

10 April 2025

By email only: vdo@esc.vic.gov.au

Victorian Default Offer
Essential Services Commission

Dear Essential Services Commission,

Victorian Default Offer Draft Decision 2025-26

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide our submission to the Essential Services Commission (**ESC**) Draft Decision of the Victorian Default Offer (**VDO**) 2025-26.

Consumer Action continues to support the role of the VDO in providing a simple, trusted and reasonable electricity price for Victorians. We welcome the VDO 2025-26 Draft Decision in remaining relatively stable, particularly after the significant increase in the 2023-24 year.

While we support the purpose of the VDO, we note that this Draft Decision occurs in the context of increasing electricity prices across Victorian and National Electricity Market (**NEM**) jurisdictions in recent years, which continue to impact thousands of Victorians struggling to meet the costs of essential services.

In this submission, we provide insights drawn from Victorian callers to the National Debt Helpline (**NDH**), to demonstrate the expanding cohort of Victorians who are experiencing energy hardship, with the view to highlighting the need for additional measures to address energy affordability.

While we support the methodology and Draft Decision, recent experience of energy market volatility and associated price increases¹ point to the risk of price increases in a rapidly-changing energy market. To this end, we support the ESC and the Victorian Government investigating reforms that account for wholesale, network and environmental costs proportionately, with the view of establishing a stable and affordable electricity price for low-income households.

A summary of recommendations is available at **Appendix A**.

About Consumer Action

Consumer Action is an independent, not-for profit consumer organisation with deep expertise in consumer and consumer credit laws, policy and direct knowledge of people's experience of modern markets. We work for a just marketplace, where people have power and business plays fair. We make life easier for people experiencing vulnerability and disadvantage in Australia, through financial counselling, legal advice, legal representation, policy work and campaigns. Based in Melbourne, our direct services assist Victorians and our advocacy supports a just marketplace for all Australians.

¹ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market December 2024 report*, December 2024, [Inquiry into the National Electricity Market report - December 2024](#), p.6; Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market December 2023 report*, [Inquiry into the National Electricity Market: December 2023 Report](#), p.4

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1. Insights from Victorian callers to the National Debt Helpline

Electricity remains a top presenting issue

In the last three years of Consumer Action's data of Victorians contacting the NDH, electricity has remained the third most frequently presenting issue on the NDH. In the 2024 calendar year, 16% of all Victorian callers to the NDH raised energy (both gas and electricity) as a key financial difficulty; an increase from the previous year of 12%.

Demographics

Based on common demographic indicators shared among these callers, we are able to identify that certain cohorts are more likely to be struggling with their energy bills. In 2024, among people calling the NDH about energy debt, we recorded that:

- The average fortnightly income is \$1,176
- 58% identify as women
- 42% receive a Centrelink income
- 54% are renting the home they live in (private, community and public housing)

Each of these figures is a disproportionate representation when compared to Victorian and national population data², and indicates that for a significant proportion of Victorians on low-incomes, the cost of energy is becoming increasingly difficult to manage.

Debt

In our most recent *Energy Assistance Report*³ we found the average electricity debt of Victorians contacting the NDH in 2023 was \$2,048, an increase of 27% from the 2019-2020 reporting year. When compared to the average fortnightly income of \$1,035 during the same period, the ability to pay off debt and afford ongoing energy supply has become near impossible for the majority of Victorians in energy hardship contacting the NDH.

Systemic issues identified

a. Best offer obligations

Our financial counsellors have found that Victorians contacting the NDH in energy hardship are often not aware if they are receiving the best offer from their electricity retailer. It is common in our data to find that a retailer has referred a customer in arrears to the NDH, yet the retailer has neither investigated preliminary measures of payment difficulty assistance, nor, offered to support a customer to switch to the retailer's best offer.

Financial counsellors have noted that it's common for their clients to not know if they are receiving their retailers' best offer, or indeed what offer they are on, when they are asked during their financial counselling appointment. As the VDO's purpose is to provide a stable and reasonable electricity price for consumers who may be unwilling or unable to engage in the market, for many consumers contacting the NDH who may be receiving the VDO, it is paramount that the ESC ensures the VDO remains a reasonable electricity price.

Further, with reference to the ESC's purpose in supporting the long-term interests of Victorian consumers, we note that people receiving the VDO on low-incomes will continue to struggle to afford ongoing energy costs, even with the nominal increase in the VDO Draft Decision 2025-26. We urge the ESC to consider the interests of these consumers when making their Final Decision.

