

2023-24 Default Market Offer price determination

AER PUBLIC STAKEHOLDER FORUM

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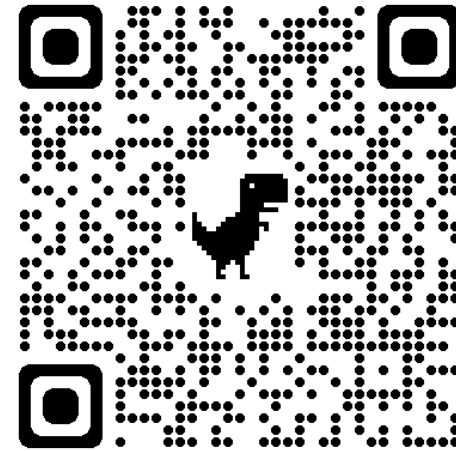
24 November 2022



We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to the land, waters and community.

We pay our respects to them, their cultures, and Elders past, present and emerging.

**Join in the
discussion and
submit questions
via Slido.**



<https://www.sli.do>

Code: DMO5IP

DEFAULT MARKET OFFER RECAP



- The first Default market offer (DMO) came into effect on 1 July 2019. DMO policy came out of the ACCC's Retail Pricing Inquiry 2018.
- The DMO is the maximum price a retailer can charge a standing offer customer.
- The DMO sets a benchmark for market offers.
- The purpose of the DMO is to act as a fall-back for those consumers who are not engaged in the market.

The DMO price determination is set by the AER each year to:

Reduce	Reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices
Allow	Allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention
Maintain	Enable and maintain incentives for competition, innovation and investment by retailers, and retain incentives for consumers to engage in the market

Standing offer customers

In short, the DMO is a price cap that applies to residential and small business customers on standing offers in distribution regions where there is otherwise no price regulation, and whose standing offer is of a tariff type for which we determine a DMO price.

	DMO 5		DMO 4		DMO 3		DMO 2	
	Residential (number and %) Q1 22/23	Small Business (number and %) Q1 22/23	Residential (number and %) Q1 21/22	Small Business (number and %) Q1 21/22	Residential (number and %) Q1 20/21	Small Business (number and %) Q1 20/21	Residential (number and %) Q1 19/20	Small Business (number and %) Q1 19/20
NSW	325,303 (9.6%)	56,347 (18.1%)	347,483 (10.4%)	64,211 (19.2%)	379,840 (11.5%)	73,620 (22.1%)	382,813 (11.8%)	69,138 (21.1%)
South East QLD	156,764 (10.5%)	21,101 (19.1%)	167,520 (11.5%)	24,234 (21.7%)	166,413 (11.6%)	24,771 (22.5%)	176,241 (12.5%)	25,463 (23.8%)
S.A	61,857 (7.7%)	13,421 (15.6%)	65,516 (8.2%)	13,701 (15.6%)	63,834 (8%)	13,662 (15.5%)	62,269 (8%)	12,860 (14.6%)
Total	543,924 (9.6%)	90,869 (17.9%)	580,519 (10.4%)	102,146 (19.1%)	610,087 (11.0%)	112,053 (21.1%)	621,323 (11.4%)	107,461 (20.6%)

We note that while the proportion of customers on standing offers has fluctuated in recent quarters, the long-run trend is a steady decline.



