

Victorian Default Offer 2024–25

Final Decision Paper

20 May 2024

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Contents

Acknowledgement	i
Summary	1
The Victorian Default Offer regulates standing offer prices	1
The Victorian Default Offer provides a safeguard for customers	2
The Victorian Default Offer acts as a comparison price	3
We must review prices before the end of each regulatory period	3
Bills will fall for Victorian Default Offer customers, with reduced wholesale prices offset somewhat by increased network costs	3
We set a benchmark based on efficient costs	7
We will continue to uphold other protections for customers	8
We considered all submissions received from stakeholders	10
Victorian Default Offer cost components	11
Wholesale electricity costs	12
Network costs	18
Environmental costs	21
Retail operating costs	29
Customer acquisition and retention costs	31
Other costs	32
Retail operating margin	37
Calculating tariffs and the maximum annual bill	41
Flat tariffs	41
Two-period time of use tariffs	42
The compliant maximum customer bill	43
Appendix A: Calculation of the cost stack	45
Wholesale electricity costs	45
Network losses	45
Network costs	46
Environmental scheme costs	48
Retail operating costs and margin	50
Other costs	51
Appendix B: Network tariffs in the cost stack	53
Appendix C: Stakeholder submissions on draft decision paper	55
Appendix D: Changes in the cost benchmarks	56
Appendix E: Order in Council	60
Appendix F: Our legislative considerations	75
The commission's power to determine the Victorian Default Offer	75
Our objectives in setting the Victorian Default Offer	76
Matters the commission must have regard to when determining tariffs	76
Appendix G: How we assessed the Victorian Default Offer	78
Our approach to this review	78
Our assessment approach helps us meet our legislative requirements	80

Summary

- Our final decision means bills will fall for Victorian Default Offer customers in 2024–25.
- For domestic customers, the Victorian Default Offer will fall by \$100 (or around six per cent) on average to \$1,655 (based on annual usage of 4,000 kWh).
- Bills for domestic customers in three of Victoria’s five distribution zones will fall by more than this average amount, with the AusNet zone falling the most in dollar terms (by \$124).
- For small business customers, the average annual bill will fall by \$261 (or around seven per cent) to \$3,530 compared to 2023–24 (based on annual usage of 10,000 kWh). The largest fall in dollar terms is in the AusNet zone (\$386).
- Lower Victorian Default Offer prices mainly reflect a large reduction in the futures contract prices we use to estimate wholesale costs.
- These reductions are offset mainly by an increase in network costs, which reflect a ‘pass through’ of the network tariffs approved by the Australian Energy Regulator.
- Compared to the 2023–24 Victorian Default Offer, wholesale electricity costs in our final decision have fallen by \$143 and network costs have increased by \$44 on average for domestic customers.
- Changes to the Victorian Default Offer tariffs come into effect from 1 July 2024.

The Victorian Default Offer regulates standing offer prices

The Victorian Default Offer was introduced by the Victorian Government in 2019 through an Order made under section 13 of the *Electricity Industry Act 2000* (pricing order).¹ The Victorian Default Offer regulates standing offer prices for electricity in Victoria sold to domestic and small business

¹ The Order in Council made under section 13 of the *Electricity Industry Act 2000* was published in the Victorian Government Gazette No. S 208 on Thursday 30 May 2019. Minor amendments to this Order have subsequently been made by Orders in Council made under section 13 of the Act and respectively published in the *Victorian Government Gazette* No. S208 Thursday 30 May 2019 and the *Victorian Government Gazette* No. G50 14 December 2023. The original Order in Council as amended is referred to in this paper as the ‘pricing order’.

customers.^{2,3,4} The first Victorian Default Offer was set by the Victorian Government in 2019 based on advice prepared by us. Our first determination of Victorian Default Offer prices came into effect 1 January 2020. We have been responsible for setting Victorian Default Offer prices since then.

The Victorian Default Offer provides a safeguard for customers

As the Victorian Default Offer is intended to be a reasonable price, it provides an important safeguard for customers on standing offers, who are unable or unwilling to engage in the electricity retail market. Standing offers are contracts that electricity retailers must make available to domestic and small business customers. A standing offer will apply if the customer has:

- never signed up for an electricity contract
- entered into an electricity contract, cancelled the contract within the cooling-off period, but continues to use electricity without entering into a new contract
- moved into a new address and uses electricity without entering into a contract
- specifically asked for a standing offer
- moved onto a standing offer after their market offer contract came to an end.

Most customers are on a market offer and are not directly affected by this decision. Around 340,000 households or 12 per cent of Victorian domestic customers and 58,000 small businesses or 19 per cent are currently on the Victorian Default Offer.⁵

The Victorian Default Offer also applies as a maximum price for most embedded network customers (covering around 180,000 customers).^{6,7} Electricity providers in embedded networks

² A standing offer is defined in section 3 of the *Electricity Industry Act 2000*.

³ A 'domestic customer' for purposes of the Victorian Default Offer is a customer who purchases electricity principally for personal, household or domestic use (see clause 4 of the pricing order).

⁴ A 'small business customer' for purposes of the Victorian Default Offer is a customer who is not a domestic customer and whose aggregate consumption of electricity is not more than 40 MWh per annum (see clause 4 of the pricing order).

⁵ Data as at the end of March 2024, based on data reported by Victorian retailers under the Compliance and Performance Reporting Guideline version 8.

⁶ On 22 July 2020, the commission made a final decision (Essential Services Commission 2020, Maximum prices for embedded networks and other exempt sellers: Final Decision, 22 July) under clause 25A of the General Exemption Order 2017 made under section 17 of the *Electricity Industry Act 2000*, and published in the Victorian Government Gazette No. S390 Wednesday 15 November 2017, and further amended on 30 May 2019 and 9 July 2019, in which it determined that, with effect from 1 September 2020, the maximum price that exempt persons may charge for electricity supplied to domestic and small business customers within embedded networks, will be set at the level of the Victorian Default Offer, and will automatically update to align with pricing resets for the Victorian Default Offer.

⁷ Figure is as of May 2024.

may set prices below the Victorian Default Offer. Embedded networks supply electricity for many domestic and small business customers in apartment buildings, caravan parks and office blocks.

In making our price determinations for the Victorian Default Offer, we are guided by the requirements of the pricing order. We must adopt an approach and methodology that best meets the objective of the Victorian Default Offer as stated in the pricing order. That objective is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.⁸

The Victorian Default Offer acts as a comparison price

Many market offers are available at prices below the Victorian Default Offer. The Victorian Default Offer plays a key role as a benchmark price for these market offers. Retailers must compare their market offer prices to the applicable Victorian Default Offer prices when advertising. This enables customers to easily compare market offer prices and choose a plan that best suits their needs.

We must review prices before the end of each regulatory period

We released a price determination on 24 May 2023 for the Victorian Default Offer to apply from 1 July 2023 to 30 June 2024. We refer to these arrangements for standing offers as the 2023–24 Victorian Default Offer.

Under the pricing order, we must make a new determination for the Victorian Default Offer to apply from 1 July 2024 to 30 June 2025 on or before 23 May 2024.⁹ We refer to the new pricing arrangements for standing offers to apply from 1 July 2024 as the 2024–25 Victorian Default Offer.

Bills will fall for Victorian Default Offer customers, with reduced wholesale prices offset somewhat by increased network costs

The average domestic annual bill for a Victorian Default Offer customer on a flat tariff is \$100 or around 6 per cent lower in our 2024–25 final decision compared to 2023–24. Annual bills for domestic customers in three of the five distribution zones will fall by more than this average amount, with the AusNet zone falling the most (by \$124).

Figure 1 shows the changes in cost benchmarks between 2024–25 and 2023–24 for domestic customers averaged across all five distribution zones.

⁸ Clause 3 of the pricing order.

⁹ Clause 10(1) of the pricing order.

The lower Victorian Default Offer mainly reflects a fall in the futures contract prices we use to estimate wholesale costs. On average, wholesale costs are \$143 or nearly 23 per cent lower compared to 2023–24. Depending on the zone, wholesale cost reductions range from \$137 (around 21 per cent) in the Powercor zone to \$148 (around 26 per cent) in the CitiPower zone.

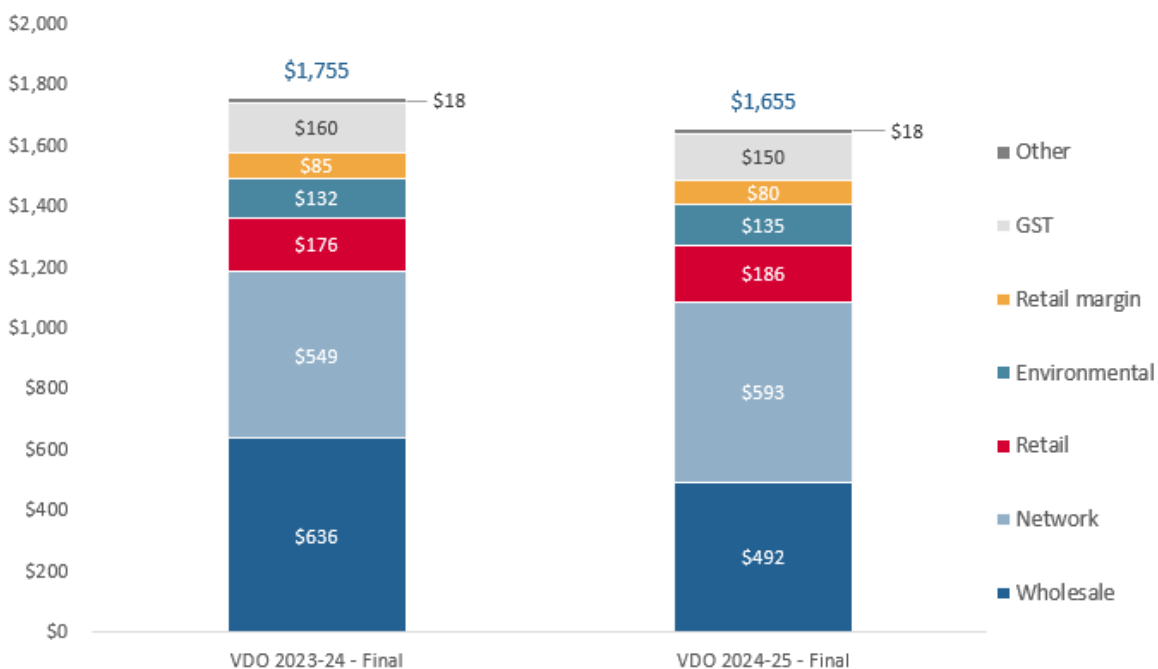
While representing a small share of costs, the dollar value of the retail operating margin has also declined in comparison to the 2023–24 Victorian Default Offer.

These reductions are partly offset mainly by an increase in network costs (up by \$44 or 8 per cent on average). These costs reflect the tariffs approved by the Australian Energy Regulator on 7 May 2024. The Australian Energy Regulator noted increases are due to a range of factors including:¹⁰

- higher than forecast inflation
- increased transmission costs
- recovery of under-recovered distribution revenue in prior years.

Changes in network costs range from an increase of \$28 (around four per cent) in the AusNet zone to \$78 (around 15 per cent) in the Jemena zone.

Figure 1: Change in annual bills for domestic customers (assuming annual usage of 4,000 kWh) between 2023–24 and 2024–25 Victorian Default Offers



¹⁰ Statement of reasons: Jemena’s Annual Pricing proposal– AER, May 2024, Statement of reasons: Ausnet’s Annual Pricing proposal– AER, May 2024, Statement of reasons: Powercor’s Annual Pricing proposal– AER, May 2024, Statement of reasons: United Energy’s Annual Pricing proposal– AER, May 2024, Statement of reasons: CitiPower’s Annual Pricing proposal– AER, May 2024

Table 1 shows the movement in the average annual bills for domestic Victorian Default Offer customers across the five distribution zones in Victoria on flat tariffs. In dollar terms, the largest reduction is in the Ausnet zone (-\$124). The smaller reduction in the Jemena zone (-\$56) mainly reflects a relatively larger increase in network costs in this zone, reflecting the larger increase in the network tariffs approved by the Australian Energy Regulator for the region in 2024-25.

Table 1: Change in average annual Victorian Default Offer bills for domestic flat tariffs (nominal)¹¹

Average bill for domestic customers (4,000 kWh/year)						
Total	AusNet	CitiPower	Jemena	Powercor	United Energy	Average
2024–25 (final decision)	\$1,902	\$1,456	\$1,664	\$1,699	\$1,554	\$1,655
2023–24 (final decision)	\$2,026	\$1,571	\$1,720	\$1,793	\$1,666	\$1,755
Change \$	-\$124	-\$115	-\$56	-\$94	-\$112	-\$100
Change %	-6.1%	-7.3%	-3.3%	-5.2%	-6.7%	-5.7%

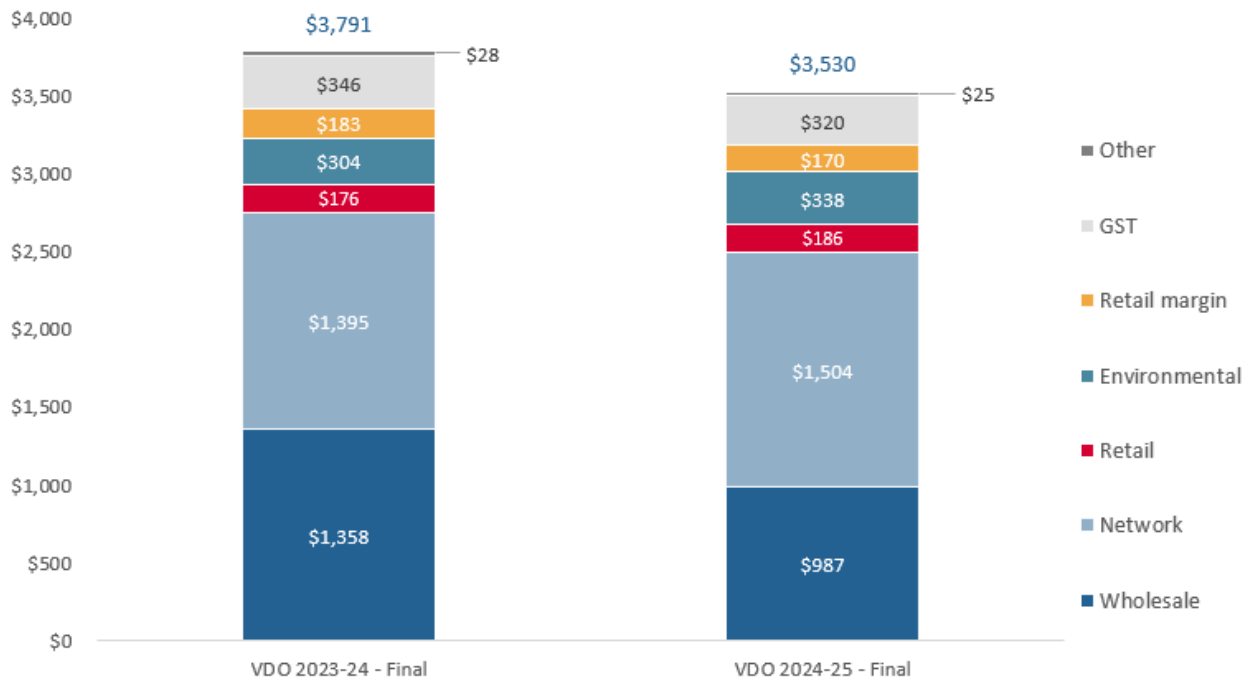
Figure 2 shows the changes in cost benchmarks between the 2024–25 and 2023–24 for small business customers averaged across all five distribution zones. On average, the Victorian Default Offer will fall by around \$261 for a typical small business or around seven per cent.

For small business customers, wholesale costs have fallen by \$370 on average or around 27 per cent. The reduction in wholesale costs is partly offset mainly by an increase in network costs (of \$108 or around 8 per cent on average), which we estimate based on tariffs approved by the Australian Energy Regulator.

Table 2 shows the movement in the annual bills for small business Victorian Default Offer customers on average and across the five distribution zones in Victoria on flat tariffs.

¹¹ Values in the table may not sum to exact total due to rounding.

Figure 2: Change in annual bills for small business customers (assuming annual usage of 10,000 kWh) between 2023–24 and 2024–25 Victorian Default Offers¹²



¹² The commission has historically reported Victorian Default Offer average annual bills for small business customers assuming an average annual usage of 20,000 kWh. We have quoted the 10,000 kWh figure in the final decision to align with how small businesses prices are reported in default market offers in other states. If assuming an average annual usage of 20,000 kWh, the final 2024–25 Victorian Default Offer represents an annual decrease of 8 per cent (around \$544) for small business customers.

Table 2: Change in average annual Victorian Default Offer bills for small business flat tariffs (nominal)¹³

Average bill for small business customers (10,000 kWh/year)						
Total	AusNet	CitiPower	Jemena	Powercor	United Energy	Average
2024–25 (final decision)	\$4,388	\$3,025	\$3,695	\$3,331	\$3,212	\$3,530
2023–24 (final decision)	\$4,774	\$3,326	\$3,786	\$3,585	\$3,483	\$3,791
Change \$	-\$386	-\$301	-\$91	-\$254	-\$271	-\$261
Change %	-8.1%	-9.0%	-2.4%	-7.1%	-7.8%	-6.9%

Appendix D contains a summary of our cost benchmarks between our draft and final decision for domestic and small business customers (on average across the five distribution zones).

We set a benchmark based on efficient costs

Under the pricing order, Victorian Default Offer tariffs are to be based on the efficient costs of the sale of electricity by a retailer.¹⁴ Setting prices based on efficient costs best meets our objectives under the *Essential Services Commission Act*,¹⁵ *Electricity Industry Act 2000*,¹⁶ and pricing order.

Setting prices based on efficient costs means customers have access to a reasonable price that reflects retailers' costs. Setting a price below efficient costs may mean, in the longer term, less retail competition and less investment in the industry. The result of this would likely be less innovation in providing long term cost reductions and less reliable electricity services. This would not be in the long-term interests of Victorian consumers.

Feedback provided in response to our draft decision suggests general support for the overall methodology that we use. Energy retailers generally considered our approach provides for stability. However, we received comments on our approach to calculating parts of the cost stack – including wholesale, retail operating margin and environmental costs – which we have considered in making our final decision. We have updated network costs to reflect tariffs approved in early May 2024 by

¹³ Values in the table may not sum to exact total due to rounding.

¹⁴ Clause 3 of the pricing order.

¹⁵ *Essential Services Commission Act 2001*, s.8.

¹⁶ *Electricity Industry Act 2000*, s.10.

the Australian Energy Regulator (noting our draft used indicative tariffs), and benchmarks reliant on market data such as wholesale and environmental costs.

We will continue to uphold other protections for customers

Feedback from consumer groups noted that electricity retail prices and the Victorian Default Offer remain relatively high despite the reductions flagged in our draft decision, and the impacts for many in the community.¹⁷ In addition to the safeguard provided by the Victorian Default Offer, the framework administered by the commission provides several important customer protections.