² Australian Bureau of Statistics, *Regional population age and sex 2023*; *Regional population by age and sex, 2023* | *Australian Bureau of Statistics*; & *Administrative data snapshot of population including income and household* *Administrative data snapshot of population - 30 June 2021* | *Australian Bureau of Statistics*

³ Consumer Action, *REPORT Energy Assistance Report 4th Edition: Keeping the Lights On - Consumer Action Law Centre*, p.8

b. Unaffordable payment plans

We continue to observe retailers suggesting unaffordable payment plans to Victorian NDH callers. In our latest Energy Assistance Report, we found that these payment plans average between \$150-200 per fortnight, with 86% of all recorded payment plans being proposed by the retailer⁴.

As identified in the systemic issues in section 1, our financial counsellors on the NDH observe that low-income households are more likely to be on a payment plan for their electricity account, at a considerable cost to their fortnightly budget. We note this significant issue in the context of the VDO, as while a lower VDO or market offer price would provide some assistance in preventing further accrual of debt, the obligation for retailers to agree to a payment arrangement that is affordable to the consumer is of significant importance in providing immediate relief to people in energy hardship.

Case study: 'Alex'

Alex* lives with his partner and their young child in the outer suburbs of north-east Victoria. Alex was injured at work a few years ago, and began receiving WorkCover as his income. Approximately a year after his injury, his WorkCover payments stopped and he contacted his electricity retailer as he was facing payment difficulty. Alex has not been receiving any income for over a year and a half.

In Alex's words: *"I had been on Workcover, and I was paying \$100 per week for electricity when I was on Workcover. I was really unsure why our electricity bills were so high. I noticed that it went up by \$1,000 roughly every two weeks, just for electricity."*

Alex said he had asked his retailer do an electrical audit on the property a few times over the last few years to check if there were any issues that were causing his high bills. Alex stated that he was often the only one at home during the day, however he had calculated he was being charged almost \$200 a day.

Alex states that in response, his retailer provided him the NDH number, and information regarding how to reduce his energy usage. When we asked Alex if his retailer had asked him about reducing his payment plan, pausing his payments or checking if he was receiving the best offer, Alex replied that he had never been offered this information or options from his retailer.

Late in 2024, Alex received an email from his retailer stating that his debt had increased to over \$15,000, and that he should pay approximately \$850 per week as a payment plan to cover his arrears and usage costs. Alex said he has since received notices from his retailer since this date stating he may face disconnection if he can't make payments.

When asked what this experience has been like for him, Alex replied: *"It's just been stressful. I never wanted to be behind on my bills, I've told them that once I get a lump sum payment that I'll pay it off. I have some land that I'm trying to sell so I can pay off this debt."*

I don't even want to answer the phone anymore, because I'm just that frightened. As if I don't feel bad enough to not be able to provide for my family, the thought of being disconnected is the last thing I want for my family."

**name changed*

⁴ Of all energy contacts to the Victorian NDH in 2023 calendar year, we recorded 97 callers had a payment plan for an energy account. Of these, 56 callers noted the fortnightly amount, and whether they had nominated the amount. Of this 56, 49 callers noted that their retailer had informed them of the amount they should pay per fortnight, with an average fortnightly payment plan of \$149.80. Of the 7 callers that noted they had proposed a payment arrangement, the average fortnightly amount was \$62.86. Forty callers did not state who had arranged the payment plan or the amount, and have been excluded from the figure. Consumer Action, *Energy Assistance Report – Keeping the Lights On* June 2024, public data [2024-Energy-Assistance-Report-Data-PUBLIC.xlsx](#), sheet 3-3

2. Cost components

a. Wholesale costs

We support the ESC's changed methodology in using a load only profile to forecast wholesale electricity costs, whilst retaining the futures market approach. The futures market approach demonstrates that an efficient and prudent retailer would be managing the risks of a volatile market by limiting spikes from the spot price market being passed on to consumers. This methodology reflects the ESC's objective to support the long-term interests of consumers, in taking a long-term view of the energy market, which should result in further stability of wholesale prices.

