Summary of Etrog Consulting submission to the Australian Energy Regulator (AER) Default Market Offer (DMO) position paper

19 November 2020

The submission was made to the Australian Energy Regulator (AER) to support advocacy by a stakeholder group of thirteen community sector organisations in Queensland.

Background

The Default Market Offer (DMO) came into effect on 1 July 2019. The DMO limits the price that retailers can charge electricity customers on default contracts known as standing offer contracts. A customer might be on a standing offer for various reasons.

The AER's role is to determine the maximum price that a retailer can charge a standing offer customer each year. The AER refers to this as the DMO price.

The AER's DMO price determination applies to residential and small business customers on standing offers in distribution regions where there is otherwise no retail price regulation – South Australia, New South Wales and south-east Queensland and whose standing offer is of a tariff type for which the AER determines a DMO price.

The DMO price for each area also acts as a 'reference price' for residential and small business offers in that area. When they are advertising or promoting offers, retailers must show the price of their offers in comparison to the DMO reference price. This aims to help customers more simply compare the price of different offers.

Key matters raised in our submission

The key matters raised in the submission are:

- The AER's ongoing refusal to calculate retailers' efficient costs results in lack of transparency in the DMO calculations, and makes it impossible to determine whether the objective of protecting customers from unjustifiably high standing offer prices is being met. This is notwithstanding the fact that the ACCC's recommendation on which the DMO is based clearly stated:
    - *The AER should be given the power to set the maximum price for the default offer in each jurisdiction. This price should be the efficient cost of operating in the region, including a reasonable margin as well as customer acquisition and retention costs.*

  It is not possible for the AER to set a DMO price that is the efficient cost of operating while it refuses to identify efficient costs, and refuses to set the price to be the efficient cost of operating, even though that is exactly what the ACCC said it should do.
- The DMO calculation should take into account the efficiency improvements that would be expected from an efficient retailer.
- In regard to COVID-19, the AER's Position Paper only focuses on retailers' costs, including how they may have increased due to COVID-19, and not on consumers' ability to pay for electricity due to COVID-19. The paper even goes so far as to consider adding to customers' energy costs to start 'pay back' before the pandemic is over. This is not equitable. It will adversely affect vulnerable households impacted by COVID-19, and is therefore not appropriate at this time.