



Hon Lily D'Ambrosio MP

Minister for Climate Action
Minister for Energy and Resources
Minister for the State Electricity Commission

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MBR-241103084

Mr Gerard Brody
Chair
Essential Services Commission of Victoria
Level 8, 570 Bourke Street
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Dear Gerard

2025-26 VICTORIAN DEFAULT OFFER: REQUEST FOR COMMENT PAPER

I am writing regarding the Essential Services Commission's (ESC) Request for Comment Paper for the Victorian Default Offer (VDO) 2025-26 determination. I would like to thank the ESC for its analysis and stakeholder engagement over successive VDO determinations since the VDO's introduction on 1 July 2019.

I acknowledge that the VDO's legislative objectives include ensuring that the VDO serves the long-term interests of consumers and promotes competition, whilst also providing consumers with necessary protections. The VDO acts as an important safeguard for consumers who are unwilling or unable to engage in the market because it is a reasonable price based on the efficient costs of retailers selling electricity.

A key focus for the Victorian Government is ensuring consumers are supported during the current cost-of-living pressures. Energy bills are contributing to the cost-of-living pressures Victorian consumers are experiencing, and the Government is committed to ensuring that wherever possible, decisions made during this time account for these economic and energy market conditions. Given it will take some time for economic conditions to ease, I note the importance of the ESC's objective under the *Essential Services Commission Act 2001* to consider the long-term interests of consumers, with respect to the VDO determination.

The VDO is based off the efficient costs of each cost-stack component, and unlike the Australian Energy Regulator's Default Market Offer (DMO), the VDO Order in Council explicitly excludes accounting for headroom. Victorians on the VDO continue to pay less on average for their electricity than those on the DMO. I welcome the ESC's continued careful examination and consideration of ways to refine each cost stack component outlined in the *VDO 2025-26 Request for Comment paper*.

I recognise that the VDO Order in Council requires the ESC to have regard to efficient retail operating costs. I support the ESC's approach on examining electricity retailer's actual operating cost data to inform an estimate of an efficient retailer's operating costs. This same approach will also better inform any cost variations between households and small businesses and whether separate estimates of retail operating costs are warranted. Similarly, closer analysis of actual Victorian Energy Efficiency Certificate cost data from retailers will enable the ESC to verify and ensure that its estimates better reflect the mix of spot market and future contract certificates, and in turn, the inclusion of these costs as environmental costs in the VDO.



Both the Victorian Government and ESC each have important roles to play to support Victoria's energy consumers in an energy system undergoing significant change. I am interested to see how the ESC will approach the matter of ensuring wholesale electricity costs are calculated having regard to the way in which various load profile assumptions inform retailer behaviour when buying future wholesale electricity contracts.

While the VDO is a reasonable price, but not the cheapest, it safeguards disengaged consumers, acts as a reference price and has been found to place downward pressure on market offers. DEECA continues to monitor and consider other responses to support consumers having difficulty paying their energy bills during this time.

In this regard, I welcome the ESC's consultation on consumer reforms proposed by the Energy and Climate Change Ministerial Council as part of the ESC's review of the Energy Retail Code of Practice. Consideration and potential implementation of these reforms will help Victorian households access cheaper energy deals and increase support for consumers experiencing payment difficulty.

If you would like to discuss these matters further, please contact [REDACTED]

Yours sincerely

[REDACTED]

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