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We welcome the opportunity to provide this input.

Joint Submission to the Victorian Default Offer Review 2025-26 Draft Decision

Executive Summary

The Victorian Default Offer (VDO) is a crucial safeguard for consumers who face structural barriers to engaging with the electricity retail market. We strongly support the VDO's continuing role in the Victorian energy market, and the Essential Services Commission's (ESC) role in regularly reviewing and renewing the VDO.

Consumer advocates are pleased to see that the ESC's draft decision on the VDO for 2025-26 keeps electricity costs stable, on average. However, it does represent around 1 per cent average rise across the distribution zones during a cost-of-living crisis.

While this is a better outcome for Victorian consumers when compared to other jurisdictions, where the Default Market Offer draft price increased between 2.5 per cent and 8.9 per cent, we do stress that consumers are still dealing with very high prices. Electricity prices have been increasing over time since the establishment of the VDO, and especially with the 2023-24 VDO which increased prices 25 per cent. We also note that while the average cost in the 2025-26 draft price is stable, in CitiPower's distribution zone, consumers will face a rise of up to 5 per cent under the draft decision.

On a positive note, we acknowledge that the ESC has adjusted the methodology for wholesale load profiles to exclude solar exports. We support this decision. This is in line with the VDO's role as a consumption price, and the ESC's remit to set an efficient cost stack. This decision helps contain rises to the VDO price.

This submission is made at a time when high costs for essential services like electricity are causing severe financial hardship in Victorian communities. For many people supported by the community sector, incomes are simply not sufficient to cover expensive energy as well as the costs of other essentials, especially if they are living in poor quality housing that is difficult to heat and cool.

The ongoing impact of high energy costs is that tens of thousands of Victorians are in energy debt. Social services report that community demand for assistance is at unprecedented highs. Meanwhile, large energy businesses make record profits.

In this context, we encourage the ESC to consider the costs of pricing decisions holistically, and to centre the consumer in decisions, rather than businesses. This is especially important for vulnerable and low-income households, for whom costs and benefits are a required consideration for the ESC, under the Commission’s statutory obligations.

We also urge the ESC to undertake deeper analysis of retail behaviours and seek more granular detail of operational costs and, where possible, make that information public. This would provide for greater scrutiny on retailer behaviour and help to address the information asymmetry experienced by consumer advocates representing Victorian households in processes such as the VDO review.

Finally, we note that, although the VDO works as a crucial regulatory safeguard, it is ultimately a price calculated on the costs of an unfair and unaffordable market. As such, consumer advocates urge regulators and policymakers to investigate complementary measures above and beyond the VDO, such as a targeted social tariff, to deliver electricity to low-income households at a truly affordable rate.

This is a joint submission made by the Victorian Council of Social Service (VCOSS), Brotherhood of St. Laurence, Consumer Action Law Centre, Council on the Ageing Victoria, Energy Consumers Australia, Financial Counselling Victoria, and Uniting. This group brings a deep knowledge of people's experiences navigating the Victorian electricity market and the impacts of energy hardship and poverty. Collectively, we work towards a Victoria free from all forms of hardship, where everybody can experience genuine wellbeing.

This submission includes case studies detailing the lived experience of electricity consumers who have been supported by community sector organisations. The names of individuals have been changed.

Setting the scene: The VDO is a crucial regulatory safeguard

We emphasise our strong support for the continued operation and ongoing review of the VDO. The VDO is a key regulatory safeguard for customers that find themselves on a standing offer, and a crucial price cap for customers in embedded networks. As a comparison tool, the VDO is one way to improve consumers' ability to safely navigate a complex electricity market. Broadly speaking, the VDO has been successful in its objectives, especially in eliminating unreasonably priced standing offers.

There is a continued need for regulatory safeguards given the difficulties consumers face to participating in a complex retail electricity market. Most consumers simply do not have capacity to constantly engage with the market, while some consumers face digital and language barriers that exacerbate market complexity. Unsurprisingly, many consumers express a preference for a simplified relationship with electricity.[1]

As a result of these factors, 40 per cent of Victorian households responding to Energy Consumers Australia's (ECA) *Consumer Energy Report Card* survey say they review their energy plan less frequently than once a year, while 11 per cent say they never do.[2]

This translates to an average of 60 per cent of Victorian electricity customers not being on their retailer's best offer between July 2024 and December 2024.[3] This is a clear failure of the market to facilitate lower prices for consumers.

