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Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
By email: DMO@aer.gov.au

ENERGY CONSUMERS AUSTRALIA SUBMISSION ON THE THIRD DEFAULT MARKET OFFER

Dear Mark,

Energy Consumers Australia appreciates the opportunity to comment on the Australian Energy Regulator's (AER) *Default Market Offer prices 2021-22 Position Paper*.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the then Council of Australian Governments 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 current environment and the importance of the DMO

In February 2020, we released our consumer expectations research which looked at the lives and needs of consumers, both households and small businesses, in relation to energy. Our research found that consumers were often so focused on their everyday lives, that energy was not top of mind. Further, when consumers did think about their energy, it was often negatively, with frustrations around the complexity in the market and the high cost of bills.¹ This is not surprising given preliminary results from our December 2020 Energy Consumer Sentiment Survey found that electricity continues to be the lowest rated utility service in terms of value for money, and that only 38% of households have confidence that the market is operating in their long term interest.

Compounding these existing concerns with the market are the social, health and economic impacts of the COVID-19 pandemic. Our latest evidence on the impacts of COVID-19 (to be released in December) shows that about a third of residential customers are more concerned about their ability to pay electricity bills than before the pandemic and for small businesses this rises to 46%.

Data collected by the Australian Bureau of Statistics which is tracking the impacts in near real time has, unsurprisingly, found employment and household finances have been hit hard. For example, in October 2020, the ABS found 12% of Australians with superannuation had applied for early access, of these, 25% intended to use this money to pay bills, and 23% to pay their mortgage or rent – giving an indication of the ongoing nature of the crisis.² The data also shows the way the crisis has disrupted everyday social practices and demonstrates that our collective focus right now is on meeting basic human needs and survival.

It is in this current climate that the role that the Default Market Offer (DMO) plays as a maximum price a retailer can charge consumers on standing offers – who are not active in the retail electricity market – is more important than ever as we look to support energy consumers managing their bills.

¹ <https://energyconsumersaustralia.com.au/publications/a-future-energy-vision-consumer-expectations-research>

² <https://www.abs.gov.au/statistics/people/people-and-communities/household-impacts-covid-19-survey/oct-2020>



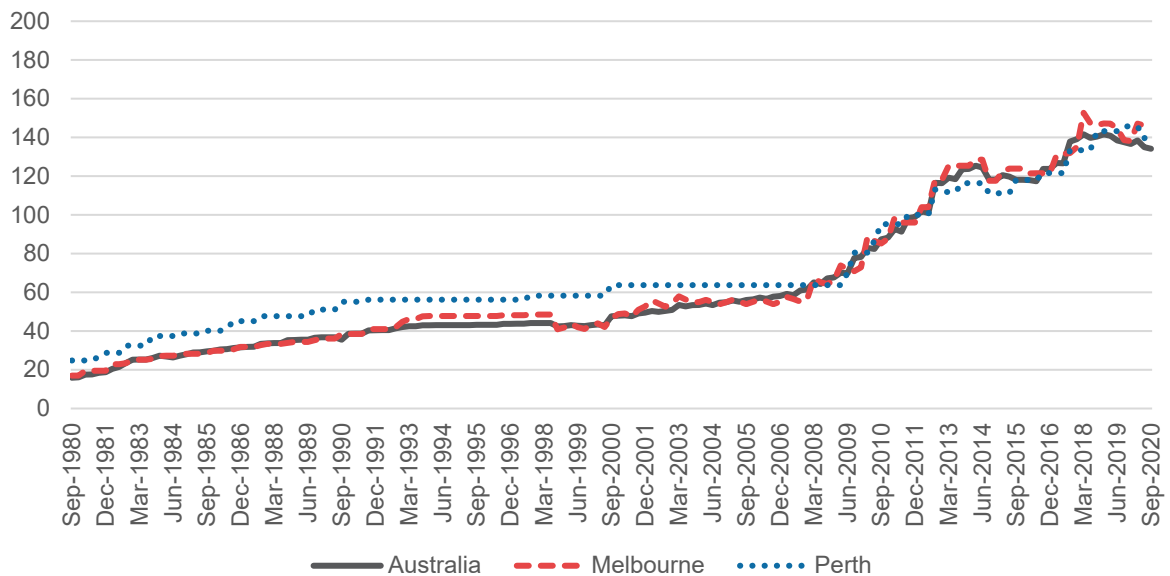
Since its introduction, we are starting to see positive market impacts with lower standing offer prices, fewer conditional discounts on market offers, and the removal of many market offers that were prices above the DMO.³ The third DMO price determination offers an opportunity to build on this foundation and could continue to build up consumer trust and confidence in the market.