We recognise the importance for customers to receive the support they are entitled to. The Victorian energy rules includes protections to help customers access lower priced energy offers, and support when experiencing payment difficulty. We will continue to monitor retailers' delivery of these protections, encourage compliance, and enforce the rules where necessary.

A retailer must inform customers about their best offer

Under the Energy Retail Code of Practice, a retailer must provide a customer with best offer messages on their bills and price change notifications.¹⁸

We continue to closely monitor how retailers are meeting their responsibilities to inform energy consumers about whether they are receiving retailers' best offers.

We want consumers to engage confidently with their retailer and search out better offers from other retailers, where possible. Victorian Energy Compare (www.compare.energy.vic.gov.au) can help consumers find the best market offer.

All customers are entitled to payment assistance

Under the Energy Retail Code of Practice, a customer is entitled to receive payment assistance when they miss paying an energy bill.¹⁹

A retailer is also required to support customers to apply for Utility Relief Grants²⁰ – a grant offered by the Victorian Government to provide relief of up to \$1,300 every two years to eligible account

¹⁷ Energy Consumers Australia submission to draft decision April 2024, p.1, Consumer Action Law Centre submission to draft decision April 2024, pp.1, 3-4, 6, Financial Counselling Victoria Inc submission to draft decision April 2024, pp.1-2, Victorian Council of Social Service (VCOSS), Consumer Action Law Centre, Energy Consumers Australia, Financial Counselling Victoria Inc, Federation of Community Legal Centres Victoria Joint submission to draft decision April 2024, p.6

¹⁸ Energy Retail Code of Practice, Version 2, 1 October 2022, part 5, division 5.

¹⁹ Energy Retail Code of Practice, Version 2, 1 October 2022, part 6.

²⁰ Energy Retail Code of Practice, Version 2, 1 October 2022, Division 12, 128 (1)(d).

holders. We encourage customers who are having trouble paying bills to ask their energy retailer about payment plans, and what concessions, rebates or Utility Relief Grants might be available.

We want to make sure Victorian energy consumers are getting all the assistance they are entitled to. We continue to closely monitor retailer actions, particularly on the obligations to provide payment assistance, and help to apply for Utility Relief Grants.

Submissions from consumer groups suggested measures that could help reduce the effect of higher retail electricity prices. These included:

- providing greater support to consumers to shop around, access retailers' best deals and preventing retailers from rolling customers on to prices above the Victorian Default Offer ²¹
- improve consumers access to, and the amount provided in, the Utility Relief Grants Scheme ²²
- improving retailers' compliance with the Payment Difficulty Framework.²³

We will be shortly commencing our review of the Energy Retail Code of Practice, which includes key protections for customers experiencing vulnerability, such as the payment difficulty framework and family violence protections. We are keen to hear from consumers and stakeholders on their experiences and will enhance existing protections where appropriate.

In terms of other support, Victorian households with eligible concession status can access government assistance to cover part of their ongoing energy cost. These supports include:

- ongoing assistance in annual electricity concessions
- winter gas concessions
- temporary assistance with Utility Relief Grants.

The commission will also continue to use its compliance and enforcement powers in the public interest. We act to protect consumers – especially those experiencing vulnerability. Protecting customers experiencing vulnerability is an enduring compliance priority for the commission.

In addition to Victorian Government programs supporting customers, all Australian households will receive a \$300 rebate (and eligible small businesses \$325) from the Australian Government to be

²¹ Energy Consumers Australia submission to draft decision April 2024, pp.1–2, Consumer Action Law Centre submission to draft decision April 2024, p. 6, Victorian Council of Social Service (VCOSS), Consumer Action Law Centre, Energy Consumers Australia, Financial Counselling Victoria Inc, Federation of Community Legal Centres Victoria Joint submission to draft decision April 2024, p. 4.

²² Financial Counselling Victoria Inc submission to draft decision April 2024, p.1, Consumer Action Law Centre submission to draft decision April 2024, p. 4

²³ Consumer Action Law Centre submission to draft decision April 2024, p. 6.

paid in quarterly instalments on electricity bills throughout 2024-25. State and territory governments will administer the rebates and deliver the payments through retailers.

We considered all submissions received from stakeholders

We released our draft decision on 19 March 2024 and hosted a public forum attended by consumer and industry groups as well as electricity retailers. During the four-week consultation period following our draft decision, we received 13 submissions from a range of stakeholders, including electricity retailers and industry representatives as well as consumers and community groups. The views expressed in stakeholders' submissions, including any follow up meetings to clarify submissions, have been considered by the commission in reaching our final decision. Copies of all submissions can be found on [our website](#).

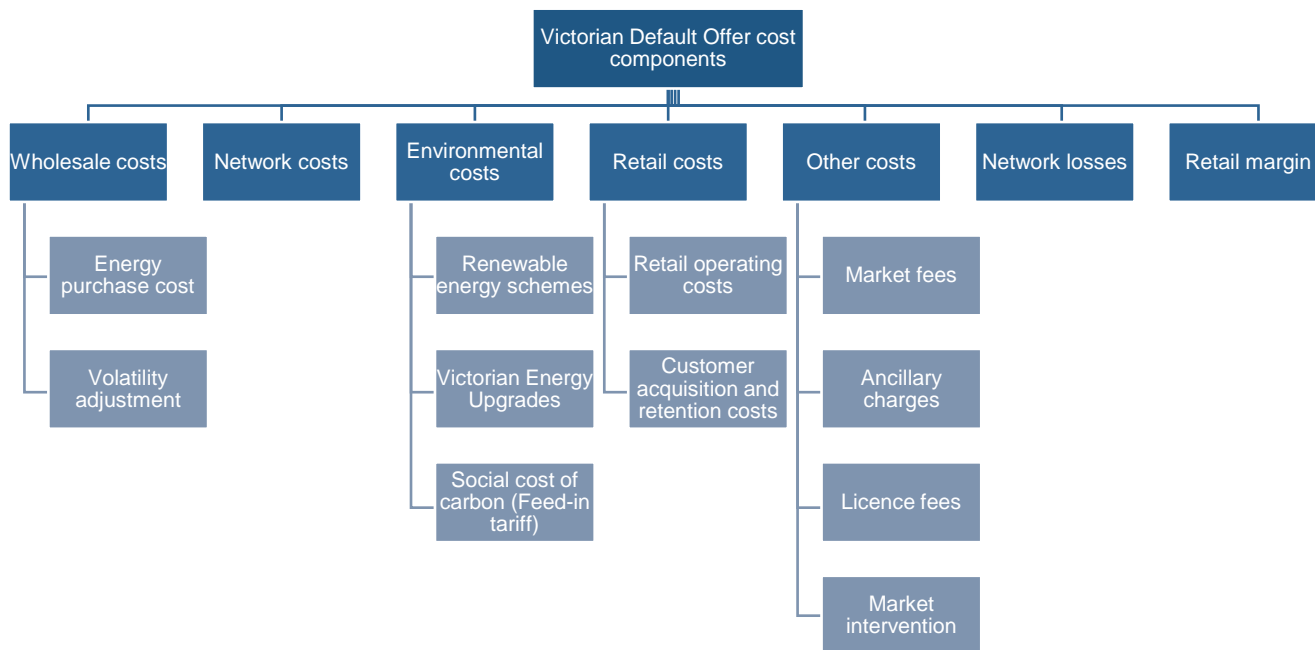
Table 3: Timeframes for the 2024–25 Victorian Default Offer review

Key milestone	Date
Request for Comment Paper released	2 November 2023
Consultation period on Request for Comment Paper	2 November – 14 December 2023
Draft Decision Paper released	19 March 2024
Consultation period on Draft Decision Paper	19 March – 19 April 2024
Public forum	28 March 2024
Final Decision Paper and price determination released	23 May 2024
Prices take effect	1 July 2024

Victorian Default Offer cost components

We must base the Victorian Default Offer on the efficient costs of the sale of electricity by a retailer.²⁴ In doing this, we must have regard to specific cost components in setting tariffs.²⁵ Figure 3 shows the costs included in our Victorian Default Offer cost model.

Figure 3: Cost items included in the Victorian Default Offer cost stack



The cost benchmarks for the Victorian Default Offer prices are determined as follows:

- wholesale electricity costs – based on the price of electricity costs in the futures market
- network costs – taken directly from tariffs approved by the Australian Energy Regulator
- environmental costs – taken from public information on the costs of environmental initiatives
- retail costs – based on historical cost data
- other costs, including market intervention costs – taken directly from published reports from industry bodies
- network losses – taken from the Australian Energy Market Operator and electricity distributors
- retail operating margin – based on a benchmark from comparable regulatory decisions.

²⁴ Clause 12(3) of the pricing order.

²⁵ Clause 12(4) of the pricing order.

- As part of this review, we have updated the estimates included in the cost stack to reflect the most up-to-date information available for the final decision.

As in past years, we have collected cost data from retailers using our compulsory information gathering powers.²⁶ This year we collected information from all retailers in Victoria with more than 10,000 domestic and/or small business customers.

Wholesale electricity costs

- Our final decision is to use forecasts of wholesale electricity prices based on futures prices from ASX Energy.
- We reviewed the type of hedging instruments used by retailers to manage their peak wholesale price risk. Informed by this review, we consider using a mix of ASX listed base swap and base cap contracts for our benchmark remains appropriate.
- Wholesale electricity purchase costs make up around 30 per cent of an annual domestic Victorian Default Offer flat tariff bill (averaged across the five distribution zones).
- Wholesale electricity costs in our final decision are around 23 per cent lower than those in the 2023–24 Victorian Default Offer for domestic customers, and 27 per cent lower for small businesses. This mainly reflects movements in the future contract prices we use to establish a benchmark for wholesale electricity costs.

Electricity retailers must source electricity to supply their customers. Retailers source most of this electricity from the wholesale market. The Victorian Default Offer pricing order requires that we have regard to the efficient costs of providing retail electricity services, including wholesale electricity costs.²⁷

Retailers buy electricity in the wholesale market

Retailers must pay the wholesale price when they buy electricity in the wholesale market. In the National Electricity Market, supply must equal demand in real time, so the wholesale price can change quickly. For instance, if demand quickly increases, more expensive generators may enter the market in response to the need for more electricity. Therefore, retailers face the risk of high wholesale prices, especially in the evenings and mornings when there is less solar generation.

²⁶ Essential Services Commission Act 2001, s 36

²⁷ Clauses 12(3) and 12(4) of the pricing order.

Hedging is a way of managing this risk. When a retailer hedges its wholesale electricity price risk, the price they pay can be set in advance, capped, or offset. Retailers can hedge either directly with a generator, through a transaction on ASX Energy, or with another financial intermediary.

As in previous Victorian Default Offer decisions, we have used a futures market approach to set the benchmark wholesale costs for 2024–25. This approach creates an estimate of the costs a retailer faces when supplying electricity to their customers by using ASX Energy hedging products. While different hedging products are available, we use futures prices from ASX Energy. ASX Energy contracts trades are public, so contract prices and volumes are transparent.

We forecast electricity prices will be lower in 2024–25

For our 2024–25 final decision, average forecast residential wholesale electricity costs for domestic Victorian Default Offer customers are 23 per cent lower than the 2023–24 Victorian Default Offer. Lower ASX Energy future electricity contract prices for 2024–25 compared to 2023–24 is driving this change.

Our 2024–25 draft decision included forecast wholesale electricity costs that were 22 per cent lower than the 2023–24 final decision.²⁸ This final decision uses a more recent read of ASX Energy future contracts and load data, than our draft decision. A final reading date of 26 April 2024 was adopted, consistent with the date indicated in our draft decision.

Stakeholders suggested we monitor our approach to estimating wholesale costs

We received four submissions, two from retailers and two from consumer groups, that commented specifically on our approach to wholesale electricity costs. The submissions were generally supportive of our approach to wholesale electricity costs.²⁹

Both retailers and consumer groups said that we must monitor our approach so that our modelling and hedging forecasts remain reasonable for retailers and consumers given the objectives of the Victorian Default Offer.

Consumer representatives noted that the reductions observed in wholesale prices in the National Energy Market in 2023 in the order of 44 to 64 per cent should be reflected in Victorian Default Offer wholesale costs.³⁰ The spot prices referred to in these submissions are not comparable to the

²⁸ Essential Services Commission 2024, Victorian Default Offer 2024–25: Draft Decision Paper: Draft Decision Paper, 19 March, p. 8

²⁹ Energy Locals submission to draft decision April 2024, p. 1, Origin Energy submission to draft decision April 2024, p. 1, Consumer Action Law Centre submission to draft decision April 2023, p. 4, Victorian Council of Social Services, Consumer Action Law Centre, Energy Consumers Australia, Financial Counselling Victoria, Federation of Community Legal Centres, Joint submission to draft decision April 2024, p. 2

³⁰ Consumer Action Law Centre, submission to draft decision April 2024, p. 5.

benchmarks we use to estimate wholesale costs. The commission’s methodology uses futures prices, not spot prices.

The wholesale cost benchmark for the 2024–25 Victorian Default Offer domestic bills has reduced by less, on average by around 23 per cent, compared to larger falls in the spot market. However, this followed significant increases in 2022, when spot prices tripled in Victoria.³¹ The wholesale cost component in the Victorian Default Offer for 2023–24 increased by around a much lower 87 per cent by comparison.³² Movements in our benchmarks have not been as volatile as spot prices.

Our approach to wholesale electricity costs reflects the efficient cost of electricity

The pricing order requires us to have regard to the efficient costs of providing retail electricity services.³³ To estimate wholesale electricity costs, Frontier Economics model the ASX Energy futures contracts a prudent retailer would buy to manage the risk of wholesale market price volatility.

Submissions from consumer representatives asked us to monitor our approach to estimating wholesale costs, with consideration given to a wider range of risk management strategies.³⁴

We agree with the submissions from consumer representatives that continued monitoring of our approach to wholesale costs is important.

As in previous reviews we gathered information enabling us to analyse retailers’ approach to hedging and risk management. We analysed retailers’ use of both futures contracts traded on ASX and contracts to explore different hedging products retailers may be using. This analysis demonstrated that retailers are predominately using ASX Energy contracts. Further, we observed that prices and price movements in alternatives such as over-the-counter contracts were similar to those found on ASX Energy.

Reducing a retailer’s contracting level would increase its exposure to the spot market which would increase the variability and volatility of prices paid by customers. While it may reduce the wholesale costs in some years it could increase costs in others. This would be unlikely to provide price stability for customers.

³¹ Australian Energy Regulator, Wholesale markets Quarterly Q4 2023, pp. 4-5

³² Essential Services Commission 2023, Victorian Default Offer 2023–24: Final decision paper, 25 May, p. 12

³³ Clauses 12(3) and 12(4) of the pricing order.

³⁴ Victorian Council of Social Services, Consumer Action Law Centre, Energy Consumers Australia, Financial Counselling Victoria, Federation of Community Legal Centres, Joint submission to draft decision April 2024, p. 3, and Consumer Action Law Centre submission to draft decision, April 2024, p.5

Lower ASX Energy contract prices mean that people trading on ASX Energy expect that prices in the national electricity market will be lower in 2024–25 than in 2023–24. These lower prices are included in the Victorian Default Offer for 2024–25.

Our wholesale electricity cost benchmark reflects changes in load shape over time

Manually Read Interval Meter data provided by the Australian Energy Market Operator is used by Frontier Economics to estimate a load shape to calculate wholesale costs. This information is used to monitor historical movements and patterns in demand. Frontier Economics also uses this information in its Monte Carlo simulations that are an input to our wholesale cost benchmark.

For its 2024-25 draft decision, the Australian Energy Regulator explored the inclusion or exclusion of solar exports from the load profile. This was part of a broader review of its approach to load given its past use of net system load profile meters and increasing penetration of interval meters driven by household solar uptake. This compares to the commission’s approach which has been based on interval meter data since 2019.

The load profile we use to estimate the Victorian Default Offer includes solar exports.³⁵ We may consider whether to include solar exports in the future, which will necessarily involve an assessment of the data available to us and consultation with stakeholders.

Our wholesale cost methodology was not adjusted for unaccounted for energy

The Australian Energy Market Operator measures the amount of energy that goes into the National Electricity Market and the amount that reaches consumers’ meters. Unaccounted for energy is the difference between these two amounts (after accounting for distribution and transmission losses and unmetered but billed usage). Since global settlement began in 2022, the Australian Energy Market Operator has charged all retailers for their share of unaccounted for energy. Submissions to the request for comment paper proposed that we consider adjusting our wholesale cost benchmark to include unaccounted for energy.³⁶

We said in our draft decision that we consider this is immaterial in the context of the Victorian Default Offer. We analysed publicly available information and unaccounted for energy appears to make up less than one per cent of total energy dispatched across the Victorian networks. We received no submissions to our draft decision on this. For the reasons set out in our draft decision we have not included an adjustment to reflect unaccounted for energy.

³⁵ Frontier Economics, Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission, May 2024 p. 10.

³⁶ Australian Energy Council, submission to the Essential Services Commission '2024-25 Victorian Default Offer: Request for Comment' December 2023.

Our benchmark accounts for self-insurance against wholesale market volatility

The volatility allowance is to cover the cost to retailers of holding capital to cover wholesale costs when wholesale prices are higher than forecast. The amount of working capital is based on the difference between the estimated costs in the median simulated year and the costliest simulated year in each distribution zone. We expect that, while in some years the actual costs will differ from our forecast, the variations will balance out over time.

This said, the methodology we use means in general we would expect there to be relatively little unhedged load. For example, during the very high spot prices experienced during 2022, we monitored the exposure retailers would face if they had adopted the hedging position assumed in our Victorian Default Offer wholesale cost benchmark. We found that retailers hedged in this way would have had very little unhedged load and therefore little need for working capital to support the extreme market scenario that eventuated.

We acknowledge that some retailers may choose a riskier hedging position than assumed in our wholesale cost benchmark, and therefore have higher working capital requirements. But we are not required to set our cost benchmarks to reflect the actual costs of individual retailers.

Further, those retailers with greater exposure to the wholesale spot price may also spend less on hedging contracts. As a result, if we were to increase the volatility allowance, we would also have to make a commensurate decrease in hedging contract purchase costs.

We accepted Frontier Economics' estimate of wholesale electricity costs

We engaged Frontier Economics to estimate wholesale electricity purchase costs. We considered their approach, and we consider their recommendations reflect an appropriate benchmark for efficient wholesale electricity purchase costs. A full description of Frontier Economics' methodology including data sources is included in its report.³⁷ A summary is provided below.

Frontier uses a Monte Carlo simulation to forecast demand and spot prices

The first step in Frontier Economics' methodology is to forecast demand and the relationship between price and demand. It analysed historical data on load and prices. Based on their analysis, they selected appropriate historical data, which is the three most recent years available (calendar years 2021 to 2023) and performed Monte Carlo simulations.³⁸ The Australian Energy Market Operator then provided us with half-hourly customer load data which was then incorporated into

³⁷ Frontier Economics, Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission, May 2024.

³⁸ Frontier Economics, Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission, May 2024, p. 16

Frontier Economics' analysis. Victorian half-hourly spot prices for the same period were sourced from the market operator's publicly available data. This data reflects the aggregate (net) position of electricity used and exported for each interval, in each distribution zone throughout each day.

