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VCOSS submission to the ESC on the VDO draft determination 2022-23

VCOSS welcomes the opportunity to provide feedback to the Essential Services Commission (ESC) on its draft determination for the Victorian Default Offer (VDO) tariffs to apply for the financial year 2022-2023.

The VDO is an important safeguard for consumers who are on retailers' standing offers and those who are unable or unwilling to engage in detailed comparisons of current market offers.

By establishing a simple and independently-assessed retail electricity price for all residential consumers, it is also key reference point for those households who are able to "shop around".

VCOSS strongly supported the development and introduction of the VDO. As we noted in our preliminary observations on 31 March at the [ESC's public forum](#) on the current draft decision, the VDO now provides a vital direct safeguard for over 200,000 households on standing offers.

In addition, as the maximum price that embedded network operators may charge residential customers in relevant caravan parks, retirement villages and apartment buildings, the VDO is also serving an important consumer protection for a further 140,000 households in potentially highly vulnerable circumstances.

Steady approach builds on ongoing implementation

VCOSS notes that the ESC is taking a largely unchanged approach to its methodology for setting VDO tariffs in this full financial year cycle.

Given the broader context of lingering pandemic-era uncertainties and the re-setting of the VDO regulatory period to align with underlying electricity network pricing periods, VCOSS acknowledges there is a case for a relatively steady approach at this time.

VCOSS is also mindful of the [parallel review of the VDO Order-in-Council](#) by

the Victorian Department of Environment, Land, Water and Planning (DELWP).

While noting that parallel processes could pose a potential risk of hard issues falling between cracks, VCOSS also sees a valuable opportunity across this work for effective collaboration on what is working well with the VDO, and what could be even better.

For completeness, VCOSS encourages the ESC to develop a systematic approach to consolidating feedback from past VDO consultations. For example, since 2019, VCOSS has jointly or separately made a number of VDO-specific public submissions, on:

- ESC [staff working paper on methodology](#) (January 2019)
- ESC [draft advice on methodology](#) (April 2019)
- DELWP [Draft Order-in-Council](#) (1 May 2019)
- ESC [proposed approach 2021](#) (July 2020)
- ESC [draft decision 2021](#) (October 2020)
- ESC [proposed approach 2022](#) (June 2021)
- ESC [draft decision 2022](#) (October 2021)

This ongoing consultation process is necessary, beneficial, and welcome – to further support it, however, consideration could be given to a transparent “progress log” on issues from previous exercises.

Staying true to reform goals

More substantially, VCOSS supports the ESC's continued discipline in maintaining the integrity of the carefully developed VDO methodology.

As VCOSS noted in our submission to the ESC for its [implementation review of the energy Payment Difficulty Framework](#), identifying relevant trends in implementation, compliance, and the impact of specific regulatory and market measures in recent years is clearly a complicated task.

Nonetheless, as VCOSS has noted in previous submissions, it is vital that the ESC remain vigilant in maintaining the intent and discipline inherent in the VDO's methodology (for example, on “modest” customer acquisition and retention costs, and reasonable retailer margins).

VCOSS shares the concerns of other community sector organisations that, over time, some parts of the cost benchmarking risk a gradual growth in the cost stack.

As the VDO matures, it is also important the ESC commit to a timeline for incorporating an overarching downward pressure through an explicit productivity factor.

To discuss this submission further, please contact Jarrod Lenne, Energy Policy Advisor on jarrod.lenne@vcoss.org.au