For those on embedded networks, there is no way to choose more affordable offers. An example of the challenges that customers on embedded networks face is shared over the page.

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[1] Energy Consumers Australia found that among respondents to their Consumer Energy Report Card survey, over half (56%) of Victorians say they want a basic relationship with the electricity system. See: Energy Consumers Australia (2024) *Consumer Energy Report Card - Data | December 2024 | Residential topline data tables*.

[2] Energy Consumers Australia (2024) *Consumer Energy Report Card - Data | December 2024 | Residential topline data tables*.

[3] Essential Services Commission (n.d.) *Energy market Dashboard*, accessed: 07/04/25.

Sanjay's story[4]

Sanjay lives in student accommodation with his partner. The apartment they rent is part of an embedded network where electricity and water are supplied by a network operator. Each month, the network operator provides a single bill with a summary amount for each utility. After receiving a disconnection notice from the network operator, Sanjay contacted the National Debt Helpline.

Sanjay and his partner had been experiencing financial difficulty, as neither were receiving any income. As international students, they are unlikely to be eligible for Centrelink.

When they couldn't pay their utilities bill, Sanjay approached student services at his university for assistance. At that time, they had a combined debt (electricity and water) of approximately $500. A financial counsellor there advised him to contact the network operator to request the Utility Relief Grant.

Sanjay said he followed the financial counsellor's advice, but the network operator was unhelpful. He said the network operator advised they could not help him apply for the grant and wasn't able to provide any further assistance under the Payment Difficulty Framework, other than accepting smaller payments as part of a payment plan.

Among consumers facing payment difficulty and receiving assistance from their retailer, customers with energy debt are usually forced to stay with that retailer even if there are cheaper offers elsewhere, or face losing assistance they are receiving in paying off arrears. Consumers may even find their debt transferred to debt collectors if they leave their retailer.

In this context, we strongly support the continued operation of regulatory safeguards such as the VDO.

Sanjay's case study also illustrates the continued need to monitor all retailers' compliance with their obligations under the Energy Retail Code of Practice, alongside the maintenance of the VDO. As the ESC's *Victorian Energy Market Report 2023-24* observed, retailers are not currently doing enough to help consumers experiencing financial difficulty.[5] Community sector workers see this daily when supporting clients to deal with their retailer.

[4] Name changed. Case study provided by Consumer Action Law Centre.

[5] The report notes that: "energy retailers play a crucial role in providing timely and accurate information to customers about the assistance available to them" but that "the high average arrears some retailers reported is a concerning trend. It may indicate that some retailers need to improve practices to better support customers with their energy debt." The report also found significant differences between retailers in the number of customers who are existing payment plans because they have not met requirements - possibly indicating retailers are not providing suitable support. See: Essential Services Commission (2024) *Victorian Energy Market Report 2023-24*, p6; 10; 11.

There is not only inconsistency between the level of support different retailers provide, but often inconsistency between staff at the same retailer. Two further case studies are shared below detailing the difficulty in getting help. We do note the Energy Retail Code of Practice review, and support regulatory measures outlined in the ESC's Consumer Reforms package that will better safeguard electricity customers.

Nadeem's story[6]

Nadeem accumulated significant electricity debt after a series of cascading events, including the breakdown of a gas heater and subsequent reliance on electric heaters during winter, and the energy retailer sending electricity bills to the wrong address so that Nadeem wasn't aware of their mounting energy usage.

Nadeem made a complaint to the Energy and Water Ombudsman Victoria (EWOV). This complaint was found by EWOV in Nadeem's favour due to several factors and failures on the retailer's part. However, while there were reductions in the utility arrears because of the EWOV finding, there were still significant debts to manage.

Nadeem's financial counsellor struggled to work with the retailer to manage these debts under hardship arrangements due to aggressive collections practices. These practices included multiple phone calls in a week, unnecessary hurdles to accessing arrangements including mandatory "interviews," financial counselling authorisation and identification barriers, and delays by the retailer in providing clear information and evidence of the debt calculation.

