



ENERGY & WATER
OMBUDSMAN SA

GPO Box 2947
Adelaide SA 5001

T 1800 665 565
F 1800 665 165

ABN 11 089 791 604

ewosa.com.au

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

7 December 2018

Dear Mr Feather

Submission to the Australian Energy Regulator (AER):
Default Market Offer Price

The Energy and Water Ombudsman (SA) Limited (“EWOSA”) welcomes the opportunity to comment on the Australian Energy Regulator’s Position Paper on the *Default Market Offer Price*.

EWOSA is an independent Energy and Water Ombudsman Scheme in South Australia. It receives, investigates and facilitates the resolution of complaints by customers with regard to (*inter alia*) the connection, supply or sale of electricity, gas or water.

We support the development of a Default Market Offer (DMO) price for electricity for residential customers. This is likely to benefit those customers currently on a standing offer and deliver part of the financial aspect of the safety net that the standard retail contract was intended to provide.

However, care needs to be taken in determining such a price, given the potentially negative impacts that a DMO price that is set too low could have on smaller electricity retailers and the effectiveness of competition in the market. A significant reduction in competition could ultimately lead to most energy consumers being worse off in the long term.

We believe the use of a DMO price, or a reference bill based on the price, would be helpful for residential consumers in comparing different energy offers and reduce the confusion that currently exists for some consumers in making such comparisons. In particular, it would provide transparency and clarity around the extent of discounts being provided by retailers in their market offers.

With regards to small business energy consumers, we are uncertain as to how a meaningful DMO price and reference bill can be implemented. This reflects both the substantial variation in electricity consumption levels across small businesses and the fact that many small businesses are subject to capacity based demand tariffs, making comparisons across electricity offers difficult. Indeed, many of the small businesses that present to EWOSA with complaints about high energy bills are often struggling with the application of capacity based demand tariffs.

The remainder of our submission provides responses to some of the questions posed in the Position Paper.

Question 2: For residential customers, what type of tariff structures should be subject to a DMO price? Should there be different types of tariff structures subject to a DMO price in different distribution zones? Please provide reasons for your preferred approach.

We agree with the AER that a DMO price for residential customers should only apply to simple tariff structures that are typical of standing offers, such as a fixed supply charge and a usage charge, including controlled loads. This would assist energy consumers in understanding a DMO price and the offer that applies to them.

We do not believe there should be a difference in the types of tariff structures subject to a DMO price in different distribution zones. This would likely result in a lack of consistency for customers, as well as added complications for retailers who operate across a number of distribution zones.

Question 3: For small business customers, what type of tariff structures should be subject to a DMO price? Should there be different types of tariff structures subject to a DMO price in different distribution zones? Please provide reasons for your preferred approach.

Please see our introductory comments regarding a DMO price for small business customers.

We do not believe there should be a difference in the types of tariff structures subject to a DMO price in different distribution zones. This would likely result in a lack of consistency for customers, as well as added complications for retailers who operate across a number of distribution zones.

Question 4: What factors should we take in account in determining DMO prices?

We support the use of the proposed top-down approach to determining DMO prices in the first year of their application. Given the time restrictions for determining DMO prices to apply from July 2019, this is a sensible data-based approach.

We agree with the key cost components for retailers identified by the AER in the Position Paper and believe these should be the key factors, in addition to a combination of standing offers and market offers, to be taken account of in determining DMO prices.

Question 5: What if any other factors or risks should the AER consider in applying the proposed price-based top down approach for determining DMO prices?

We consider that a major risk that may emerge after the first year of the DMO price determinations using a price-based top down approach is that the number of standing offers that can be used in subsequent determinations might fall significantly. They might simply be replaced by the DMO price. This would make it difficult to implement a price-based top down approach effectively in the future, given a potential lack of observations on standing offers.

Therefore, we support the suggestion that the AER proceeds with the development of a cost-based building block approach to determining the DMO price beyond the first year (after 2019-20) and utilising the retail consultation procedure while developing such an approach.

Question 6: For residential customers, are the proposed upper and lower thresholds reasonable, given the policy intent? If a more targeted upper threshold was used, which retailers standing offers should be included? Are there any offers or categories of offers that we should not include as inputs into our proposed methodology? Should the range be the same in each distribution zone? Please provide reasons for your preferred approach.

We consider that the proposed upper and lower thresholds are reasonable. However, we believe that only offers that have the same tariff structures as those that are going to be subject to a DMO price should be included in the methodology. This would ensure consistency.

While we believe the tariff structures subject to a DMO price should be the same across distribution zones, we do not believe the range should be the same in each distribution zone. This reflects the fact that transmission and distribution charges differ across distribution zones, that wholesale electricity prices on the National Electricity Market are different between States and that environmental policies which feed in to retail electricity prices are different across States.

Question 8: For residential customers, on what basis should we set the consumption benchmark as part of our proposed methodology? Please provide reasons for your preferred approach.

We support the residential consumption benchmarks proposed in the Positions Paper.

Question 12: How should the DMO price be specified? Please provide reasons for your preferred approach.

We generally support the DMO price being expressed in dollar terms. This will be the easiest to understand for energy consumers and it can also operate as a reference price from which competitive market offers are compared.

However, given that the DMO price is expected to be defined in terms of a representative customer with a benchmark level of consumption, there would be scope for retailers to increase the dollar per kWh tariffs applied to customers with consumption levels below the benchmark and not breach the DMO price. Therefore, there needs to be a protection which restricts retailers to setting tariffs, so that they are the same for all electricity customers on a DMO.

In addition, such a protection would mean that, for customers with consumption levels above the benchmark, they would need to be informed that the bill that they pay would be above the DMO price, given their higher level of consumption. Indeed, it would not be appropriate to require retailers to reduce the dollar per kWh tariffs applied to customers with consumption levels above the benchmark to bring the bill they pay to equal the DMO price. This would not only impact on retailers' revenues, it would also result in the cross-subsidisation of high energy consumers by low energy consumers.

Question 13: What should be the duration of the AER's DMO price determination? Please provide reasons for your preferred approach. To what extent and under what circumstances should there be scope to reopen the AER's determination?

We support the preliminary position that the duration of the AER's DMO price determination should be twelve months. This aligns with changes in transmission and distribution charges and we agree with the AER regarding the lag between substantial and sustained changes in wholesale electricity prices on the National Electricity Market and changes made by retailers to the tariffs they charge customers.

There should be limited scope to reopen the AER's DMO price determination. This should depend on whether there has been significant and unexpected changes to the cost drivers for retailers, such as a rapid and sustained fall in wholesale electricity prices or a major investment and cost pass-through by a distribution business that was not included in the applicable regulatory determination.

Should you require further information or have any enquiries in relation to this submission, please email me at antony.clarke@ewosa.com.au or telephone me on (08) 8216 1851.

Yours faithfully

A handwritten signature in black ink, appearing to read 'A Clarke', written in a cursive style.

Antony Clarke
Policy and Research Officer
Energy and Water Ombudsman SA