We hold the view that the change in methodology used by the ESC in estimating customers' load profiles is well founded, as outlined in the Draft Decision paper through new data available through the AER, and independent advice from Frontier Economics⁵. This change in methodology accounts for the actual consumer demand (load only) profile with a greater degree of accuracy, rather than using the previous method which resulted in higher daily average price by including the wholesale cost of customer exports. We support this methodology change as it is drawn from the most accurate data available, and prevents the re-recovery of costs that can result from accounting for feed-in tariff costs in both wholesale and environmental components.

As noted in the Draft Decision paper, the Victorian Feed in Tariff (FIT) has become effectively zero⁶, and the social cost of carbon is retained in environmental costs. Consumers who have transitioned to solar are receiving the financial benefits from lowering their usage costs, rather than the charges they receive in FIT from exporting back to the grid. For these reasons, accounting for the FIT within wholesale costs no longer seems appropriate.

As we transition to renewable energy, we consider that changes in approaches to electricity cost components must be interrogated based on the best available data, whilst retaining the objective of delivering a stable price for consumers. On this basis, we support the ESC retaining this methodology in future VDO decisions.

RECOMMENDATION 1. For the ESC to retain the methodology of load-only profile estimates in wholesale costs for future VDO decisions

b. Environmental Costs

We welcome reduced environmental costs by 9% (or \$13) compared to 2024-25. We support the ESC's decision to maintain its approach in estimating environmental costs, as part of retailers' compliance with environmental obligations⁷, as well as taking into account actual reduced costs.

It remains crucial that Australian consumers can lower their energy costs by transitioning to renewable energy, and we submit that this should remain a key priority in the Victorian Government's energy transition.

In our previous submission to the VDO 2025-26 Request for Comment, we recommended the ESC receive additional data from retailers on their approach to the costs of Victorian Energy Efficiency Certificate (VEEC) prices. We welcome the VEEC cost data provided in the Draft Decision paper, that demonstrates the ESC has estimated very similarly to the trade-weighted average⁸. In the event that the most-up-to-date pricing of VEECs reduces, we support the ESC factoring in this reduction in its final decision for the VDO 2025-26.

⁵ Essential Services Commission, *Victorian Default Offer 2025-26 Draft Decision paper*, March 2025, p.24

⁶ *Ibid* p.28

⁷ Essential Services Commission, *Victorian Default Offer 2025-26 Draft Decision*, March 2024, p.30

⁸ Essential Services Commission, *Victorian Default Offer 2025-26: Draft Decision Paper*, March 2024, [Victorian Default Offer price review 2025-26 | Essential Services Commission](#) pp.36-37

In 2023-24 the Australian government announced significant increases in renewable energy programs and funding, through the *Australian Renewable Energy Agency (ARENA)*⁹, *Household Energy Upgrades Fund*¹⁰, and in Victoria through new funding streams in the Victorian Energy Upgrades and Solar Homes programs¹¹. These are just some examples that demonstrate the pathway to renewable energy is rapidly expanding in order to meet our net zero emissions targets by 2030 and 2050. We are concerned by the position put forward by some retailers that the VEU or VEEC market causes increases to their systematic risk, as grounds to increase environmental costs in their prices.

As outlined in our submission in response to the ESC's Request for Comment paper, the rapidly increasing effects of climate change are one of the most prominent threats facing humanity¹². This includes risks in the energy market that effect network reliability, which carry significant and life-threatening risks to consumers.

Further, in that submission we outlined that certain cohorts of Victorians (low-income households and renters) are less able to access or afford to transition to renewable energy, yet may still be paying for the costs associated with the transition incorporated into their bills by retailers. While recently announced changes to Victorian government programs are attempting to address these barriers, many people continue to pay these costs without benefit.

For these reasons, we submit that retailers' social licence requires greater action and investment on climate change mitigations. Retailers must be considering their responsibility and role in the renewable energy transition, in both contributing to the cost, and managing the risks of a changing climate, without expecting to recover these costs from consumers. We would like to see the ESC consider this accountability in future VDO decisions, in line with the requirement to consider the long-term interests of Victorian consumers.

c. Retail Operating Costs

We note that retail operating costs (ROC) have increased by 4% in the Draft Decision, and while we acknowledge this is lower than the Default Market Offer (DMO) provided in National Energy Market (NEM) jurisdictions, we provide some considerations for reform to three components of the ROC through which we believe the ESC could achieve cost reductions to the benefit of Victorian consumers.

