

CCG discussion – DMO COVID-19 consultation

Chair: Catriona Lowe (CL), CCG members, AER staff

3pm, 6 April 2020.

AER staff provided an overview and context for the AER's 1 April 2020 letter seeking stakeholder views on the implications of COVID-19 for the DMO. They noted:

- The AER is seeking stakeholder feedback by 9 April 2020.¹
- There is no provision in the DMO legislation to reopen a decision, or for cost pass throughs. It is also not possible to delay our decision. If the AER does not make a decision by 1 May 2020, there will not be a DMO in place for the 2020-21 financial year.
- COVID-19 is expected to impact retailer costs but the AER and its DMO consultants consider it is difficult to predict the net effect at this time. There will also be impacts on customers and the AER considers it important to ask stakeholders their views on these matters. The consultation period is necessarily brief to enable the AER to meet its legislative timeframes for the decision. SK acknowledged stakeholder resources are likely to be very stretched at the moment.
- AER staff acknowledged the opportunity to present to the CCG and asked whether there were any objections to a note of the discussion being treated as feedback to our consultation.
- CCG members supported this approach, noting it provided a convenient avenue for stakeholders to provide timely feedback.
- CL suggested the meeting transcript be shared with group members to confirm their comments before we put them on record.

Comments from all CCG members

- Concerns that retailers may change their behaviour as a result of COVID-19 and put customers onto shorter fixed term contracts, say 12 months. As these terms expire retailers may put customers onto standing offers, or onto market offers where they similarly receive the DMO price. If this occurs it means more customers are on DMO priced offers, and the DMO will become even more important as a result. CCG members suggests this may prompt the need for changes to DMO policy objectives. In the past the purpose of the DMO was to reduce standing offer tariffs. However, with current events people are likely to be less engaged in the market and may need further protection.
- Suggested the AER review retail offers its Energy Made Easy website to identify changes in contract length and retailer behaviour from now to gain an understanding of whether more households are put on DMO priced contracts.
- Suggested the AER hold off making any changes to the DMO 2020-21 price in light of COVID-19 events, and see how retailer and customer behaviour changes.

¹ AER consultation on COVID-19 implications for DMO: <https://www.aer.gov.au/retail-markets/retail-guidelines-reviews/retail-electricity-prices-review-determination-of-default-market-offer-prices-2020-21/draft-decision>

- Appreciate the challenge to adjusting DMO in response to COVID-19 influences because it will have varying influences on costs.
 - For example, the cost of acquiring customers would go up, while the cost of retaining them would go down – as a result, it might be best to leave these areas as is when developing the price.
- In relation to wholesale costs, the contract-based nature of the market may mean price stability, but some retailers may experience a change as spot prices reduce. Winter may bring higher spot prices as energy use shifts from businesses to households as people work from home.
- Retailers may face higher costs to manage hardship programs over the coming months and possibly years, however these would be offset by interventions such as Energy Networks Australia’s relief package, and government interventions. Further government measures to assist retailers to maintain hardship customers should be expected. Hence, underlying costs will move in two directions. The AER should be mindful of the solvency of tier 2 retailers.
- Given the uncertainty of price movements the AER should adopt a cautious approach, leaving minor costs for customer acquisition and retention unchanged, and modelling different scenarios for major cost changes.
- Would the AER adopt a ‘value at risk’ methodology of taking a probabilistic approach to determining costs – e.g. if there is a 1/10 chance something will cost \$1M next year, accept the cost is \$100,000.
 - AER staff noted all stakeholders were dealing with significant uncertainty and precise quantification of net impacts would be difficult. The AER would need to assess risks and use its judgment, while being intellectually honest about the how it is applying its judgement.
- Suggest that without the ability to wait to see how COVID-19 influences retailer costs, the AER would need to make an educated guess and be transparent about its approach.
- Has the AER considered how to compensate retailers for the additional costs of COVID-19?
 - AER staff explained our approach would involve monitoring cost drivers and quantifying the incremental costs for a retailer and comparing them to retailer business as usual costs. He noted we are interested in stakeholder feedback on particular metrics we could use.
- There are risks in adopting higher or lower cost assumptions, but there are benefits to the price being lower in terms of alleviating some of the cost pressures experienced by customers the moment.

AER staff thanked members for their feedback and encouraged them to provide any further feedback in a written submission by **9 April 2020**.