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We welcome the opportunity to provide this input.

# VCOSS Submission to the Victorian Default Offer Review 2025-26

## Executive Summary

The Victorian Default Offer (VDO) has provided an important safeguard for consumers that are unable or unwilling to engage with the electricity retail market, and a key benchmark price for market offers. The VDO directly serves around 13 per cent of households and 20 per cent of small businesses, and since September 2020, operates as the maximum price for embedded networks (around 180,000 customers).<sup>1</sup> As the VDO is a benchmark, market offers tend to be priced below it, and so the VDO also indirectly influences the bills paid by all Victorian electricity users.

Broadly speaking, the VDO has been largely successful in its objectives, especially in eliminating unreasonably priced standing offers. The Victorian Council of Social Service (VCOSS) strongly supports the continued operation and regular review of the VDO.

Currently however, high costs for essential services like electricity are causing severe hardship among the cohorts that social and community services support. These organisations are experiencing unprecedented demand from Victorian households that are struggling to absorb mounting cost of living pressures.

This is critical context for the ESC's deliberations. In this submission, we emphasise the need to recentre people in pricing decisions, put less emphasis on retailer profit margins, and more focus on the wellbeing of Victorians experiencing financial pressures limiting their capacity to pay for an essential service.

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<sup>1</sup> Essential Services Commission (2024) *2025-26 Victorian Default Offer: Request for Comment*, p5.

This is a joint submission made by VCOSS, Brotherhood of St. Laurence, Consumer Action Law Centre, Council of 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.

## Energy hardship is worsening in Victoria

The VDO Review for 2025-26 occurs in the context of a long-term upward trend in electricity costs.<sup>2</sup> Several factors, including failure of the privatised market<sup>3</sup> and structural changes in the energy system are driving this trend, but the result is more financial stress for Victorian households. 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.

The Federal Government's Energy Bill Relief Fund 2024-25, providing a \$300 rebate on household energy, has led to a decrease in energy bills this year, but this is temporary. In fact, it is more accurate to say that the rebate staved off an increase.<sup>4</sup> The rebate does not address the *structural* drivers of unaffordable prices.

Despite the rebate, rates of payment difficulty are still increasing. This is reflected in concerning trends identified in the ESC's *Victorian Energy Market Report 2023-24*. In 2023-24 compared to 2022-23 an average of:

- 18,000 more electricity customers missed a bill payment each month.<sup>5</sup>
- 20,000 more electricity customers owed their retailer a debt of \$300 or more each month.<sup>6</sup>

An average of 69,518 electricity customers accessed tailored assistance each month in 2023-24.<sup>7</sup> This number has grown in the last four financial years and each month in 2023-24, with an average of 6,741 electricity customers no longer receiving tailored assistance each month

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<sup>2</sup> Retail electricity tariffs increased significantly in Victoria from 2000-2016 after privatisation and price deregulation, see: Thwaites, J. (2017) *Independent Review into the Electricity and Gas Retail Markets in Victoria*, p6; since 2019, the cost of the VDO has fluctuated up and down, but there has been a net increase overall; the cost of electricity increased by 14% as measured in the Consumer Price Index from March 2019 to September 2023, see: Australian Bureau of Statistics (2023), [Consumer Price Index, Australia, September Quarter 2023](#).

<sup>3</sup> The Thwaites Review concluded that, "competition has added additional costs to the market that have not been offset with cost reductions or other benefits and these costs need to be recovered from consumers." See: Thwaites, J. (2017) *Independent Review into the Electricity and Gas Retail Markets in Victoria*, p1X.

<sup>4</sup> Australian Bureau of Statistics (2024) [Consumer Price Index, Australia: September Quarter 2024](#).

<sup>5</sup> Essential Services Commission (2024) [Victorian Energy Market Report 2023-24](#), p6.

<sup>6</sup> Ibid, p6.

<sup>7</sup> Ibid, p10.

because they did not meet their payment plan requirements. This represents a 33 per cent increase from 2022-23.<sup>8</sup>

Growing energy hardship leads to higher energy debts. The average energy arrears for customers who cannot pay for their ongoing usage when entering tailored assistance from their retailer is currently \$1,145 for electricity.<sup>9</sup> In extreme cases, debt can be much higher. VCOSS understands from our members that energy support services have seen debts above \$10,000. Consumer Action Law Centre recorded a debt of \$34,102 for one energy contact to the National Debt Helpline in 2023.<sup>10</sup>

Consumers are understandably concerned about the cost of energy. In their most recent *Consumer Energy Report Card*, Energy Consumers Australia found that more than 80 per cent of Victorian electricity consumers are extremely concerned or quite concerned about costs. Only two per cent were not concerned at all.<sup>11</sup>

For many of the energy consumers that the community sector represents, incomes are not sufficient to cover expensive energy, especially if they are living in poor quality housing.

The complexity of the market also means that many consumers face structural barriers to seeking more affordable offers. Digital and language barriers exacerbate the complexity of engaging in the market. For those on embedded networks, there is no way to choose more affordable offers. Those with energy debt are forced to stay with their retailer, even if there are more cheaper offers elsewhere, or face losing any assistance they are receiving in paying off arrears.

