

24 April 2024

By email: [vdo@esc.vic.gov.au](mailto:vdo@esc.vic.gov.au)

Essential Services Commission

Dear Commissioners,

## Victorian Default Offer 2024-25 Draft Decision

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide comment on the Essential Services Commission's (**ESC**) draft decision for the Victorian Default Offer (**VDO**) for 2024-25.

Consumer Action has long supported the overall objective of the VDO, in providing a simple, trusted and reasonably priced electricity option that safeguards consumers unwilling or unable to engage in the retail market.

We welcome the draft decision to reduce the VDO by 6.4% for 2024-25 and we urge the ESC to consider further reducing the VDO price in light of growing and persistent energy hardship and debt for consumers, and broader reductions in costs both in the last year and in future prices for 2025<sup>1</sup>. The 6.4% reduction in the draft VDO decision must be considered in the context of the substantial increase of 25% for the VDO 2023-24. In this last year, a spike in people presented for help on our frontlines with energy hardship and increased energy debt.

Consumer Action is the main provider of the National Debt Helpline (NDH) financial counselling service in Victoria. Demand for our services has grown substantially over the past year; we are receiving call after call from people in serious financial difficulty. Debt is growing, essentials are becoming unaffordable and cases are more complex as people struggle with the impacts of financial stress. Our recent report: [At the Frontlines of the Cost of Living Crisis](#) provides recent data, insights and illustrations from our financial counselling services.

As costs of living continue to rise and affect more Victorians' ability to meet their essential needs, extreme weather is becoming the norm in Australia and something to which we must adapt. For example, evidence points to heatwaves as one of the leading causes of death in Australia<sup>2</sup>. The VDO's intent and purpose sits central to Victorians, as these short and long term impacts converge. In this climate, access to an affordable energy supply grows in importance, particularly for the people we speak with on our frontlines every day.

We reaffirm the important purpose of the ESC to promote the long-term interests of Victorian consumers with respect to price, quality and reliability of essential services, as well as the requirement for the ESC to consider the benefits and costs for low income and vulnerable consumers, in delivering on this purpose<sup>3</sup>.

In this submission, we provide several recommendations for the ESC to consider when making its final decision for the VDO 2024-25, including on its approach to the pricing methodology, as part of ensuring the VDO continues to be a simple, trusted and reasonable electricity price for Victorians.

A summary of recommendations is available at **Appendix A**.

<sup>1</sup> AER, [Q1 2024 Wholesale markets quarterly report.pdf \(aer.gov.au\)](#) April 2024

<sup>2</sup> [Heatwaves | Australia state of the environment 2021 \(dcceew.gov.au\)](#), SoE 2021

<sup>3</sup> Essential Services Commission Act 2001 (Vic) S. 8A

## About Consumer Action

Consumer Action is an independent, not-for profit consumer organisation with deep expertise in consumer and consumer credit laws, policy and direct knowledge of people's experience of modern markets. We work for a just marketplace, where people have power and business plays fair. We make life easier for people experiencing vulnerability and disadvantage in Australia, through financial counselling, legal advice, legal representation, policy work and campaigns. Based in Melbourne, our direct services assist Victorians and our advocacy supports a just marketplace for all Australians.

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# Cost of living impacts on Victorians

As an essential service, energy is central to every aspect of our lives. The ability to afford essentials has become an issue for an increasing number of Victorians, as part of the ongoing cost of living crisis. The VDO can play a role in stabilising the basic cost of one of these essentials, and should be considered against this broader context.

## Energy affordability

Consumer Action has seen a significant increase in calls and online chats from Victorians in paid employment contacting the National Debt Helpline (NDH) for energy hardship assistance. In 2023, 22% of callers to the NDH in Victoria, that we operate, reported an employment income compared to 15% from the previous year. This presented alongside increases in the amount of energy debt our callers reported struggling with, and increased reported occurrences of energy retailers providing inadequate hardship assistance. With the cost of essential goods and services increasing across the board, and the cessation of the Power Saving Bonus as of August 2023, we anticipate that Victorian consumers will face another year of financial strain.

Consumer Action notes that the ESC utilises a wide range of economic modelling as part of the VDO pricing methodology, however consumer impacts are not yet included as a part of the methodology. We point to the core purpose of the ESC of promoting the long-term interests of Victorian consumers as part of its role in ensuring fair and efficient access to essential services. Against this purpose, when setting the VDO for an essential service, the ESC should be referencing benchmark incomes and expenses of consumers.