Selena's story[7]

Selena, a victim-survivor of family violence, reached out to a financial counsellor when she started receiving 'final warning before disconnection' notices from her energy retailer, due to a $6,000 energy debt that had been incurred because of her experience of family violence.

The financial counsellor had significant challenges reaching the retailer's hardship team, who appeared to have issues finding Selena's information on their systems. The case is still ongoing, with the retailer finally providing access to a Utility Relief Grant and agreeing to a payment arrangement for energy usage. However, this arrangement is temporary, causing uncertainty and stress for Selena. The experience has added unnecessary stress for a victim-survivor and is out-of-step with family violence provisions in the Energy Retail Code of Practice.

[6] Name changed. Case study provided by Financial Counselling Victoria.

[7] Name changed. Case study provided by Financial Counselling Victoria.

We support the ESC's methodological change in setting wholesale costs and acknowledge this is helping contain prices

We support the ESC's decision to exclude exports in estimating customer load profiles. We understand that this reflects new data that has become available which improves the ESC's estimate of efficient retailer costs, and because the VDO price is calculated as a consumption price.

We understand that although this is a more efficient pricing of wholesale costs, that electricity retailers have argued they do not use this method to hedge wholesale costs. Our response is that the role of the VDO is not to accurately reflect the pricing behaviours of retailers, or protect a specific business model, but to set an *efficient* price in the market.

We highlight the VDO Pricing Order, which explicitly requires the calculation to be made regarding efficient costs and does not require the ESC to determine tariffs based on the actual costs of any retailer. As such, the price should not accommodate inefficient costs incurred by retailers.

It is also appropriate that if retailers are engaging in inefficient pricing, that the VDO be utilised as a market influencing tool to demonstrate where existing inefficiencies exist.

We are concerned that the cost of an essential service is still too high, contributing to increasing hardship

Rising prices are driven by wholesale and network costs

The VDO Review for 2025-26 occurs in the context of a long upward trend in electricity prices. This has been driven by wholesale and network costs, with other portions of the cost stack remaining relatively stable.

In terms of wholesale costs, increases throughout the National Electricity Market have historically been driven by ageing coal-fired generation infrastructure and expensive gas prices, aside from international market shocks such as in 2022.[8] The increasing supply of renewables coming online, and the potential to orchestrate rooftop solar export peaks and smooth out evening demand, should result in cheaper generation costs.[9]

Network prices, however, are an area of concern for advocates. While we acknowledge that the ESC only passes through network costs in the VDO based on decisions by the Australian Energy Regulator, it is worth considering how these rising costs have developed.

One reason for higher prices are supernormal profits. The Institute for Energy Economics and Financial Analysis (IEEFA) estimates that networks made $4.35 billion in supernormal profits from consumers in the 2023 regulatory year; a sum larger than the Federal Government's *Energy Bill Relief Fund* expenditure and sits on top of network businesses' regular profit allowance of $1.39 billion.[10] IEEFA argues that despite regulatory settings allowing for additional profits for network businesses, the scale of these supernormal profits is extraordinary, and that there is no evidence that they are associated with productivity improvements.[11] We urge the ESC and policymakers to more closely examine and interrogate the network cost portion of the price stack.

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[8] Bowyer, J. (2025) *Why are power bills higher now than they used to be?: Long-term power bill trends*, Institute for Energy Economics and Financial Analysis, pp4-5.

[9] Ibid, p6

[10] Gordon, J. (2024) *Taming electricity price inflation starts with addressing network supernormal profits*, Institute for Energy Economics and Financial Analysis.

[11] Ibid.