The Monte Carlo simulations randomly generate a year of half-hourly observations. This process is repeated 500 times to generate a range of simulated years.³⁹ Each simulated year is normalised to maintain load shape and the correlation between load and price. Each simulation is then scaled to half-hourly prices so that the time-weighted average prices in each quarter is equal to the relevant quarterly ASX Energy base swap price for 2024–25, subtracting a contract premium.⁴⁰ These simulations give a range of possible outcomes for demand and the relationship between price and demand for 2024–25.

The wholesale electricity prices are based on the 50th percentile of this range. Origin in its submission suggested:

We consider it would represent good regulatory practice for the ESC to test whether an actual WEC using its assumed hedging portfolio and actual load and price data would fall within its distribution of modelled outcomes. If the actual WEC falls outside of the modelled distribution over multiple years, we believe this would demonstrate a need for the ESC to consider increasing its choice of selected percentile.⁴¹

We consider using the results within the 50th percentile evenly distributes forecasting risk between electricity retailers and customers.

Like previous reviews we had Frontier exclude the days options contracts are exercised from the trade-weighted averages of ASX Energy prices. This is because we do not use options contracts to create a hedging position. If we were to include contracts traded on the days options were exercised it would include the benefit of options to retailers (of lower hedging costs) without including their cost. This is a continuation of the approach to estimating wholesale electricity costs used in the last Victorian Default Offer review.

We adopted Frontier Economics' recommended hedging position

With the range of possible demand outcomes, Frontier Economics estimates the hedging position a prudent retailer would adopt. To estimate the cost of hedging, we asked Frontier Economics to

³⁹ The random drawing of data is done from a pool of like days, where days are classified as either weekdays or weekends, from either Q1 (January to March), Q2 (April to June), Q3 (July to September) and Q4 (October to December).

⁴⁰ The assumed contract premium is five per cent on the underlying prices.

⁴¹ WEC is an acronym for wholesale electricity costs. Origin Energy, submission to draft decision, April 2024, p. 1.

use 12-month trade-weighted hedging contract prices from ASX Energy (base swaps and base \$300 caps). An efficient contracting position was then estimated using Frontier Economics' STRIKE model. The model uses the ASX Energy contract prices and the demand conditions from the Monte Carlo simulations to determine the contracting positions that provide the lowest wholesale energy costs.

An amount for holding working capital (cash) to fund spot market purchases was also included – a volatility adjustment which funds shortfalls during periods of very high spot prices.

We factored network losses into our wholesale cost forecasts

When electricity is transported through transmission and distribution networks, some of it is lost in the process. As a result, more electricity is generated than is consumed by end users. These losses must be factored into any electricity purchased through the wholesale market to ensure supply meets demand, and as such they need to be reflected in the benchmark we establish.

In calculating network loss factors, we must decide how to account for marginal (energy losses for electricity transmitted on a transmission network) and distribution (losses on a distribution network) loss factors.

We use the short sub-transmission factor for the CitiPower, Jemena, and United Energy distribution zones and the weighted average of the short and long sub-transmission factors for the Powercor and AusNet Services zones.⁴²

In calculating the marginal loss factor, we take a simple average of the relevant regional reference node factor for each distribution zone.⁴³ We remove some transmission nodes that do not have any residential or small business load. We combine these to calculate an adjustment factor which is applied to energy purchase costs, environmental costs, and ancillary charges. This approach is consistent with the approach we used in the 2023–24 Victorian Default Offer.

Network costs

- Our final decision is to continue using a cost pass through approach for network costs, using network tariffs approved by the Australian Energy Regulator.
- For our final decision on network costs, we have used the network tariffs for 2024–25 approved by the Australian Energy Regulator on 7 May 2024.

⁴² Australian Energy Market Operator, Distribution Loss Factors for the 2023–24 Financial Year, March 2023, p. 12.

⁴³ Australian Energy Market Operator, Preliminary Marginal Loss Factors 2023–24 Financial Year, March 2023, pp. 23–25.

- Network costs represent about 36 per cent of the average domestic Victorian Default Offer flat tariff bill (averaged across the five distribution zones).
- For domestic customers, network costs are on average around eight per cent higher than 2023–24.
- For domestic customers, increases by distribution zone range from an increase of around four per cent for AusNet, to an increase of around 15 per cent for Jemena.
- The increase in approved network tariffs for small business customers are slightly lower than those for domestic customers.

Network costs represent the costs of building, operating and expanding electricity transmission and distribution networks. There are five electricity distribution networks operating in five separate zones across Victoria, each with their own maintenance needs and growth rates.

The charges for each network are approved by the Australian Energy Regulator annually and are paid by electricity retailers for access to transmission and distribution services. Retailers pass these costs onto their customers via retail bills. We are required to have regard to network costs in estimating efficient costs of electricity retailers.⁴⁴

For all domestic and small business electricity customers, each network tariff consists of three main elements:

- distribution charges – for the use of the distribution network
- transmission charges – for the use of the transmission network
- jurisdictional charges – for the payments distributors are required to make within each jurisdiction.

Network costs are generally structured in one of two ways:

- a daily supply charge and a flat usage charge (flat network tariffs)
- a daily supply charge and peak usage and off-peak usage charge (two-period time of use network tariffs).⁴⁵

⁴⁴ Clauses 12(4)(b) of the pricing order.

⁴⁵ We amended the 2021 Victorian Default Offer price determination in July 2021 to incorporate a two-period time of use tariff.

Our final decision is to maintain the cost pass through approach to network costs

We used the 2024–25 network tariffs the Australian Energy Regulator has approved for each distribution zone to establish a benchmark for network costs (Appendix B). The Australian Energy Regulator approved tariffs for 2024–25 on 7 May 2024.

Our final decision on network costs continues to incorporate customer weighted average metering costs for each distribution zone, and a controlled load option for domestic customers where applicable. The metering costs are based on the Australian Energy Regulator approved 2024–25 network tariffs.

Network costs for 2024-25

In our final decision on average network costs increase by 8 per cent for both domestic and small business customers (averaged across all five distribution zones) in comparison to 2023–24.

Table 4 shows that network costs changes vary by distribution zone. The increase in network costs ranges from around four to 15 per cent depending on the region. The Australian Energy Regulator identified a range of reasons for higher revenues that result in higher network tariffs, including:⁴⁶

- higher than forecast inflation
- increased transmission costs
- recovery of under-recovered distribution revenue in prior years.

Table 4: Network costs for domestic flat tariffs (nominal)

	AusNet	CitiPower	Jemena	Powercor	United Energy	Average
2024–25	\$766	\$491	\$594	\$600	\$514	\$593
2023–24	\$738	\$454	\$516	\$557	\$479	\$549
% change	3.7%	8.0%	15.2%	7.8%	7.4%	8.1%

Stakeholders support our approach to network costs

We received six submissions on network costs.⁴⁷

⁴⁶ Statement of reasons: Jemena’s Annual Pricing proposal– AER, May 2024, Statement of reasons: Ausnet’s Annual Pricing proposal– AER, May 2024, Statement of reasons: Powercor’s Annual Pricing proposal– AER, May 2024, Statement of reasons: United Energy’s Annual Pricing proposal– AER, May 2024, Statement of reasons: CitiPower’s Annual Pricing proposal– AER, May 2024.

⁴⁷ Origin Energy, submission to draft decision, April 2024, p. 2, Energy Locals, submission to draft decision, April 2024, p. 1, AGL Energy, submission to draft decision, April 2024, p.1, Alinta Energy, submission to draft decision, April 2024, p. 1, Australian Energy Council, submission to draft decision, April 2024, p.2, Momentum Energy, submission to draft decision, April 2024, p. 1.

Energy Locals, Origin Energy, Alinta Energy and the Australian Energy Council are supportive of our approach of incorporating network tariffs approved by the Australian Energy Regulator in our final decision. Some submissions noted that network costs are the largest component of retail bills and raised concerns about the likelihood of a continual increase in network prices amplifying affordability challenges for future Victorian Default Offer price reviews.⁴⁸

We consider using the cost pass through approach approved by Australian Energy Regulator remains the best approach for including network cost in the Victorian Default Offer. It represents the actual cost that retailers pay to access to transmission and distribution services based on the maintenance needs and growth rate in their area.

Environmental costs

- Environmental costs represent about eight per cent of the average domestic flat Victorian Default Offer bill (averaged across the five distribution zones).
- Our final decision means environmental costs for domestic customers increase slightly (by \$4) compared to the 2023–24 determination.

We are required to have regard to environmental costs when reviewing and setting the Victorian Default Offer.⁴⁹ As these costs are unavoidable, we include them in the Victorian Default Offer. This helps the Victorian Default Offer reflect retailers' efficient costs of selling electricity.⁵⁰

Environmental costs faced by Victorian electricity retailers relate to the following programs:

- Large-scale Renewable Energy Target
- Small-scale Renewable Energy Scheme
- Victorian Energy Upgrades program
- the social cost of carbon applied within the minimum feed-in tariff.

The amount of environmental costs in our final decision has increased slightly from the amount included in the 2023–24 Victorian Default Offer for domestic and small business customers.

⁴⁸ AGL Energy submission to draft decision, April 2024, p.1, Momentum Energy submission to draft decision, April 2024, p. 1.

⁴⁹ Clause 12(4)(c) of the [pricing order](#).

⁵⁰ Clause 12(3) of the [pricing order](#).

Our final decision updated our benchmarks for environmental costs

Since the draft decision we have updated benchmarks to reflect more recent data on certificate prices, customer numbers, renewable exports and some liability percentages.

An average domestic Victorian Default Offer customer will pay \$135 per year in environmental costs out of a total annual bill of \$1,655. This is \$4 higher than the amount included in the 2023–24 Victorian Default Offer cost stack.

Our approach to estimating environmental costs

The approach we have applied in our final decision for each environmental cost is explained below.

- Large-scale Renewable Energy Target:
 - The 2024 renewable power percentage (liability percentage) is multiplied by the 2024–25 forward market price for large-scale generation certificates.⁵¹
 - A true-up is then applied to account for the difference in the renewable power percentage used in the 2023–24 Victorian Default Offer and the actual percentage for the 2023–24 period.⁵²
- Small-scale Renewable Energy Scheme:
 - The mid-point between the 2024 binding and the 2025 non-binding small-scale technology percentage (liability percentage) is multiplied by the clearing house price for small-scale technology certificates.^{53 54}

⁵¹ The Clean Energy Regulator sets the renewable power percentage for each calendar year, this determines the amount of large-scale generation certificates liable entities must surrender to meet their obligations. The 2024 liability percentage is 18.48 per cent. Clean Energy Regulator, <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

⁵² The Clean Energy Regulator set the renewable power percentage for 2023 at 18.96 per cent and 18.48 per cent for 2024, the renewable power percentage to apply for 2023–24 is 18.72. <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

⁵³ The Clean Energy Regulator sets a binding small-scale technology percentage for each calendar year and a non-binding percentage for two future years. This determines the amount of small-scale technology certificates liable entities must surrender to meet their obligations. The binding small-scale technology percentage for 2024 is 21.26 per cent and the non-binding liability percentage for 2025 is 16.14 per cent, the liability percentage to apply for 2024–25 is 18.70. Clean Energy Regulator, <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/small-scale>, accessed 3 May 2024.

⁵⁴ The STC clearing house is operated by the Clean Energy Regulator and has a fixed price of \$40 (excluding GST) per small-scale technology certificate (STC). STC's can be sold through the open market for an uncapped price or through the STC clearing house for a fixed price. Clean Energy Regulator, <https://cer.gov.au/markets/renewable-energy-certificates#:~:text=Systems%20owners%20and%20registered%20agents,price%20of%20%2440%2C%20excluding%20GST.>, accessed 3 May 2024.

- A true-up is applied to account for the difference between the small-scale technology percentage used in the 2023–24 Victorian Default Offer and the actual binding percentage for the 2023–24 period.⁵⁵
- Victorian Energy Upgrades program:
 - 12-month trade-weighted average spot price for Victorian energy efficiency certificates (VEECs) is multiplied by the 2024 greenhouse gas reduction rate.⁵⁶
 - Social cost of carbon applied to the minimum feed-in tariff:
 - Total renewable exports for the most recent complete calendar year are multiplied by the social cost of carbon (2.5 cents per kilowatt hour for 2024–25).⁵⁷
 - This amount is then divided by the total usage for the same period.

The above costs are multiplied by the network loss factors.

We considered stakeholder feedback on environmental costs

We received seven submissions from electricity retailers and the Australian Energy Council in response to our draft decision.⁵⁸ These noted recent observed increase in the price of Victorian energy efficiency certificates (VEEC), and that our 12-month trade weighted approach to estimating VEEC prices was producing a benchmark below the certificate prices they expect to pay in 2024–25. Additionally, retailers raised that if a business does not acquire certificates to meet their obligations, they may face penalty payments.⁵⁹

Submissions raised that the recent increase in VEEC prices was, in their view, driven by supply limitations.

⁵⁵ The binding small-scale technology percentage for 2023 is 16.29 per cent and the binding liability percentage for 2024 is 21.26 per cent, the liability percentage to apply for 2023–24 is 18.78. Clean Energy Regulator, <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/small-scale>, accessed 3 May 2024.

⁵⁶ 12-month period is from 1 May 2023 to 22 April 2024. Greenhouse gas reduction rate for electricity in 2024 is 0.15244. Essential Services Commission, <https://www.esc.vic.gov.au/victorian-energy-upgrades-program/participating-veu-program/energy-retailers-veu-program>, accessed 3 May 2024.

⁵⁷ Order specifying a methodology and factors for the determination of the avoided social cost of carbon. Victorian Government 2017, *Victoria Government Gazette No. s 36*, Tuesday 21 February 2017. Essential Services Commission calculation, Minimum Feed-in Tariffs from 1 July 2024 final decision, 27 February 2024 p. 41

⁵⁸ AGL Energy submission to draft decision April 2024, p. 2, Australian Energy Council submission to draft decision April 2024, pp. 2-3, Alinta Energy submission to draft decision April 2024, p.1, Energy Locals submission to draft decision April 2024, p. 2, EnergyAustralia submission to draft decision April 2024, pp. 1-2, Momentum submission to draft decision April 2024, pp. 2-3, Origin submission to draft decision April 2024, p.2

⁵⁹ AGL Energy submission to draft decision April 2024, p. 2, Australian Energy Council submission draft decision April 2024, pp. 2-3, EnergyAustralia submission to draft decision April 2024, pp. 1-2, Momentum submission to draft decision April 2024, pp. 2-3, Origin Energy submission to draft decision April 2024, p. 2

Submissions suggested including a shorter averaging period to capture and carry over recent higher prices for 2024–25.⁶⁰ While some submissions supported our approach in using a 12-month trade-weighted average period they considered that we should update for latest available data.⁶¹

We consider using a 12-month trade weighted average is an appropriate approach compared to a shorter period. A shorter period would give undue weight to short term market conditions to set a benchmark for the year ahead. The next Victorian Default Offer will reflect the next 12-months of certificates prices so our benchmark will reflect changes in market prices over time.

We understand that retailers may adopt a ‘portfolio’ approach to meeting their obligations under the Victorian Energy Upgrades program, including a mix of on market purchases and contractual arrangements. The actual costs borne by retailers may vary depending on its approach. In any particular year, actual costs may be higher or lower than the benchmark we set. For the purposes of setting benchmarks for the Victorian Default Offer, a consistent and transparent approach based on the use of market-based data best aligns with the requirements of the pricing order.

We updated benchmarks for the Large-scale Renewable Energy Target

The Large-scale Renewable Energy Target (LRET) is an Australian Government policy designed to reduce emissions in the electricity sector and encourage additional generation from renewable sources. It creates a financial incentive for the installation of large-scale renewable energy power stations.

Under the policy, eligible power stations create large-scale generation certificates (LGCs) for every megawatt hour of renewable power they generate. Electricity retailers buy LGCs to meet their legally binding Renewable Energy Target obligations, this is done on an open market. The Clean Energy Regulator sets a target for renewable electricity to be generated each year.⁶² Annual renewable generation targets and the amount of wholesale electricity purchased by electricity retailers determine the renewable power percentage (liability percentage). Electricity retailers are required to buy and surrender LGCs to the Clean Energy Regulator each year based on the liability percentage.

⁶⁰ AGL Energy submission to draft decision April 2024, p. 2, EnergyAustralia, submission to draft decision April 2024, pp.1–2

⁶¹ Australian Energy Council submission to draft decision April 2024, pp. 2-3, Alinta Energy submission to draft decision April 2024, p. 1

⁶² The Clean Energy Regulator has set the renewable energy target at 33,000,000 megawatt hours since 2021, <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

Using publicly available information on future market prices for LGCs is a transparent and replicable method to estimating the efficient cost of the LRET program.

To estimate the per megawatt benchmark cost for the LRET we start with the 2024 liability percentage of 18.48 per cent.⁶³ We then multiply the liability percentage by the average future market price for 2024–25 LGCs.⁶⁴

We then apply a true-up to account for the difference between the liability percentage used in our previous decision (18.96 for the calendar year 2023) and the actual liability percentage for the 2023–24 period. To do this we reflect the midpoint between the 2023 and 2024 liability percentages.⁶⁵ We do this because electricity retailers have no control over the liability percentage so are unable to adopt hedging strategies and our estimate should best reflect their costs for each period.

The 2024 liability percentage was unavailable to be included in our draft decision, so a true-up was not able to be performed. A lower liability percentage for 2024 has contributed to the decrease in cost between our draft and final decisions for the 2024–25 Victorian Default Offer.

Our final decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the LRET for 2024–25, is \$8.90 per megawatt hour. This is a decrease of \$1.57 per megawatt hour from our 2023–24 Victorian Default Offer due to a lower liability percentage between 2023 and 2024.

We updated benchmarks for the Small-scale Renewable Energy Scheme

The Small-scale Renewable Energy Scheme (SRES) places an obligation on electricity retailers to purchase small-scale technology certificates (STCs). Under the scheme, individuals and small businesses that install eligible small-scale renewable energy systems such as solar panels, solar hot water systems and air sourced heat pumps can create STCs.⁶⁶ These STCs can then be sold to electricity retailers.

⁶³ Clean Energy Regulator set the renewable power percentage at 18.48 per cent for 2024. Clean Energy Regulator <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

⁶⁴ We have used the most recent 12-months of average future market prices for 2024–25 LGCs. Frontier Economics, Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission, May 2024 p. 44

⁶⁵ The Clean Energy Regulator set the renewable power percentage for 2023 at 18.96 per cent and 18.48 per cent for 2024, the renewable power percentage to apply for 2023–24 is 18.72. <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

⁶⁶ For more information see <https://cer.gov.au/schemes/renewable-energy-target/small-scale-renewable-energy-scheme>, accessed 3 May 2024.

By March each year the Clean Energy Regulator sets a **binding** small-scale technology percentage (binding liability percentage) for the current year, and **non-binding** small-scale technology percentage (non-binding liability percentage) for future years.⁶⁷ These liability percentages set the amount of STCs electricity retailers must buy. Electricity retailers must then surrender STCs, based on the liability percentage, to meet their obligations under the SRES for that year.