We continue to support the ESC's overall approach to setting the retail operating costs benchmark by using the customer-weighted average of retailers' actual costs. We also strongly support the ESC's ongoing interrogation of actual retail operating costs of retailers, through modelling and comparisons against other regulators' benchmarks as noted in the Draft Decision paper¹³. However, in using this approach we affirm our belief that any increases need to be justifiable, that costs included reflect the actual cost to serve, and do not include re-recovery of costs.

To this end, we continue to support the ESC in further increasing transparency of collected retail costs data, with particular regard to Customer Acquisition and Retention Costs (CARC), bad and doubtful debts, corporate overheads and administrative costs.

RECOMMENDATION 2. For the ESC to increase transparency of collected retail operating cost data

⁹ The ARENA was established to increase the supply of renewable energy in Australia, and help to achieve climate and energy objectives including emission reduction goals, Australian Government Department of Finance, [Australian Renewable Energy Agency | Department of Finance](#); as legislated under the *Australian Renewable Energy Agency Act 2012* (Cth) [Federal Register of Legislation - Australian Renewable Energy Agency Act 2012](#)

¹⁰ The HEUF establishes \$1B for the Clean Energy Finance Corporation to provide finance products for households to upgrade their homes, Australian Government Department of Climate Change, Energy, the Environment and Water [Household Energy Upgrades Fund | energy.gov.au](#)

¹¹ Lily D'Ambrosio *Helping Families Slash Their Energy Bills* media announcement May 2024, [Helping Families Slash Their Energy Bills - Lily D'Ambrosio MP](#); Victorian Government Solar Victoria, [Solar rebates for rental properties | solar.vic.gov.au](#), March 2025

¹² Consumer Action, *VDO 2025-26 Request for comment submission*, December 2024, p.7

¹³ Essential Services Commission, *Victorian Default Offer 2025-26: Draft Decision Paper*, March 2024, [Victorian Default Offer price review 2025-26 | Essential Services Commission](#) pp.40-41

Further to our recommendation above, we provide the following considerations with the view that retail operating costs can be reduced with some adjustments to the following components.

i. Best offer messaging

As outlined in the systemic issues section above, a large proportion of callers contacting the NDH in energy hardship have stated that they have not received information or assistance from their retailer about switching to a best offer, when discussing payment difficulty assistance.

The obligation for retailers to provide the best offer available to their customers was established in the ERCoP during the 2019 reforms¹⁴, with the aim of supporting more Victorian consumers to switch to a better offer. In 2023, the ESC released findings that 49% of Victorian consumers were not receiving the best offer, with ESC calculating these customers could have saved a total of \$191 million in electricity bills if they had been on the best offer in 2022-23¹⁵.

Similarly in NEM jurisdictions, the Australian Competition and Consumer Commission (ACCC) recently reported that 81% of customers across the NEM are not receiving their retailers' best offer, and 24% are receiving best offer messaging for an offer with a lower price but the same name as the offer they are already receiving¹⁶. People in these circumstances could be consequently experiencing hardship or accruing electricity debts due to being on a higher electricity price.

Best offer messaging is a component in retailers' operational costs, which in effect allows for retailers to charge consumers in order to meet this obligation. Yet, the evidence from the ESC and ACCC data points to this obligation not being met, and more broadly, that this obligation is not meeting the outcome intended. We fail to see how retailers can justify including components in their cost to serve, where it does not appear that this service is being provided, and retailers reap the financial benefits of customers not switching.

In our submission to the Energy Consumer Reforms review, we support the proposed option of automating best offer switches for consumers experiencing payment difficulty¹⁷. In the event that this reform is adopted, we submit that the cost component of best offer messaging be reviewed and if a more efficient and cost effective method is found, that this cost be reduced from the retail operating costs in the VDO.

ii. Customer Acquisition and Retention Costs

We note that CARC in this Draft Decision have increased slightly, in comparison to the previous year's VDO. We believe it is positive that CARC remains lower in the VDO compared to Victorian market offers and the national average¹⁸. However, we question the value of retailers' marketing spend in providing better deals to consumers, given that while CARC costs in market offers are 27% higher than the VDO, the ACCC's recent investigation found that 38% of customers are sitting on offers that are more expensive than the default offer¹⁹.

