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AER DRAFT DETERMINATION: DEFAULT MARKET OFFER PRICES 2020-21

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) 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.

We appreciate the opportunity to make a submission on the Australian Energy Regulator's (AER) Default Market Offer Price 2020-21 Draft Determination. The development and implementation of the 2020-21 Default Market Offer (DMO) is an important opportunity to lock-in the downward trend in energy prices. We are seeing a small but material uptick in consumer satisfaction with energy services and getting the settings right for the second year of the DMO ('DMO2') is critical for further progress.

Energy businesses should be driving cost reductions and that they are best placed to offer these reductions, based on their detailed understanding of their costs and the implications of reductions for their business. However, we appreciate that the AER's preferred approach to determining the 2020/21 DMO is through a price-based approach. That is, by assessing the changes to the underlying wholesale, environmental and network costs and indexing the remaining "retail" costs. We offer our comments below in this context.

[What are consumers telling us?](#)

The Australian Competition and Consumer Commission (ACCC) Inquiry into the National Electricity Market November 2019 report found average bills and effective prices for residential customers remain well above levels a decade ago and that there is a need to continue to take action to address concerns about affordability of electricity.¹ While the ACCC comment is directed at action by jurisdictional governments, the AER's DMO2 process is a further opportunity for downward price pressure.

Across the National Electricity Market household satisfaction with the market and satisfaction with value for money have continued to improve slowly and are now at the highest levels since we began the survey in June 2016. Consumer confidence measures are also improving slowly, which we see as a response to measure initiated by governments and market bodies. However, these improvements are on a low base and confidence in the market remains low overall. It is important to take this opportunity build on these good results.

We note that the AER considers that the DMO1 "achieved its purpose" and that the role for future DMOs is to "maintain these savings".² Certainly we appear to have seen some cost reductions for consumers and consumer confidence in the market has been increasing. However, there are further opportunities to deliver savings for consumers reflecting reductions in wholesale and other supply chain costs. After all, as the AER notes, it is still early and the full impacts of the first DMO on competition in the market are not yet known.

¹ ACCC, Inquiry into the National Electricity Market November 2019, p.2

² AER, Default Market Offer Prices 2020-21 Draft Determination, p.8.



The proposed changes in 2020-21

We are pleased to see the Draft Determination will deliver lower prices for South Australia and South East Queensland customers, but are concerned about the potential increase for those in New South Wales. Recent analysis by the Australian Energy Market Commission (AEMC), and endorsed by the Energy Security Board, shows expected market offers in each of these jurisdictions decreasing from 2019/20 to 2020/21.³ The AEMC attributes these decreases to decreasing wholesale prices due to an increase in renewable generation (except South Australia) and decreasing environmental costs due to a reduction in the Large-scale Renewable Energy Target.

Wholesale and network costs

The AER has identified that there are marginal increases in the DMO prices for New South Wales residential customers and some small business customers, driven by a combination of increases in the wholesale and network components. We are surprised to see this increase given the AEMC Residential Price Trends Report shows that any increase in network costs in New South Wales (approximately \$4/ year for an average customer) is outweighed by the decrease in wholesale costs (approximately \$57/year).⁴

While these changes may be relatively small, when compared with price increases we've seen in previous years, they are still unsatisfactory. Recent policy measures should lead to downward pressure on wholesale costs throughout 2020-21. These actions have included:

- The Underwriting New Generation Investment program which has a key objective of a 25 to 30 per cent reduction in wholesale prices in each NEM region by 2021⁵; and
- The *Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2019* which is intended to remove “market distortions” by preventing the deliberate manipulation of the wholesale market by withdrawing supply or raising prices; and preventing generators from withholding supply from contract markets to lessen competition

Networks are also working to reduce their costs to consumers and the ACCC notes that network businesses revenues are forecast to be flat or lower than in the past due to a historically low cost of capital and the relaxing of network reliability standards.⁶ Further, the AEMC has indicated that over the next two year, regulated network costs are due to reduce further, primarily as a result of decreasing distribution and transmission costs. We look forward to seeing these savings flow through to consumers and driving prices down.

In addition, we note that the AEMC completed their Review of Stand-Alone Power Systems for priority 1 (distributor-led developments) in May this year, providing a package of law amendments to the COAG Energy Council for their consideration.⁷ Given the potential benefits that would flow from introducing such a mechanism, we look forward to the implementation of this recommendation in a timely manner. Implementing standalone power systems will lower costs for networks and these savings will flow through to all users of the distribution network, through lower network prices.

³ AEMC, Residential Electricity Price Trends 2019 Final Report available here:

<https://www.aemc.gov.au/sites/default/files/2019-12/2019%20Residential%20Electricity%20Price%20Trends%20final%20report%20FINAL.pdf>

Energy Security Board, The Health of the National Electricity Market 2019 available here:

<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/The%20Health%20of%20the%20National%20Electricity%20Market%20V01.pdf>

⁴ AEMC, Residential Electricity Price Trends 2019 Final Report p.12.

⁵ <https://www.pm.gov.au/media/delivering-affordable-and-reliable-power>

⁶ ACCC, Inquiry into the National Electricity Market November 2019, p.31

⁷ AEMC, <https://www.aemc.gov.au/sites/default/files/2019-05/Information%20sheet%20-%20Final%20Report%20-%20FOR%20PUBLICATION.pdf>



Retail costs

Retailers maintain they are constantly looking for ways to increase their efficiency and reduce their operating costs. The ACCC found that between 2013-14 and 2017-18 the retail costs per residential customer (averaged across the NEM) reduced year on year, and by \$20 over the period.⁸ We anticipate that the implementation of changes to remove the advance loss notification to a losing retailer of a customer switch, and speeding up the transfer process would further help to reduce retailer costs. Though we note these changes won't take effect until December 2020.

In light of this, we consider there is a reasonable basis for reducing retailer costs, or at least holding them steady, rather than increasing them by CPI.

Conclusion

The 2020-21 DMO is a key opportunity to continue the good consumer outcomes that are beginning to emerge in the energy market. We expect the energy businesses to continue to work together, to strive to meet consumer expectations on affordability and to rebuild trust in the sector. We look forward to seeing a DMO for 2020-21 that encourages businesses to deliver more affordable energy prices.

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

Yours sincerely,

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⁸ ACCC, Electricity Market Monitoring 2018-2025 November 2019 p.71.