Our final decision is to use the same approach to calculate the cost of the SRES as we used in previous Victorian Default Offer decisions.

We use the mid-point between the 2024 binding and the 2025 non-binding liability percentages. Using the 2024 binding percentage of 21.26 and the 2025 non-binding percentage of 16.14 creates a mid-point of 18.70 per cent. We then multiply that figure by the STC clearing house price for small-scale technology certificates (\$40).⁶⁸

Then we apply a true-up to account for the difference between the percentage used in the 2023–24 Victorian Default Offer decision (binding 2023 and non-binding 2024 liability percentage) and the actual small-scale technology percentage that applied in the 2023–24 period.⁶⁹

The 2024 binding liability percentage was not available to be included in our draft decision, so a true-up was not performed. This has contributed to the increase in cost between our draft and final decisions for the 2024–25 Victorian Default Offer.

Our final decision for domestic and small business Victorian Default Offer customers, regarding the cost of compliance with the SRES for 2024–25, is \$7.48 per megawatt hour. This is an increase of \$2.11 per megawatt hour from our benchmark in our 2023–24 Victorian Default Offer.

⁶⁷ Clean Energy Regulator, <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/small-scale>, accessed 3 May 2024.

⁶⁸ Small-scale renewable energy system owners and registered agents have the option to sell small-scale technology certificates (STCs) through the open market for an uncapped price, or through the STC clearing house at a fixed price of \$40 (ex GST). Clean Energy Regulator, <https://cer.gov.au/markets/renewable-energy-certificates#:~:text=Systems%20owners%20and%20registered%20agents,price%20of%20%2440%2C%20excluding%20GST>, accessed 3 May 2024.

⁶⁹ The Clean Energy Regulator set the binding liability percentage for 2023 at 16.29 per cent and the non-binding for 2024 was 17.99 per cent, making the mid-point liability percentage used in our last decision of 17.14. The binding liability percentage for 2024 is 21.26, increasing the liability percentage for 2023–24 to a mid-point of 18.78. <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

We updated benchmarks for the Victorian Energy Upgrades program

The Victorian Energy Upgrades (VEU) program is a key mechanism in reducing greenhouse gas emissions in Victoria and the largest energy efficiency program in Australia.⁷⁰

The program aims to deliver greenhouse gas emission reductions, while helping Victorians reduce their energy costs. Under the program, accredited persons perform energy upgrades to create Victorian energy efficiency certificates (VEECs), which can lead to discounted energy efficient products for Victorians.

Each VEEC represents one tonne of carbon dioxide equivalent of greenhouse gas avoided. Electricity retailers must buy and surrender VEECs to meet their obligations set in Victorian legislation.

We have considered all submissions we received in response to our draft decision in making our final decision.

Our final decision is to keep our approach to calculating the cost of the Victorian Energy Upgrades program for electricity retailers the same as in previous decisions. We use the most recent 12-month trade-weighted average spot price for VEECs multiplied by the 2024 greenhouse gas reduction rate for electricity.⁷¹

Using an average trade-weighted certificate price of \$87.01 excluding GST, multiplied by the 2024 greenhouse gas reduction rate of 0.15244, means the cost incurred to comply with the Victorian Energy Upgrades program for a domestic Victorian Default Offer customer is \$13.26 per megawatt hour.

This is an increase of \$2.08 from \$11.18 per megawatt hour in our 2023–24 Victorian Default Offer. Whilst the 2024 greenhouse gas reduction rate is lower than in our 2023–24 Default Offer, the increase is due to the increase in the average trade-weighted certificate price.

We have changed how feed-in-tariff costs are reflected in prices

The minimum feed-in tariff is the minimum rate electricity retailers must pay solar customers for electricity exported to the grid. The feed-in tariff includes a payment for the avoided social cost of carbon, which is the value of carbon emissions that are avoided when energy is sourced from

⁷⁰ Essential Services Commission, Victorian Energy Upgrades Performance Report 2022, September 2023, p. 2

⁷¹ From 28 April 2023 to 21 April 2024. Greenhouse gas reduction rate for 2024 is 0.15244. Essential Services Commission, <https://www.esc.vic.gov.au/victorian-energy-upgrades-program/participating-veu-program/energy-retailers-veu-program>, accessed 3 May 2024.

small-scale renewable generators (like roof-top solar). The Victorian Government has set the social cost of carbon at 2.5 cents per kilowatt hour.^{72 73}

All factors that make up the minimum feed-in tariff, except the social cost of carbon, are accounted for elsewhere when we estimate the Victorian Default Offer. However, electricity retailers are still required to pay small-scale renewable generators for this additional social benefit. As a result, we include the social cost of carbon in our cost stack.

In the past, we have allocated these costs as a fixed charge. That is, the amount paid by a Victorian Default Offer customer was the same, irrespective of a customer's electricity usage. Our final decision has updated our approach to reflecting the social cost of carbon in Victorian Default Offer prices. In line with submissions asking us to monitor our approach so it best meets the requirements of the pricing order,⁷⁴ as with other elements of the cost stack, we continually monitor our approach and update it where we think it better aligns with the objectives of the Victorian Default Offer.

We consider the nature of this cost is to reflect the avoided social cost that exporting volumes of solar energy creates. Which means the cost is variable in nature and a variable (dollar per kilowatt hour) recovery structure is more appropriate than the fixed charge approach we have adopted in the past. This means that customers that use more electricity and have a greater impact on social costs, contribute more than those consuming less electricity. This approach matches the application of the feed-in-tariff which is a variable charge (so too are the other environmental costs included in the Victorian Default Offer).

Importantly, this does not change the amount of costs reflected in the Victorian Default Offer for the social cost of carbon. It only changes how the costs are recovered.

To estimate the cost incurred by electricity retailers, we multiply the total renewable exports for the 2023 calendar year by the social cost of carbon. The resulting amount is then divided by the total usage for the same period, this results in a per kilowatt hour cost. Previously we divided the resulting amount by the number of residential and small business customers for that same period to estimate a fixed cost.

⁷² Order specifying a methodology and factors for the determination of the avoided social cost of carbon. Victorian Government 2017, *Victoria Government Gazette No. S 36*, Tuesday 21 February 2017.

⁷³ Essential Services Commission calculation, Minimum Feed-in Tariffs from 1 July 2024 final decision, 27 February 2024 p. 41.

⁷⁴ Victorian Council of Social Service (VCOSS), Consumer Action Law Centre, Energy Consumers Australia, Financial Counselling Victoria Inc, Federation of Community Legal Centres Victoria Joint submission to draft decision April 2024, p.6

Our final decision for domestic and small business Victorian Default Offer customers, regarding the cost of the minimum feed-in tariff for 2024–25, is \$1.60 per megawatt hour or \$0.0016 per kilowatt hour.

Retail operating costs

- Our final decision is to continue setting the retail operating cost benchmark using the customer-weighted average of retailers' actual retail operating costs adjusted for inflation. This approach was first adopted for our 2023–24 Victorian Default Offer decision.
- Retail operating costs represent about 8.5 per cent of the average domestic Victorian Default Offer flat tariff bill (averaged across the five distribution zones).
- The retail operating costs in our final decision are about 6.3 per cent higher than the amount included in the 2023–24 Victorian Default Offer determination due to inflation and an increase in retailers reported operating costs.

Retail operating costs consist of a range of costs incurred by an electricity retailer:

- billing and revenue collection systems
- information technology systems
- call centre costs
- corporate overheads
- energy trading costs
- bad and doubtful debt write-offs
- regulatory compliance costs.

The pricing order requires us to have regard to efficient retail operating costs.⁷⁵

Our final decision maintains a benchmarking approach based on retailers' cost data

For our final decision, we have set the retail operating cost benchmark based on the customer weighted average of retailers' actual costs over the 2022–23 financial year.⁷⁶ This is the most up-to-date cost information available, incorporating any productivity improvements.

The cost data shows that retailers' retail operating costs increased by about 6.3 per cent between 2021–22 and 2022–23 when adjusted for inflation.

⁷⁵ Clause 12(4)(d) of the pricing order.

⁷⁶ Essential Services Commission 2023, Victorian Default Offer 2023-24: Final Decision Paper, 25 May.

The customer weighted average of retail operating costs per customer in 2022–23 was \$136.61 excluding GST. Consistent with the approach taken in previous reviews, we adjusted the benchmark for the change in the Consumer Price Index, so the benchmark is constant in real terms. Adjusting the benchmark for the change in the consumer price index results in a retail operating benchmark of \$140.39 excluding GST. This is higher than the benchmark amount of \$132.03 included in the 2023–24 Victorian Default Offer but lower than \$146.35 which was our benchmark in the 2022-23 Victorian Default Offer.

Our retail operating cost benchmark (\$140.39) is lower than the benchmark amount \$142.54 used in our draft decision. This reflects our further analysis of data reported by retailers, to remove amounts that we consider do not reflect ongoing costs.

While individual retailers may have costs which differ from our benchmark, we do not set the benchmark for an individual retailer, or industry segments. Instead, we consider the costs faced by the overall industry when setting this benchmark.

Stakeholders had mixed views on our approach to retail operating costs

We received four submissions on our approach to setting a retail operating cost benchmark.

Origin Energy and Alinta Energy support our approach.⁷⁷ Alinta Energy agrees that our efficient cost benchmark reflects the most up-to-date cost information, on a customer-weighted average basis and captures any improvements in retailers' productivity.

Energy Locals and ENGIE considered that a customer-weighted average approach to determining a retailer operating cost estimate introduces a bias in the estimate toward the operating cost of large retailers who can benefit from economies of scale.⁷⁸

ENGIE submitted that it will be more challenging for smaller retailers to compete in the market and supply market contracts at or below the mandated Victorian Default Offer price based on a customer-weighted average approach to estimating efficient retail operating costs and urges us to adopt a different measure.

The pricing order requires us to base the Victorian Default Offer tariffs on the efficient costs of the sale of electricity in the market as a whole and not on the actual costs of a particular group of retailers.⁷⁹ Our approach is to consider the costs faced by a sample of retailers that is

⁷⁷ Origin Energy submission to draft decision April 2024, Alinta Energy submission to draft decision April 2024.

⁷⁸ Energy Locals submission to draft decision April 2024, ENGIE submission to draft decision April 2024.

⁷⁹ Clause 12, subclauses 3 and 8 of the pricing order.

representative of the broader Victorian retail electricity industry. We note that there are several retailers of different sizes with operating costs below our benchmark.

Energy Locals considered that our approach to retail operating costs does not appear to consider the financial burden that retailers face in having to absorb any shortfall in customer concessions, or implementation costs for smaller retailers for the Consumer Data Right.⁸⁰ We note any lags in cost recovery are considered in our benchmark over time given our use of data reported by retailers.

Customer acquisition and retention costs

- Our final decision is to keep the same approach we have used in past reviews to estimate customer acquisition and retention costs (acquisition costs). This leads to a benchmark of \$45.50 for the 2024–25 Victorian Default Offer.
- Acquisition costs represent about 2.7 per cent of the average domestic Victorian Default Offer bill (averaged across the five distribution zones).
- Due to inflation, acquisition costs in the cost stack have slightly increased compared to those in the 2023–24 Victorian Default Offer.

The pricing order requires us to consider modest costs for customer acquisition and retention (acquisition costs) in making our Victorian Default Offer determinations.⁸¹ In our view, these costs include:

- The cost of acquisition channels (such as third-party comparison websites or telemarketing).
- The cost of retention teams.
- Marketing costs targeted at driving customer acquisition or retention.

Our final decision maintains our approach to estimating acquisition costs

For our final decision, we have set an acquisition cost benchmark of \$45.50 excluding GST.

This benchmark is based on the average NEM-wide acquisition costs from the Australian Competition and Consumer Commission’s (ACCC) retail electricity pricing inquiry report.⁸² We selected average costs from 2013–14 on the basis that it was the most robust data available prior

⁸⁰ Energy Locals submission to draft decision April 2024.

⁸¹ Clause 12(4)(d) and Clause 12(6) of the pricing order.

⁸² Australian Competition and Consumer Commission, Retail electricity pricing inquiry – Final report, June 2018, p. 222.

to large increases in spending on acquisition costs observed across most jurisdictions. This approach is consistent with all past determinations for the Victorian Default Offer.

We have updated our acquisition cost benchmark for inflation during each Victorian Default Offer review.⁸³ In adjusting for inflation, we are maintaining the value of our benchmark in real terms over time. This approach results in a modest benchmark of \$45.50 excluding GST which is slightly higher than the benchmark of \$43.89 for the 2023–24 Victorian Default Offer, due to inflation.

In terms of our approach to establishing a modest allowance for customer acquisition and retention cost, we note a recent review of the Victorian Default Offer pricing order found our interpretation of the term ‘modest’ appears to balance stakeholder interests.⁸⁴

Other costs

- Our final decision is to set a benchmark for other regulatory costs that are based on the latest available market information. These costs include:
 - market intervention costs
 - Australian Energy Market Operator fees
 - ancillary fees
 - Reliability and Emergency Reserve Trader costs
 - Essential Services Commission licence fees.
- Other costs make up around \$18, or slightly more than one per cent of total costs for a domestic Victorian Default Offer customer (averaged across the five distribution zones).
- Our final decision slightly increases the amount included for these costs compared with the 2023–24 Victorian Default Offer primarily due to a new market operator fee adding \$3 a year to the average domestic bill for Victorian Default Offer customers.

This section outlines other costs which electricity retailers incur that are specific and discrete to their obligations and requirements to operate as an electricity retailer. These costs are generally

⁸³ Australian Bureau of Statistics, All groups CPI, Australia Series ID A2325846C, available at [Consumer Price Index, Australia, March Quarter 2024](#), accessed 8 March 2024.

⁸⁴ Department of Environment, Land, Water and Planning 2022, Review of the Victorian Default Offer Order in Council Final decision, pp. 26-27.

minor, relative to the total cost stack (slightly more than one per cent) but are a relevant factor in our estimation of the efficient cost of the sale of electricity by a retailer.⁸⁵

Our final decision is to pass through these other costs that electricity retailers incur in keeping with the approach to estimating these costs as we have used in previous decisions. These costs include:

- Market intervention costs
- Australian Energy Market Operator fees
- Ancillary fees
- Reliability and Emergency Reserve Trader costs
- Essential Services Commission licence fees.

Retailers should be able to recover market suspension costs

The Australian Energy Market Operator (market operator) manages the power system that supports the National Electricity Market (NEM). If the power system is interrupted the market operator can act to maintain a secure operating state by suspending the NEM. In the event the NEM is suspended, the cost of electricity traded on the NEM during that time is determined through market suspension pricing schedules set out in the National Electricity Rules.⁸⁶ Costs are recovered by the market operator from electricity retailers that contributed to electricity demand during the suspension event.

Two short events occurred in 2023 that required the market operator to temporarily suspend the NEM due to system outages.⁸⁷ Both events resulted in market suspension pricing to apply, and the market operator recovers this cost through Victorian electricity retailers. As these events, and subsequent costs, are unavoidable for Victorian electricity retailers we include known costs in our Victorian Default Offer cost benchmarks.

We have received finalised values from the market operator of the costs incurred due to these two short market suspension events for Victorian electricity retailers.

⁸⁵ Clause 12(4)(f) of the [pricing order](#).

⁸⁶ For more information see: [AEMC National Electricity Rules - Rule 3.14 Administered Price Cap and Market Suspension](#), accessed 3 May 2024.

⁸⁷ The National Energy Market was suspended in Victoria for approximately 12.25 hours over 22–23 April 2023, Australian Energy Market Operator [Final report: Victoria market suspension on 22 April 2023](#), accessed 3 May 2024. The National Energy Market was suspended in New South Wales for approximately one hour on 17 March 2023, Australian Energy Market Operator [Final Report: New South Wales market suspension on 17 March 2023](#), accessed 3 May 2024.

Our final decision is to include known market intervention costs to reflect the cost incurred by Victorian electricity retailers. This is consistent with our approach in previous decisions and in line with the requirement in the pricing order to base Victorian Default Offer prices on efficient costs.⁸⁸ Our final decision calculates this by dividing any known market intervention costs by the 2023–24 forecast electricity usage for Victorian customers.⁸⁹

Our final decision for the average domestic Default Offer customer includes \$0.0033 per megawatt hour to account for market suspension costs, this is unchanged from our draft decision.

Market intervention costs resulting from June 2022 event

Wholesale electricity prices increased significantly in the first half of 2022. Following this, the Australian Energy Market Operator took temporary steps to stabilise the market in June 2022. These included introducing an Administered Price Cap on wholesale electricity prices, suspending the wholesale market, and directing generators to supply as required.⁹⁰ Electricity generators incurred costs because of these actions.

Electricity generators who were financially disadvantaged during these events can make compensation claims. If the claims are successful, the value of the costs successfully claimed are then passed on to electricity retailers. The process for these claims is set out in the National Energy Rules.⁹¹

When we made our last decision, the Australian Energy Market Commission had not completed its assessment of all administered pricing claims for 2022.⁹²

The Australian Energy Market Commission intends to make a final decision on the outstanding compensation claims by May 2024. We have not included any amount in this decision as they were not determined in time, any compensation claims finalised after 27 April 2024 will be included in our 2025–26 Victorian Default Offer decision. This is in line with our approach in the 2023–24 Victorian Default Offer to only include costs that are known in the Default Offer benchmark.

⁸⁸ Clause 12(3) and 12(4)(f) of the pricing order.

⁸⁹ Finalised values and report status confirmed by the Australian Energy Market Operator by email on 16 April 2024.

⁹⁰ For more information on the June 2022 market event see: [AEMO Guide to Market Suspension in the NEM](#).

⁹¹ For more information see: [AEMC National Electricity Rules - Rule 3.14 Administered Price Cap and Market Suspension](#), accessed 3 May 2024.

⁹² For more information see: [AEMC Administered pricing compensation claims relating to June 2022 event](#), accessed 3 May 2024.

Reliability and Emergency Reserve Trader costs

The Reliability and Emergency Reserve Trader scheme is a mechanism that the Australian Energy Market Operator can use to maintain power system reliability and system security using reserve contracts. The market operator publishes reports detailing when their reliability and emergency trader functions have been activated.⁹³

The market operator entered three Interim Reliability Reserve (IRR) contracts in Victoria for the duration of 1 December 2023 to 31 March 2024 and costs were reported to have been incurred in December 2023.⁹⁴ We have included \$0.22 per megawatt hour to account for these costs, this results in a cost to an average domestic Victorian Default Offer customers of \$0.88 for the 2024–25 period.⁹⁵ If further costs are recovered from Victorian electricity retailers, we will include these in our next Victorian Default Offer review.

Australian Energy Market Operator fees

Fees are charged to electricity retailers by the Australian Energy Market Operator (market operator) to recover the costs of market operation.⁹⁶ We include a range of charges and fees that the market operator allocates to market participants (electricity retailers). These include:

- general National Energy Market (NEM) fees
- Distributed Energy Resources Integration Program costs including NEM 2025 Reform Program fees
- IT and 5MS/GC compliance costs
- Energy Consumers Australia fees
- Electricity Retail Market fee (formally the Full Retail Contestability operations fee).