Since DMO4

**RETAIL MARKET
DEVELOPMENTS IN 2022**

**WHOLESALE MARKET
VOLATILITY AND
INCREASED PRICES**

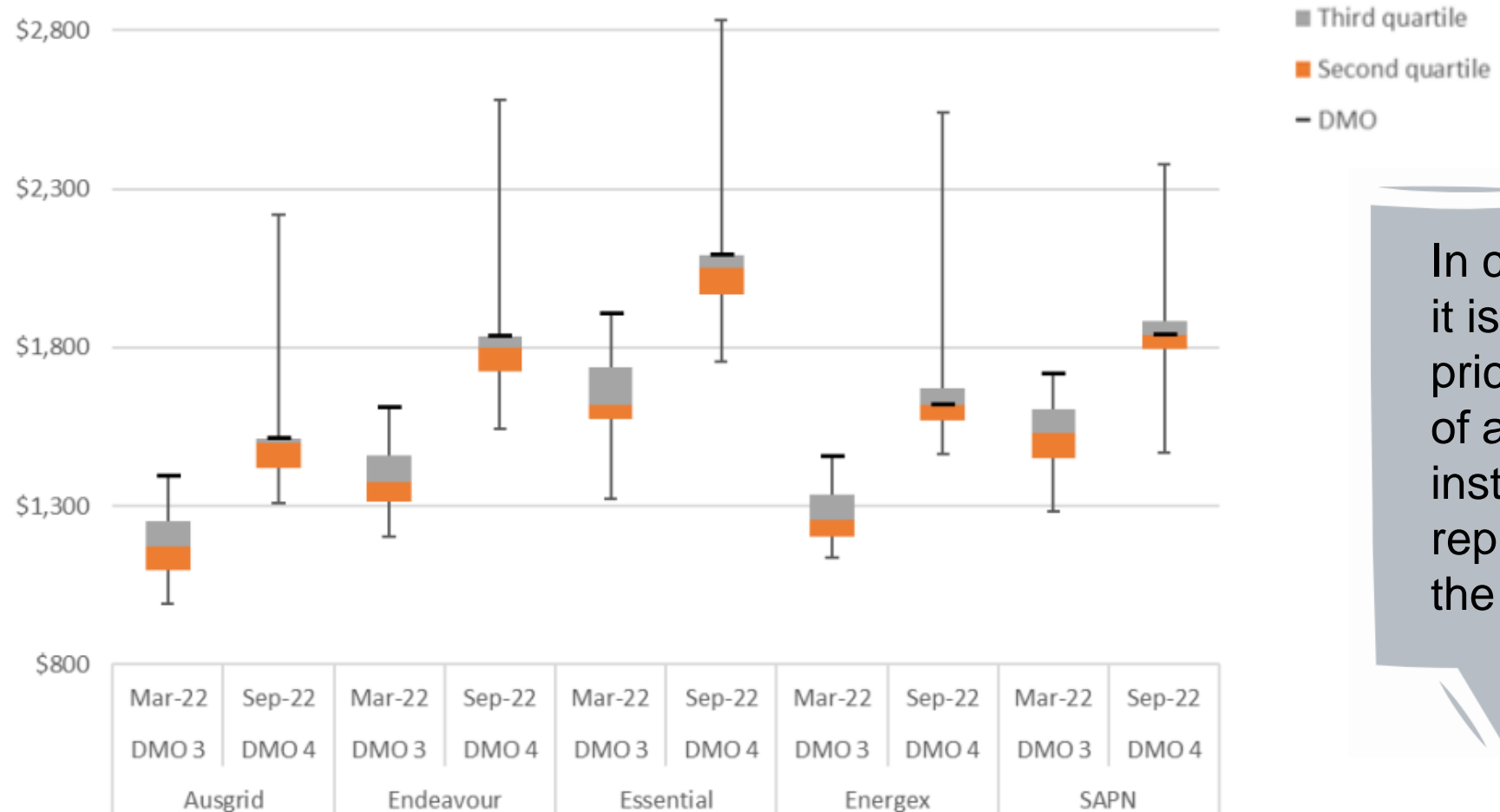
**INCREASES IN
NETWORK COSTS**

**SIGNIFICANT CHALLENGES
FOR CONSUMERS**



Price increases

Residential market offers March and Sept 2022 - minimum, maximum and interquartile ranges.