Employment incomes over the period in which the VDO has been in place (2019-2024) demonstrate that while energy prices have broadly increased<sup>4</sup>, average wage price index has increased by only 2.5%<sup>5</sup> over the same period.

Additionally, consumers receiving a Centrelink payment consistently present as a majority of Victorian callers to the NDH<sup>6</sup>. In 2023, the base rate Centrelink Jobseeker income sat at \$1,196 per fortnight. Over the 2019-2023 period, these incomes have remained fixed, with the exception of the COVID19 increase – and subsequent reduction – over 2020-2021.

**RECOMMENDATION 1.** The ESC investigate measurements of consumer impacts including income and household expenses with a view to incorporating within the methodology of the VDO 2025-26.

## Case Study - Anja

Anja\* lives with her younger sibling who is unable to work due to an injury. Anja was working in a medical service but had to stop work due to severe mental and physical health issues. Additionally, Anja's employment income had been affected by her contracting COVID19 several times. Over the last few months Anja began receiving the Austudy payment of \$600 per fortnight.

The sibling's expenses exceeded their income. Their rent was \$1200 per month, and they received utility bills totalling \$600 for the last month.

Anja applied for the Power Saving Bonus in both financial years and was receiving applicable concessions. She had also obtained the Utility Relief Grant but has not used all of it. While these energy relief schemes had provided much needed assistance, Anja was struggling to afford her essential expenses and had fallen behind in her rent and utility costs.

After Anja utilises the remaining portion of the Utility Grant, her income would not be able to meet her ongoing rent and energy costs.

*\*name changed*

<sup>4</sup> Australian Energy Regulator, [State of the energy market 2022 - Full report.pdf \(aer.gov.au\)](#) September 2022, p. 6

<sup>5</sup> Australian Bureau of Statistics (December 2023), [Wage Price Index, Australia](#), ABS Website, accessed 11 April 2024.

<sup>6</sup> Consumer Action Law Centre, [REPORT: At the front line of the cost-of-living crisis - Consumer Action Law Centre](#) March 2024, p. 12

## Energy Debt

Consumer Action found that 52% of all energy calls to the NDH in 2023 raised a quantified energy debt. Of these debts, callers had an average energy debt of over \$2,600. This average energy debt represents more than 250% of callers' average fortnightly income.

The size of the energy debt is also growing. With specific regard to electricity debt, in our 2<sup>nd</sup> edition of the Energy Assistance Report (covering 2019-2020 calls to our financial counsellors), we identified average electricity debt as \$1,611<sup>7</sup>. This has now increased to \$2,048 in 2023.

While Victorian energy relief schemes provide crucial assistance, our frontline evidence indicates they are not keeping up with Victorians' growing energy debt. As pointed out by the ESC at the VDO Draft Decision Forum last month, in addition to the VDO, maximising utilities concessions is an important tool to support consumers in energy hardship. We regularly assist clients for whom the maximum concession doesn't even halve their growing energy debt, which suggests that the utilities relief grant needs revisiting by government.

## Energy Hardship assistance

In 2023, Consumer Action identified an increase to 19% (as compared to 12% in the previous year) of all energy contacts to our financial counsellors where retailers have not provided adequate or consistent assistance available through the Payment Difficulty Framework.

Callers commonly stated their retailer did not assist them to apply for the Utility Relief Grant, provide information or assistance in switching to better offers, or in many cases, the caller felt coerced to agree to an unaffordable payment plan to pay their arrears without additional assistance. Inconsistent application of the Payment Difficulty Framework is causing further harm to consumers in financial difficulty, including the large number of Victorians languishing on energy prices not fit for their needs, with limited access to information about the VDO or alternative offers.