Our approach to market operator fees is to include these costs when determining the Victorian Default Offer as these are unavoidable costs incurred by electricity retailers when selling electricity. We consider market operator fees are a relevant factor in our estimation of the efficient cost of the sale of electricity by a retailer.⁹⁷ Our final decision estimate of market operator fees is based on the

⁹³ Australian Energy Market Operator 2024, [RERT reporting](#), accessed 3 May 2024.

⁹⁴ Australian Energy Market Operator 2024, [Reliability and Emergency Reserve Trader Quarterly Report Q4 2023](#), accessed 3 May 2024, p. 5

⁹⁵ Amount recovered and the recovery rate (c/MWh) from Victorian market customers (electricity retailers) was confirmed by the Australian Energy Market Operator via email on 17 April 2024.

⁹⁶ For more information on the Australian Energy Market Operators core functions and responsibilities see: [Energy market fees and charges](#), accessed 3 May 2024.

⁹⁷ Clause 12(3) and 12(4)(f) of the [pricing order](#).

market operator's draft 2024–25 budget and fees. This reflects all fees applicable from 1 July 2024, including the newly introduced National Energy Market (NEM2025) Reform Program fees.⁹⁸

The total cost in our final decision for market operator fees for the average domestic Default Offer customer is \$13.92 for 2024–25. This is an increase of \$3.94 from \$9.98 in our final 2023–24 decision. This increase is mainly due to the market operator's inclusion of new National Energy Market 2025 Reform Program fees.⁹⁹

This amount has changed from our draft decision on the 2024–25 Victorian Default Offer as that decision used the approved 2023–24 budget and fees. Our approach to using the most recent and available information is the same approach adopted in previous Victorian Default Offer reviews.

Ancillary fees

Ancillary services are used by the market operator to manage the power system safely, securely and reliably, for frequency, voltage and system restart processes.¹⁰⁰ The market operator provides these ancillary services separately for each market region that they operate. Unlike other charges, the market operator's ancillary service fees differ across these different market regions, and so are not included in the Australian Energy Market fees.

The relevant charges depend on the amount of service required at any time, which means the costs will vary from period to period. To estimate Victorian ancillary charges, we used an average of the past 52 weeks (ending 7 April 2024) of ancillary service payments in Victoria. Our final decision results in an average ancillary service payment of \$0.28 per megawatt hour for the average domestic Victorian Default Offer customer. This is a decrease of \$0.20 cents per megawatt hour from the 2023–24 Victorian Default Offer determination.

Essential Services Commission licence fees

Electricity retailers are charged an annual licence fee by the Essential Services Commission to sell electricity to Victorian consumers. Licence fees are based on the costs we incur in performing our regulatory functions. The specific fee for each retailer is contingent on the number of customers served by that retailer.

For our final decision, we used a market wide total of all retailer licence fees for 2023–24, adjusted for inflation, divided by the total number of customers as of 31 December 2023 to estimate the cost

⁹⁸ Australian Energy Market Operator, [Draft FY25 Budget and Fees](#), April 2024, pp. 25-28 and 43, accessed 3 May 2024.

⁹⁹ For more information on the NEM2025 Reform Program fees see: Australian Energy Market Operator, [Structure of participant fees for AEMO's NEM2025 Reform Program Final report and determination](#), October 2023.

¹⁰⁰ For more information on ancillary services see: Australian Energy Market Operator, [Ancillary Services Payments and Recovery](#), accessed 3 May 2024

of licence fees per customer for the 2024–25 Victorian Default Offer. The latest approved licence fees are for 2023–24. When adjusted by inflation this results in a benchmark of \$2.17 per customer per year for our 2024–25 draft decision. This is a decrease of \$0.09 per customer from \$2.26 in our 2023–24 Victorian Default Offer determination, this is due to using more recent licence fees, customer numbers and updated inflation.

Retail operating margin

- Our final decision is to maintain the retail operating margin at 5.3 per cent.
- The retail operating margin represents 5.3 per cent of all other costs for Victorian Default Offer customers (before GST).
- Our final decision means that the dollar value of the retail operating margin in the Victorian Default Offer domestic cost stack will decrease by \$5 (on average across Victoria’s five distribution zones) relative to the amount in the 2023–24 Victorian Default Offer.

The pricing order requires us to have regard to the retail operating margin when making a Victorian Default Offer price determination.¹⁰¹ The retail operating margin is expressed as a percentage of the cost stack.¹⁰² The retail operating margin represents the operating profit margin required to compensate investors for the capital they provide retailers. It covers:

- systematic risk (non-diversifiable)
- tax
- depreciation and amortisation.

The pricing order notes that risks accounted for in other components of the cost stack (such as wholesale electricity market risk) must not be included in the retail operating margin.¹⁰³ We are also not required to base retail operating margins on actual retailer operating margins.¹⁰⁴

¹⁰¹ Clause 12(4)(e) of the pricing order.

¹⁰² The term ‘margin’ is used as an estimate of profit divided by sales. Holding the percentage earnings before interest, taxes, depreciation, and amortization margin constant means that if energy, network and operating costs rise over time, the dollar margin will also rise, reflecting an increase in the required capital in dollar terms

¹⁰³ Clause 12(7) of the pricing order.

¹⁰⁴ Clause 12(9) of the pricing order.

We have set the retail operating margin at 5.3 per cent

For the 2024–25 Victorian Default Offer, we have maintained our benchmark approach and adopted a retail operating margin of 5.3 per cent. This is the same rate set in our final decision for 2023–24, and in our draft decision for 2024–25.

We considered stakeholders' submissions on the retail margin

Following our draft decision, we received several submissions commenting on our approach to setting the retail operating margin.¹⁰⁵ In general retailers sought a higher retail margin and consumer representatives sought a lower retail margin.

The Australian Energy Council and some retailers proposed the margin be set at 5.7 per cent, reinstating the rate set at reviews prior to 2023–24. Some also set out views regarding the factors we should consider in arriving at a retail margin, and the limitations of comparing our benchmark to those set by other regulators.¹⁰⁶ ENGIE considered the Australian Energy Regulator's latest draft decision, which set the retail margin at six per cent for residential customers, should be considered for our final decision.¹⁰⁷

As noted in our draft decision, we set the retail operating margin so that at an industry level it provides a suitable return to incentivise investment in the industry for an efficient retailer.

We received no new information in submissions that caused us to change our view that the 5.3 per cent adopted in our draft decision, and the supporting reasons, should be changed for our final decision.

The Consumer Action Law Centre submitted that we should commission bottom-up modelling to quantify an efficient retail operating margin for the 2025–26 Victorian Default Offer.¹⁰⁸

A number of factors preclude a bottom-up approach being adopted for the Victorian Default Offer. A bottom-up approach relies on data to estimate a retailer's asset base on which to apply a rate of return. In retail electricity, difficulties arise in estimating an asset base due to most market participants operating across jurisdictions and with different degrees of vertical integration. This

¹⁰⁵ AGL Energy submission to draft decision April 2024, pp. 2-3, Energy Locals submission to draft decision April 2024, p. 3, EnergyAustralia submission to draft decision April 2024, p. 2, ENGIE submission to draft decision April 2024, pp. 2-3, Momentum Energy submission to draft decision April 2024, p. 1-2, Origin Energy submission to draft decision April 2024, pp. 2-3, Australian Energy Council submission to draft decision April 2024, pp. 1-4, Consumer Action Law Centre submission to draft decision April 2024, p. 5

¹⁰⁶ Australian Energy Council submission to draft decision April 2024, p. 3, Energy Locals submission to draft decision April 2024, p. 1

¹⁰⁷ Australian Energy Regulator, Default Market Offer prices 2024-25: draft determination, p. 57

¹⁰⁸ Consumer Action Law Centre, submission to draft decision April 2024, p. 5

means the asset value allocated for vertically integrated retailers might not fully reflect the assets utilised in their retail business operation in Victoria.

The Australian Energy Regulator explored using a bottom-up approach in their 2024–25 Default Market Offer draft decision and noted a similar challenge.¹⁰⁹ A report prepared for the Australian Energy Regulator noted that in 2013, IPART’s bottom–up estimate to calculate retail margins for electricity retailers in New South Wales was derived from “just 12 transactions over 14 years” which is a limited data set.¹¹⁰

A bottom-up approach is also typically adopted in asset intensive sectors such as water and energy networks, where the rate of return is intended to reflect the efficient costs of funding infrastructure investment, which is different to the construct of the margin in the Victorian Default Offer. Energy retailers by contrast will have relatively small tangible asset bases.

Comparisons with other regulators

In our draft decision, we used a regulatory benchmarking approach and reviewed other regulators’ decisions on retail operating margins. Table 5 sets out the latest information on the retail margin adopted by other regulators. In its 2024–25 Default Market Offer draft determination, the Australian Energy Regulator set its efficient margin at 6 and 11 per cent for residential and small business customers, respectively. The value of the margin in Victoria will be about \$20 to \$75 lower than retail margin in other jurisdictions.

¹⁰⁹ ACIL ALLEN, Default Market Offer 2024-25, Methodologies for estimating the retail allowance and estimate values, March 2024, p. 2.

¹¹⁰ ACIL ALLEN, Default Market Offer 2024-25, Methodologies for estimating the retail allowance and estimated values, March 2018, p. 2, SFG Consulting, Estimation of the regulated profit margin for electricity retailers in New South Wales, 4 June 2013, p. 2.

Table 5: comparison of regulated retail margins in Australia

Regulator	Approach	Point estimate or range
Australian Energy Regulator ¹¹¹	Retail allowance changes to efficient margin and competition allowance	6% for residential or \$106 to \$153 11% for small businesses or \$149 to \$166
Queensland Competition Authority (QCA) ¹¹²	Not explicitly determined. We have calculated an implied margin for the QCA. The QCA sets an overall retail cost allowance, which is recovered through fixed and variable charges.	6.7% or \$123
Office of the Tasmanian Economic Regulator ¹¹³	Margin was set at 5.25% of approved costs in 2022-23. ¹¹⁴ The fixed dollar amount of \$100.90 was escalated by the Hobart Consumer Price Index to give a 2023–24-dollar amount of \$108.38 per customer.	Approximately 5.25% or \$108
Independent Competition and Regulator Commission (ICRC) ¹¹⁵	The ICRC uses expected returns and regulatory benchmarking approach to set the margin in 2024-27 price investigation.	5.2% of the total cost stack or \$100 (inclusive of depreciation) ¹¹⁶
Essential Services Commission	Expected return approach and regulatory benchmarking approach	5.3% of total stack or \$80

¹¹¹ Australian Energy Regulator, Default market offer 2024-25 draft determination, March 2024; ACIL ALLEN, Methodologies for estimating the retail allowance and estimated values, March 2024, p. 2; SFG Consulting, Estimation of the regulated profit margin for electricity retailers in New South Wales, 4 June 2013, p. 2.

¹¹² Queensland Competition Authority, Regulated retail electricity prices in regional Queensland draft determination for 2024–25, 7 May 2024

¹¹³ Aurora energy, Pricing Proposal for period 2 of the 2022 standing offer price determination, May 2023, p. 6.

¹¹⁴ Office of the Tasmanian Economic Regulator, 2022 standing offer electricity pricing investigation, April 2022, pp. 44.

¹¹⁵ Independent Competition and Regulatory Commission, Retail electricity price investigation 2024-27, January 2024, p. 31.

¹¹⁶ ICRC is proposing to implement a retail margin that uses a hybrid approach between using a fixed dollar amount and a percentage of cost stack in its draft report for 2024–27.

Calculating tariffs and the maximum annual bill

Our final decision for the 2024–25 Victorian Default Offer is to use the same approach to setting tariffs for standing offers as we did in our 2023–24 Victorian Default Offer price determination. After setting our cost benchmarks, we turn the costs into prices for the Victorian Default Offer using three different methods:

- **flat tariffs** – for standing offers with flat tariffs
- **two-period time of use tariffs** – for standing offers with two-period time of use tariffs
- **the compliant maximum bill** – for standing offers with tariffs that are neither flat tariffs, nor two-period time of use tariffs (the compliant maximum annual bill is based on the two-period time of use tariffs).

Our view remains that this approach best meets the objectives of the pricing order. The flat tariffs and two-period time of use tariffs helps ensure that the Victorian Default Offer is a reasonably priced option.

The flat tariffs and two-period time of use tariffs reflect the underlying networks costs that retailers face for most customers.

The compliant maximum annual bill ensures that the safeguard provided by the Victorian Default Offer extends to customers on all network tariff types.

Tariff structure

Because of underlying network charges, almost all tariffs contain a fixed (daily supply) charge and a variable (per kilowatt hour) charge.

The variable charge can be structured in different ways. Under a flat or anytime usage tariff, the variable charge does not change based on the time of consumption. In contrast, time of use tariffs and other non-flat tariffs have different variable charges for electricity used at different times. Under a time of use tariff structure, using energy during times of peak demand is generally more expensive.

Flat tariffs

Under this approach, we align the tariff structures with the underlying flat network tariffs in each distribution zone.

Having a flat tariff provides a simple option for standing offer customers. This is consistent with the objectives of the pricing order, which states the Victorian Default Offer is to provide a simple, trusted and reasonably priced option for customers unable or unwilling to engage in the market.

Flat tariff cost allocation

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Usage charge (variable costs) =

(wholesale electricity costs + variable network costs + environmental program costs (including the feed in tariff social cost of carbon) + variable 'other' costs + electricity network losses) x (1 + retail operating margin) x (1 + GST rate)

Two-period time of use tariffs

Under this approach, we align the tariff structures with the underlying two-period time of use network tariffs.

Cost allocation

To set the rates for the two-period time of use tariffs, we must identify how costs should be allocated within that structure.

As with the flat tariffs we use a simple and logical method to allocate costs. Fixed costs are contained in the daily supply charge. Any costs that vary with usage go into the variable, per kilowatt hour charge component of the tariffs. The variable cost components for peak and off-peak usage charges are the same except for network costs. We use the Australian Energy Regulator's approved two-period time of use network tariffs and apply them accordingly.

Cost allocation two-period time of use tariffs

Daily supply charge (fixed costs) =

(retail operating costs including customer acquisition and retention + fixed network costs + per customer 'other' costs) x (1 + retail operating margin) x (1 + GST rate) ÷ days in the year

Peak usage charge (variable costs) =

(wholesale electricity costs + variable network costs for peak period + environmental program costs (including the feed in tariff social cost of carbon) + variable 'other' costs + electricity network losses) x (1 + retail operating margin) x (1 + GST rate)

Off-peak usage charge (variable costs) =

(wholesale electricity costs + variable network costs for off-peak period + environmental program costs (including the feed in tariff social cost of carbon) + variable 'other' costs + electricity network losses) x (1 + retail operating margin) x (1 + GST rate)

The compliant maximum customer bill

In addition to setting the flat and two-period time of use tariffs described, we regulate all other standing offers (for example, non-standard time of use and demand tariffs) through a compliant maximum annual bill (maximum bill). The maximum bill amount is calculated based on the two-period time of use tariffs.

Retailers offering tariffs that are neither flat standing offer tariffs nor two-period time of use tariffs, must make sure their tariffs do not result in an annual bill amount above the maximum annual bill amount at a specific usage amount determined by the commission.

The maximum annual bill helps to ensure that all standing offer customers are covered by the Victorian Default Offer, without removing the option for retailers to offer standing offers that are neither flat tariff standing offers nor two-period time of use tariff standing offers.

Annual reference consumption amount

The annual reference consumption amount used to determine the compliant maximum annual bill amount is as follows:

- For domestic customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 4,000 kWh per year.
- For small business customers, there will be five maximum annual bills (one for each distribution zone), calculated for a representative customer consumption of 20,000 kWh per year.

For the purposes of calculating the compliant maximum annual bill amount, we assume customers use the same amount of electricity on each day of the year.

Representative usage profiles and related usage allocations

We have not updated the usage profiles we use for calculating the compliant maximum annual bill amounts for the 2024–25 Victorian Default Offer determination. Whilst we acknowledge load shape is changing over time, we have examined changes in the share of load and there have not been significant changes since 2020–21 to warrant any change in the usage profiles we use for calculating the compliant maximum annual bill.

We used manually read interval meter data provided by the Australian Energy Market Operator to calculate these profiles.

Table 6: Domestic – usage profile for maximum bill calculation

	Peak period	Off-peak
Time period window	3.00 pm–9.00 pm every day	All other times
Usage share	0.33	0.67

Table 7: Small business – usage profile for maximum bill calculation

	Peak period	Off-peak
Time period window	9.00 am–9.00 pm weekdays	All other times
Usage share	0.49	0.51

Calculating the compliant maximum annual bill amount

The compliant maximum annual bill amount for standing offers that are neither flat tariff nor two–period time of use tariff standing offers is calculated using the relevant:

- annual reference consumption amount
- usage profiles as specified in Tables 6 and 7
- domestic and small business two-period time of use tariffs determined by the commission for each distribution zone.

Retailers must show they comply with the maximum annual bill amount

If offering standing offer tariffs that are not the flat or two-period time of use tariffs (non-standard tariffs) a retailer must show those tariffs do not result in a total annual electricity bill that exceeds the relevant compliant maximum annual bill amount determined by the commission.

In determining non-standard tariffs, the retailer must use its own representative usage profile, or relevant usage allocations for the applicable group of customers. The usage profile should also reflect a reasonably representative estimate of consumption over a 365-day period.

A retailer’s estimated annual electricity bill for a non-standard tariff must be calculated using the relevant annual reference consumption amount determined by the commission, apportioned according to the retailer’s relevant published representative usage profile, and multiplied by the retailer’s relevant non-standard tariffs.

Appendix A: Calculation of the cost stack

This appendix provides a summary of the key figures required to understand our final decision on the cost stack we use to determine the Victorian Default Offer tariffs and maximum bill.

Wholesale electricity costs

We engaged Frontier Economics to estimate wholesale electricity costs for 2024–25 using the method described in the chapter on cost components. This methodology produces an estimate based on a 12-month trade weighted average of future contract prices and a volatility allowance for setting aside cash to fund unexpectedly high spot prices.

These costs vary for each distribution zone due to differences in customer load profiles. The estimated wholesale costs for 2024–25 is presented in Table A.1.

Table A.1: Wholesale electricity forecasts for 2024–25 (\$/MWh, nominal, GST exclusive)

Distribution zone	Domestic		Small business	
	Wholesale price	Volatility adjustment	Wholesale price	Volatility adjustment
AusNet Services	\$122.17	\$0.48	\$93.91	\$0.25
CitiPower	\$101.67	\$0.21	\$89.71	\$0.27
Jemena	\$118.91	\$0.38	\$95.01	\$0.28
Powercor	\$121.96	\$0.46	\$93.23	\$0.24
United Energy	\$115.85	\$0.36	\$94.25	\$0.27

Source: Frontier Economics, *Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission*, May 2024.

Network losses

When transporting electricity through transmission and distribution networks, some electricity is lost in the process. The percentage lost overall is the total loss factor and represents the additional amount retailers must purchase when serving the consumption needs of their customers. These loss factors are also applied to the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme, Victorian Energy Upgrades program and feed-in tariff obligations of retailers.

