission Act 2001.

### 2. What is the pay-on-time discount cap?

- 2.1. Clause 46AB(1) of the Energy Retail Code provides a new cap on conditional pay-on-time discounts for market retail contracts.
- 2.2. The Essential Services Commission (the commission) will determine the maximum discount that a retailer is permitted to offer to customers as a condition of paying on time.
- 2.3. This rule was introduced to ensure conditional discounts are cost-reflective and limit the penalties faced by small customers who fail to meet offer conditions, in line with recommendation 4E of the Independent Review of the Electricity and Gas Retail Markets in Victoria.<sup>1</sup>

### 3. How the cap is set

- 3.1. The methodology used to calculate the pay-on-time discount cap is the sum of:
  - the 10-year Australian Commonwealth Government Bond Rate using a 40-day trailing average (a proxy for the risk-free rate)
  - a debt risk premium derived based on the difference between the yield on 10-year BBB- corporate bonds and the risk-free rate
  - an allowance for debt raising costs based on information from Treasury Corporation of Victoria.
- 3.2. This figure is the maximum percentage discount a retailer could apply to a customer's bill that would be conditional on the customer paying that bill on or before the pay-by date.

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<sup>1</sup> Further information about the background to these rules is available on our [website](#).

#### **4. How the cap is updated**

- 4.1. The commission will update the cap annually. The commission will use data as of 31 March to determine the level of the cap that will take effect from 1 July for the financial year.
- 4.2. The commission will update this guideline by early May each year and write to all electricity and gas licensees in Victoria to notify retailers of the new cap level.

#### **5. Current level of the cap**

- 5.1. The maximum pay-on-time discount cap effective from 1 July 2020 is 3.62 per cent.