**RECOMMENDATION 2. The ESC investigate how retailers' obligations to provide consumers information and assistance about relevant offers under the Payment Difficulty Framework can incorporate informing customers of the VDO.**

## Pricing Methodology

### Wholesale costs

#### Methodology

We welcome the ESC's rationale and decision to retain the use of trade-weighted futures contract prices to estimate wholesale prices for the 2024-25 VDO. The VDO has an important role in providing a reference to a reasonable and efficient methodology of hedging against wholesale market volatility

We note the ESC's comments regarding the methodology providing self-insurance against wholesale market volatility. Consumer Action supports the ESC's intention behind this methodology, in that over time, the higher and lower costs will balance out. This said, given market volatility, we are of the view that the spikes in wholesale prices and the variability of retailers' hedging positions demonstrates that the current energy market is not providing the stability consumers need for something as essential as household energy. We note the ESC's comments in their draft decision that retailers who had adopted the hedging position assumed in the VDO wholesale benchmark 'would have had very little unhedged load and therefore little need for working capital to support the extreme market scenario that eventuated'<sup>8</sup>.

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<sup>7</sup> Consumer Action Law Centre, [Energy Assistance Report: Second Edition - Consumer Action Law Centre](#), September 2021, p. 19

<sup>8</sup> Essential Services Commission 2024, [Victorian Default Offer 2024-25: Draft Decision Paper: Draft Decision Paper](#), 19 March, p.16

We are concerned that consumers may be exposed to the costs of retailers with low-risk appetites in hedging spot prices, if the commensurate working capital or decreased contract costs are not also accounted for. We reaffirm our recommendation that retailers' hedging trends must be monitored to ensure that consumers are protected from these costs being passed on.

As part of the ESC's role in providing a fair and efficient reference price, we support the ESC monitoring retailer hedging trends, and support the ESC investigating through independent modelling how it can incorporate a wider range of risk-management strategies available to retailers into their wholesale cost estimates to ensure they reflect efficient costs.

**RECOMMENDATION 3. The ESC to investigate how to incorporate the use of a wider range of retailers' risk management strategies into the wholesale cost estimates for the VDO 2025-26**

Draft price

We welcome a draft reduction in wholesale costs used in the calculation of the VDO this year, as wholesale prices remain a core aspect of the default offer price. The National Energy Market (NEM) measured a significant reduction between 44% and 64% in wholesale costs for 2023, with the AER stating that these decreases should be reflected in prices faced by consumers<sup>9</sup>. This reduction appears to not have been entirely reflected in the 2024-25 draft decision, which provided a decrease of wholesale costs by 22% to the previous year's VDO.

As future wholesale electricity prices are forecast to decrease further<sup>10</sup>, we note the importance of the VDO price reflecting these decreases to the fullest extent possible, to prevent the continued risk of consumers bearing an unfair portion of the costs associated with recent market volatility, and gaps in retailers' risk management approaches.

**RECOMMENDATION 4. Wholesale costs to be further reduced in the final VDO decision for 2024-25 in order to reflect wholesale cost reductions.**

**Retail Costs**

Retail Operating Margin: Methodology

In our previous submission, we welcomed the ESC's invitation to provide suggestions on alternative approaches for setting the retail margin, as notably, Victoria's retail margin has been at the top of the range in recent years compared to other jurisdictions.

This fact, alongside the downward trend of the average retail margin evidenced in the ACCC's 2022 report<sup>11</sup>, led us to previously recommend that the ESC commission bottom-up modelling to quantify an efficient retail margin<sup>12</sup>.

We note the ESC's methodology considers other jurisdictions' retail margins and retailers' actual margins, amongst other methods<sup>13</sup>. While we support the use of these factors, we reaffirm our previous concerns of the risk of circularity this methodology could foster, in perpetuating inefficiencies of prior determinations.

We therefore continue to recommend that the ESC review this methodology in future, through receiving independent, up to date evidence provided through new economic modelling.

**RECOMMENDATION 5. The ESC to commission bottom-up modelling to quantify an efficient retail margin for the 2025-26 VDO**

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<sup>9</sup> [Average wholesale energy prices drop in 2023](#), AER January 2024

<sup>10</sup> Australian Energy Regulator, [Q1 2024 Wholesale markets quarterly report.pdf \(aer.gov.au\)](#) April 2024, p. 15

<sup>11</sup> Australian Competition and Consumer Commission, [Inquiry into the National Electricity Market: December 2023 Report \(accc.gov.au\)](#), 1 December, p.6

<sup>12</sup> Consumer Action Law Centre, [2024-25 Victorian Default Offer: Request for comment paper - Consumer Action Law Centre](#) 14 December, p.2

<sup>13</sup> Essential Services Commission 2024, [Victorian Default Offer 2024-25: Draft Decision Paper: Draft Decision Paper](#), 19 March, p.35

## Considerations outside of scope

### Customer Acquisition and Retention Costs

In our previous submission, Consumer Action supported the consumer sector's recommendation that Ministerial advice be provided to remove the Customer Acquisition and Retention costs from the VDO.

