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Mr Geoff Whelan
General Manager
Electricity Division – Wholesale and Retail Markets
Department of Industry, Science, Energy and Resources

By email: electricitycode@industry.gov.au

COMPETITION AND CONSUMER (INDUSTRY CODE – ELECTRICITY RETAIL) REGULATIONS 2019 (THE CODE) POST-IMPLEMENTATION REVIEW

Dear Mr Whelan

Energy Consumers Australia welcomes the opportunity to comment on the impact of the Default Market Offer (DMO) and Reference Price since it was introduced in 2019. We believe it has resulted in positive outcomes for consumers, both in its contribution to the recent reduction of electricity bills and its role in helping consumers navigate the energy market.

Energy Consumers Australia is the independent, national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety, and security of supply.

The DMO was introduced in 2019, following recommendations from the Australian Competition and Consumer Commission's (ACCC) 2018 *Retail Electricity Pricing Inquiry (REPI)* report. It came at a time when electricity prices had effectively doubled over a period of 10 years¹. Contributing to these significant price increases was the finding that a large proportion of customers shopped around while those who had not switched to a market offer were being hit with a severe "loyalty tax". These high prices were a root cause of the dissatisfaction we saw in our surveys which found that consumer trust and confidence in the market was low, well behind other comparable sectors, such as banking².

Given this context, we supported the introduction of the DMO as an important opportunity to improve consumer outcomes. Since its introduction, we have seen decreases in both standing offer and market offer prices. Importantly, it also continues to play an important safety net role for the consumers who have not or cannot engage with the market. The role of this safety net is even more important in the current pandemic environment, which has impacted consumers health (including mental health) and wellbeing.

¹ <https://www.energycouncil.com.au/analysis/worldwide-electricity-prices-how-does-australia-compare/>

² <https://energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-Report-June-2019.pdf>



The introduction of the DMO has helped reduce standing offer prices

Immediately after the introduction of the DMO we saw a decrease in the average price of standing offers. Data from the *St Vincent de Paul Tariff Tracking Project* found that the average price of a standing offer in December 2020 had decreased 15% in NSW, 16% in South-East Queensland and 18% in South Australia since its introduction in July 2019.³

The Australian Competition and Consumer Commission's (ACCC) May 2021 *Inquiry into the National Electricity Market* report found that the number of households remaining on standing offers has trended down, currently sitting at 7%.⁴ This would suggest that the DMO has increased the ability of households to engage with the energy market.

Those who remain on standing offers can be those whose market offer has expired or consumers who have moved into a new house and not yet selected their retailer. While it may seem like a small portion compared to consumers on market offers, there remains the need to ensure affordable electricity bills for all consumers and this includes protecting consumers on standing offers from the exorbitant prices seen prior to the DMO.

However, we have not observed this same downward trend in the proportion of small businesses who remain on standing offers, which remains high at 16%.⁵ This suggests that further targeted work/research may be required to understand the reasons for this high figure.

The introduction of the DMO has also helped reduce market offer prices

Importantly, market offer prices, like standing offer prices, have also reduced since the introduction of the DMO. From July 2019 to December 2020, the average market offer bill inclusive of conditional offers decreased 7% in NSW, 11% in South-East Queensland and 12% in South Australia.⁶ This is a positive outcome for customers on such offers.

Our most recent Energy Consumer Sentiment Survey (ECSS), released in June, revealed consumers are generally satisfied with the price of electricity. 70% of respondents felt they were receiving value for money, an increase of 13% since the previous survey in December 2020. This continues the upward trend in satisfaction we have witnessed since December 2017, including a 6% increase to 53% from June 2019 to December of the same year. In all, since the introduction of the DMO, we have seen customer's perception of value for money rise 17%.

There was concern raised by some stakeholders before the implementation of the DMO that it would reduce competitive pressure on market offers. It is observed that the average reductions in market offers have not been as great as the corresponding reductions in standing offers. However, whether this is due to possible competitive distortions caused by the DMO or because standing offer prices were too high to begin with is an unknown.

³ https://www.vinnies.org.au/icms_docs/322898_2020_December_-_NEM_Report_-_Towards_a_new_normal.pdf

⁴ https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

⁵ <https://www.accc.gov.au/system/files/Inquiry%20into%20the%20National%20Electricity%20Market%20-%20May%202021%20report%20v2.pdf>

⁶ https://www.vinnies.org.au/icms_docs/322898_2020_December_-_NEM_Report_-_Towards_a_new_normal.pdf



We are pleased to see that the ACCC's most recent *Inquiry into the National Electricity Market* report concluded that in 2019-20, "the changes in effective prices for market offer customers were broadly reflective of changes in input costs of wholesale, network and environmental costs"⁷. This gives confidence that underlying reductions in wholesale and network costs are being passed on to consumers. We are also pleased to see that reported margins for retail sales have fallen on a per-customer basis after rising steadily prior to the ACCC's 2018 review and the introduction of the DMO⁸. We continue to support the frequent analysis of the possible competitive impacts of the DMO to ensure that there continues to be effective competition in the retail market.

