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Kate Symons
Chairperson
Essential Services Commission

Submitted electronically at www.engage.vic.gov.au.

Submission on the Essential Services Commission's Victorian Default Offer 2023-24 Consultation Paper

Dear Kate,

Energy Consumers Australia thanks the Essential Services Commission (ESC) for the opportunity to comment on the Victorian Default Offer 2023-24 Consultation Paper. The Victorian Default Offer (VDO) is an important tool safeguarding consumers from unaffordable energy prices and we commend the ESC's continued efforts to ensure it continues to do so.

In our submission we:

- Offer our support to the ESC's decision to not make major changes to the overall methodology
- Agree that retail costs should not be indexed in line with large increases to the Consumer Price Index (CPI)
- Question whether the retail margin remains at a reasonable level given increases to the overall VDO bill
- Highlight the importance of building consumer trust in an environment of rising energy costs.

The current methodology is sufficient in capturing movements in wholesale energy costs

We agree that the VDO is largely meeting its primary objectives and there is no apparent need for major changes. This extends to the calculation of wholesale costs which we believe will capture the significant movements in the wholesale energy market we have seen over the past year and the anticipated cost implications of recent government actions.

We expect the Commonwealth's announcement to work with the jurisdictions to introduce a suite of measures aimed at reducing the cost of energy, including capping the price of coal and gas, will reduce some of the pressure on retailers caused by increased wholesale costs globally. We expect to see this impact reflected in the ESC's calculation of wholesale costs.

In their Inquiry into the National Electricity Market report, the Australian Competition and Consumer Commission (ACCC) raised the issue of the cost of, and the increasing number of, over-the-counter hedging contracts and the impact this has on retailers' costs¹. We are pleased to see the ESC has actively considered and investigated this issue in their Consultation Paper and trust that the chosen model adequately reflects the current situation.

¹ [Australian Competition and Consumer Commission Inquiry into the National Electricity Market November 2022 Report](#)

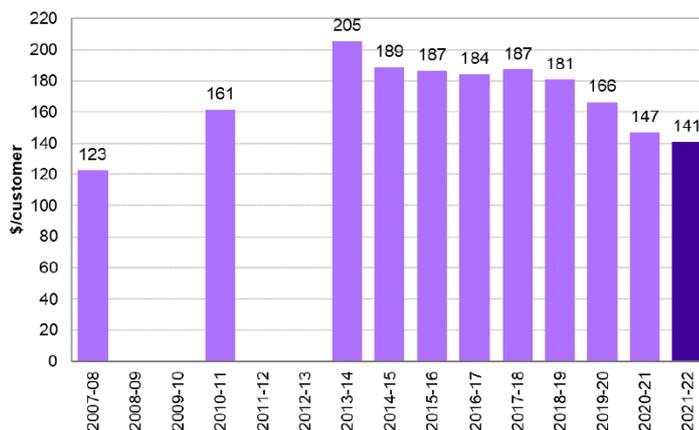


The ESC's methodology should reflect the long-term decrease in retail costs

We believe there is value in reassessing how retail costs are calculated within the cost stack in light of a high increase in the consumer price index. We have previously referred to² the ESC's approach to setting the VDO as a positive example of prioritising affordable energy prices for consumers. Identifying and responding to a potentially unjustifiably high indexation of retail costs this year is further evidence of this.

We agree with the ESC that indexing retail costs in line with high CPI increases risks raising retail costs to an unjustifiably high level. This is particularly the case given retail costs have trended down over the past years in the National Electricity Market. In their November 2022 report, the ACCC found evidence that retail competition in the National Electricity Market has delivered several benefits to consumers, including a reduction in retail costs. Their report shows that retail costs in 2021-22 declined 4% from 2020-21 and are lower than nearly all previous years with available data³ (Figure 1).

Figure 1: Average retail costs over time per residential customer across the NEM



Source: ACCC Inquiry into the National Electricity Market November 2022 Report

The ACCC's data does not fully capture the events of last year in the National Electricity Market and their continued implications. However, we note that the ESC, in their analysis of the retail margin in this Consultation Paper, has already mentioned its reluctance to make amendments due to short-term changes. Therefore, while acknowledging the changes currently underway, we encourage the ESC to take into account the decreasing long-term trend in retail costs.

In light of increases to CPI, the ESC has put forward a number of potential alternative methods for calculating retail costs. We believe the methodology should encourage retailers to work efficiently and act to reduce their overall costs. We maintain the suggestion put forward in our [previous submission](#) to the 2022-23 determination, that a productivity factor may ensure decreased costs associated with improvements in productivity are passed on to consumers. It would also provide a solution to the information asymmetry which results in retailers having little incentive to report on reduced costs.

² [Energy Consumers Australia submission to the Essential Services Commission Draft Decision on the Victorian Default Offer 2022-23](#)

³ [Australian Competition and Consumer Commission Inquiry into the National Electricity Market November 2022 Report](#)



The ESC should consider whether an increase to the dollar value of the retail margin is reasonable

As the retail margin is presented as a percentage of the overall VDO bill, any increase to the overall bill will result in an increase to the retail margin in dollar terms. With wholesale and network costs expected to raise the VDO substantially this year, we believe there is value in the ESC assessing whether the increased retail margin will remain justifiable.

As we also noted in our [submission](#) to the Australian Energy Regulator, in the Australian Capital Territory (ACT), the Independent Competition and Regulatory Commission decreased their retail margin to 5.3% in 2017 in response to rising energy purchasing costs to ensure it remained reasonable⁴. We suggest considering a similar approach however also acknowledge the ESC has indicated it does not intend to make amendments in response to short-term changes. If this is the case, we believe this issue will at least stress the importance of placing scrutiny on all elements of the cost stack to ensure that the retail margin does not exceed a reasonable level.

Rising energy bills will impact consumer trust in the energy market

We acknowledge that prices are expected to rise significantly in the upcoming determination. Our qualitative research⁵ shows that consumers relate rising energy bills back to a number of underlying reasons including the belief that energy businesses and governments are working in their own interests instead of the consumer's.

One respondent in Victoria said:

"At the moment I think the energy market is driven by greed. Gone are the days that if you stayed with a company you would get a loyalty discount. Unfortunately now us as the consumer need to be constantly on the ball trying to chase a better deal. This is what the company's count on, people being too lazy to check." – Male aged 40-49

This response highlights the existing lack of trust in the energy market, a concern which will only grow as energy bills increase. It also suggests that governments will need to look beyond solutions which simply encourage consumers to switch if they truly wish to create a system where consumers trust its participants are working in their best interests.

The VDO has a direct impact on energy bills as well as acting as a visible indicator of prices for consumers through its role as a reference price and therefore plays an important part in building consumer confidence in the energy market. For this reason it is important that scrutiny is placed on all elements of the cost stack to ensure consumers are being charged a fair price for an essential service. As detailed in this submission, we believe the ESC has demonstrated this in their Consultation Paper.

Once again, we thank the ESC for the opportunity to comment on the 2022-23 Victorian Default Offer determination. Please reach out to Alice Gordon at alice.g@energyconsumersaustralia.com.au with any further questions.

Yours sincerely,

Jacqueline Crawshaw
Director Energy Services and Markets

⁴ [Independent Competition and Regulatory Commission Retail Electricity Price Investigation 2020-2024 Final Report, June 2020.](#)

⁵ [Energy Consumer Sentiment Survey October 2022 Qualitative Findings](#)