

Essential Services Commission
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Victorian default offer prices 2025–26 request for comment paper

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 request for comment paper*.

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.

The AEC congratulates the ESC for developing a methodology which has remained consistent over the time the VDO has been in operation. This methodology has provided an important level of certainty for energy retailers.

1. Do you support the Victorian Default Offer estimating retail operating costs separately for domestic and small-business customers?

The AEC supports the ESC in its overall ambition of maintaining consistency in its approach. We believe the ESC should retain its existing approach for domestic and small business customers.

2. What are your views on the appropriateness of the current retail operating margin and where should it sit within the feasible range? 3. Are there any other considerations we should have in determining a retail operating margin for an efficient electricity retailer?

The AEC believes the retail operating margin should reflect the level of risk in the retail market. Including consideration of the increased risk related to the VEU strategic review, the AEC believes there is a good case for the margin to return to 5.7. We note that at the time the margin was reduced from 5.7, we raised concerns about benchmarking against highly regulated markets in contrast to the Victorian market which is highly competitive.

4. Is there a better approach to estimating Victorian Energy Efficiency Certificate prices?

The AEC supports the ESC undertaking further investigations about VEEC prices, including:

- The issue of non-delivery risk – retailers purchasing forwards but not receiving them and therefore being exposed to the significantly higher spot prices. This issue demonstrates caution against changing the methodology to a mix of forward and spot prices.
- Structural issues in the market which impact on retailers' ability to obtain certificates.

5. Does the removal of solar exports from the load profile better reflect an efficient retailer's load profile assumptions? 6. Do electricity retailers exclude solar exports from their load profile when buying future wholesale electricity contracts?

The ESC should be cautious in its consideration of this issue considering that Victoria has a minimum FIT unlike in the jurisdictions regulated by the AER. Removal of solar exports from the load profile does not better reflect an efficient retailer's load profile assumptions. A prudent retailer does not exclude solar exports from their load profile when buying future wholesale electricity contracts.

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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