It is also worth noting the impact the DMO has had on price-spread and low-priced offers. The introduction of the DMO has meant that previously highly discounted offers are no longer offset by retailers charging high priced standing offers. In South Australia, the St Vincent de Paul Tariff Tracking Project found that price-spread is now at its lowest since 2012 (whereas for gas it has remained relatively stable since 2018).

We maintain that setting a maximum limit is necessary as a safeguard for those on standing offers however caution is needed when setting this limit. An excessive reduction in the level of competition may result in the loss of cheap offers for those who are shopping around. Further analysis could focus on finding a level of competition that both continues to protect consumers from high prices but also offers enough well-priced offers for those actively engaged in the market. Overall, we consider the impact of the DMO to be overwhelmingly positive on market offers. The reduction in conditional discounts, which charge high fees when conditions are not met, and the reduction in market offers priced above the DMO are significant changes we have seen emerge for consumers since the DMO's introduction.

The COVID-19 Pandemic has shown the importance of the DMO

As we noted above, a high proportion of small business remain on standing offers, and the pressure that the COVID-19 pandemic has put on these businesses has been immense. The noted reductions in standing offers has been significant to supporting those most vulnerable over this period.

Research commissioned by Energy Consumers Australia in May 2020 found that 49% of people were more concerned about their ability to pay household bills than before the pandemic. 73% rated it in their top three bills they were most concerned about and 67% of energy decision-makers expected to see an increase in their electricity bill that year.

COVID-19 has highlighted that it is not only those who are considered financially vulnerable who may be experiencing hardship. Customers on hardship programs are less likely to be on standing offers, at only 2% compared to over 8% of all customers. But beyond financial hardship, consumers are experiencing increased barriers to participating in the market such as poor mental health and stress. Helping consumers manage bills (including by simplifying the process of shopping around) is more important than ever and having a maximum price for electricity acts as an important safety net from further hardship.

⁷<https://www.accc.gov.au/system/files/Inquiry%20into%20the%20National%20Electricity%20Market%20-%20May%202021%20report%20v2.pdf>

⁸ While not all retailers report this metric, we note, for example, AGL's 2021 Full Year Results show decreasing consumer net operating costs in the four years since FY18 https://www.agl.com.au/-/media/aglmedia/documents/about-agl/asx-and-media-releases/2021/210812_fy21resultspresentation.pdf



The DMO plays an important role as a reference price

The role of the DMO as a reference price continues to be an important tool for consumers to navigate a complicated energy market.

Our six-monthly ECSS has revealed an increase in consumer confidence in the availability of enough easily understandable information. In December 2019 the number rose 7 percentage points to 60% and this has remained generally steady, standing at 61% in our June survey. Consumer confidence in their ability to make choices about energy products and services has not recorded a significant increase but remains at a satisfactory 67% as of June this year.

It is important to recognize that over a fifth of Australian adults have very low literacy, numeracy, and digital problem-solving skills.⁹ Having a reference price which simplifies the way offers can be compared is of high benefit to the large portion of our community who may have found it previously difficult to do so. However, the usefulness of the scheme is dependent on the extent to which the reference price is correctly understood in the first place.

There is potentially room for further work to increase understanding of the reference price. For example, most information on the DMO and reference price is on the internet. However, around 8% of Australian adults have no experience with computers or lack very basic computer skills. 38% can only use widely available and familiar technology applications to solve problems in a few steps.¹⁰ Therefore, these people may not be introduced to the reference price through traditional means such as price comparison websites or government schemes. With such large portions of the population facing barriers to information, we recommend that alternative ways of communicating and explaining the DMO and reference price are investigated.

If you would like to discuss this submission further, please do not hesitate to contact Alice Gordon by email, alice.g@energyconsumersaustralia.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'JCrawshaw'.

Jacqueline Crawshaw
Director, Energy Services and Markets
Energy Consumers Australia

⁹ https://www.oecd.org/skills/piaac/Country%20note%20-%20Australia_final.pdf#:~:text=Some%2013.3%25%20of%20adults%20in%20Australia%20attain%20Level,data%20and%20statistics%20in%20texts%2C%20tables%20and%20graphs.

¹⁰ Ibid