VCOSS Victorian Council of Social Service

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We welcome the opportunity to provide this input.

VCOSS joint submission responding to Request for Comment Paper 2026-27 Victorian Default Offer

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.

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 previous community sector submissions to VDO reviews, many people supported by the sector simply cannot afford 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. Because of this, some consumers accrue large amounts of debt. Others, in an attempt to avoid debt at all costs, go to great lengths to pay their energy bills, such as forgoing other essentials, or reducing consumption to dangerously low levels.

As such, 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 welcome the ESC's consideration of a regulated free power period tariff structure as part of the VDO. As this type of offer is already available in the market, it is crucial for Victorians to have access to a reasonably priced benchmark.

However, we strongly emphasise the difficulty that many consumers face in shifting their usage out of evening peaks, meaning that many households who are most likely to benefit from a free power period offer are those who are already well-off.

In this submission we detail potential consumer protections that would safeguard consumers when selecting free power period offers, including:

- Opt-in only application
- A better-off price guarantee and easy switch back when consumers find they are paying more compared to their previous tariff
- Access to a simple flat tariff that consumers can move to at any time
- Requirements for bill comparisons between a consumer's current offer and a free power period offer are based on actual consumption and not assumed behaviour change

Similarly, while recognising the need for the ESC to shift VDO time of use (TOU) tariff pricing to a three-price structure to reflect proposed 2026-31 distribution charges, we again emphasise the difficulty that some consumers face in responding to price signals.

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, 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. 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.

Signatories

Consumer advocates remain committed to the VDO as 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. Broadly speaking, the VDO has been successful in its objectives, especially in eliminating unreasonably priced standing offers.

The energy market is complex, and many consumers find it hard to navigate, or simply do not engage at all. Findings from a recent consumer focus group carried out by the ESC align with what we often hear about the privatised energy market: consumers do not understand why there are variable prices for what they see as an essential service and a like-for-like product across the market.[1]

Unsurprisingly, many consumers express a preference for a simplified relationship with electricity.[2] ECA's consumer survey has also found that those who show indicators of energy hardship were more likely to say they "wouldn't know where to start," when asked why they do not review their energy plans regularly.[3]

In this context, the VDO works to improve consumers' ability to safely navigate the electricity market, and protects those who do not engage, by providing a trusted and reasonable price that has been set through an open review process.

There is a continued need for regulatory safeguards given the difficulties consumers face to participating in a complex retail electricity market. For those on embedded networks, there is no way to choose more affordable offers, which highlights the importance of the VDO's role as a price cap in that setting.

[1] Whereto (2025) *Essential Services Commission Report: Consumer focus group stand-up and delivery to support the Energy Retail Code of Practice review*, p13.

[2] Energy Consumers Australia found that among respondents to their Consumer Energy Report Card survey, over half (59%) of Victorians say they want a basic relationship with the electricity system. See breakdown of "Q16 And which of the following best characterises the type of relationship that you would like to have with Australia's electricity system" in Energy Consumers Australia (2025) *Consumer Energy Report Card data*, accessed 4/12/25.

[3] 38% of those with one or more indicator, 51% of those with two or more indicators, compared with 22% of those with none. Indicators of hardship were spending more than 6 per cent of income on energy bills, high difficulty paying bills, and financial stress or turning off heating and cooling to save money. See: Energy Consumers Australia (2025) *Understanding and measuring energy hardship in Australia*, p7; 17.

Consumer advocates urge that a holistic understanding of cost of living pressures inform the price-setting methodology of the VDO

Households have been exposed to significant electricity price rises over the last few years at a time that costs for all essentials have increased faster than wages across the entire economy. 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.

Analysis by Anglicare in 2025 found that for a single minimum wage worker, just $33 each week remains to cover energy costs after paying for rent, food and transport.[4] This drops to just $1 for a single parent household even with Government supplements.[5] Anglicare stressed these were conservative estimates and that, "for the majority of the households we modelled, energy bills are simply unaffordable."[6]

When asked about changes in the key markers of energy stress and energy-related harm over the past twelve months, financial counsellors responding to the *Rank the Energy Retailer* survey reported the complexity of energy cases having increased.[7] For example, intersections with other areas of financial difficulty (81 per cent).[8] Those with clients in Victoria reported feeling that their time working on energy-related cases has increased a lot (43 per cent), and spending increased time interacting with energy retailer hardship teams (49 per cent).[9]

Simon's story shows us how consumers struggle with many intersecting hardships on top of the cost pressures of essential electricity.

