



Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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Melbourne VIC 3001

By email: DMO@aer.gov.au

6 December 2018

Dear Mr Feather,

RE: Submission to Default Market Offer Position Paper

Thank you for the opportunity to comment on the issues raised by the AER in its position paper on the Default Market Offer. This submission is presented by St Vincent de Paul (SVdP) and the South Australian Council of Social Service (SACOSS).

SVdP and SACOSS **cautiously** welcomes the introduction of a Default Market Offer (DMO) as it has the potential to drastically improve outcomes for consumers on standing offers by putting a price ceiling for those not engaging in the retail energy market. SVdP's recent annual Tariff-Tracking report highlights that standing offers have increased by 75% on average across the NEM since 2009, with outcomes worst for those in South Australia (112% increase) and Victoria (104%).¹

SVdP and SACOSS also support the development of the reference bill as an independent point for comparing various energy products, providing consumers with a better framework for decision making. As noted in the SVdP Tariff-Tracking report, retailers change their discounts (including pay on time discounts) significantly and frequently, and changes to discounts can have much greater impact on energy bills than changes to the rates themselves.² The introduction of a reference bill for each network distribution region provides a price point to assess value proposition of different offers, and should also assist consumers in navigating confusing discounts.

¹ St Vincent de Paul Society and Alviss Consulting, The NEM – No “guarantee for consumers: Observations from the Vinnies’ tariff-tracking project, October 2018, https://www.vinnies.org.au/icms_docs/298264_2018_NEM_-_No_guarantee_for_consumers.pdf

² Ibid

The position paper suggests that "the key policy intent of the DMO price is to mitigate the impact of unjustifiably high standing offer prices on those consumers that remain disengaged or have been moved onto standing offers."³ While SVdP and SACOSS in principle support the policy intent of both the DMO and by extension, reference bill, we are concerned that the position paper does not more broadly explore interactions with other market reforms and associated unintended consequences, which may undermine the desired outcome of the DMO.

For example, we note that Treasury has flagged that the DMO may be used as a "binding price cap" in the Government's new electricity price monitoring and response strategy.⁴ Under the proposal,

*"the ACCC could make a recommendation to the Treasurer that would allow the Treasurer to make an order that the corporation's retail offers are capped for a specified period at the level of the default market offer set by the AER. (In the absence of such an order, retailers are able to make market offers above the default market offer.)"*⁵

This enforcement measure would be part of a range of proposed responses should the ACCC identify that a retailer has breached one of three proposed "prohibition limbs" of retail pricing, wholesale bids and conduct, and market liquidity. It is unclear how the setting of DMO prices will impact market structures outside those canvassed in the position paper.

In light of the above, SVdP and SACOSS encourage the AER to take into account the following principles in determining DMO prices and reference bills:

- As far as possible, no consumers should be worse off as a result of introducing DMO prices and reference bills. That is, introducing a DMO does not intentionally force up market offers or limit innovation and market development. The DMO should be set in such a way that promotes market churn, and doesn't entrench market incumbency, which is a particular issue in South Australia.
- Consider the role of the DMO and its relationship to complementary measures such as energy concessions, state energy efficiency programs, solar subsidies, premium feed-in tariffs, and so on.
- Implementation should include a review process that monitors and evaluates the impacts of the DMO on the market and any unintended consequences. Acknowledging the Government's intent to have initial DMO prices in place from 1 July 2019, it is suggested that the AER pace the reform by implementing the DMO first and the reference bill at a later date. Our view is that it is better to get the reform implemented correctly rather than create perverse outcomes for the market. We would also appreciate further consideration as to how the DMO price relates to the reference bill in future consultation.
- The DMO and reference bill should be implemented in concert with, and mindful of, other ACCC Retail Pricing Inquiry recommendations. DMO prices and reference bills are by no means a 'quick fix'

³ AER, AER Position Paper Default Market Offer Price, November 2018,

<https://www.aer.gov.au/system/files/AER%20position%20paper%20-%20Default%20Market%20Offer%20price%20v1.1%20-%202019%20November%202018.PDF>, p. 13

⁴ Treasury, Electricity price monitoring and response legislative framework, consultation paper, October 2018, https://static.treasury.gov.au/uploads/sites/1/2018/10/T337042_EPM_consultation_paper.pdf

⁵ Ibid, p. 6

for the retail energy market, and co-ordinated implementation with other market reforms will be key to its effectiveness.

