

## **Good Shepherd response to Essential Services Commission draft Victorian Default Offer, 2023–24**

**April 2023**

Good Shepherd welcomes the opportunity to comment on Victorian electricity price regulation (the 2023–24 Victorian Default Offer tariffs) during this difficult period of high inflation for women and families on low incomes, and windfall energy sector profits.

As an organisation working with women, families and women-led small businesses, we are deeply concerned about the proposed VDO increase of 31% for residential customers, and 33% for small business customers. These increases will have severe consequences for people already at their financial limits, and may create default risks for mortgagors and other debt-holders (e.g. No Interest Loan clients). Good Shepherd is seeing a 'new vulnerable' cohort emerge due to cost of living pressures, which will only intensify if energy prices are not contained.

### **About Good Shepherd**

Good Shepherd is a not-for-profit organisation whose mission is to tackle the significant issues impacting women, girls and their families. We've been walking alongside women and girls in their journey to being safe, well, strong and connected for 160 years in Australia, and over 400 years internationally. We advocate for evidence-informed systemic change, and partner with all levels of government as well as community sector and corporate allies across Australia. Good Shepherd also has consultative status at the United Nations.

Good Shepherd assists women and families with energy-related issues through our Power Saving Bonus program (co-delivered with Neighbourhood Houses Victoria), and financial counselling and capability services, including complex referrals from industry. The Good Shepherd/CommBank Financial Independence Hub works with women who are recovering from financial abuse, a significant proportion of whom have energy-related debts.

### **The importance of a fair & reasonable default energy deal**

The Victorian Default Offer (VDO) is a critical safety net for women and families who do not have the time, resources or capacity to engage with a complex, privatised market. While Good Shepherd achieves valuable outcomes with clients

in our Power Saving Bonus program and financial counselling services, some women and families face more intractable barriers to market engagement.

Comparing and switching energy deals is unlikely to be a priority—or even possible—when dealing with family violence, trauma, or major challenges in families. For some women with disabilities, it [may be difficult or impossible](#) to carry out these types of administrative/executive tasks. Digital exclusion, including among older women and families on low incomes, is a major barrier to finding a more affordable energy deal, as is a lack of inclusive language services. The VDO is therefore a vital protection against egregious pricing, and the exploitation of people made vulnerable by a complex market.

The VDO is also an important protection for Victorians overall, by imposing an effective ceiling on energy prices, constraining excessive pricing at the top, and acting as a reference price for discounted market offers. At a time of very high rental, food, insurance and transport costs, the VDO is one of the few levers available to cap and constrain the pricing of household essentials.

A fair and reasonable VDO also maximises the value of the \$250 Power Saving Bonus and Utility Relief Grants, by limiting energy prices and ensuring government-funded financial support goes further.

While there are likely to be market offers priced below the VDO, the extent of those offers, their accessibility, and the level of discounting off the VDO all remain unclear at this point.

Any increase in pricing is unsustainable for Good Shepherd’s clients and constituents, let alone an increase of 31%. The increase is far in excess of both average wage increases (3.3%), and social security payment indexation (around 3.7%), at this time. We question whether such an extraordinary increase can be justified by the ESC, and ask the ESC to examine the following key issues.

### **Efficient wholesale electricity costs**

The main driver of the proposed increase is higher wholesale costs. Wholesale costs will make up around 36% of the bill, and those costs, in the ESC’s estimate, are 95% higher than those in the 2022–23 VDO.

The ESC has developed its wholesale cost benchmark using trade-weighted contract prices from the last twelve months, consistent with the ESC’s established VDO methodology. That methodology is unlikely to produce a fair and reasonably priced VDO in 2023–24, because the reference period includes extraordinarily high wholesale prices prior to the introduction of coal and gas price caps by the

federal government in late 2022. We appreciate that retailers will have purchased wholesale hedging contracts during the prior 12 months, but question the extent to which an 'efficient' retailer would have purchased those contracts in advance of a well-anticipated and well-publicised wholesale price cap.

Use of the standard VDO methodology for 2023–24 will mean Victorians on the VDO—and those on market offers that discount off the VDO—will not receive the full benefit of the federal government's wholesale price caps. We ask the ESC to:

- **temporarily deviate from the standard VDO methodology** to ensure the VDO does not price-in uncharacteristically high wholesale prices, reflects any lower wholesale pricing over 2023–24, and is consistent with the **objectives of the federal government's price caps**, given the ESC must have regard to consistency in regulation between States and on a national basis when determining the VDO
- ensure that the wholesale cost benchmark does not reflect any **excessive transfer pricing by vertically integrated retailers** (i.e. avoid a situation where the VDO reflects wholesale electricity supplied to retail arms well above generation costs). Around 75% of Victorians buy their electricity from large, vertically integrated retailers, so they are very exposed to this risk.

### **Avoiding socially harmful electricity pricing**

In making its VDO determination, the ESC must have regard to 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'.

A 31% rise in electricity prices will impose profound costs on women and families unable to afford adequate energy. Potential impacts include:

- heating becoming an unaffordable 'luxury', resulting in the onset or exacerbation of [health conditions](#), including respiratory illness and conditions associated with age such as arthritis; increased physiological stress on older people, children and unwell people; [hypothermia](#); and the health impacts of mould and damp, particularly in older rental properties
- having to make [trade-offs on essentials](#) in order to pay higher bills, such as [limiting or going without food](#), school materials, social participation, and medication
- risks associated with family violence: economic insecurity, including inability to pay bills, is [associated with a higher risk of violence](#). High energy prices, along with high housing, food and other costs, can compound the

financial insecurity faced by victim-survivors, compromising their independence and capacity to leave an abusive relationship.

We ask the ESC to examine the **economic and social costs of such a large increase in the VDO, and the externalities imposed on government and community service organisations** in assisting people facing health conditions, educational disadvantage, psychological stress, financial hardship and other harms due to energy price increases.

### **Monitoring and corrective actions**

We ask the ESC to closely **monitor the 2023-24 VDO once it takes effect, and to use its variation powers to lower the VDO** if there is a material difference between the VDO and observed efficient wholesale costs during 2023-24.

We also support the ESC and the Victorian Government requiring energy retailers to **actively move people to lower-priced offers**, including by:

- reactivating and enhancing some lockdown/pandemic-era protections, e.g. introducing a tariff check entitlement for all customers
- moving long-term legacy customers on high pricing to better deals
- providing targeted price reductions and payment support for people who are showing signs of financial stress/hardship, such as late payment, use of Buy Now Pay Later (BNPL) to pay bills etc
- using clear and compliant 'best offer' messages on bills
- using end-of-contract periods to assist people onto good deals, and ensure they do not default to the VDO long-term.