While it is positive that CARC costs included in the VDO remain modest, we continue to oppose the methodology of including CARC in the VDO. By definition, customers are not engaged in the market when they are receiving

¹⁴ Essential Services Commission, *Energy Retail Code of Practice v.3* [Energy Retail Code of Practice | Essential Services Commission](#) clauses 108-111

¹⁵ Essential Services Commission, *Victorian Energy Market Report: September 2023*; [RPT: Victorian Energy Market Report - September 2023_3.pdf](#) p.6

¹⁶ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market December 2024*, [Inquiry into the National Electricity Market report - December 2024](#), p. 58

¹⁷ Consumer Action, [Energy Consumer Reforms submission](#), November 2024, pp.5-8

¹⁸ Essential Services Commission, *Victorian Default Offer 2025-26: Draft Decision Paper*, March 2024, [Victorian Default Offer price review 2025-26 | Essential Services Commission](#) pp.44-48

¹⁹ Australian Competition and Consumer Commission, *Inquiry into the National Electricity Market December 2024*, [Inquiry into the National Electricity Market report - December 2024](#), p. 3

the VDO, and therefore incorporating costs to acquire or retain them are not costs that are appropriate for these customers.

In addition to this, we note two factors that are distinct in Victoria, in comparison to NEM jurisdictions. As identified in the discussion paper, CARC incorporates telemarketing costs of a retailer, however in Victoria telemarketing by energy retailers is banned under the *Electricity Industry Act (Vic)*²⁰. Secondly, the Victorian Department of Energy, Environment and Climate Action (DEECA) runs the independent comparison website

*Victorian Energy Compare*²¹ which provides consumers trusted and independent information about available utility offers, and a mechanism to compare prices in the market independently. We note that various consumer research has been conducted to investigate concerns with comparison websites owned and operated by retailers, which raise inherent conflicts of interest²². For these reasons, we submit that costs related to these two factors are irrelevant to calculation of CARC in the Victorian context and unfair to VDO consumers.

"I'd often get emails saying 'we tried to call', and I'd never have got any calls, or missed numbers. I'd call them and confirm they had my number accurately, and I'd realise I'd never had a missed call when receiving those emails"

"Kay" NDH caller

We continue to take the position that retaining CARC in the VDO does not serve to promote the

purpose of the VDO as a simple, trusted and reasonable energy price, for consumers who are not willing or able to engage in the market. Based on this view, we recommend to DEECA and the Minister for Energy to consider proposing an Order in Council to amend the VDO methodology to remove CARC from the VDO in 2026-27. Alternatively the ESC could determine CARC to be a nominal amount, close to zero.

RECOMMENDATION 3. For the Minister for Energy to consider proposing an Order in Council to amend the VDO methodology to remove CARC from the VDO in 2026-27

RECOMMENDATION 4. For the ESC to consider determining CARC to be a nominal amount, close to zero, in future VDO decisions.

iii. Bad and doubtful debts

As noted in section 1, callers to the NDH continue to report increasing average energy debts year-on-year. Often, this results in the consumers we speak to being pressured into unaffordable payment plans by their retailer, in order to pay for arrears and ongoing usage. In addition to collecting these amounts from customers, retailers also receive significant funds through Government grants and concessions, which while crucial for low-income households, are still not resolving the debt for too many.

As part of their pricing, retailers incorporate the total value of debt and associated costs back into their offers, resulting in additional administrative costs to retailers, and ultimately higher prices for consumers.

²⁰ *Electricity Industry Act 2000 (Vic)* section 40EB

²¹ Department of Energy, Environment and Climate Action, *Victorian Energy Compare* [Welcome - Victorian Energy Compare](#)

²² CHOICE, *The problem with some energy bill comparison sites* [Energy bill comparison sites | CHOICE](#),

11 July 2022; CHOICE, *What MyConnect isn't telling you*, April 2025, <https://www.choice.com.au/shopping/shopping-for-services/utilities/articles/myconnect-utility-connection-service>

While we acknowledge that the proportion of bad and doubtful debt included in the VDO is moderate and in the lower range compared to market offers, we note that retailers could be addressing the issue of bad and doubtful debts in a more efficient way through waiving debts they are aware they can't recover, consequently lowering their administrative costs and risks. To this point, in its 2020 report, the Energy and Water Ombudsman Victoria (EWOV) found that retailers were waiving \$80 per customer, accounting for only 3.2% of the average debt²³. We include this data to make the point more cost-effective approaches are available than those currently being pursued by retailers, and for the ESC to be mindful of this when assessing whether retailers' actual operating costs fairly reflect what efficient operations could look like.

