Essential Services Commission
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Victorian default offer prices 2025–26 Draft Decision

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission on the Essential Service Commission's ('ESC') *Victorian default offer ('VDO') 2025–26 Draft Decision.*

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Retail Operating Margin

In the Draft Determination, the ESC has proposed reducing the margin from 5.3 percent to 5.0 percent. The AEC does not support this reduction, as we believe the retail operating margin should reflect the level of risk in the market. In our previous submission, we argued that there is a strong case for increasing the margin back to 5.7 percent. The AEC firmly believes that greater retail competition and capacity for retailers to innovate is in the long-term interests of their Victorian customers, aligning with the objectives outlined in the ESC Act. A sufficient margin is vital, not only for both encouraging competition but also for supporting retailers' ability to innovate; an increasingly important factor in enabling the energy transition and maximising customer opportunities. We would therefore encourage the ESC consider the role retailers play as trusted enablers of consumer participation in a reliable and decarbonised energy system in their final decision.

The AEC is not convinced of the reasoning behind this reduction, particularly when the ESC has a comparatively lower retailer operating costs and CARC to the DMO. While the ESC has highlighted that it has, on balance, placed a greater weighting on cost-of-living concerns, we don't believe the VDO is the appropriate avenue to address these issues. Indeed, the ESC is already working with industry on a Review of the Energy Retail Code of Practice, a process the AEC and its members are highly engaged with. Reforms stemming from this review and the ongoing energy bill relief, provided by the federal government and distributed by industry, are far more effective means to deliver support for customers in need.

Likewise, the AEC has concerns around the transparency of this decision, particularly in relation to the treatment of the 'other' costs category. In the current cost assessment, 'other' costs considered by the ESC are largely wholesale administration related and are therefore not included in the retail cost stack. This approach is similar to that taken by the AER, who derive similar cost amounts to that within the ESCs draft decision. However, there is an additional 'other' cost item that is in the retail operating cost category that relates specifically to 'other retail' costs. These costs appear to have been excluded with the draft decision.

Removal of solar exports from load profile

We have previously raised concerns about the ESC's proposal to remove solar exports from the load profile. This change, we believe, does not accurately reflect the assumptions of an efficient retailer's load profile, as a prudent retailer would not exclude solar exports when purchasing future wholesale

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electricity contracts. Given the substantial reduction in the retail operating margin, the AEC further questions the timing of this change.

Environmental costs

In our submission to the request for comment paper, the AEC spoke to issues around the VEU program and noted concern around the issue of non-delivery risk and the structural issues in the market which impact retailers' ability to obtain certificates.

We note that the Department of Energy, Environment and Climate Action is currently engaged in a review of the VEU program. The AEC has been involved within this review process and has made a series of recommendations to set up an enduring and least cost VEU program, including:

- Reference to supporting energy affordability for customers be placed in the objectives of the VEET Act.
- Investigate further how some new activities without a clear energy saved value (i.e. demand management and load shifting) can fit neatly in an energy efficiency scheme.
- Replace the current emissions reduction certificate metric with an energy saved metric.

Although these recommendations are beyond the scope of the VDO settings, we highlight here that certificate costs are a significant component of the VDO and that a short-term solution needs to be found to avoid retailers being exposed to financial risk that is beyond their control. Here, we suggest that the ESC could consider a tax adjustment to the penalty cap price as part of its weighted average price calculation.

Any questions about this submission should be addressed to Jo De Silva, General Manager Retail Policy by email to jo.desilva@energycouncil.com.au or by telephone on 03 9205 3100.

Yours sincerely,

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