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# Welcome

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# Project Overview

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## Purpose of today

- Provide an overview of the proposed process for developing default market offer (DMO) prices
- Highlight some key issues and questions for discussion
- Hear consumer and industry perspectives on key issues
- Hear your views and answer questions

## What have we been asked to do?

- Develop *default market offer* (DMO) prices for residential and small business customers in all non price-regulated distribution zones in accordance with ACCC REPI recommendations 30 and 49
- Develop a mechanism for a *reference bill*, in accordance with ACCC REPI recommendations 32 and 50
  - Publish final Determination by 30 April 2019
  - For proposed implementation on 1 July 2019

# What is the DMO price?

- A maximum price a retailer can charge for residential and small business standing offer customers on the relevant tariff types
  - Residential tariff types:
    - Flat rate
    - Flat rate, with controlled load
  - Small business tariff types:
    - Flat rate
- Only applies in distribution zones that are not subject to price regulation
- The DMO price will initially sit within the existing standing offer framework
- Will not be a cap on market offer prices

# What are the policy objectives for the DMO?

- ACCC REPI found standing offer prices are unjustifiably high for the disengaged consumer segment in the market
  - The default market offer prices will put a cap on the price retailers are able to charge to this customer segment.
- The current high (and variable between retailers) standing offer prices allow retailers to advertise artificially high discounts or discounts that are not straightforward to compare on a like-for-like basis
  - default market offer prices will be an input into the reference bill against which discounts can be estimated. This will promote more effective competition in the retail market.

# Factors to consider in setting DMO prices

- ACCC REPI considered that a default market offer price should:
  - not exist to be the lowest price, or close to the lowest price in the market, so as to not dis-incentivise consumer engagement
  - reflect the reasonable costs of an efficient retailer including:
    - costs of supplying an offer with additional consumer protections, such as simple pricing, minimum payment periods, access to bill smoothing and paper bills
    - a reasonable profit margin
    - customer acquisition and retention costs

## Proposed methodology

- We have proposed a ‘top down’ approach that uses retailers’ market and standing offer prices
  - As we are developing DMO prices where there is active competition, therefore prices should reflect retailers’ efficient costs
  - challenging to use ‘bottom-up’ approach given timeframes and access to detailed cost information
- Interested in stakeholder feedback on methodology



## Proposed approach to setting DMO prices

- We consider efficient costs of operating in each distribution zone should sit within the range of:
  - Lower threshold - median market offer across all retailers observed within the distribution zone
  - Upper threshold - median of the standing offer all retailers observed within the distribution zone.
- We would need to select a point within this identified range having regard to the policy objectives for implementing a DMO price and the information before us, including forecast changes in input costs for the determination period.

## What data will we be using?

- Our set of offers for analysis are drawn from our Energy Made Easy site, as well as the Victorian Energy Compare website
- All offers in the set are “*Generally available*” as set out in our Retail Pricing Information Guidelines
- Only unique offers would be included in this calculation, and would be inclusive of all conditional and unconditional discounts
- We have excluded duplicate offers from the dataset – that is, offers with the same pricing, but varying incentives or non-price features

# Consideration of cost changes

- We are undertaking analysis of forecast changes in key cost inputs. We will be looking at the main cost inputs that make up the retail charge and how they are forecast to change over the determination period (19/20 FY).
- The main cost inputs are:
  - Wholesale energy costs (purchasing energy and managing risk)
  - Network charges (for transmission and distribution networks cost as set by the AER)
  - Environmental scheme costs (green schemes such as the LRET and SRES)
- These costs make up the majority of the retail cost inputs (these generally make up 80 + per cent). In addition, there will be retailing costs (e.g. billing, customer retention costs etc.) and a profit margin

## Format of reference bill

- There are a number of options as to how we specify DMO prices. The main options are:
  - Specifying the fixed and variable components
  - Specifying an *annual bill*, based on a benchmark consumption level for each distribution zone.
- Proposed an annual bill approach:
  - consumers relate to this more intuitively than tariff components
  - allows retailers some flexibility in how they set their individual tariff components. i.e. as long as the does not exceed the DMO price, retailers can set the fixed and variable components however they like

## Discussion points

- We have sought views of stakeholders on a number of issues, such as:
  - What factors or risks should the AER consider in applying the proposed price-based top down approach for determining DMO prices?
  - Are the proposed upper and lower thresholds reasonable, given the policy intent?
  - Given defined upper and lower bounds, at what point within the range should the DMO price be set? What factors should we take into account in determining this point?
  - What type (and sources) of information should the AER have regard to in considering the likely direction and magnitude of any forecast changes in the main input cost for 2019-20 in setting a DMO price?
  - What type of tariff structures should be subject to a DMO price?

## Next steps

- Submissions on Position Paper due on 7 December
- Draft determination in early to mid February
  - Four week consultation period on draft determination
- Final determination by 30 April 2019

# Contact

General enquiries and submissions - Default Market Offer

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Submissions to our position paper are due by  
**7 December 2018**