We calculated the loss factors based on the 2024–25 distribution loss factors and the 2024–25 marginal loss factors published by Australia Energy Market Operator (see table A.2).¹¹⁷

Table A.2: Network losses for 2024–25

Distribution zone	Distribution loss factor (DLF)	Marginal loss factor (MLF)	Total loss factor
AusNet Services	1.0769	1.0025	7.95%
CitiPower	1.0434	0.9998	4.32%
Jemena	1.0468	1.0010	4.78%
Powercor	1.0757	0.9901	6.50%
United Energy	1.0463	0.9983	4.45%

Source: Australian Energy Market Operator, Distribution Loss Factors 2024–25 and Marginal Loss Factors 2024–25.

Network costs

Electricity retailers must pay network costs which include distribution, transmission, and jurisdictional charges. Electricity distribution network businesses charge these costs to retailers via network tariffs. These tariffs are typically made up of a fixed daily charge, per kilowatt hour usage charges, and an annual metering charge.

Tables A.3 and A.4 show the network tariffs that the Australian Energy Regulator approved in May 2024.

Table A.3: Domestic electricity network charges, flat tariff, 2024–25 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Variable charge structure	Variable charge (\$ per kWh)	Controlled load (\$ per kWh)
AusNet Services	\$138.51	Block 1 Block 2	\$0.1365 \$0.1434	\$0.0483
CitiPower	\$94.97	Anytime	\$0.0810	\$0.0230
Jemena	\$116.45	Anytime	\$0.1034	\$0.0439
Powercor	\$145.01	Anytime	\$0.0967	\$0.0262
United Energy	\$94.97	Anytime	\$0.0925	\$0.0254

¹¹⁷ Australian Energy Market Operator, Distribution Loss Factors for the 2024-25 Financial Year, April 2024, p. 12; CitiPower, Powercor & United Energy, response to Distribution data: solar export and transmission lines, April 2024; AusNet, response to request on AusNet Services data - solar export and transmission lines, April 2024; Australian Energy Market Operator, Marginal Loss Factor: Financial Year 2024–25, April 2024, pp. 25-26.

Source: 2024-25 pricing proposals of Victorian distribution businesses approved by the Australian Energy Regulator.

Table A.4: Small business electricity network charges, flat tariff, 2024–25 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Variable charge structure	Variable charge (\$ per kWh)
AusNet Services	\$138.51	Block 1 Block 2	\$0.1931 \$0.2024
CitiPower	\$154.98	Anytime	\$0.0895
Jemena	\$177.74	Anytime	\$0.1396
Powercor	\$189.98	Anytime	\$0.1062
United Energy	\$154.98	Anytime	\$0.1029

Source: 2024-25 pricing proposals of Victorian distribution businesses approved by the Australian Energy Regulator.

Tables A.5 and A.6 show the two-period network tariffs that the Australian Energy Regulator approved in May 2024.

Table A.5: Domestic electricity network charges, two-period time of use network tariffs, 2024–25 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Peak variable charge (\$ per kWh)	Off-peak Variable charge (\$ per kWh)	Controlled load (\$ per kWh)
AusNet Services	\$138.51	\$0.2380	\$0.0483	\$0.0483
CitiPower	\$94.97	\$0.1560	\$0.0390	\$0.0230
Jemena	\$116.45	\$0.1737	\$0.0489	\$0.0439
Powercor	\$145.01	\$0.1834	\$0.0461	\$0.0262
United Energy	\$94.97	\$0.1739	\$0.0433	\$0.0254

Source: 2024-25 pricing proposals of Victorian distribution businesses approved by the Australian Energy Regulator.

Table A.6: Small business electricity network charges, two-period time of use network tariffs 2024–25 (GST exclusive)

Distribution zone	Daily charge (\$ per year)	Peak variable charge (\$ per kWh)	Off-peak variable charge (\$ per kWh)
AusNet Services	\$138.51	\$0.2031	\$0.0482
CitiPower	\$154.98	\$0.1425	\$0.0316
Jemena	\$278.78	\$0.1799	\$0.0386
Powercor	\$189.98	\$0.1873	\$0.0416
United Energy	\$154.98	\$0.1641	\$0.0364

Source: 2024-25 pricing proposals of Victorian distribution businesses approved by the Australian Energy Regulator.

Table A.7 shows a mass market weighted average of the Australian Energy Regulator’s approved network metering charges for 2024–25.

Table A.7: Network metering charges, 2024–25 (GST exclusive)

Distribution business	Annual metering charge (\$ per customer)
AusNet Services	\$81.16
CitiPower	\$71.87
Jemena	\$63.96
Powercor	\$68.64
United Energy	\$49.31

Source: 2024-25 pricing proposals of Victorian distribution businesses approved by Australian Energy Regulator.

Environmental scheme costs

Large-scale Renewable Energy Target costs

Under the Large-scale Renewable Energy Target scheme, the Clean Energy Regulator has set the 2024 renewable power percentage at 18.48 per cent. We also use the 12-month average of forward market prices for financial year 2024–25 large-scale generation certificates.¹¹⁸ With these two pieces of information set a benchmark amount for the \$/MWh retailers must spend to fulfill their Large-scale Renewable Energy obligations.

¹¹⁸ Frontier Economics, Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission, May 2024, pp. 44.

We then apply a true-up to account for the difference between the liability percentage used in our previous decision. We estimate a mid-point between the 2023 and 2024 liability percentage and apply the difference to the large-scale generation certificates used in our last decision.¹¹⁹ The resulting amount is then applied as a true-up.

Small-scale Renewable Energy Scheme costs

Under the Small-scale Renewable Energy Scheme, the Clean Energy Regulator has set the binding 2024 small-scale technology percentage at 21.26 per cent. We used the mid-point between the 2024 binding and 2025 non-binding small-scale technology percentage to calculate the liability for this decision.¹²⁰

Historically, spot prices for certificates under the Small-scale Renewable Energy Scheme have been at or close to the clearing house price of \$40. For this reason, the price per certificate is assumed to be \$40.

Using this liability amount and certificate prices we set our benchmark for the cost of complying with Small-scale Renewable Energy Scheme requirements.

We then apply a true-up to account for the difference between the liability percentage used in our previous decision (binding 2023 and non-binding 2024). We estimate a mid-point between the binding liability percentages for 2023 and 2024. The resulting amount is then applied as a true-up.

Victorian Energy Upgrades program costs

For the cost of complying with the Victorian Energy Upgrades program, we use the relevant greenhouse gas reduction rate for electricity for the calendar year 2024 (0.15244).¹²¹ We estimate the cost of Victorian energy efficiency certificates using the trade-weighted average of 12-months of historic spot market prices. Based on the information available on 22 April 2024, we estimated an average price of \$87.01 per certificate for the final decision.

¹¹⁹ The Clean Energy Regulator set the renewable power percentage for 2023 at 18.96 per cent and 18.48 per cent for 2024, the renewable power percentage to apply for 2023–24 is 18.72. <https://cer.gov.au/schemes/renewable-energy-target/renewable-energy-target-liability-and-exemptions/renewable-power>, accessed 3 May 2024.

¹²⁰ The Clean Energy Regulator set the binding small-scale technology percentage for 2024 at 21.26 per cent and the non-binding small-scale technology percentage for 2025 at 16.14 per cent, the mid-point used is 18.70 per cent for the 2024–25 period. Clean Energy Regulator, The small-scale technology percentage, accessed 3 May 2024, [The small-scale technology percentage \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au/the-small-scale-technology-percentage).

¹²¹ Essential Services Commission, Energy retailers in the VEU program: Determining liability, <https://www.esc.vic.gov.au/victorian-energy-upgrades-program/participating-veu-program/energy-retailers-veu-program#toc--determining-liability>, accessed 3 May 2024.

Our estimate of the per megawatt hour Victorian Energy Upgrades program costs for the final decision is \$13.26, which is higher than the estimate used in the 2023–24 Victorian Default Offer of \$11.18 due to higher certificate prices.

Feed-in Tariff (social cost of carbon)

For the final decision, the impact of the feed-in tariff on retailer costs is based on total small-scale renewable exports in the most recently available calendar year multiplied by the social cost of carbon (2.5 cents per kWh for 2024–25).¹²² The resulting figure is divided by the total usage in the same period. This is a restructure in the way we account for the feed-in tariff from our previous decisions, we have shifted from a fixed cost to a variable cost as this recovery method better reflects the nature of this cost. This restructure is discussed in more detail in the Environmental costs section of this paper.

Table A.8: Cost of complying with environmental schemes (GST exclusive):

Environmental scheme	Certificate price, \$/MWh	Scheme liability, %	Cost, \$/MWh
Large-scale Renewable Energy Target	\$49.03	18.48	\$9.06
Small-scale Renewable Energy Scheme	\$40.00	18.70	\$7.48
Victorian Energy Upgrades	\$87.01	15.24	\$13.26
Feed-in Tariff (social cost of carbon)			\$1.60
Small-scale Renewable Energy Scheme true-up adjustment (GST inclusive)			\$0.80
Large-scale Renewable Energy Target true-up adjustment (GST inclusive)			-\$0.16

Source: ESC analysis and Frontier Economics, *Wholesale electricity costs for 2024–25: A final report for the Essential Services Commission*, May 2024.

Retail operating costs and margin

We describe our benchmarking approach to retail costs and margin in the chapter on cost components. These costs are fixed and apply equally across each distribution zone.

¹²² Total solar exports from 1 January 2023 to 31 December 2023.

Retail costs

Our updated benchmark is \$140.39 excluding GST for retail operating costs.

Customer acquisition and retention costs

Our benchmark for the final decision is \$45.50 excluding GST for customer acquisition and retention costs.

Retail margin

We applied a retail margin of 5.3 per cent of total revenue.

Table A.9: Retail costs and margin (GST exclusive)

Retail costs and margin	Annual benchmark
Retail operating costs	\$140.39
Customer acquisition and retention costs	\$45.5
Retail margin	5.3%

Other costs

Retailers incur other costs through fees for market operations and ancillary services. Information about these costs has been gathered primarily from the Australian Energy Market Operator's Budget and Fees and compensation updates.¹²³ The estimate of our licence fee is a market-wide average based on the approved fees for the year 2023–24, which is the latest available information. We adopted a forecast of ancillary charges based on analysis of the past 12 months of ancillary service cost data.

¹²³ Australian Energy Market Operator, [Budget and fees: FY24](#), 26 June 2023, accessed 16 January 2024. Australian Energy Market Operator, [June 2022 NEM Events: Compensation Update \(6 June 2023\)](#), accessed 24 January 2024.

Table A.10: Other costs (GST exclusive)

Charge	Rate
Essential Services Commission licence fee	\$2.17/customer
Australian Energy Market Operator fees	
National Electricity Market fees - fixed	\$4.81/customer
National Electricity Market fees - variable	\$0.30/MWh
Full retail contestability	\$1.88/customer
National Transmission Planner	\$0.00/MWh
IT Upgrade and Five-minute and global settlement compliance fees - fixed	\$1.61/customer
IT Upgrade and Five-minute and global settlement compliance fees	\$0.10/MWh
Distributed energy resources integration program fees - fixed	\$2.90/customer
Distributed energy resources integration program fees	\$0.11/MWh
Energy Consumers Australia	\$0.70/customer
Ancillary services	\$0.28/MWh
Reliability and Emergency Reserve Trader	\$0.22/MWh
Market suspension - usage	\$0.00/MWh
Directions - usage	\$0.00/MWh
Administered price cap - usage	\$0.00/MWh
Total per MWh:	\$1.01/MWh
Total per customer:	<u>\$14.08/customer</u>

Values in the table do not sum to exact total due to rounding.

Appendix B: Network tariffs in the cost stack

Table B.1: Single network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential single rate, NEE11	Small business single rate, NEE12
CitiPower	Residential single rate, C1R	Small business single rate, C1G
Jemena	Residential single rate, A100/F100	Small business single rate, A200/F200
Powercor	Residential single rate, D1	Small business single rate, ND1
United Energy	Residential single rate, LVS1R	Small business single rate, LVM1R

Table B.2: Two period time of use network tariff categories

Distribution zone	Domestic tariff	Small business tariff
AusNet Services	Small residential time of use, NAST11	Small business time of use, NAST12
CitiPower	Residential TOU, CRTOU	Small business TOU, CGTOU
Jemena	Residential TOU, A120/F120	Small business TOU weekdays, A210/F210
Powercor	Residential TOU, PRTOU	Small business TOU, NDTOU
United Energy	Residential TOU, URTOU	Small business TOU, LVTOU

Table B.3: Controlled load network tariff categories

Distribution zone	Domestic controlled load or dedicated circuit tariff code
AusNet Services	NEE13
CitiPower	CDS
Jemena	A180
Powercor	DD1
United Energy	LVDed

Table B.4: Metering configurations used to calculate metering costs for each DNSP

Distributor	Meter Configuration
Ausnet Services	Single phase single element
Ausnet Services	Single phase, two element with contactor
Ausnet Services	Multiphase
Ausnet Services	Multiphase, direct connected with contactor
Ausnet Services	Multiphase current transformer connected meter
CitiPower	Single Phase
CitiPower	Three phase direct connected meter
CitiPower	Three phase current transformer connected meter
Jemena	Single phase single element meter
Jemena	Single phase single element meter with contactor
Jemena	Three phase direct connected meter
Jemena	Three phase current transformer connected meter
Powercor	Single Phase
Powercor	Three phase direct connected meter
Powercor	Three phase current transformer connected meter
United Energy	Single phase single element meter
United Energy	Single phase single element meter with contactor
United Energy	Three phase direct connected meter
United Energy	Three phase current transformer connected meter

Appendix C: Stakeholder submissions on draft decision paper

Name (organisation)	Date received
AGL Energy	19 April 2024
Alinta Energy	19 April 2024
Australian Energy Council	19 April 2024
Consumer Action Law Centre	19 April 2024
Energy Consumers Australia	19 April 2024
EnergyAustralia	19 April 2024
Energy Locals	19 April 2024
ENGIE Energy	19 April 2024
Financial Counselling Victoria	19 April 2024
Brian and Jill Golland	19 April 2024
Momentum Energy	19 April 2024
Origin Energy	19 April 2024
Consumer group joint submission including Victorian Council of Social Service, Consumer Action Law Centre, Energy Consumers Australia, Federation of Community Legal Centres Victoria, and Financial Counselling Victoria	19 April 2024

Appendix D: Changes in the cost benchmarks

Table D.1 shows how our cost stack has changed compared to the 2023–24 Victorian Default Offer.

Table D.1: Comparison of 2023–24 Default Offer and 2024–25 Default Offer final decision

Item	2023–24 Victorian Default Offer final decision	2024–25 Victorian Default Offer final decision
Victorian Default Offer costs		
Wholesale electricity costs	<p>12-month trade weighted contract price is calculated from the daily settlement price for each day in the period except the date that options contracts are exercised.</p> <p>Removed peak swap contracts from our wholesale cost benchmark. This better reflects retailers' actual approach to building their hedgebooks.</p> <p>Final reading last Friday of April.</p>	<p>No change in approach.</p> <p>Final reading used last Friday in April 2024.</p>
Network costs	<p>Australian Energy Regulator's approved network tariffs are treated as pass through costs.</p> <p>Metering costs based on customer weighted average metering costs.</p>	<p>No change in approach.</p> <p>Metering costs based on customer weighted average metering costs.</p> <p>We have used the network costs approved by the Australian Energy Regulator for 2024–25.</p>
<i>Environmental costs</i>		
Large-scale Renewable Energy Target	<p>Estimated based on the 2023 renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2023–24.</p> <p>True-up included to account for difference between 2022 RPP, used in 2022–23 Victorian Default Offer</p>	<p>No change in approach.</p> <p>2024 Renewable power percentage (RPP) multiplied by the futures market price for large-scale generation certificates for 2024–25.</p>

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Item	2023–24 Victorian Default Offer final decision	2024–25 Victorian Default Offer final decision
	final decision, and the midpoint between 2022 and 2023 RPP's.	True-up included to account for difference between 2023 RPP, used in 2023–24 Victorian Default Offer final decision, and the midpoint between 2023 and 2024 RPP's.
Small-scale Renewable Energy Scheme	<p>Estimated based on mid-point between 2023 binding and 2024 non-binding small-scale technology percentage multiplied by the clearing house price for small-scale technology certificates.</p> <p>True-up included to account for the difference between the 2023 non-binding, used in the 2022–23 Victorian Default Offer final decision, and the 2023 binding percentage.</p>	<p>No change in approach.</p> <p>Updated small-scale technology percentage to reflect midpoint between the 2024 binding and 2025 non-binding percentages.</p> <p>True-up included to account for the difference between the 2024 non-binding, used in the 2023–24 Victorian Default Offer final decision, and the 2024 binding percentage.</p>
Victorian Energy Upgrades	Estimated based on the 2023 greenhouse reduction rate for electricity multiplied by the historic 12-month trade-weighted average price for Victorian energy efficiency certificates.	<p>No change in approach.</p> <p>Used 2024 greenhouse reduction rate and used more recent 12-month Victorian energy efficiency certificates prices and trade volumes.</p>
Minimum feed-in tariff (social costs of carbon)	Estimated based on total renewable exports for the 2022 calendar year, multiplied by the social cost of carbon then divided by total average number of domestic and small business customers for the same period.	<p>Cost restructured from a fixed cost to a variable cost.</p> <p>Used renewable export data and total usage for calendar year 2023.</p>
Retail operating costs	Estimated based on a benchmark set by taking the customer weighted average of retailers' actual operating cost data from financial year 2021–22. This benchmark was adjusted for the change in consumer price index since June 2022.	<p>No change in approach.</p> <p>Updated information to reflect retailers' 2022–23 actual operating cost data and adjusted for the change in consumer price index since June 2023.</p>

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Item	2023–24 Victorian Default Offer final decision	2024–25 Victorian Default Offer final decision
Customer acquisition and retention costs	Estimated based on cost levels from the Australian Competition and Consumer Commission’s retail and electricity pricing inquiry’s final report updated for inflation. ¹²⁴	No change in approach. Updated for inflation.
Other costs	<p>Estimated and updated based on the latest available information on the: Australian Energy Market Operator’s compensation updates, fees and charges for general NEM operations, Distributed Energy Resources Integration Program, IT and five-minute settlement and Energy Consumers Australia; ancillary fees; reliability and emergency reserve trader costs; and Essential Services Commission licence fees.</p> <p>Included amounts to reflect known market intervention compensations amounts determined by the Australia Energy Market Operator for directions, suspension pricing (provisional and revision amounts) and administered pricing compensations claims as of 28 April 2023 relating to the June 2022 market intervention event.</p>	No change in approach. Used more recent Australian Energy Market Operators final budget and fees and included known costs recovered due to market intervention events.
Retail operating margin	<p>Set at 5.3% of cost stack having regard to benchmarks set by other regulators and the expected returns model.</p> <p>This better reflects current market conditions.</p>	No change in approach.
<i>Other matters</i>		
Tariffs and structure	<p>Flat tariffs</p> <p>Two period time-of use tariffs</p>	No change in approach.

¹²⁴ Australian Competition and Consumer Commission, Retail electricity pricing inquiry – Final report, July 2018.