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4 Anglicare Australia (2025) *Cost of Living Index: Minimum Wage Households*, p10.

5 Ibid.

6 Ibid.

7 Financial Counselling Victoria and Financial Counselling Australia (2025) *Appendix: Rank the Energy Retailer 2025*, p13.

8 Ibid.

9 Ibid.

Simon's story[10]

Simon is around 40 years old and has recently moved back home to live with family in regional Victoria. Simon has been receiving the Disability Support Pension, which is around $1,000 per fortnight, as his sole income for many years. Simon lives with chronic health conditions, including arthritis, and is taking medications that have resulted in significant and permanent side effects. However, his medications allow him to maintain mobility. Simon is a registered life support customer as his arthritis requires him to have the heater on most of the time.

Simon contacted the National Debt Helpline after speaking to his retailer about an accrued debt of several thousand dollars from a closed energy account from his previous rented home. Simon had informed his retailer that he couldn't afford to make payments towards the closed account debt. Simon shared with the Helpline financial counsellor that he had been too unwell to manage his finances, he was struggling to manage his bills due to his health, and his low-income wasn't sufficient to cover his essential costs.

Consumer advocates have argued previously that all intersecting household costs should be considered holistically in electricity pricing decisions, given that individual cost pressures do not occur in a vacuum. We repeat this recommendation for the 2026-27 VDO pricing review. We also reiterate that the costs of energy to *consumers* should be kept at the centre of determinations, rather than those to businesses.

We were pleased to see the ESC apply this approach in setting a reduced retail operating margin of five per cent in the 2025-26 VDO, 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.

We urge this approach be applied in the current pricing review, and that wherever possible, when a range of price estimates is presented, the lower estimate is selected.

Consumer advocates have also long argued that there is no place for Customer Acquisition and Retention (CARC) in the price stack of the VDO 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 offer or retailer.

10 Name changed. Case study provided by Consumer Action Law Centre.

When we have raised these concerns in the past, the response has been that CARC is a crucial inclusion in the make-up of an efficient benchmark price. Unfortunately, this is an instance in which the objectives of the VDO are in tension. CARC might make sense in an efficient benchmark price for comparison purposes. It makes less sense in the context of a price cap for embedded networks where consumers cannot change their plan, or in regulated standing offers which customers are rarely actively selecting.

We note that in most competitive markets, investment in the expansion of market share would be funded through deferred profits, not from other consumers. Also, large retailers who are most likely to have customers who have defaulted onto standing offers, would likely not incur significant costs to acquire or retain these customers.

A regulated free power period under the VDO is appropriate, but many consumers face barriers to shifting usage

<u>Suitability of a regulated residential tariff with a free power period in Victoria</u>

Considering the role of the VDO to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market, we support the addition of a regulated tariff with a free power period, priced at a reasonable rate, as part of the VDO. This will provide customers with a benchmark when considering this type of tariff in the market and ideally work to encourage retailers to price their offers reasonably.

We would also welcome the ESC's review process in examining this type of tariff. Our desktop analysis of the available some free power period offers in the Victorian market currently indicates that they are complex in structure, and some have fairly high prices outside of the free period.

Consumer advocates strongly emphasise the difficulties for some consumers in responding to price signalling. Signals like this expect a level of agency, knowledge, and capacity that many consumers simply do not have. Many experts have previously commented that the energy market is set up to expect the participation of a consumer who is far more informed, engaged, and active than the reality often allows.

This is especially true of renters, those living in inefficient homes, low-income households, people experiencing disadvantage, and those with life circumstances that make active management of energy usage difficult or impossible such as employment hours, health conditions, and mental health or disability.