Setting the DMO3

We are broadly supportive of the AER's proposal to continue with the same indexation approach as last year in light of the evidence we are starting to see of the positive impact of the DMO on consumer bills.

We have been pleased to see the recent decreases in wholesale and most network costs have been passed on to consumers. Looking forward, the entry of new, low cost renewable generation means that wholesale costs are expected to continue to trend downwards, while network costs are expected to remain relatively steady. As a national body, Energy Consumers Australia has been monitoring the downward price trends across the country. We consider the third DMO is an opportunity to begin to consolidate this trend (see Figure 1).

Figure 1 Trends in electricity prices



Source: Australian Bureau of Statistics, Electricity sub-groups, Consumer Price Index

There are two key issues to be considered by the AER in determining the retail cost component – cost savings which result from efficiency gains, and the impact of the COVID-19 pandemic on retail costs.

³ For example, the latest St Vincent de Paul tariff tracking report found that in NSW in 2019-20 there were fewer conditional discounts with most retailers moving away from pay-on-time to offer guaranteed discounts, or no discount at all. See https://www.vinnies.org.au/icms_docs/321542_NSW_Energy_Prices_July_2020.pdf. The AER's State of the Energy Market found standing offer prices fell by 11-13% in NSW, 12% in South Australia and 10% in South east Queensland between July 2019 and January 2020. See <https://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202020%20-%20Full%20report%20A4.pdf>



We are pleased to see the AER consider applying a productivity factor to retailer costs. We note the evidence cited by the AER⁴ that publicly available information shows improvements in retailers' efficiency are leading to reduced costs over time, even when accounting for the increased retail costs as a result of the pandemic.

We appreciate that some methodologies for determining a productivity improvement factor are inconsistent with the current top down approach taken in setting the DMO which we support. We consider that the AER should preference methodologies which align with this approach where possible, however we would also accept a departure from this methodology on this issue, if it were to deliver cost savings to consumers.

On the impact of the pandemic, we anticipate that retailers may provide evidence to the AER of negative cost impacts (and which may exceed any retail costs efficiency savings). This leaves interested stakeholders like ourselves, in a difficult position where we are not able to substantiate the accuracy of these costs, given the lack of available, transparent data.

This is not to say that the AER does or does not have the necessary information to determine the relevant costs for the DMO3, rather it highlights the bigger issue that there is information asymmetry between the businesses, market bodies and interested stakeholders. Across the industry, a lack of transparency on retail costs means that there is insufficient data for external parties to test claims of cost increases (or savings), contributing to the lack of trust and confidence in the market that we see from consumers in our surveys.

This lack of transparent information was a key driver in our pending rule change proposal currently before the Australian Energy Market Commission which seeks to require retailers to provide retail pricing data to a market body who will make as much information publicly available as appropriate.⁵ In the absence of a requirement to release this data, we would like to see industry take steps to proactively report information on a regular basis which would provide confidence to consumers that prices are being set competitively.

This is an opportunity for industry to demonstrate a commitment to customers, and at this time, would go a long way to improving consumer trust and confidence which is essential as we navigate through the period of economic recession to recovery over the next few years.

Should you have any questions about our comments in this submission, or require further detail, please contact Jacqueline Crawshaw, Acting Director, by phone on 02 9220 5520 or by email at jacqueline.crawshaw@energyconsumersaustralia.com.au.

Yours sincerely,

Lynne Gallagher
Interim CEO
Energy Consumers Australia

⁴ AER, Default Market Offer Prices 2021-22 Position Paper, pp. 39-40.

⁵ https://www.aemc.gov.au/sites/default/files/documents/erc0293_rule_change_request_pending.pdf