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Item	2023–24 Victorian Default Offer final decision	2024–25 Victorian Default Offer final decision
	Compliant maximum annual bill based on two period time-of use tariffs	
Regulatory period	12 months	No change in approach.
Consultation papers	Replaced with one request for comment paper at the beginning of each review.	No change in approach.

Table D.2: Changes in average domestic costs benchmarks, \$ nominal (average across all five Victorian distribution zones)

Item	2023–24 Victorian Default Offer final decision	2024–25 Victorian Default Offer final decision
Wholesale electricity costs	\$636	\$492
Network costs	\$549	\$593
Environmental costs	\$132	\$135
Retail operating costs (including acquisition costs)	\$176	\$186
GST	\$160	\$150
Retail operating margin	\$85	\$80
Other costs	\$18	\$18
Total	\$1,755	\$1,655

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Appendix E: Order in Council



Victoria Government Gazette

No. S 208 Thursday 30 May 2019
By Authority of Victorian Government Printer

Electricity Industry Act 2000 ORDER UNDER SECTION 13 OF THE ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the Electricity Industry Act 2000 (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the Electricity Industry Act 2000 makes the following Order:

1. **Purpose**

The main purpose of this Order is to regulate the standing offer tariffs that retailers may charge prescribed customers, through the introduction of the Victorian default offer.

2. **Commencement**

This Order comes into operation on the date on which it is published in the Government Gazette and remains in force until it is revoked.

3. **Objective of the Victorian default offer**

The objective of the Victorian default offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.

4. **Definitions**

1. In this Order:

Act means the Electricity Industry Act 2000;

annual reference consumption has the meaning given in clause 15(5);

controlled load tariff means a tariff for the supply or sale of electricity only for use in specific appliances that are permanently wired to the relevant electricity meter;

Example: A storage water heater is such an appliance.

controlled load usage means use by a specific appliance that is permanently wired to the relevant electricity meter;

customer type means a customer who is either a domestic customer or a small business customer, as the case may be;

distribution system means a system of electric lines and associated equipment (generally at nominal voltage levels of 66 kV or below) which a distribution company is licensed to use to distribute electricity for supply under its licence;

distribution zone means the area in which a distribution company is licensed to distribute and supply electricity under the Act;

domestic customer means a customer who purchases electricity principally for personal, household or domestic use at a supply point;

Energy Retail Code means the document of that name (version 12 dated 1 January 2019) published by the Commission as amended and in force from time to time;

ESC Act means the Essential Services Commission Act 2001;

flat tariff means a tariff for the supply or sale of electricity where the tariff components do not vary by reference to:

- (a) the time of day;
- (b) the amount of electricity distributed or supplied during the day;

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- (c) temperature, whether actual or forecast; or
- (d) other characteristics that vary during the day.

Notes:

1. A tariff with a daily supply charge as one tariff component and a usage charge calculated by \$ per kWh as another tariff component, is a flat tariff;
2. Paragraph (b) does not exclude block tariffs from being flat tariffs;
3. The definition does not exclude tariffs that vary seasonally, from being flat tariffs;

flexible tariff means a tariff for the supply or sale of electricity where the tariff components vary (wholly or partly) according to the time of day when the electricity is supplied;

former franchise customer means a person described in section 37 of the Act who is either a domestic customer or a small business customer;

general usage means any electricity usage that is not controlled load usage;

headroom means an allowance that does not reflect an efficient cost borne by firms operating in the market;

Example: An allowance that is added, so that retail prices do not act as a barrier to new entrants, is headroom.

kWh means kilowatt hour;

Minister means the Minister administering the Act;

MWh means megawatt hour;

objective of the Victorian default offer means the objective specified in clause 3;

Order means this Order;

prescribed customer: see clause 5;

quarter means a period of 3 consecutive months;

regulatory period means a period over which a VDO price determination is to apply;

Note: the first regulatory period commences on 1 January 2020.

relevant customer has the same meaning as in section 39 of the Act;

small business customer means a customer who is not a domestic customer and whose aggregate consumption of electricity taken from a supply point is not, or in the case of a new supply point is not likely to be, more than 40 MWh per annum;

standing offer tariffs means the tariffs determined by a licensee under section 35(1) of the Act and published in the Government Gazette in accordance with that section, as varied from time to time by the licensee as provided for under section 35(3) of the Act;

supply charge means a fixed charge for supplying electricity to a customer (whether charged on a daily basis or over any other period);

Note: A supply charge is also sometimes called a service charge.

supply point means, in relation to a supply of electricity to a person, the point at which that supply of electricity last leaves the distribution system owned or operated by a distribution company before being supplied to the person, whether or not the electricity passes through facilities owned or operated by any other person after leaving that point before being so supplied;

tariff component, in respect of a tariff for the supply or sale of electricity, includes the supply charge, the usage charge and any other charge that is part of the tariff for the supply or sale of electricity;

usage charge means a charge for the amount of electricity supplied or sold to a customer;

Note: A usage charge is sometimes called a consumption charge.

VDO compliant maximum annual bill has the meaning given it in clause 10(2);
VDO price determination means a price determination pursuant to clause 10;
Victorian default offer or *VDO* means an offer a retailer must make pursuant to this Order.

2. Despite subclause (1), in:
- (a) clause 6;
 - (b) clause 7;
 - (c) clause 10(2)(a)(i),
 - (d) schedule 1; and
 - (e) schedule 2,
- the following definitions instead apply:
- (f) *domestic customer* means a domestic customer within the meaning of the definition of 'domestic or small business customer' in the Act; and
 - (g) *small business customer* means a small business customer within the meaning of that definition.

Notes:

1. The following terms are defined in section 3 of the Act:
 Commission;
 domestic or small business customer;
 distribution company;
 electricity bill;
 regulated tariff standing offer;
 retailer;
 standing offer.
2. As at the date of the commencement of this Order, the Order in Council made under section 35 of the Act and published in the Government Gazette No. S 315 on 25 November 2008 applies for the purposes of the definition of 'domestic or small business customer' in the Act.
3. 'price determination' is defined in section 13(6) of the Act.

5. Declaration of Prescribed customers

The following customers are declared, pursuant to section 13(5) of the Act, to be prescribed customers:

- (a) a domestic or small business customer;
- (b) a former franchise customer who is a party to a deemed contract under section 37 of the Act; and
- (c) a relevant customer who is a party to a deemed contract under section 39 of the Act.

6. Victorian default offer tariffs

1. A retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with this clause.
2. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a domestic customer, in respect of the distribution zone specified in column 1 of the table in Schedule 1, are fixed at the amounts specified in columns 2, 4 and 5 of the table for the tariff components specified in those columns.
3. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a small business customer, in respect of the distribution zone specified in column 1 of the table in Schedule 2, are fixed at the amounts specified in columns 2 and 4 of the table for the tariff components specified in those columns.
4. Subclauses (2) and (3) do not apply to standing offer tariffs other than:
 - (a) a flat tariff; or
 - (b) a flat tariff with a controlled load tariff.

5. During any regulatory period commencing on or after 1 January 2020, a retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with any VDO price determination made by the Commission that is in force.
- Note: The VDO price determination will be in respect of both standing offer tariffs that are flat tariffs and standing offer tariffs that are not flat tariffs. See also clause 10.
- 7. Retailer must make Victorian default offer**
1. A retailer's regulated tariff standing offer for sale of electricity to prescribed customers must include (specified as the '*Victorian default offer in respect of flat tariffs*'):
 - one flat tariff that is available to each domestic customer;
 - one flat tariff with a controlled load tariff that is available to each domestic customer with a controlled load; and
 - one flat tariff that is available to each small business customer,
 which tariffs must be:
 - for the period from 1 July 2019 to 31 December 2019, those fixed in accordance with clause 6(2) and clause 6(3);
 - for any regulatory period commencing on or after 1 January 2020, standing offer tariffs complying with the VDO price determination in respect of that regulatory period.
2. In addition, for any regulatory period commencing on or after 1 January 2020 and in the case of standing offer tariffs that:
 - are not flat tariffs; or
 - are any combination of a flat tariff, and a tariff that is not a flat tariff,
 a retailer's regulated tariff standing offer must include standing offer tariffs and terms and conditions (both specified as the '*Victorian default offer in respect of the VDO compliant maximum annual bill*') that ensure the retailer's compliance with the VDO price determination in respect of that regulatory period.
- 8. Information about the VDO on electricity bills**
1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(b) come into force.
2. A retailer's electricity bill issued to a prescribed customer on or after 1 October 2019 must include information about how the customer may access the Victorian default offer from the retailer.
3. The information required by subclause (2) must be in plain and clear English and prominent on the electricity bill.
- 9. Conferral of functions and powers on the Commission**
1. For the purposes of Part 3 of the ESC Act and section 12(1)(b) of the Act, the supply or sale of electricity under the Act is specified as prescribed goods and services in respect of which the Commission has the power to regulate prices.
2. The Commission may not make a price determination regulating tariffs for the supply or sale of electricity under the Act except as contemplated under this Order.
- Note: See section 32 in Part 3 of the ESC Act. This Order is an empowering instrument for the purposes of Part 3 of the ESC Act: see paragraph (d) of the definition of 'empowering instrument' in section 3 of the ESC Act.
- 10. Commission to make VDO price determination**
1. At least 37 days before the commencement of a regulatory period, the Commission must make a price determination in respect of the regulatory period that determines, for each distribution zone in Victoria:

- (a) the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period; or
 - (b) the manner in which the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period are to be determined or calculated.
 2. Without limiting subclause (1), the price determination that the Commission makes in respect of the first regulatory period:
 - (a) must determine:
 - i. the standing offer tariffs that are to apply in respect of flat tariffs, including, in the case of domestic customers, both flat tariffs and flat tariffs with a controlled load tariff; and
 - ii. in the case of a prescribed customer who is on:
 - A. a tariff that is not a flat tariff; or
 - B. any combination of a flat tariff, and a tariff that is not a flat tariff, the maximum annual electricity bill amount that the prescribed customer is to pay under a standing offer in the regulatory period (*VDO compliant maximum annual bill*); and
 - (b) may provide, in the case of the customers specified in subclause (2)(a)(ii), for how any overpayment by those customers in that regulatory period, or any year (or part year) thereof, is to be dealt with; and
 - (c) may also include any other decisions or determinations that are required by this Order.
 3. Despite subclause (2), the Commission may after its first price determination, determine another manner pursuant to which the standing offer tariffs referred to in that subclause are to be determined or calculated.
11. **Regulatory periods for VDO price determinations**
 1. The first regulatory period commences on 1 January 2020.
 2. Subject to subclause (3), the duration of each regulatory period is 12 months.
 3. Before the commencement of a regulatory period, if the Commission considers that special circumstances exist, the Commission may, after consulting the Minister:
 - (a) extend the duration of the regulatory period by up to 6 months; or
 - (b) reduce the duration of the regulatory period, provided the duration of the regulatory period as so reduced is not less than 6 months.
12. **Approach and methodology for making a VDO price determination**
 1. In making a VDO price determination, the Commission must adopt an approach and methodology that is in accordance with section 33(2) of the ESC Act and this Order.

Note: section 33(2) of the ESC Act requires the Commission to adopt an approach and methodology that best meets the objectives of the ESC Act and of the *Electricity Industry Act 2000*.
 2. In addition, the Commission must adopt an approach and methodology which the Commission considers will best meet the objective of the Victorian default offer.
 3. The tariffs determined by the Commission pursuant to the VDO price determination are to be based on the efficient costs of the sale of electricity by a retailer.
 4. For the purposes of subclause (3), the Commission must have regard to:
 - (a) wholesale electricity costs;
 - (b) network costs;
 - (c) environmental costs;
 - (d) retail operating costs, including modest costs of customer acquisition and

- retention;
- (e) retail operating margin; and
 - (f) subject to subclause (10), any other costs, matters or things the Commission, in the exercise of its discretion, considers appropriate or relevant.
- Note: Section 33(3)(e) of the ESC Act similarly requires the Commission to have regard to any other factors that it considers relevant.
5. The VDO compliant maximum annual bill must be based on:
 - (a) the standing offer tariffs that the Commission determines are to apply in respect of flat tariffs; and
 - (b) the prescribed customer's electricity usage.
 6. For the purposes of subclause (4)(d), the Commission must, in the exercise of its discretion, determine the amount of modest costs of customer acquisition and retention.
 7. For the purposes of subclause (4)(e), the Commission must, in the exercise of its discretion, determine a maximum retail operating margin, and in doing so must have regard to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs.
 8. Subclauses (3), (4), (5) and (6) do not require the Commission to determine tariffs based on the actual costs of a retailer.
 9. Subclause (7) does not require the Commission to determine tariffs based on the actual retail operating margin of a retailer.
 10. In making a VDO price determination the Commission must not include headroom.
 11. Section 33(4)(a) of the ESC Act does not apply to the making of a VDO price determination.
 12. Otherwise, section 33 of the ESC Act applies to the making of a VDO price determination only to the extent that the section is not contrary to this Order.

Notes:

1. This Order, as an 'empowering instrument' in terms of the ESC Act, can modify the application of section 33 of the ESC Act: see section 33(1) of the ESC Act.
2. Pursuant to section 33(3)(d) of the ESC Act, the Commission must have regard to relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries.

13. Variation of VDO price determinations

1. Before or during a regulatory period, the Commission may, on its own initiative, vary a VDO price determination in respect of the regulatory period.
2. The Commission must specify, in a VDO price determination, the circumstances under which the Commission will consider, and the basis on which the Commission will decide on, a proposed variation and (subject to subclauses (4) and (5)) the processes to be followed to enable the Commission to make such a variation.
3. Without limiting subclause (1), the Commission may vary a VDO price determination:
 - (a) if an event has occurred or will occur that was uncertain or unforeseen by the Commission at the time of making the VDO price determination; or
 - (b) to correct a clerical error, miscalculation, misdescription or other deficiency.
4. Before making a variation, the Commission must consult in accordance with clause 14.
5. Subclause (4) does not apply if:
 - (a) the variation is not sufficiently material to warrant consultation in accordance with clause 14; or
 - (b) the need for the variation is sufficiently urgent to warrant consultation in accordance with clause 14 not being undertaken.

6. If, as a result of a variation of a VDO price determination, a retailer is or will be required to vary the retailer's standing offer tariffs, the Commission must ensure the retailer is given adequate notice before the variation to the VDO price determination takes effect.
14. **Consultation**
 1. The Commission may decide the nature and extent of stakeholder consultation it will undertake when making a VDO price determination or a decision to vary a VDO price determination.
 2. For the purposes of subclause (1), the Commission must have regard to its Charter of Consultation and Regulatory Practice (as amended from time to time) developed and published under section 14 of the ESC Act.
 15. **Victorian default offer tariffs to be the reference tariffs for discounts**
 1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(a) come into force.
Provided that, if those amendments do not provide for any matter provided for in this clause, then this clause continues to apply in respect of that matter.
 2. A retailer that offers a discount to a domestic customer or a small business customer must:
 - (a) if the discount is in respect of the period from 1 July 2019 to 31 December 2019, disclose how the discount is calculated as against the tariffs in Schedule 1 or Schedule 2 (as the case may be), and what (in percentage or dollar terms) the reduction in tariff is in terms of those tariffs; and
 - (b) if the discount is in respect of a regulatory period, disclose how the discount is calculated as against the flat tariffs determined by the Commission pursuant to the VDO price determination that applies in respect of that period, and what (in percentage or dollar terms) the reduction in tariffs is in terms of those tariffs.
 3. For the purposes of subclause (2), the reduction in tariffs is to be expressed as the difference between the estimated annual cost of the Victorian default offer for the customer type and distribution zone, and the estimated annual cost of the offer to which the discount relates after the discount is applied, using the annual reference consumption.
 4. For the purposes of subclause (3):
 - (a) the estimated annual cost of the Victorian default offer is:
 - i. during the period from 1 July 2019 to 31 December 2019, determined by applying Schedule 3;
 - ii. during a regulatory period, determined by applying Schedule 3 or any other approach or methodology determined by the Commission; and
 - (b) the retailer must determine the estimated annual cost of the retailer's offer to which the discount relates:
 - i. if the tariff is a flat tariff or a flexible tariff (in either case, with or without a controlled load), by applying Schedule 3;
 - ii. otherwise, based on a reasonable estimate having regard to any relevant information available to the retailer; and

5. The annual reference consumption is:
 - (a) during the period from 1 July 2019 to 31 December 2019:
 - i. for domestic customers without a controlled load – 4,000 kWh general usage per annum;
 - ii. for domestic customers with a controlled load – 4,000 kWh general usage plus 2,000 kWh controlled load usage per annum;
 - iii. for small business customers (with or without a controlled load) – 20,000 kWh general usage per annum.
 - (b) during a regulatory period:
 - i. the consumption amount determined by the Commission (if any); or
 - ii. if no amount is determined by the Commission pursuant to subclause (5)(b)(i), the amount specified in subclause (5)(a).
 6. For the purposes of subclause (5), the amount of electricity consumed is assumed to be the same on each day of the year.
 7. Any percentage or dollar amount disclosed pursuant to this clause must be expressed as a whole percentage or dollar, rounded to the nearest percentage or dollar.
 8. Otherwise, Division 2 of Part 2A (*Customers entitled to clear advice*) of the Energy Retail Code applies to the disclosures required by this clause.
16. **Direction to the Commission pursuant to section 13(3)(b) of the Act**
1. The Commission must, as soon as practicable after the commencement of this Order, amend the Energy Retail Code and any other instrument of the Commission to give effect to the Victorian default offer and this Order.
 2. Without limiting subclause (1), the Commission must amend the Energy Retail Code (and any other instrument of the Commission) so that the Code:
 - (a) provides for tariffs determined by the Commission pursuant to the VDO price determination being the reference tariffs for discounts and for the methodology of that comparison; and
 - (b) requires a retailer's electricity bill to include information about how the customer may access the Victorian default offer from the retailer.
 3. For the purposes of subclause (2)(a), the Commission must have regard to the following principles:
 - (a) There must be a consistent methodology for comparison of tariffs that applies to:
 - i. all offers of discounts by retailers; and
 - ii. the advertising in respect of those discounts.
 - (b) The methodology must apply in respect of flat tariffs and tariffs that are not flat tariffs;
 - (c) The methodology must (without limitation) readily allow, in respect of a regulatory period, a comparison between:
 - i. the discounted tariffs offered by a retailer; and
 - ii. the tariffs determined by the Commission pursuant to the VDO price determination in respect of that period; and
 - (d) Any actual comparison in accordance with the methodology must be readily understandable by a prescribed customer.

-
4. Subclause (3) does not limit:
- (a) the matters the Commission may have regard to; or
 - (b) the matters the Commission may provide for by way of the amendments required by subclause (2).
17. **Review of the operation of this Order**
- The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before the third anniversary of the Order coming into operation.

SCHEDULE 1

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – domestic customers

Charges are inclusive of GST.

