

14 December 2023

Kate Symons  
Chairperson  
Essential Services Commission

### **Letter to the Essential Services Commission's Victorian Default Offer: Request for Comment**

Thank you for the opportunity to provide comment on the Essential Services Commission's Victorian Default Offer for 2024-25.

The current cost-of-living crisis has highlighted the significance of the Victorian Default Offer as a tool to protect consumers from paying unreasonably high prices for energy. Further discussion on specific amendments which the ESC can make within the cost-stack to ensure the VDO fulfils its role as a consumer protections tool as best as possible can be found in our joint submission with other leading consumer advocates.

However, in addition to specific changes that can be made within the ESC's annual price determination process, we believe it is also worth noting that the VDO's effectiveness and relevancy may diminish as the transition increases diversity and complexity in the retail electricity market. Below is some text we have submitted to the Australian Energy Regulator's (AER) Default Market Offer consultation with some Victoria-specific amendments.

#### *The changing energy market is reducing the relevance of the reference price*

The reference price acts as a point of comparison for consumers comparing simple plans based on price. With over a fifth of Victorian households saying that they did not switch energy plans or retailers as it was too complicated, complex, or time-consuming<sup>1</sup>, we believe that tools aimed at helping consumers to navigate what is becoming a progressively complex energy market are important.

However, we are seeing ever more products and services enter the market that do not fit the definition of a standard 'vanilla' energy plan. These may be plans with cost-reflective tariffs, that offer cheaper EV charging, are bundled with the purchase of CER products, or offer access to a virtual power plant. As was noted by the Department of Industry, Science, Energy and Resources' 2022 review into the DMO and Reference Price, the reference price will struggle to apply to these types of offers<sup>2</sup>.

Consumers are already indicating to us that they consider factors beyond a single end price when looking for a new energy plan. Our ECSS revealed that feed-in tariffs, for example, were an important factor for 16% of Victorian households the last time they looked around for an energy plan. With the variety of offers that are being introduced into the market to meet a diverse range of consumer desires, a tool that can be only used for simple price comparisons will become less relevant. It is unable to give any indication of potential risks, or benefits, of plans that offer any additional features or complexities. For example, the reference price may indicate a smaller discount for a solar plan compared to a regular plan, but if it offers high feed-in tariffs it may be the best option for a consumer with solar.

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<sup>1</sup> Energy Consumers Australia, Energy Consumer Sentiment Survey, December 2023.

<sup>2</sup> Department of Industry, Science, Energy and Resources, [Directions from the review of the Default Market Offer and Reference Price](#), January 2022.

*Determining usage profiles will become increasingly difficult with increased CER and changing usage behaviour*

Facilitated by these new products, consumers are becoming increasingly diverse in how they use (and produce) energy. Our most recent ECSS found that a third of Victorian households believe that in the next three years they will change their usage behaviour to use electricity at times when it is cheaper. A third also said they would investigate purchasing personal generation options such as solar or batteries.

We understand the ESC must determine a specific usage amount for consumers on time-of-use plans. However, determining usage for households and small business customers will become increasingly difficult with the continued adoption of CER and changing usage behaviour. Going forward, a “specific usage amount” will reflect how fewer and fewer households actually use energy.

*The objectives of the price cap and reference price differ when determining an annual price.*

The VDO has multiple functions as both a price cap and a reference price and therefore has multiple objectives. This complicates the process for the ESC to make decisions on how best to set an annual price and for stakeholders to comment on the best approach for consumers. Determining annual usage load profiles, for example, may require different considerations when setting a price cap rather than a reference price. And decisions on whether to include certain elements in the cost-stack, such as customer acquisition costs, will also depend on whether the VDO is being considered as a price cap for disengaged consumers or a reference price for all.

Further detail on some of these issues can be found in our submission to the AER’s Default Market Offer Issues Paper available [here](#). If you have any questions, please reach out to Alice Gordon at [alice.g@energyconsumersaustralia.com.au](mailto:alice.g@energyconsumersaustralia.com.au).

Yours sincerely,



Jacqueline Crawshaw  
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