Brotherhood of St Laurence
Working for an Australia free of poverty

Victorian Default Offer draft decision for 2023-24

Submission to the Essential Services Commission, April 2023

The Brotherhood of St. Laurence (BSL) welcomes this opportunity to comment on the draft decision paper regarding the 2023-24 Victorian Default Offer (VDO) issued by the Essential Services Commission (ESC).

This submission outlines our argument for keeping an increase to the VDO to a minimum, while noting that fundamental changes to the methodology may be justified.

The VDO plays an important role in providing a reasonable electricity price for a group of households who cannot or do not choose an electricity market offer, which includes many people facing energy stress and disadvantage. This group, which numbers over 400,000 households (ESC 2023), includes those who face barriers (e.g. language or internet access) to engaging in the market, those in embedded networks (such as low-income residents of establishments like caravan parks), and those who have been placed on the VDO by their retailer.

It is essential that any increase to the VDO is kept to a minimum

Increasing the VDO by 31%, as the draft decision proposes, will push many households further into energy stress at a time when other costs of living are already escalating. It will have a disproportionate impact on people with low or fixed incomes, who spend a larger share of their income on energy (ACOSS & BSL 2018). It is also likely to erode trust in the VDO as a reasonably priced option. The price increase will also affect those with less energy efficient homes more: the Energy Efficiency Council (2023:23) calculated that a 40% price rise would result in a $700 annual increase to a 7-star home but a $1,600 increase to a 1-star home.

Already in 2020 – before the recent market price increases –nearly half of the lowest-income households were in energy stress, as well as 35% of those already in public or community housing and over a quarter of people with disability or a chronic health condition (Bryant et al. 2022). A large price increase will push people in these groups into debt and induce them to ration energy or other essentials to the detriment of their health.

To keep increases in the VDO to a minimum, changes to the methodology for setting the VDO may be required, as outlined below.

High prices may justify methodology changes

We recommend that the ESC consider whether the current methodology of the VDO is fit to achieve its policy objectives of providing ‘a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market' (ESC 2023:3). To this end, considering the ability to put downward pressure on any components would be most welcome.

Many Victorians will not consider a 31% increase reasonable, trustworthy, or to constitute a safeguard. Australian governments have also signalled that the energy prices seen in 2022 were unacceptable through policy changes such as Victoria's re-establishment of the State Electricity Commission and the Commonwealth's intervention in coal and gas prices. Therefore, a more fundamental rethink of the VDO than the regular annual review process may be justified.

The VDO's wholesale component should be as low as possible

Any increase to the wholesale price component of the VDO should be kept to a minimum.

While the Victorian electricity spot price was high for periods of 2022, retailers' exposure to this price are likely to have been moderated by their hedging strategy and ownership of generation. The average price of Victorian market offers has increased in the past year, but this increase of 14–20% (SVDP 2023) is substantially lower than the proposed VDO increase, and may better represent the costs facing retailers.

The proposed retail operating margin should be reconsidered

We also suggest that the ESC reconsider the VDO's retail operating margin.

As the draft decision paper notes, the dollar value of the current margin will increase 31% if the proposed margin of 5.7% is kept. Moreover, the current margin is higher than those set by the Tasmanian, Queensland and New South Wales regulators, and higher than retailers' actual average margin. Every additional dollar of margin will detract from households' ability to pay rent, buy food, or meet other needs, thus the ESC should consider the rate very carefully.

Other policy changes may be needed

Beyond this VDO determination, the very high price pressures on households – particularly those facing energy stress – necessitate the Victorian Government considering other options, such as:

- additional concession payments to households (which could be transferable to larger grants for home energy efficiency upgrades)
- support for low-income and energy-stressed households to upgrade their homes to be more efficient, thereby providing more durable energy bill reductions
- in the medium term, fast-tracking the role of the State Electricity Commission in retail energy markets, with a view to providing a low-cost market anchor and provision of energy affordability and efficiency advice and support
- developing an agreed definition of energy stress or energy poverty, to better understand the nature of the problem in Victoria, and monitor progress towards reducing energy stress
- undertaking another review of the retail market.

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