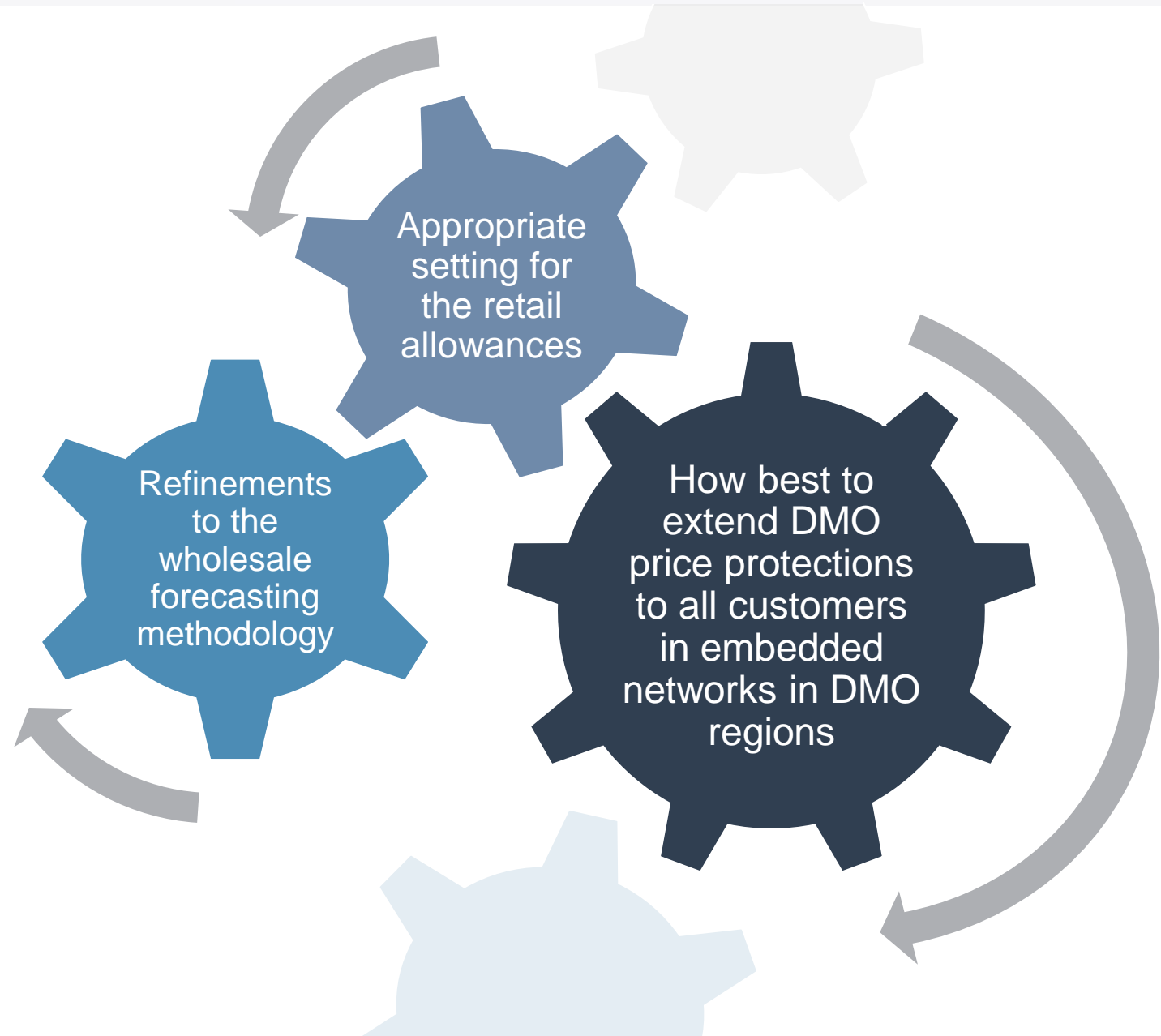
In current market conditions, it is possible that the DMO prices may be playing less of a 'safety net' role but instead more closely represent a typical offer in the market.



DMO 5 Issues Paper

As outlined in the Issues Paper, for DMO 5 we are considering some changes to the current pricing methodology to ensure it continues to meet the policy objectives, in light of the market developments since DMO 4.

We particularly seek your views on these 3 specific aspects of the current methodology





Issues for discussion

What are the appropriate setting for the retail allowances?

As part of the 'cost stack' methodology, we determine retail costs and a retail allowance.