We acknowledge the ESC's response provided in the draft decision, that the VDO acts as a reference price additional to being a default price. However, we support the Thwaites Review recommendation for a Basic Service Offer (BSO), for consumers who can't or won't engage in the energy market. That review outlined it is crucial that there be a base offer for electricity, wherein 'the regulated price must not include customer acquisition and retention costs or headroom'<sup>24</sup>. The right to disengage from advertising or marketing while paying for an essential service should be formally introduced as part of a default offer's functions.

We recognise that the VDO may also act as a broad reference price, however the option to receive a default price without these additional costs remains an important and fairer option for many Victorians.

### Independent price comparison information

We hear of the barriers consumers face in accessing simple, independent information in order to compare energy offers and make an informed choice. With the Power Saving Bonus ending in 2024, it is even more crucial to provide avenues for Victorians to better inform themselves about energy offers, from independent sources. This could be achieved through additional funding being provided to the Victorian Energy Compare website, outreach programs and incentives to consumers to be reviewed and reinvigorated for Victorian consumers.

We hope that with this recent drafted reduction, further focus can be made across the sector in making sure Victorians are provided the information to access a better offer.

**RECOMMENDATION 6. Relevant Departments and regulatory bodies to prioritise independent, accessible information and resources for Victorian consumers to review and compare energy offers**

## Conclusion

The draft decision of the reduced VDO for 2024-25 is a positive step that will help reduce the financial burden on Victorians receiving the VDO.

We welcome the reduced price of this draft decision but we urge the ESC to consider if there is any scope for a further reduction in price, in its final decision, based on reducing wholesale costs and the broader cost of living crisis that consumers are struggling with. The reduced price must also be regarded in the context of last year's 25% spike.

We have also set out some broader considerations on consumer protections in energy hardship and pricing beyond the VDO. These include ensuring greater compliance with the Payment Difficulty Framework by retailers, so that retailers consistently provide assistance to people struggling with their energy bills.

We reaffirm Consumer Action's longstanding support for the VDO's intention, and we look forward to further considerations regarding the methodology and incorporation of consumer impacts as part of the continued iteration and development of providing a simple, trusted and reasonable energy price for Victorians.

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<sup>24</sup> Independent and Bipartisan Review of the Electricity and Gas Retail Markets in Victoria, [Review of the Electricity and Gas Retail Markets in Victoria \('Thwaites Review'\) and outcomes from the Energy Fairness Plan](#) 2016, p. xi



## APPENDIX A - SUMMARY OF RECOMMENDATIONS

**RECOMMENDATION 1.** The ESC investigate measurements of consumer impacts including income and household expenses with a view to incorporating within the methodology of the VDO 2025-26.

**RECOMMENDATION 2.** The ESC investigate how retailers' obligations to provide consumers information and assistance about relevant offers under the Payment Difficulty Framework can incorporate informing customers of the VDO.

**RECOMMENDATION 3.** The ESC to investigate how to incorporate the use of a wider range of retailers' risk management strategies into the wholesale cost estimates for the VDO 2025-26

**RECOMMENDATION 4.** Wholesale costs to be further reduced in the final VDO decision for 2024-25 in order to reflect wholesale cost reductions.

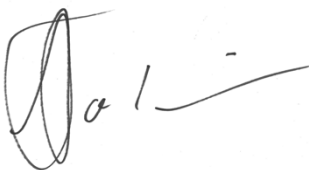
**RECOMMENDATION 5.** The ESC to commission bottom-up modelling to quantify an efficient retail margin for the 2025-26 VDO

**RECOMMENDATION 6.** Relevant Departments and regulatory bodies to prioritise development of independent, accessible information and resources for Victorian consumers to review and compare energy offers

Please contact Policy Officer **Eirene Tsolidis Noyce** at **Consumer Action Law Centre** on 03 9670 5088 or at [eirene@consumeraction.org.au](mailto:eirene@consumeraction.org.au) if you have any questions about this submission.

Yours Sincerely,

**CONSUMER ACTION LAW CENTRE**



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