In some cases we see on the NDH, it's sometimes better off for the client to end up with a debt with the debt collector, over a retailer. At least debt collectors are aware of the client being judgment proof, and the very unlikely possibility of ever seeing that debt repaid. In my experience, retailers continue to pursue people for debts that they just can't pay.

Kane, NDH Senior Financial Counsellor

²³ Energy and Water Ombudsman Victoria [Missing the Mark Report](#), December 2020 p.11

Case study: 'Kay'

Kay* is currently homeless, and couch surfing with friends, and receives the Disability Support Pension (DSP) as her sole income. Kay opened a gas and electricity account with her retailer when she moved into her rented home in approximately 2019, and had these accounts for approximately three years while at that address. Kay was working until 2021, when she became very ill.

In 2022, Kay moved out of her rented home, and her accounts with her retailer were closed with a remaining debt of approximately \$1,000. Kay continued to pay less than \$15 per week for the following three years, and because Kay had continued to make those weekly payments, in late 2024 the debt had reduced to approximately \$500.

Experience while having open accounts

Kay stated to us that during the time she had open accounts with her retailer, she never fell behind in payments, always making sure she could pay. Kay stated: *"I missed one payment once, due to having insufficient funds in my account, and I call them back straight away to make the payment over the phone"*.

When asked if her retailer provided her any other assistance while she had accounts open, Kay stated: *"not really, no. It was always me asking, and they'd refer me to speak to financial counsellors."*

When we asked Kay whether her retailer had ever provided her assistance to switch to a better offer, Kay recalled never having been asked, nor having switched offer during the approximate 3 years she had accounts with them.

"I'd often get emails saying 'we tried to call', and I'd never have got any calls, or missed numbers. I'd call them and confirm they had my number accurately, and I'd realise I'd never had a missed call when receiving those emails"

When we asked if Kay had ever received support from her retailer to access the URGs, Kay stated: *"They never offered URGs, I knew from the past I could access it, and they never mentioned it to me. I'd always apply on my own, putting reminders in my phone when I'd next be able to apply for it."*

When asked about reducing payment plans, Kay stated to us that *[They] put me on payment plans, I remember having to negotiate with them and they'd always start on the higher end, saying "if you don't pay this much, your debt will increase"*.

Current situation

Kay stated to us that she had contacted her retailer in early 2025, after she had reduced her closed account debt of \$1,000 (from 2022) to \$500. Kay stated to us that she called the retailer at least three times and explained her situation, that she's currently homeless, having health problems, and is receiving the DSP.

Kay told us that she'd asked the retailer if they would consider waiving the remaining \$500, considering she had reduced the debt down by half in the last 3 years of the payment plan. Kay states that the retailer responded "No, absolutely not - you owe that money."

In Kay's words, she explained to the retailer: *"I've worked my whole life, and I understand that for someone working, that \$15 is nothing to you, but for me on DSP it's milk and bread. [They] replied to me 'there's nothing we can do'".* Kay then asked, "is there anything I can do?" At which point, she states the retailer then referred her to speak to the NDH.

**name changed*

d. Retail Operating Margin

We strongly support the ESC's approach in attempting to balance relief for consumers struggling with cost of living pressures, against retailers making a reasonable return. This approach has resulted in a reduction in the proportion of retail operating margin in the 2025-26 VDO to 5% or by average of \$4, (as compared to the 2024-25 proportion of 5.8%)²⁴, making this the lowest proportion of retail operating margin in any VDO price since its establishment in 2019. Considering the actual retail operating margin calculated by the ACCC averaged 5%, we hold the view that the retail operating margin of 5% in the VDO Draft Decision is reasonable, and well founded through multiple calculation methods.

Most significantly, we support the ESC taking a holistic view of the cost of living pressures facing Victorian consumers. To this end, we hold the view that further incorporating socio-economic data of Victorian consumers into the VDO methodology would provide strong comparative data to that of industry risks, to assess costs in the VDO pricing in future decisions.

RECOMMENDATION 5. For the ESC to retain the considerations of cost of living pressures for consumers in the retail operating margin for future VDO decisions.