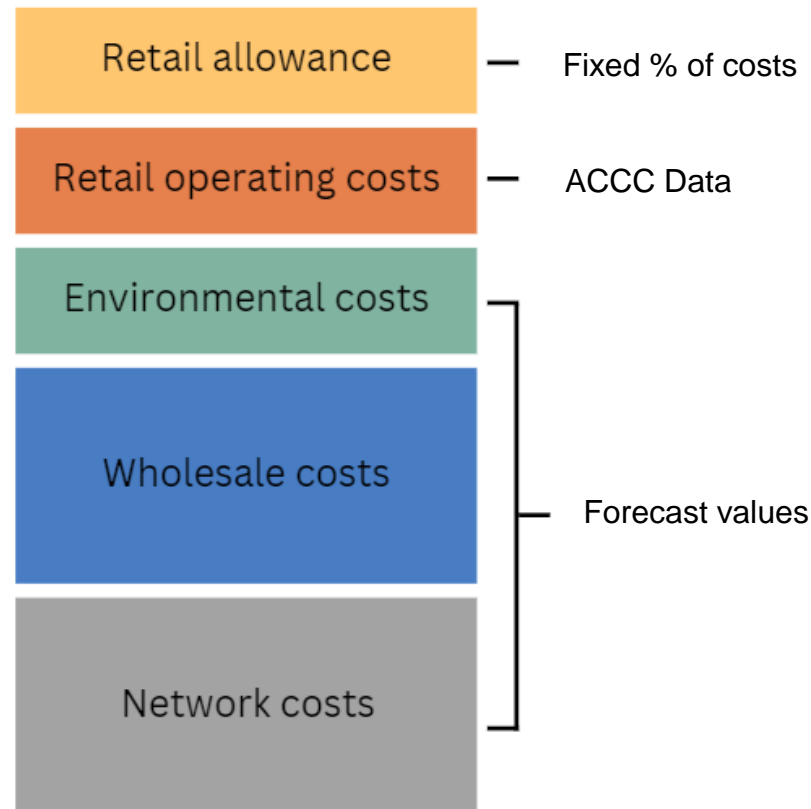


Table 3 proposed DMO 5 retail allowances as set out in DMO 4 draft determination

Region	Residential no CL	Residential with CL	Small Business
Ausgrid	10%	10%	20%
Endeavour	10%	10%	16%
Essential	10%	10%	17.5%
Energex	9%	10%	16%
SAPN	8%	8%	15%

Do the retail allowances envisaged in this DMO 4 draft determination glidepath remain appropriate in the context of significant price increases expected for DMO 5?



How to extend DMO price protections to all customers in embedded networks?

DMO prices should avoid double charging network costs

If the full DMO cap applied to the authorised retailer, then the customer could end up paying the DMO price AND the network costs. As the DMO price already includes recovery of the network costs customers could be double charged for network costs.

The definitions of the current DMO customer types should apply.

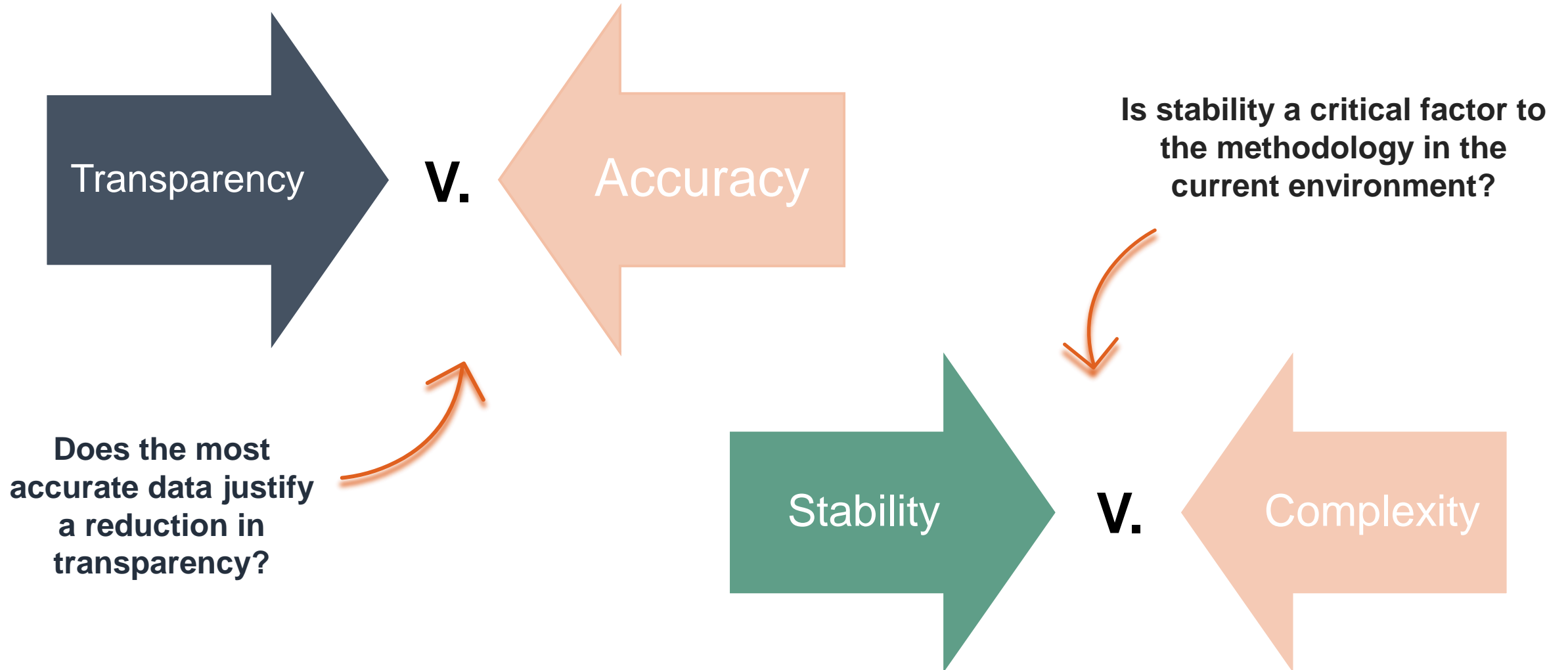
Instead of introducing an additional customer type for customers in embedded network for several reasons like:

- avoiding separate analysis/ info gathering
- reducing regulatory burden for E.N operators to determine specific input costs
- reducing complexity by avoiding the creation of additional price determinations.



Issues for discussion

Refinements to the wholesale forecasting methodology?



Transparency

v.

Accuracy

Is stability a critical factor to the methodology in the current environment?

Does the most accurate data justify a reduction in transparency?

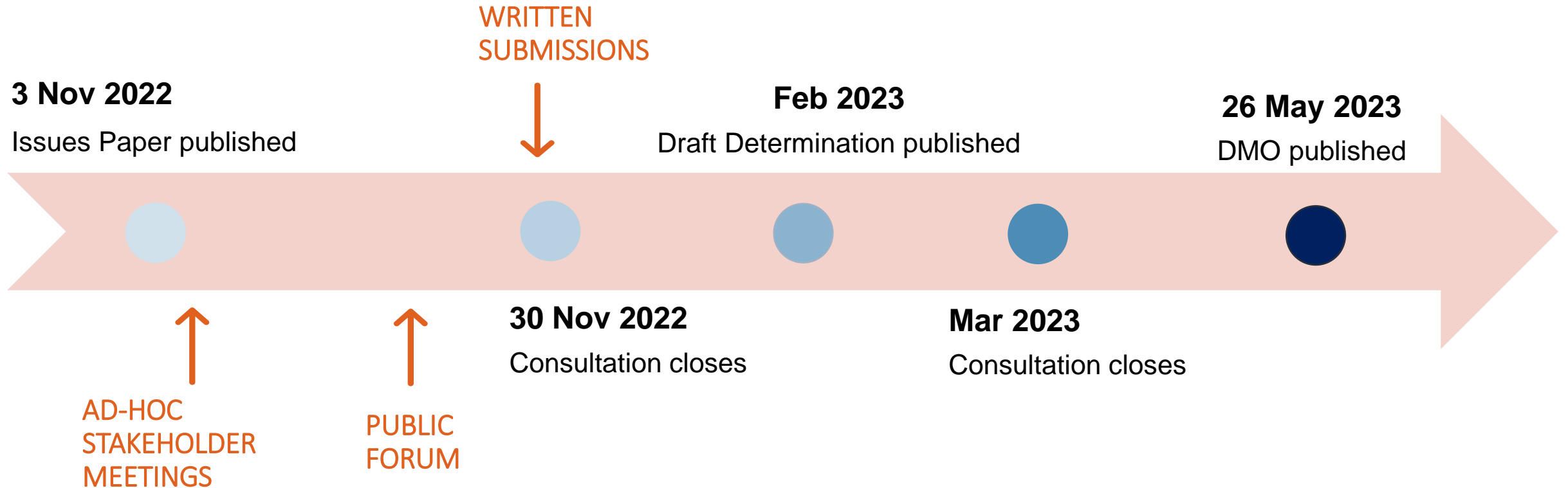
Stability

v.

Complexity

Stakeholder engagement

- We recognise stakeholders have a vast range of experience and insight to strengthen our determination. As stakeholder often engage in different ways we have sought to make it easier for stakeholders to engage with us by offering multiple avenues for engagement.



Thank you for attending today

Please email your submissions by 30 November:
DMO@aer.gov.au

Please feel free to reach out with any questions:
DMO@aer.gov.au