SVdP and SACOSS would like to provide feedback on selected consultation questions below.

Question 2: For residential customers, what type of tariff structures should be subject to a DMO price? Should there be different types of tariff structures subject to a DMO price in different distribution zones? Please provide reasons for your preferred approach.

- SVdP and SACOSS agree that it would be appropriate to apply a DMO price to both flat rate and controlled load tariff types. It would be very challenging to have a DMO price on Time of Use (ToU) and Demand tariffs given both are highly time variable (e.g. seasonal, hour-to-hour variability) which may potentially create risk for both retailers and consumers.

Question 4: What factors should we take in account in determining DMO prices?

- The impact on current price dispersions between different market segments (e.g. dual-fuel households v all-electric, solar v non-solar);
- The impact on other consumers within the retailer's portfolio, including market offer customers, and solar customers. As mentioned in our principles above, the AER should seek to ensure that no-one is left worse off;
- Interaction between the gas and electricity market (particularly if the intention is to apply the DMO to electricity offers only);
- How the DMO reforms interact with innovative products and offers (e.g. smart meters and the consumer data right). This includes the distributional impacts across the energy market if all energy retailers are required to offer a DMO.

Question 5: What if any other factors or risks should the AER consider in applying the proposed price-based top down approach for determining DMO prices?

- SVdP and SACOSS would like to see a clear pathway from the AER to move towards the more rigorous 'bottom-up' approach, with appropriate mechanisms to review the distributional impact on consumers.

Question 8: For residential customers, on what basis should we set the consumption benchmark as part of our proposed methodology? Please provide reasons for your preferred approach.

- SVdP and SACOSS are comfortable with using the average consumption per customer in each distribution zone **provided** that solar households are excluded from the calculations. Including solar households in the calculations would likely drag down the consumption average and further entrench the disparity between solar/non-solar households.

Question 12: How should the DMO price be specified? Please provide reasons for your preferred approach?

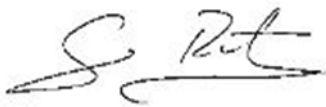
- SVdP and SACOSS support specifying the DMO price as an annual dollar amount. Since annual figures are already used as the headline figure on Energy Made Easy, the DMO price can be easily used to benchmark offers presented on the comparator website. Regardless of the approach the AER land on, we encourage consistency in the language and terminology of the DMO to what is used on Energy Made Easy, as per the recent Retail Pricing Information Guidelines review.⁶

Question 13: What should be the duration of the AER's DMO price determination? Please provide reasons for your preferred approach. To what extent and under what circumstances should there be scope to reopen the AER's determination?

- SVdP and SACOSS are comfortable with an annual determination of DMO prices, but there needs to be provisions for pass through events (e.g. an AEMO intervention due to RERT).

We thank you for consideration of our comments. If you have any questions, please contact Mr Gavin Dufty, Manager Policy and Research, St Vincent de Paul via gavind@svdp-org.au or Ms Jo De Silva, Senior Policy Officer, SACOSS via jo@sacoss.org.au.

Yours Sincerely,



Gavin Dufty
Manager Policy and Research (St Vincent de Paul)



Ross Womersley
CEO (SACOSS)

⁶ AER, Notice of final instrument: AER retail pricing information guidelines, version 5, April 2018, <https://www.aer.gov.au/system/files/Notice%20of%20Final%20Instrument%20-%20Retail%20Pricing%20Information%20Guidelines%20-%20Version%205%20-%20April%202018.pdf>