Even for those who are engaged, structural barriers often prevent the most efficient use of electricity. Examining usage shifting behaviour, ECA has found that households usually shift usage for less energy intensive appliances, such as washing machines (73 per cent) and dishwashers (58 per cent), rather than appliances that make up most household consumption, such as air conditioners (39 per cent) or heaters (27 per cent).[11] This is unsurprising, given that a great deal of usage in peak time is non-negotiable, and consumers who live in homes that have poor thermal performance find it much harder to shift heating and cooling to the middle of the day because they cannot effectively pre-heat or pre-cool the home. For consumers living in energy-inefficient homes, cutting back on heating or cooling when they really need it during the evening peak may result in significant risks to health.

Finally, consumers living in embedded networks of course have no ability to choose this type of tariff.

These factors mean that tariffs with free power periods are most likely to benefit people who are already active in the energy market, who live in detached homes, and who already enjoy significant cost of living savings with higher quality appliances and energy efficient homes.

VCOSS, the community sector, and consumer advocates strongly encourage industry, experts, regulators, and governments to carefully consider the significant barriers that prevent consumers from benefiting from free power period tariffs when setting policy, and crucially, when spruiking the ostensible equity benefits of this type of tariff.

Safeguards should be implemented before a customer could opt-in to such a product

Considering the barriers to switching usage into a midday free power period experienced by cohorts that the community sector represents, we would expect sufficient safeguards in place to ensure consumers are not worse off when moving to this type of tariff.

Another primary concern for consumer advocates is the risk of retailers setting unreasonably high prices outside the free period. Therefore, a base requirement for this type of tariff structure should be that excessive costs are not recovered outside the free period by only pricing in unavoidable costs incurred during the free power period, and that unavoidable costs are not simply shifted to the supply charge.

To protect consumers from switching to an offer which might result in them being worse off, we recommend safeguards such as:

- Opt-in only application for this type of tariff
- A better-off price guarantee based on a reasonable benchmark, such as the flat rate VDO
- Easy switch back when consumers find they are paying more compared to their previous tariff
- Access to a simple flat tariff that consumers can move to at any time

[11] Energy Consumers Australia (2025) *Consumer knowledge of electricity pricing and responsiveness to price signals*, p8.

- Requirements for bill comparisons between a consumer's current offer and a free power period offer are based on actual consumption and not assumed behaviour change

Some consumers may experience variation in their ability to shift usage from one billing cycle to the next. One safeguard that potentially addresses this, while allowing customers to remain on a free power period plan, would be to require that they are only billed at a reasonable price – that being the lower of their current free power period offer or the flat rate VDO – for their usage. This safeguard could form the basis of a better-off price guarantee mechanism.

Considering recent changes to the Energy Retail Code of Practice (ERCOP) which include requirements to switch consumers automatically, the ESC could also consider safeguards such as an option to give permission to be automatically switched to a simple non-free power period offer – after a reasonable trial period – if it would leave the customer better off. This permission should be accompanied by an option to easily revert back on receiving notice of an automatic switch.

Looking towards wider regulatory reform, the need for safeguards around this type of tariff might be an area in which outcomes-based regulations, or a consumer duty, might be appropriate. At the very least, a regulated outcomes-based requirement for consumers to be paying reasonable prices and to benefit from switching tariffs could work to safeguard consumers in the interim while the ESC examines retailer behaviour and consumer experiences and considers whether additional proscriptive safeguards are needed for free power period offers.

Above all, we urge policymakers to take their time with this type of reform, to consider all the implications and to ensure transparent, accessible, and genuine community consultation is carried out before making decisions.

The same barriers to usage shifting exist under time of use tariffs

In responding to the ESC's proposal to switch from a two-price time of use tariff (TOU) to a three-priced tariff, consumer advocates wish to stress that the same barriers to shifting usage discussed above exist for customers on these types of offers.

Indeed, many consumers are not fully aware of tariff structures. Using responses to their consumer survey, ECA found that only 22 per cent of Victorian respondents definitely knew what an electricity tariff is, such as what the difference is between a flat tariff or a time of use tariff, while 48 per cent had some idea but were not sure.[12]

We do acknowledge the need to reflect options available in the market, and that the direction of 2026-31 distribution network revenue proposals to the AER is to move to a three-price structure. As such, changing the structure of the regulated VDO TOU tariff would continue the ESC's practice of reflecting the underlying structure of distribution tariffs in that price. This is appropriate considering the VDO's purpose of providing a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.