Rising costs of electricity and other essentials are creating hardship

In ECA's *Consumer Energy Report Card* survey, 82 per cent of Victorian respondents stated that they are concerned about the cost of electricity, while 88 per cent said they are concerned about cost of living generally.[12]

People on low incomes struggle with the cost of energy because they often do not have enough money coming in to afford bills, and they are more likely to live in homes that are inefficient to heat and cool. They are also less likely to be able to afford rooftop solar or take other measures to make their home energy efficient. Renters, who have few rights over improvements to energy efficiency in their homes, struggle with high prices and bear disproportionate costs for energy.[13]

In our previous joint submission to the VDO 2025-26 review, we noted our concern at the trends we are seeing in ESC reporting that indicate increasing rates of energy hardship. These trends have continued into the latest reporting period, with an average of 86,789 customers accessing tailored assistance each month in July 2024 to December 2024, average monthly arrears upon entering assistance of $1,069, and only 22 per cent of customers exiting tailored assistance with no arrears.[14]

This trend of increasing rates of hardship is something that we see and hear from community organisations that provide frontline support, who are dealing with unprecedented demand from households struggling to absorb costs.

Claire's story – provided over the page – is an example of the hardship we are seeing – and the difficulty in dealing with retailers to get support.

[12] Energy Consumers Australia (2024) *Consumer Energy Report Card - Data | December 2024 | Residential topline data tables*.

[13] A study of people who have accessed Anika Legal's Repairs Service found participants had difficulty managing their household's energy usage in a way that had a positive impact on their bills. Renters described avoiding energy use where possible, and overall, participants reported having very low confidence in being able improve their situation. Many participants had fallen behind on bills stating they had insufficient income to cover costs, and eventually required financial counselling services. See: Anika Legal, Consumer Action Law Centre, and Consumer Policy Research Centre, *Too Hot, Too Cold, Too Costly: Victorian Renters Pay the Price for Energy-Inefficient Homes*, p8.

[14] Essential Services Commission (n.d.) *Energy market Dashboard*, accessed: 07/04/25.

Claire's story[15]

Claire lives in her own home, which she is currently paying off, with her two teenage daughters. She receives the Disability Support Pension and is a victim-survivor of family violence. Her ex-partner is no longer supporting the family. Her property has been damaged in a fire and she has been struggling to get everything back on track.

She had a debt on her electricity bills of more than $700 and had been offered support by her retailer with an application for the Utility Relief Grant. But the retailer only applied for $500 instead of the full $650. Community services organisation Uniting contacted her retailer to request a top up of the grant, but two different support staff said they couldn't assist. The Uniting energy advisor recontacted the retailer on another day with Claire and finally found a call centre agent who could assist with the top up.

The Uniting energy advisor also arranged for the life support concession for Claire as her medical condition required the house to be constantly heated during winter. An affordable payment plan was also set up as Claire was on a direct debit which was always falling over. The direct debit was ceased, and Claire was put onto the retailer's hardship program.

Energy is an essential service, one that people cannot live without and cannot safely discontinue using even if they are unable to pay for ongoing usage and will end up accruing debt. As described in our previous submission to the VDO process, people on low and fixed incomes often go to great lengths to pay their energy bills. Among respondents to the Australian Council of Social Service's *Raise the Rate Survey 2024*, 68 per cent reported reducing their use of heating and cooling to afford energy bills, and 59 per cent said they go without food or medicine to be able to pay their energy bill.[16]

Costs should be considered holistically in pricing decisions

We have argued previously that all intersecting household costs should be consisted holistically in electricity pricing decisions, given that individual cost pressures do not occur in a vacuum. We also reiterate that the costs of energy to *consumers* should be kept at the centre of determinations, rather than those to businesses.

Consumer advocates were pleased to see the ESC apply this approach in setting a reduced retail operating margin of five per cent, with explicit regard for offering some relief to customers facing cost-of-living pressures. This is an entirely appropriate consideration for the Commission, as the Essential Services Commission Act 2001 explicitly requires the ESC to have regard to the benefits and costs of regulation for consumers and users of products or services, including low income and vulnerable consumers.

[15] Name changed. Case study provided by Uniting.

[16] Australian Council of Social Service (2024) *Raise the Rate Survey 2024*, p7.

Cost data should be as transparent as possible

In our initial joint submission to the first round of consultation for the VDO Review 2025-26, we made comment on the types of data that are available publicly on the behaviours, real costs incurred, and returns to retailers, especially the businesses with greater market power.

Public access to transparent data is vital to ensure the costs being recovered from consumers through their energy bills are fair and reasonable, and that consumers are receiving the purported benefits of a competitive retail electricity market.