Many people with intersecting cost pressures, such as high housing, food, medical, or transport costs, are forced to make bleak choices like foregoing other essentials or lowering energy use to levels that are dangerous to physical and mental wellbeing. A 2023 Australian Council of Social Service study found that, of surveyed energy consumers receiving income support, almost all were cutting down their energy use and some going without food or medicine to afford energy bills. People reported getting sick because they could not heat their home, including aggravating chronic respiratory conditions, increasing arthritis and joint pain, and increasing depression and anxiety.<sup>12</sup>

## The ESC must consider the costs to households holistically

VCOSS urges the ESC to re-centre the impacts of costs on people, rather than companies, in regulatory decisions. We urge the ESC to take a holistic view – in all pricing determinations –

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<sup>8</sup> Ibid, p10.

<sup>9</sup> Average for Q4 FY2023-24, see: Essential Services Commission (n.d.) [Energy market Dashboard](#), accessed: 26/11/24.

<sup>10</sup> Consumer Action Law Centre (2024) [Energy Assistance Report 4<sup>th</sup> Edition](#), p5.

<sup>11</sup> Energy Consumers Australia (2024) [Data | December 2024 | Residential topline data tables](#), accessed 03/12/24.

<sup>12</sup> Australian Council of Social Service (2023) [Energy and Cost of Living Snapshot: October 2023](#).

of the intersecting cost pressures that Victorian consumers face, and to consider the impact of decisions, especially on those experiencing vulnerabilities, as per the ESC's statutory obligations.

Throughout the VDO Review 2024-25, several retailers argued that higher debt levels justified an increase to the retail margin. However, increased customer debt is a further sign that consumers are struggling to keep up with rising energy costs and broader cost-of-living pressures. As the ESC's *Victorian Energy Market Report 2023-24* observed, retailers are not currently doing enough to help consumers experiencing financial difficulty.<sup>13</sup> For example, the Energy and Water Ombudsman Victoria highlighted one case where a retailer's reminder and disconnection notices framed payment assistance as something the consumer *may* be entitled to rather than something they were *definitely* entitled to.<sup>14</sup>

While more should be done to ensure retailers are adequately supporting customers experiencing hardship – especially onto more affordable offers and applying eligible concessions – this also reinforces the need for the ESC to prioritise the VDO's role as a consumer safeguard when calculating prices and reduce the retail margin.

Pricing determinations for electricity do not occur in a vacuum, and where energy sits within cost-of-living pressures must be considered. The ESC should investigate how all pricing and regulatory determinations made for essential services in Victoria impact the cost of living and consider mechanisms that work to embed this holistic view of the financial burdens of paying for essentials into all determinations.

To ensure prices for consumers are kept to a reasonable level, VCOSS also recommends the ESC take the lower price in any range of price estimates in the VDO cost stack, especially in terms of the retail margin. When the lowest price is not selected, the ESC must give clear reasoning why a decision has been made that prioritises retailer profit margins over consumer wellbeing.

## Retail cost data should be as transparent as possible

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

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<sup>13</sup> 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.

<sup>14</sup> Energy and Water Ombudsman Victoria (2024) [EWOV Annual Report 2024](#), p34.

In previous submissions to the ESC, VCOSS – along with community service organisations and other consumer advocates – has noted an information asymmetry in relation to cost modelling of efficient electricity 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.

We understand that the ESC collects retail data that is not currently made publicly available. Further detail into costs such as bad and doubtful debt write-offs, corporate overheads, customer acquisition and retention,<sup>15</sup> and information technology systems would be useful to understand the drivers of increases (or decreases) in customer bills. Providing detail on the comparative retail costs faced by larger and smaller retailers would also allow for more robust discussion into the true costs and benefits of a competitive retail market.

The AER's *State of the Energy Market 2024* observed that higher customer acquisition and retention costs in jurisdictions where there are higher rates of consumer switching should be offset by reduced retail profit margins, noting that there is “a risk that competition may increase energy bills for customers if the costs of competing outweigh competition benefits from efficiency and innovation.”<sup>16</sup> VCOSS believes that more transparency around these costs would give an indication of how competition in the retail market is – or is not – benefiting consumers.

VCOSS recommends that data collected by the ESC related to retail costs should be made as transparent as possible in pricing determinations, to address the information asymmetry that exists when advocates engage in these processes.

## Complementary policy mechanisms are needed to support low-income households

Ultimately, we need to see policies that complement the VDO and provide progressive pricing options to create true energy affordability for low-income households. For example, a social tariff for those most in need.

As the VDO price is calculated based on the costs of an unfair and unaffordable market, it cannot create affordability alone. This unaffordability is compounded by the well-established complexity of engaging with the market at all, especially for low-income households.

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<sup>15</sup> Consumer advocates have previously argued that customer acquisition and retention costs have no place in a default offer for disengaged customers.

<sup>16</sup> Australian Energy Regulator (2024) [State of the energy market 2024](#), p244.

A shocking and unacceptable consequence of higher energy bills and associated heating and cooling costs is ill-health and excess deaths<sup>17</sup> – which can be prevented by making the right policy and regulatory choices.

VCOSS urges 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.

## 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 an understanding of the cost of living into all determinations, and consider the impact of decisions on vulnerable customers, as per the ESC's statutory obligations.
3. Select the lowest price estimate whenever there is a range for a component of the VDO price stack, such as the retail margin, or have stated reasons for why the lowest price was not selected.
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.

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<sup>17</sup> 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\*](#).