

# Fair Pricing in the Energy Market

## Terms of Reference for the Essential Services Commission

The Essential Services Commission (the ESC) is requested to provide advice under Section 10(g) of the *Essential Services Commission Act 2001* to support the Government's decision to introduce a fairer-priced electricity offer, the "Victorian Default Offer", for domestic and small business customers.

### Background

The *Independent Review of the Electricity & Gas Retail Markets in Victoria* (the Review), commissioned by the Victorian Government in November 2016, found that the deregulated energy market was not delivering the anticipated benefits to consumers. It made 29 recommendations designed to place consumers back on a level playing field, including changing retailer marketing practices, introducing a basic service offer and abolishing standing offer contracts.

On 26 October 2018, the government released its final response to the Review. The final response supported all recommendations, including recommendations 1 and 2 by requiring electricity retailers to offer a fairer price for energy, the "Victorian Default Offer" (VDO), and replace standing offers.

The VDO will provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the retail electricity market without impeding the consumer benefits experienced by those who are active in the market.

Electricity VDO tariffs are to be available to customers from 1 July 2019.

### Request

The ESC is requested to develop a methodology for determining an efficient price for electricity and use that methodology to recommend a VDO for Victoria that will:

- be offered unconditionally by each licensed electricity retailer to all domestic and small business customers<sup>1</sup> including those domestic and small business customers who export power under feed-in-tariffs;
- be the price that a retailer can charge under the VDO arrangements and is to be established as the basis for retail discounts;
- adopt the terms and conditions for standard retail contracts (i.e. standing offers); and
- be based on current marketing standards and approaches.

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<sup>1</sup> "Domestic and small business customers" means customers who purchase power for personal, household or domestic use, and consume no more than 40 megawatt hours in a year for business use.

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The VDO price(s) should:

- be set for each distribution zone;
- be based on the efficient cost to run a retail business;
- include an allowance for a maximum retail profit margin;
- include a modest allowance for customer acquisition and retention costs; and
- not include an allowance for headroom.

In conducting its review, the ESC is required to have regard to its objectives under the *Essential Services Commission Act 2001* and *Electricity Industry Act 2000*, findings from the Review, the Government's published response to the Review, advice from relevant experts, and other matters it deems relevant.

The ESC should engage in its work with an expert panel including the Secretary of DELWP and members nominated by the Minister for Energy, Environment and Climate Change.

### *Reporting*

Throughout the review, the ESC will advise the Assistant Treasurer and Minister for Energy, Environment and Climate Change about its progress and final approach.

### *Consultation*

In undertaking its review, the ESC is required to consult publicly.

### *Completion*

Unless otherwise determined by Government, the ESC must develop and apply a pricing methodology by 3 May 2019, so that retailers can offer customers the VDO by 1 July 2019.