

## Customer Consultative Group discussion – Default market offer consultation

*Attendees: CCG Chair, Elissa Freeman, CCG members, AER staff*

*9.30am, 22 November 2022*

AER staff provided an overview and context for the AER's 2023–24 default market offer (DMO) price determination and sought CCG member views on the [Issues Paper](#) published on 3 November 2022. In particular, they sought views on the following components:

- how best to extend DMO protections to customers in embedded networks (EN)
- appropriate settings for the retail allowance
- refinements to the approach to forecasting wholesale electricity costs

### Comments from all CCG members

#### 1. How best to extend DMO price protections to all consumers in embedded networks

*Question – What issues should the AER consider for customers in embedded networks in the DMO?*

- **Members agreed with including protections to embedded networks.**
- There are a lot of technical issues to be ironed out, for example, would regulation amendments also address Retailer of Last Resort issues? Another example given was that many embedded networks in Brisbane are unit blocks and there are issues with installing infrastructure such as meters and electric vehicle charging stations.
- Any changes to the DMO that protect customers in embedded networks could be combined with a meter contestability information campaign.
- Anything that dilutes the retailer reference price obligations should be considered very carefully. The reference price is part of the DMO framework and should apply to all customers, including those in embedded networks.
- The DMO's role as a reference price is where it is most meaningful for customers in embedded networks. Members strongly agree with reference price being included. Customers in embedded networks may not be able to choose which plan they are on or the retailer they are with, but the reference price provides an important anchor point that helps embedded network customers understand the value (or lack thereof) in their energy offer.
- No new DMO prices specific to customers in embedded networks should be required, i.e. the DMOs for the three current customer types (residential, residential with controlled load, small business) could be extended to corresponding customer types in embedded networks.
- **Question** - Has the AER considered price rises in embedded networks possibly occurring if the DMO cap becomes default price in embedded networks? The AER / Commonwealth Department should consider and map out the unintended consequences.
- Members suggested a possible option – a provision requiring Authorised Retailers to offer at least 2 offers – 1 being the DMO and 1 other more competitive market offer.

## 2. Appropriate settings for retail allowances

*Question – Should the retail allowance be changed? Why? And if so, in what way?*

- **Members held the view that it would be useful to move forward to a calculation based on the retailer operating costs, not as a percentage of all costs.** On principle this is how it should be calculated, as members considered this is the costs portion that retailers have control over.

Retail allowance under the DMO needs to be driving efficiency/productivity improvements for retailers over time. Setting separate retail allowances of 10% for residential and 15% for small business DMO prices seems arbitrary – small businesses are already under significant pressure before electricity cost increases, and it is not clear why a small shop should pay more than an individual customer.

- Members strongly support caps on \$/day amounts, which should also be reducing over time, and this is in part, be a driver for improved retailer efficiency.
- Members questioned why it is based on a consumption number. This approach allows for distortions around reference price/annual usage amount that is not present in tariff-based caps (i.e. separate caps on the individual c/kWh and \$/day price components). Members note some retailers 'loading up' fixed charges as part of recent price rises – a practice which reduces the impact of the DMO (and its accuracy), and reduces the ability of consumers to mitigate their costs. It is also not reflective of the cost increases for retailers (which have largely been related to energy costs, not fixed costs).
- The current DMO consumption amounts are based on average consumption data that includes solar households. Solar households distort/lower the overall average, which means the DMO average usage is underestimating typical household usage. This is an issue as it provides retailers with an opportunity to structure their prices so that they look competitive at the assumed DMO usage amount but may not represent good value for customers that consume the 'actual' average household amount (i.e. the average, exclusive of solar households). This could disproportionately impact households experiencing vulnerability or those unable to take advantage of the energy transition. Members strongly support more accurate usage benchmarks and especially benchmarks that exclude solar customers.
- A retail allowance goes to the objective of what the DMO is trying to achieve. Notwithstanding issues of how the objectives are set, a review of the objectives needs to be undertaken based on the changing market environment we are experiencing. Greater clarity on the DMO objectives is needed.

## 3. Refinements to the wholesale forecasting methodology

*Question - What are your thoughts on transparency? How important is price stability?*

- **Members considered it critically important for the AER to have the best data it can get from wholesale markets, favouring accuracy vs transparency (when they are in conflict).** This point goes to the principle that should guide DMO calculation decisions generally – that the focus is on approaches which impact the actual consumer outcome. Issues and process, like transparency are important but are secondary when they impede outcomes for consumers.
- The wholesale costs story (the requirement to develop forecast wholesale prices for the coming year during significant volatility in the wholesale market) was one of the

dilemmas of DMO4 and something the AER needs to get better at. It is better to have the best data for this, even if this means a reduction in transparency.

- Methodology needs to be related to DMO objectives. It is important that the mechanism does what it is supposed to do. The AER needs to have conversations with a clear view of what is happening.
- Price stability within a year/DMO period is crucial, particularly for medium/lower income households. If there isn't stability in prices, then this can undermine business confidence and work against beneficial consumer outcomes.