In previous submissions to the ESC, VCOSS – along with community service organisations and other consumer advocates – have noted an information asymmetry in relation to modelling of efficient electricity retail costs. Consumer advocates often do not have access to the detailed data or modelling capability that is being used by regulators and businesses to make decisions.

One area where improved transparency would be valuable is the costs to retailers of Customer Acquisition and Retention (CARC). We have long argued that there is no place for CARC in the price stack and, acknowledging that removing this component of the price stack would require changing the ministerial pricing order for the VDO, we reiterate this position.

Customers who find themselves on the VDO – a default price – gain no benefit from the inclusion of CARC in the cost stack, and consumers on embedded networks have no ability to change their retailer.

Responses to our concerns previously have been that CARC is a crucial inclusion in the make-up of an efficient benchmark price. However, in most competitive markets, investment in expansion of market share would be funded through deferred profits, not from other consumers. This is usually a trade-off businesses take in the hope of future returns. In this context, explicitly accounting for CARC as a separate element of the cost stack may lead to over-recovery by retailers of their costs.

To establish the real costs to businesses of their operations, and allow for sufficient public scrutiny of those operations, we support the ESC gaining a more accurate understanding of actual retail behaviours and the costs retailers face – and, subsequently, making that information public where possible. As well as customer acquisition and retention costs, this could include bad and doubtful debt write-offs, corporate overheads, and the cost of information technology systems. Comparative data between larger and smaller retailers would also offer critical insight into the health of the competitive market.

This will further allow consumer advocates and other stakeholders to ascertain that the VDO is achieving its objectives and enhance the ability of consumer advocates to represent electricity customers.

Complementary measures are required to create affordability

While consumer advocates are always keen to see the VDO price maintained and kept as low as possible, we acknowledge that ultimately the price is calculated based on the costs of the electricity retail market. This means that in the context of an unfair and unaffordable market, the VDO cannot create true affordability alone.

Although the draft decision by the ESC has kept prices stable, the VDO 2025-26 Review has occurred in the context of a huge average price increase of 25 per cent in 2023-24, and a longer-term upward trend in prices since its establishment in 2019. Increasing network prices could indicate this will continue to be a trend into the future.

As a result, consumers do not feel they are getting a fair deal. Just 13 per cent of Victorians responding to ECA's *Consumer Energy Report Card* survey feel the price of electricity is fair and reasonable, only 25 per cent believe Government decisions and actions are helping to ensure consumers pay a fair price for their energy, and only 34 per cent believe there is appropriate support available for people who have difficulty affording energy bills.[17]

A shocking and unacceptable consequence of higher energy bills and associated heating and cooling costs is ill-health and excess deaths[18] – which can be prevented by making the right policy and regulatory choices.

Consumer advocates urge regulators and policymakers to investigate complementary measures above and beyond the VDO and the concessions system, such as a targeted social tariff, to deliver an essential service like electricity to low-income households at a truly affordable rate.

We were pleased to see the ESC's comments in the *Decision Paper*, referring to the concept of a social tariff as something for the Victorian Government to consider, separate to the price determination process. Advocates are ready to assist and support the Victorian Government in this process.

Alongside pricing decisions, continued Victorian and Federal Government investments in home energy upgrades schemes and renewable electricity, proposed energy efficiency minimum standards for rentals, and requirements for building electrification, will all also work to push down prices over time.

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[17] Energy Consumers Australia (2024) *Consumer Energy Report Card - Data | December 2024 | Residential topline data tables*.

[18] Northwestern Institute for Policy Research (2020), *When Heating Is More Affordable, Fewer People Die: Policy Brief March 2020*; see also: Victorian Council of Social Services (2021), *Feeling the Heat*.

Recommendations

1. Maintain the VDO as a crucial safeguard for consumers who cannot engage with the market, and as a price cap for embedded networks.
2. Keep the proposed methodological change in calculating load profiles in the wholesale cost.
3. Embed a holistic understanding of the cost of living in all determinations, and consider the impact of decisions on vulnerable customers, as per the ESC's statutory obligations.
4. Increase transparency on collected retail cost data.
5. Examine mechanisms that complement the VDO to create real affordability for low-income households trying to afford an essential service, such as a targeted social tariff for those most in need.