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (not controlled load) (\$ per kWh)	Usage charge: controlled load (\$ per kWh)
AusNet Services	\$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	\$0.2763 \$0.3113	\$0.2024
CitiPower	\$1.1055	Anytime	\$0.2325	\$0.1809
Jemena	\$1.0037	Anytime	\$0.2547	\$0.1618
Powercor	\$1.2333	Anytime	\$0.2403	\$0.1561
United Energy	\$0.9115	Anytime	\$0.2620	\$0.1873

SCHEDULE 2

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – small business customers

Charges are inclusive of GST.

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (\$ per kWh)
AusNet Services	\$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	\$0.3154 \$0.3605
CitiPower	\$1.2972	Anytime	\$0.2464
Jemena	\$1.1450	Anytime	\$0.2682
Powercor	\$1.3611	Anytime	\$0.2394
United Energy	\$0.9691	Anytime	\$0.2717

SCHEDULE 3

1. Estimated annual cost for flat tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flat tariff is to be calculated as follows:

$$EAC = SC \times 365 + UC \times ARC$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge;

UC is the general usage charge; and

ARC is the annual reference consumption for general usage.

2. Estimated annual cost for flexible tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flexible tariff is to be calculated as follows:

$$EAC = SC \times 365 + ARC \times UC_p \times UA_p + ARC \times UC_s \times UA_s + ARC \times UC_{OP} \times UA_{OP}$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge; and

ARC is the annual reference consumption for general usage;

and where, in respect of the relevant tariff type specified in column 1 of Table 1:

UC_p is the retailer's peak usage charge;

UA_p is the peak usage allocation specified in column 2 of Table 1;

UC_s is the retailer's shoulder usage charge;

UA_s is the shoulder usage allocation specified in column 3 of Table 1;

UC_{OP} is the retailer's off-peak usage charge; and

UA_{OP} is the off-peak usage allocation specified in column 4 of Table 1.

3. Estimated annual cost for offers that include a controlled load tariff

The estimated annual cost for an offer for the supply or sale of electricity that includes a controlled load tariff is to be calculated as follows:

$$EAC = EAC_{GU} + UC_{CL} \times ARC_{CL}$$

where:

EAC is the estimated annual cost of the offer;

EAC_{GU} is the estimated annual cost of the offer for general usage only, calculated in accordance with clause 1 or 2 of this Schedule 3 (as the case may be);

UC_{CL} is the usage charge for controlled load usage; and

ARC_{CL} is the annual reference consumption for controlled load usage.

Table 1 – Usage allocation for flexible tariffs

Tariff type	Peak	Shoulder	Off-peak
Flexible price (3 part time of use)	0.25	0.45	0.30
5-day time of use	0.52	0.00	0.48
7-day time of use (small business customers only)	0.74	0.00	0.26
5-day time of day 9 pm off peak (United Energy distribution zone only)	0.25	0.20	0.55
5-day time of day (United Energy distribution zone only)	0.32	0.20	0.48

Dated 28 May 2019

Responsible Minister

HON. LILY D'AMBROSIO MP

Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council



Victoria Government Gazette

No. S 216 Tuesday 4 June 2019
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Electricity Industry Act 2000
ORDER UNDER SECTION 13 OF THE
ELECTRICITY INDUSTRY ACT 2000

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the Electricity Industry Act 2000 (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the Electricity Industry Act 2000 makes the following Order:

1. Purpose

The purpose of this Order is to make amendments to the Victorian default offer tariffs applying under the Order in Council made under section 13 of the Electricity Industry Act 2000 and published in the Government Gazette No. S 208 on 30 May 2019 (*VDO Order*).

2. Commencement

This Order comes into effect on the date on which it is published in the Government Gazette.

3. Amendments

In column 5 ('Usage charge: controlled load') of the table in Schedule 1 to the VDO Order:

- (a) for '\$0.1618' substitute '\$0.1917'; and
- (b) for '\$0.1561' substitute '\$0.1831'.

Dated 4 June 2019

Responsible Minister

HON. LILY D'AMBROSIO MP

Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council

SPECIAL

ORDERS IN COUNCIL

Electricity Industry Act 2000

VICTORIAN DEFAULT OFFER ORDER IN COUNCIL

Order in Council

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council under section 13 of the Electricity Industry Act 2000 makes the following Order:

1. Purpose

The purposes of this Order are to amend the VDO Order in Council to:

- (a) specify that the VDO Order in Council does not apply to the sale of electricity to an unmetered supply site; and
- (b) require a review of the VDO Order in Council to commence before 31 May 2026 and every three years thereafter.

2. Definitions

In this Order:

VDO Order in Council means the Order in Council made on Thursday 30 May 2019 under section 13 of the Electricity Industry Act 2000 and published in Special Gazette No. S 208.

3. Commencement

This Order comes into effect on the day it is published in the Government Gazette.

4. Amendments

- (1) In clause 4(1) of the VDO Order in Council, insert the following definitions –

‘government agency includes:

- (a) a Commonwealth, State or local government department; and
- (b) a statutory authority or government owned corporation established under a law of the Commonwealth or a State or Territory;

unmetered supply means a supply of electricity to a particular piece of electrical equipment that draws a current and is connected to the distribution network without a meter; and

unmetered supply site means a site that consumes by way of unmetered supply, including a government agency, but excluding a site where electricity is supplied to and purchased by domestic or small business customers.’

- (2) After clause 5 of the VDO Order in Council, insert –

‘5A. Unmetered supply sites are not covered by this Order

Despite clause 5, this Order does not apply to the sale of electricity to an unmetered supply site.’

- (3) For clause 17 of the VDO Order in Council, substitute –

‘17. Periodic reviews of the operation of this Order

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before 31 May 2026 and every three years thereafter.’

Dated: 12 December 2023

Responsible Minister:

HON. LILY D'AMBROSIO MP
Minister for Energy and Resources

SAMUAL WALLACE
Clerk of the Executive Council

Appendix F: Our legislative considerations

The pricing order provides the commission's power to make a Victorian Default Offer price determination and imposes some constraints on that power. This appendix explains the requirements for, and matters we must have regard to in making the determination.

The commission's power to determine the Victorian Default Offer

The Victorian Default Offer price determination is a determination for purposes of section 33 of the Essential Services Commission Act 2001 (ESC Act). In making a Victorian Default Offer price determination we must adopt an approach and methodology in accordance with section 33(2) of the ESC Act, and the pricing order.¹²⁵ Taken together, this means we must adopt an approach and methodology we consider will best meet the objectives specified in the ESC Act, the commission's objectives under the Electricity Industry Act 2000 (EI Act) and the objective of the Victorian Default Offer.¹²⁶

The pricing order gives the commission discretion to decide the approach and methodology to be used for making this Victorian Default Offer price determination.¹²⁷ This is however subject to the requirement that the Victorian Default Offer price determination must be based on the efficient costs of the sale of electricity by a retailer,¹²⁸ having regard to:¹²⁹

- wholesale electricity costs
- network costs
- environmental costs
- retail operating costs, including only modest costs of customer acquisition and retention¹³⁰
- retail operating margin¹³¹

¹²⁵ Clause 12(1) of the pricing order.

¹²⁶ Best meeting the objective of the Victorian Default Offer is a requirement of clause 12(2) of the pricing order.

¹²⁷ Clause 10(3) of the pricing order read with section 33(5) of the Essential Services Commission Act 2001.

¹²⁸ Clause 12(3) of the pricing order. Further, clause 12(8) affirms that the pricing order does not require the commission to determine tariffs based on the actual costs of a retailer.

¹²⁹ Clause 12(4) of the pricing order.

¹³⁰ Clause 12(6) of the pricing order specifies that this is to be an amount determined by the commission in its discretion.

¹³¹ Clause 12(7) of the pricing order specifies that this is to be an amount determined by the commission in its discretion, and in doing so regard must be had to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs. Clause 12(9) of the pricing order affirms that the commission is not required to determine tariffs based on the actual retail operating margin of a retailer.

- any other costs, matters or things we consider appropriate or relevant.

The pricing order also specifies that we must not include headroom.¹³²

Our objectives in setting the Victorian Default Offer

The objective of the commission under the ESC Act is to promote the long-term interests of Victorian consumers, having regard to the price, quality and reliability of essential services.¹³³

As objectives of the EI Act, the commission must adopt an approach which promotes protections for customers, the development of full retail competition and a consistent regulatory approach between the electricity and gas industries (noting there is currently no framework for the regulation of prices for retail gas services).¹³⁴

The objective of the Victorian Default Offer under the pricing order is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.¹³⁵

As mentioned, when making a Victorian Default Offer price determination, the approach and methodology adopted by the commission must be one that best meets all of these objectives.

Matters the commission must have regard to when determining tariffs

Section 8A of the ESC Act provides that in seeking to achieve the commission's objective under the ESC Act to promote the long-term interests of Victorian consumers, the commission must have regard to the following matters to the extent that they are relevant in any particular case:

- efficiency in the industry and incentives for long term investment
- the financial viability of the industry
- the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries
- the relevant health, safety, environmental and social legislation applying to the industry
- the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for consumers and users of products or services (including low income and vulnerable consumers) and regulated entities

¹³² Clause 12(10) of the pricing order; 'headroom' being defined in clause 4(1) as 'an allowance that does not reflect an efficient cost borne by firms operating in the market.'

¹³³ Essential Services Commission Act 2001, s 8.

¹³⁴ Electricity Industry Act 2000, s 10.

¹³⁵ Clause 3 of the pricing order sets out the objective of the Victorian Default Offer.

- consistency in regulation between States and on a national basis
- any matters specified in the empowering instrument (that is, the pricing order)

Section 33(3) of the ESC Act specifies that in making a price determination under section 33 of the ESC Act, the commission must have regard to:

- the particular circumstances of the regulated industry (that is, retail electricity market) and the prescribed goods and services (that is, standing offers) for which the determination is being made
- the efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry
- the return on assets in the regulated industry
- any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries
- any other factors that the commission considers relevant.

In addition, section 33(4)(b) of the ESC Act provides that in making a determination, the commission must ensure that the determination takes into account and clearly articulates any trade-offs between costs and service standards.¹³⁶

¹³⁶ Under clause 12(11) of the pricing order, section 33(4)(a) does not apply to a Victorian Default Offer determination.

Appendix G: How we assessed the Victorian Default Offer

Appendix F sets out the requirements for and matters we must have regard to in making a Victorian Default Offer price determination. This appendix summarises how we considered these matters.

Our approach to this review

In coming to our final decision on the 2024–25 Victorian Default Offer, we have built on our 2023–24 price determination, assessed developments in the retail electricity market (since we made our last final decision) and analysed the costs of providing retail electricity services, among other matters. We consider this approach and methodology best meets our legislative objectives and requirements.

Our review has used the same methodology as we did in our 2023–24 price determination. As part of this review, the estimates included in the cost stack were updated to reflect changes in the market and new data that is now available. Our approach helped us establish the cost estimates that best meet our legislative objectives, including our obligation that the price determination be based on the efficient costs of the sale of electricity by a retailer, in light of the matters we must have regard to (see appendix F).

We analysed the efficient costs of electricity retailers

Through issuing notices under our compulsory information gathering powers, we have collected cost data from electricity retailers. This information allowed us to understand the types of costs electricity retailers incur and elements of the efficient costs of supplying electricity to customers. The analysis of the cost data has informed our assessment of costs in our final decision for the 2024–25 Victorian Default Offer.

We sought advice from independent consultants on forecasting retailers' wholesale electricity costs and retailers' costs of complying with environmental programs for 2024–25.

Our approach and methodology include these elements to estimate the efficient costs of the sale of electricity by a retailer:¹³⁷

- **wholesale electricity costs** – based on the price of electricity in the futures market

¹³⁷ Clauses 12(3) and 12(4) of the pricing order.

- **network costs** – taken directly from tariffs approved by the Australian Energy Regulator
- **environmental costs** – taken from public information on the costs of environmental initiatives
- **retail operating costs** – based cost data from retailers
- **other costs, including market intervention costs** – taken directly from published reports from industry bodies
- **network losses** – taken from Australian Energy Market Operator and electricity distributors
- **retail operating margin** – based on a benchmark from comparable regulatory decisions.

Some elements of the cost-stack are estimated using market data such as wholesale electricity purchase costs. We updated estimates of these elements in our final decision to account for any changes in market data that occurred since our draft decision. The data provided by retailers was used to set the retail operating cost benchmark, as a cross check of our cost stack and allowed us to compare the cost stack elements across different segments of the retail market. We also used findings from other regulators (such as decisions on the retail operating margin) in assessing the cost stack.

The Victorian Default Offer amounts may differ from the actual costs of retailers. We have sought to estimate the efficient costs of retailers, which at times and for some retailers may diverge from actual costs. In addition, as required by the pricing order, we have not included headroom in our cost stack.

We considered our approach to the compliant maximum annual bill

Our price determination framework also includes a compliant maximum annual bill. While our first determination required us to use a maximum bill to regulate non-flat standing offer tariffs, the requirements for subsequent decisions (including this one) allow us to decide on the best approach.¹³⁸ In this decision we continue to include a two-period time of use tariff that will cover most non-flat standing offers. We also continue to include a compliant maximum annual bill so that all standing offer customers can enjoy the protection of the Victorian Default Offer.

In taking this approach we had regard to the objective of the Victorian Default Offer to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.¹³⁹ We also consider this arrangement provides a framework that does not impose unreasonable costs on retailers.¹⁴⁰ As with other elements of our

¹³⁸ Clause 10(3) of the pricing order.

¹³⁹ Clause 3 of the pricing order.

¹⁴⁰ Essential Services Commission Act 2001, s 8A(1)(e).

methodology, we also had regard to the approaches adopted by other regulators including the Australian Energy Regulator's Default Market Offer.¹⁴¹

Our assessment approach helps us meet our legislative requirements

Our assessment approach helps us meet our objectives

In deciding our approach and methodology for setting the Victorian Default Offer, and in making the Victorian Default Offer price determination 2024–25 our objectives are to:

- promote the long-term interests of Victorian consumers, having regard to the price, quality and reliability of essential services¹⁴²
- promote protections for customers, promote the development of full retail competition and to adopt a consistent regulatory approach between the electricity and gas industries (noting there is currently no framework for the regulation of prices for retail gas services).¹⁴³
- provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.¹⁴⁴

Having regard to the relevant matters under section 8A and section 33 of the ESC Act

In seeking to achieve our objectives in making our determination, we must have regard to a number of matters to the extent that they are relevant.¹⁴⁵ We have had regard to all of these matters in coming to our final decision.

Efficiency

Efficiency is an important consideration for our decision.¹⁴⁶ Our approach helped us establish the tariffs that reflect the efficient costs of the sale of electricity by a retailer, including a retail operating margin.¹⁴⁷ Our review used largely the same approach as our 2023–24 price determination.

¹⁴¹ Essential Services Commission Act 2001s, s 8A(1)(f).

¹⁴² Essential Services Commission Act 2001, s8 and s 8A.

¹⁴³ Electricity Industry Act 2000, s 10.

¹⁴⁴ Clauses 3 and 12(2) of the pricing order. Also consistent with section 10(c), Electricity Industry Act.

¹⁴⁵ Essential Services Commission Act 2001, ss 8A and 33(3).

¹⁴⁶ Essential Services Commission Act 2001, ss 8A(1)(a) and 33(3)(b).

¹⁴⁷ Clause 12(4)(e) of the pricing order.

Financial viability

A related matter is the consideration of long-term incentives for investment and financial viability.¹⁴⁸ As our decision on the Victorian Default Offer reflects our estimates of efficient costs, we consider that it helps promote the financial viability of the industry.

Competition within the industry

In relation to the scope for competition in the market we note setting prices at efficient costs is consistent with competition and does not preclude innovation that may lead to customers accepting market contracts that offer a better deal for them than the Victorian Default Offer. Likewise, it does not prevent retailers, who can lower their costs, from attracting customers by making cheaper market offers available.¹⁴⁹

Other relevant legislation applying to the industry

We considered other legislation that affects the efficient costs of a retailer.¹⁵⁰ Among other things, we considered costs associated with regulatory requirements on retailers (such as the Large-scale Renewable Energy Target, Small-scale Renewable Energy Scheme, Victorian Energy Upgrades, and consumer data rights). We also note that our benchmarks of retailer operating costs, customer acquisition and retention costs and retail operating margin reflect the costs and margins of Victorian retailers complying with regulatory and legislative requirements.

The benefits and costs of regulation

The Victorian Default Offer was introduced as part of an independent review of the gas and electricity markets in Victoria. The Victorian Default Offer is a simple, trusted and reasonably priced electricity option that safeguards customers unable to engage in the electricity retail market.¹⁵¹ In formulating the Victorian Default Offer we are not required to revisit the costs and benefits of implementing the Victorian Default Offer.¹⁵²

¹⁴⁸ Essential Services Commission Act 2001, s 8A(1)(b).

¹⁴⁹ Essential Services Commission Act 2001, s 8A(1)(c).

¹⁵⁰ Essential Services Commission Act 2001, s 8A(1)(d).

¹⁵¹ The development of the Victorian Default Offer stemmed from the Independent Review into the Electricity and Gas Retail Markets in Victoria. The final report from the Independent Review recommended a range of regulatory responses were required to protect the long-term interests of consumers. See Independent Review into the Electricity and Gas Retail Markets in Victoria: Final Report, August 2017, p. 52.

¹⁵² Under clause 12(11) of the pricing order, section 33(4)(a) of the Essential Services Commission Act 2001 does not apply to a Victorian Default Offer price determination.

Consistency in regulation between States and on a national basis and any relevant interstate and international benchmarks in comparable industries

We looked at regulation of retail electricity prices on a national basis and considered relevant benchmarks from other jurisdictions. In considering benchmarks from other jurisdictions, we also had regard to the different policy intent of the relevant legislation of these jurisdictions.¹⁵³

The particular circumstances of the regulated industry

As part of this review, the estimates included in the cost stack have been updated to reflect changes in the market and new data that is now available.¹⁵⁴ We also had regard to actual cost data from retailers. We also considered the broader economic environment including the impact of wholesale electricity market intervention compensation and increased debt finance costs on retailers.

Accounting for trade-offs between costs and service standards

We must ensure that the determination takes into account and clearly articulates any trade-offs between costs and service standards.¹⁵⁵ In terms of quality and reliability of services, retailers are required to offer the Victorian Default Offer under the regulated terms and conditions for standard retail contracts. We consider the prices provided to retailers under the Victorian Default Offer will be sufficient for retailers to ensure the quality of service experienced by customers to at least continue to meet these regulated terms and conditions.

Other relevant matters under clause 12 of the pricing order

Clause 12 of the pricing order provides for certain further matters we must have regard to when adopting our approach and methodology for making a Victorian Default Offer price determination. We considered these matters in making our final decision. These are the wholesale electricity costs, network costs, environmental costs, retail operating costs, including only modest costs of customer acquisition and retention, retail operating margin, and any other costs, matters or things we consider appropriate or relevant.

The commission has had regard to these matters, and they are dealt with in the body of our decision including the cost stack chapter.

¹⁵³ Essential Services Commission Act 2001, ss 8A(1)(f) and 33(3)(d).

¹⁵⁴ Essential Services Commission Act 2001, s 33(3)(a).

¹⁵⁵ Essential Services Commission Act 2001, s 33(4)(b).