Consumer advocates would like to see more detail related to the proposed pass-through of the AEMO's cybersecurity charge

Consumer advocates are keen to understand more about the bill implications of any pass through of the Australian Energy Market Operator's recently introduced "Cyber Security & Resilience" fee and, if implemented, the updated National Electricity Market Participant fee structure. Currently, it is unclear whether this change would leave consumers better off, or whether large new charges may be added to bills as a result, thus it is difficult for us to respond.

Measures outside of the VDO are required to create true 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. We are concerned that, driven by a volatile wholesale market and high network costs, the price of an essential service like electricity is structurally unaffordable for the people the community sector represents.

ECA survey data indicates that 19 per cent of households experience at least one indicator of energy hardship.[13] This is consistent with findings from analysis carried out by the Brotherhood of St. Laurence in 2020 of results from the Household Income and Labour

[12] See breakdown of 'Q14. How much do you know about the following things' in Energy Consumers Australia (2025) *Consumer Energy Report Card data*, accessed 4/12/25.

[13] Indicators of hardship were spending more than 6 per cent of income on energy bills (11% of those surveyed), high difficulty paying bills (8% of those surveyed), and financial stress or turning off heating and cooling to save money (7% of those surveyed). See: Energy Consumers Australia (2025) *Understanding and measuring energy hardship in Australia*, p7.

Dynamics in Australia (HILDA) survey, using similar hardship indicators, which reported around 20 per cent of Australian households experienced at least one indicator of energy stress in 2020.[14]

For many in this cohort, the energy market is simply not working. As a group of organisations who have engaged in advocacy around energy costs for a long time, we have concluded that the market is incapable of creating prices that are affordable for customers on low incomes. Especially when they are experiencing payment difficulty, have debts, or are dealing with other intersecting hardships.

Retailer hardship support is not working either. VCOSS member organisations consistently tell us that retailers often fail to take simple measures such as checking a customer is on their best offer, receiving eligible concessions, or support the customer to receive the Utility Relief Grant when they ask for assistance. VCOSS understands that retailers often reach for payment plans as the only tool to address payment difficulty, and that often payment plans are set too high for the customer to afford payments. Susie's story demonstrates how consumers can accrue debt even when they are receiving support.

Susie's story[15]

Susie is a single mother with two children. She has been with the same energy retailer for over 13 years, and over that time she has engaged with every support option available. Susie has received the Utility Relief Grant every two years, has concessions applied to both electricity and gas accounts, switched to the cheapest available offer multiple times, entered payment plans, and even received payment-matching from her retailer.

But despite that, Susie still ended up owing $15,000 on her electricity account and $10,000 on gas. This is because the amount she can afford simply does not cover her ongoing usage, and so the debt continued to grow.

This also plays out in the data. In Q4 2024-25, 83,705 electricity customers accessed tailored assistance each month, with average arrears for consumers who cannot pay for on-going usage upon entering assistance in that time of $1,470.[16] Over financial year 2024-25, only 23.5 per cent of those customers exited tailored assistance with no arrears.[17] The rest either

[14] Bryant D., Porter, E., Rama, I. and Sullivan, D. (2022) *Power pain: An investigation of energy stress in Australia*, Brotherhood of St. Laurence.

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

[16] Essential Services Commission (n.d.) *Energy Market Dashboard*, accessed: 5/12/25.

[17] Ibid.

exited tailored assistance with arrears (22.6 per cent), due to “non-compliance”[18] (47.3 per cent), or in some cases due to transfer (6.6 per cent).[19] These trends have been consistent since 2020, with the average number of people accessing tailored assistance increasing steadily. One such experience was Anna’s, detailed below.

Anna’s story[20]

Anna is a casual worker with a young child. Her child’s father is injured and is in the process of applying for disability support, and as such can only contribute a limited amount to help with expenses. Anna receives payments from Centrelink; however, her income fluctuates based on hours worked, making it difficult for her to keep up with regular payments.

Despite her best efforts to manage her energy debts, Anna has faced repeated obstacles when dealing with her retailer regarding her three utility accounts, including an embedded network account.

Anna described her experience with the retailer’s customer service, stating: “they don’t give you the help… it’s just so frustrating. They can’t say that I haven’t been contacting them because I have, and they can see there’s multiple payment plans that I’ve made.”

