alintaenergy

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Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Via online lodgement: www.engage.vic.gov.au

2025-26 Victorian Default Offer – Draft Decision Paper

Alinta Energy welcomes the opportunity to respond to the Essential Services Commission's draft decision on the 2025-26 Victorian Default Offer (VDO).

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers. Alinta Energy has also been at the forefront of driving retail competition and delivering substantial benefits to consumers across competitive energy markets for many years.

The stability of the VDO has been one of its key strengths and while we do not believe that price regulation is in the long-term interests of consumers, the consistent approach applied by the Commission has supported a degree of certainty given the significant impact the VDO has on the competitive retail market for energy in Victoria.

However, recent changes to some elements that underpin the VDO are concerning, including the application of a 'load only' profile as opposed to the previous balanced profile in the treatment of exported solar energy. This change detaches the profile that retailers hedge against for their portfolio of customers compared to the way the VDO is calculated. We believe there needs to be further consideration of how net solar exports, at times of negative spot market prices, can be managed in the determination of the Wholesale Energy Cost (WEC) component of the VDO, We recommend an approach to managing the cost of the impact of solar exports be a priority focus for the next VDO period (2026-27) as the disconnect between the portfolio load shape retailers hedge against and the load only approach used to calculate the WEC will grow further as rooftop solar penetration continues.

Alinta Energy notes the growing impact of network charges (distribution and transmission use of system costs) over time. This issue was identified by both consumer group representatives and the Australian Energy Council at the Commission's recent public forum on the VDO draft decision. While the setting of network costs is the responsibility of the Australian Energy Regulator (AER), the focus placed on retail operating costs and the decision to further reduce the retail margin is disproportionate relative to the impact of network costs in the VDO cost stack and their likely future trajectory.

While energy retailers' welcome scrutiny of our cost to serve and bad and doubtful debt costs, consistently examining ways to reduce the modest contribution these and the retail operating margin provides, seems an uneven approach that will only result in reduced competition and choice for customers in the long term. The Commission should engage further with the AER on the growth in network costs given the significant share of the VDO these costs represent.

We do not support a further reduction in the retail operating margin to 5 per cent as set out on page 54 of the draft decision. While within the benchmark range estimated by Frontier Economics for the Independent Competition and Regulatory Commission (ICRC), the retail operating margin chosen by the

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Commission is at the lower end of this range and we do not believe the draft decision retail operating margin supports competition and choice for customers.

We provide further comment on VDO cost stack components below. Alinta Energy welcomes further discussion of any issues raised in this response with the Commission, please contact David Calder [redacted] in the first instance.

Yours sincerely

[redacted]

Shaun Ruddy
Manager, National Retail Regulation

VDO cost components – specific comments

Wholesale Energy Costs and solar exports

We understand the Commission has chosen to adopt a similar approach to the load profile as the Australian Energy Regulator by excluding solar exports, resulting in a load only profile. The Commission suggests that "the feed-in tariff is the appropriate place for retailers to account for the wholesale cost of exports".[1]

While understanding the rationale for this and the advice prepared by Frontier Economics as the Commission's consultants, retailers have limited options to manage the worsening load profile which they hedge against in practice.

Furthermore, retailers are constrained in how they can manage the cost of solar exports at times of negative daytime prices. As the Commission notes, retailers are unable to set a feed-in tariff below zero (cents per kWh) value.[2]

We strongly recommend that the impact of growing solar exports at times of negative prices needs to be accounted for in the VDO for 2026-27. The load factor of the profile retailers hedge against in their portfolio will grow progressively 'worse' and the load-only approach does not produce a WEC reflecting this reality. Retailers have limited options available to them to manage this growing disconnect brought about by the change in the load profile methodology set out in the draft decision.

Alinta Energy supports the application of the most recent ASX Energy futures contract prices to apply to the final decision.

Network costs

As observed by the Commission in the draft decision paper, network costs have increased by between 5 and 8 per cent for the VDO draft decision relative to the 2024-25 final decision. The Commission note that these increases are driven by (amongst other things), increased transmission costs. A recent article noted that the cost of the proposed Marinus link is now estimated to be $4.8 billion up from the original cost of $3 billion. This project alone would add $20 per annum to transmission use of system costs for Victorians.[3]

As the augmentation and build-out of the transmission system grows to support the energy transition, these and other network costs will continue to impact the VDO for the foreseeable future. While Alinta Energy supports the scrutiny in setting efficient costs for all components of the VDO, the Commission and other regulators need to examine the effectiveness of the current Regulatory Investment Test for transmission investment to minimise the impact on all consumers. The focus on smaller components of the VDO seems disproportionate given the impact of the growth in network costs in the cost stack.

We support the Commission applying the network tariffs and metering charges to the final decision, expected to be approved by the AER by May 2025.

Retail operating costs

We support the Commission's decision to continue benchmarking retail operating costs using a single, uniform benchmark for the VDO in 2025-26.

Retail operating margin

The draft decision to further lower the retail margin will inevitably impact competition and the capacity for retailers to invest in product innovation and provide choice for Victorian consumers. We appreciate the cost of living pressures facing consumers but note the existing Victorian energy concession framework and energy relief programs funded by the Commonwealth Government (and to be extended if the current

[1] Essential Services Commission (2025), *Victorian Default Offer 2025-26: Draft Decision Paper*, page 28.
[2] Ibid., pages 28-29.
[3] Renew Economy (2025), https://reneweconomy.com.au/bill-for-single-cable-marinus-link-now-estimated-at-almost-5-billion/

Government is returned in the Federal election), has assisted customers manage their energy bills.

The draft decision appears to place a focus on the retail operating margin and other retail-specific costs at the expense of other, more substantive elements of the VDO that retailers are unable to influence, such as network costs. The draft decision to further reduce the retail operating margin from 5.3 to 5 per cent seems arbitrary and not supported by analysis of competition in the retail market other than observation without direct empirical evidence. We recommend that the final decision restore the retail operating margin to the upper end of the range estimated by Frontier Economics for the ICRC to support retail market competition in Victoria and the challenge of coordinating and orchestrating the rapidly growing penetration of consumer energy resources.