RECOMMENDATION 6. For the ESC to investigate incorporating socio-economic modelling that accounts for different consumer profiles and the systemic risks faced by consumers to be incorporated into the methodology for future VDO decisions.

e. Network costs

We note that network costs have continued to increase since 2019, and form the highest proportion of the cost stack in this year's Draft Decision. As identified in the Draft Decision paper, network costs represent approximately 38% (or \$634) in the average domestic bill²⁵. We are concerned that network costs will continue to rise, as ongoing investment is needed to maintain and upgrade electricity infrastructure, both across Victoria and Australia.

We acknowledge the importance of these investments in developing the infrastructure required in the transition to electrification, and ensuring dependable infrastructure against the increased risks of breakdown, outages and other incidents caused by a rapidly changing climate.

This risks also impact the price of network costs by area, in that certain zones may face higher risks of climate events, or require additional infrastructure maintenance or development.

Given the growing number of Victorians who can't afford the cost of energy, we suggest that an alternative approach should be considered. This could account for the usage and distribution of network costs across all consumer cohorts, with the objective of distributing these costs across consumer profiles based on usage, need, and ability to pay.

²⁴ Essential Services Commission, *Victorian Default Offer 2025-26: Draft Decision Paper*, March 2024, [Victorian Default Offer price review 2025-26 | Essential Services Commission](#) pp.51-52

²⁵ *Ibid* p.19

3. Considerations out of scope

While out of scope for the ESC to consider in determining the VDO 2025-26, the following additional measures warrant the ESC's and Government's exploration in the long-term interests of Victorian consumers.

While the VDO remains an important safeguard for customers unable or unwilling to engage in the market, based on the levels of energy hardship presenting on our frontlines we observe that structural reforms are required to enable low-income consumers to access a stable, affordable and long-term electricity price. Electricity is an essential service and all Victorians need to access electricity without the risks associated with underusage, or financial stress.

Consumer Action support the ESC's call for the Victorian Government to investigate the development of a social tariff for low-income households. We consider that the VDO cost stack and pricing analysis utilised to determine the VDO price can form the basis of interrogation, in order to assess the components that are fair, reasonable and proportionate for different consumer profiles, based on income quintiles and needs.

In addition to this development, we continue to recommend that the Department of Social Services fast-track the automation of concessions and the Utility Relief Grant in partnership with the Victorian Govt and the ESC, and the proposed option to automate best offer switching as outlined in the Energy Consumer Reforms consultation.

Further, we support the development and implementation of a positive consumer duty – to ensure, amongst other things, that retailers are providing consumers fair and honest prices, preventing thousands of Victorians from languishing on bad deals.

RECOMMENDATION 7. For the Minister for Energy and DEECA to consult with the ESC for the development of a social electricity tariff, using the components of the VDO to provide an electricity price available to low-income consumers.

APPENDIX A - SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 1. For the ESC to retain the methodology of load-only profile estimates in wholesale costs for future VDO decisions

RECOMMENDATION 2. For the ESC to increase transparency of collected retail operating cost data

RECOMMENDATION 3. For the Minister for Energy to consider proposing an Order in Council to amend the VDO methodology to remove CARC from the VDO in 2026-27

RECOMMENDATION 4. For the ESC to consider determining CARC to be a nominal amount, close to zero, in future VDO decisions.

RECOMMENDATION 5. For the ESC to retain the considerations of cost of living pressures for consumers in the retail operating margin for future VDO decisions.

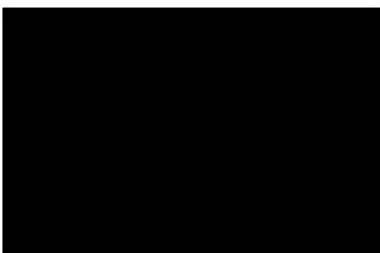
RECOMMENDATION 6. For the ESC to investigate incorporating socio-economic modelling that accounts for different consumer profiles and the systemic risks faced by consumers to be incorporated into the methodology for future VDO decisions.

RECOMMENDATION 7. For the Minister for Energy and DEECA to consult with the ESC for the development of a social electricity tariff, using the components of the VDO to provide an electricity price available to low-income consumers.

Please contact Senior Policy Officer **Eirene Tsolidis Noyce** at **Consumer Action Law Centre** on 03 9670 5088 or at [REDACTED] if you have any questions about this submission.

Yours Sincerely,

CONSUMER ACTION LAW CENTRE



Stephanie Tonkin | Chief Executive Officer