Anna says she has had repeated experiences of being kept on the phone for over an hour, with her retailer’s customer service team suggesting payment plans that are unaffordable for her. “I was trying to catch up on what I was owing or what I was using… but the payments kept adding up… so I was really getting nowhere.”

She also said her retailer gave her unclear information and did not adequately inform her of accruing fees when her payment was paused. Anna stated her retailer did not provide her assistance with a Utility Relief Grant application, instead having to pursue this on her own. Once Anna had received the grant, she recalls that her retailer did not inform her of her remaining grant balance after the grant was applied.

Because Anna’s apartment is part of an embedded network, it is not possible to switch suppliers, and she noted that her neighbours had shared with her that they have similar debts. Anna shared that “we’re all behind.” Anna told us that her retailer’s lack of assistance to help her resolve the debt, and the issues with her embedded network, were some of the factors causing her to move residence.

[18] Advocates believe exits due to non-compliance are largely due to payment plans being unaffordable, that is, not tailored to personal circumstances.

[19] Essential Services Commission (n.d.) *Energy Market Dashboard*, accessed: 5/12/25.

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

Many workers in the community sector see the impact this hardship has on consumers who are often experiencing significant intersecting hardships before turning their attention to energy bills. A typical experience was shared with us by a financial counsellor in regional Victoria.

Financial counsellor, regional Victoria[21]
I'm working with a client who had been paying $83 per fortnight through bill-smoothing yet still accumulated an $1,800 energy debt in just 12 weeks. She's a victim-survivor of family violence, caring for three children, living on a very low income, and the debt is simply unmanageable.

Her mental health is fragile, and every call to the energy retailer leaves her overwhelmed. Like many of my clients, she prioritises energy bills over essentials, often before food, medication, or accessing healthcare. The result is worsening health, untreated mental health issues, and constant financial anxiety. Cases like hers highlight how energy unaffordability pushes vulnerable families into crisis.

A shocking and unacceptable consequence of higher energy bills and associated heating and cooling costs is ill-health and excess deaths,[22] 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. While we recognise the ESC's excellent work in recent reforms to the ERCOP, which includes measures to get consumers experiencing hardship onto better offers by default, more needs to be done.

One such support is a targeted social tariff to deliver an essential service like electricity to low-income households and people experiencing hardship at a truly affordable rate.

Alongside pricing protections, continued Victorian and Federal Government investments and reforms to improve home energy efficiency, facilitate electrification, and increase renewable electricity generation will all also work to push down prices over time.

[21] Case study provided by Financial Counselling Victoria.

[22] Northwestern Institute for Policy Research (2020), *When Heating Is More Affordable, Fewer People Die: Policy Brief March 2020*; Victorian Council of Social Services (2021), *Feeling the Heat*; Hunter, N. and Lewis, V. (2024) *The Energy-Health Hardship Nexus in Victoria: Exploring the Role of The Health System*, AIPCA, La Trobe University, p6.

Summary of 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. 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.
3. Work towards including a reasonably priced tariff with a free power period in the VDO, as a benchmark for consumers, and a signal to retailers for what the ESC considers a reasonable price and structure for this type of tariff.
4. Consider the barriers to shifting usage out of peak times that consumers experience, and provide adequate safeguards to prevent households from being worse-off when taking up free power period offers, such as:
   - Opt-in only application
   - Requirements that only reasonable and unavoidable costs are recovered outside the free power period.
   - A better-off price guarantee based on a reasonable benchmark such as the flat rate VDO
   - Easy switch back when consumers find they are paying more than their previous tariff.
   - Access to a simple flat tariff that consumers can move to at any time.
   - Requirements for bill comparisons between a consumer's current offer and a free power period offer be based on actual consumption and not assumed behaviour change.
   - Consideration of automatic protections, such as providing consumers an opportunity to give permission to be automatically switched to a non-free power period offer if it would leave the customer better off, with adequate safeguards to revert back.
5. Consider the structural barriers to shifting usage that consumers experience when looking to change time of use tariff structures.
6. Provide more detail of the bill implications of the proposed pass-through of the AEMO's cybersecurity charge and the proposed National Electricity Market Participant fee structure.
7. 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.