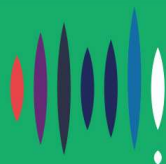
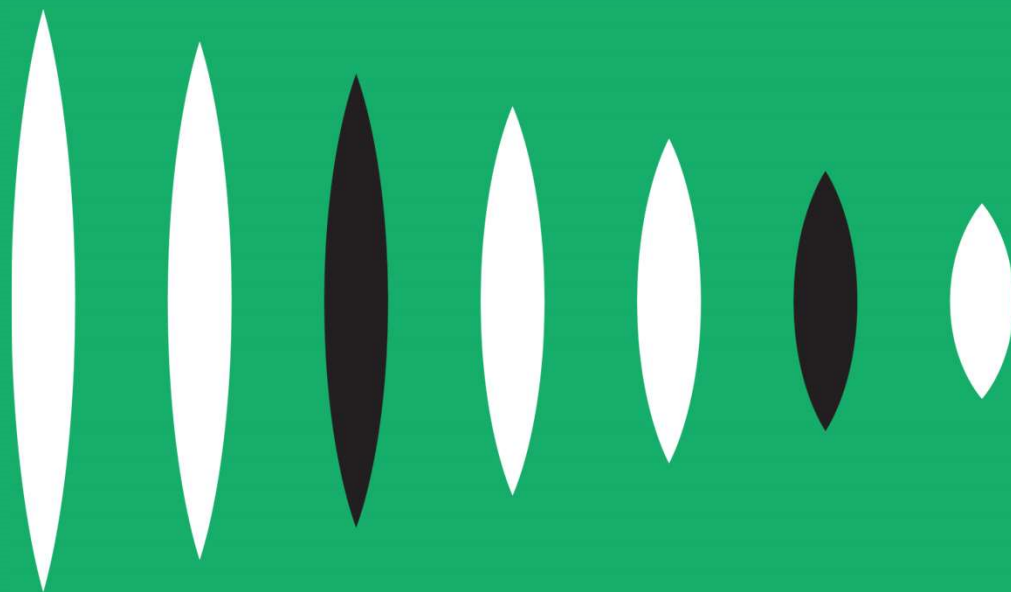


ECA – Default Market Offer


Forum

March 2022



ENERGY
CONSUMERS
AUSTRALIA

Who we are and what we will be saying


- 
- ECA is the independent, national voice for **residential** and **small business** energy consumers.
 - We conduct independent, rigorous research to understand consumer expectations, values and needs.
 - Today, we will discuss:
 - The context for the DMO and the research into consumer attitudes and behaviour
 - Our initial views on the AER's Draft Decision.

What is the DMO and why does it exist?

- The ACCC's Retail Electricity Pricing Inquiry (REPI) noted that:
*“standing offers, which were originally intended as a **default protection** for consumers who were not engaged in the market, were **unjustifiably high**... The ACCC found that the standing offer is no longer working as it was intended and is causing **financial harm to consumers**.”*

- Source: [AER Default Market Offer prices Options Paper 2022-23](#)

Who are we protecting?

- 
- Since introduced, prices have reduced for **all consumers**
 - **10% of all residential customers** and **23% of small business customers** are on standing offers in DMO regions
 - Majority (94%) of standing offer customers are with one of the Big 3 retailers (AGL, Energy Australia, Origin)

Source: [Retail energy market performance update for Quarter 1 2021–22 | Australian Energy Regulator \(aer.gov.au\)](#)

Why are these consumers on standing offers?

- 48% of households and 37% of small businesses have never considered changing their energy plan
- 81% of households and 73% of small businesses do not intend to switch plans over the next 12 months
- Similar results were found over financially vulnerable and comfortable groups

Consumer belief that they are on a good plan, the perception that switching is difficult, and feeling overwhelmed by the number of options can reduce engagement. In addition, consumers are often unaware of their rights and miss key information on bills, such as the 'best offer' notice.

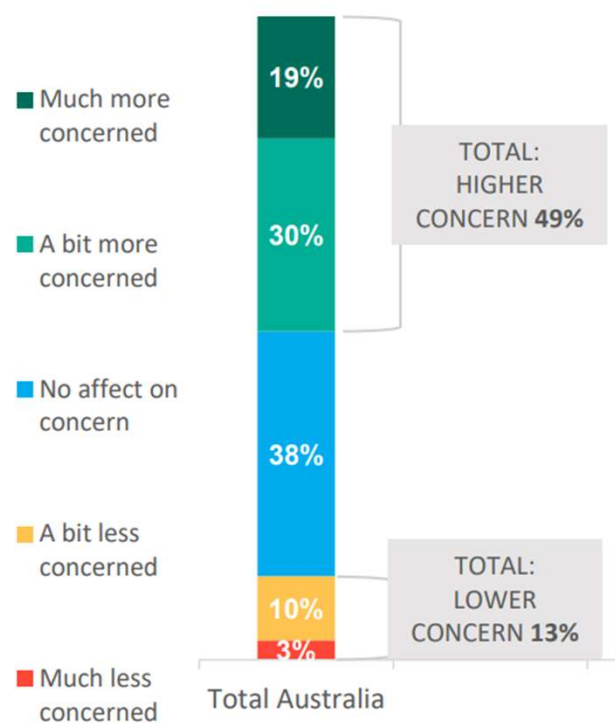
Also, the cheapest plan was not always perceived as the best option, with participants indicating other factors, such as brand awareness, influenced their decision. Participants were more likely to choose a prominent retailer, with one participant commenting that, "[they] do like going with a company [they] know," while another simply stated, "I want to go with a more known brand."

Source: [ECA Consumer Sentiment Survey December 2021](#)

Source: [ESC Victorian Energy Market Report 2020-21](#)

COVID-19 has shifted our perception of “vulnerable” consumers

Concern with paying bills (%)



- 49% of households more concerned about paying bills with electricity the highest concern ([ECA 2020](#)).
- 45% using heating and cooling more ([ECBS 2021](#)).
- 55% of households under financial pressure cooking more at home.

Source: [ECA Shock to the System: energy consumers' experience of the Covid-19 crisis 2020](#)

Our views on the Options Paper



- **Transparency** of costs and information **asymmetry**
 - Trust in electricity companies is low – only 53% believe they do to the right thing by their customers (ECSS December 2021)
- Supported use of **ACCC data** for retail costs
- Did not consider there was justification for the **variety in retail margins** between customer type and region.

Our initial view on the AER's draft decision



- We support the AER's decision to shift to a bottom-up approach, as it increases consumer trust in the sector.
- Two aspects we have questions on:
 - differing retail allowances for residential and small businesses
 - magnitude of these allowances

Retail Allowances chosen by AER



AER's Retail Margins	
Residential	10%
Small Business	15%

*“... approaches suggested that residential retail allowances across regions in our DMO 1 to 3 prices were on average between **8.7% and 10.7%**”*

*“The average implied retail allowance for small business customers was... ranging from **17.1% to 20.3%**”*

Source: [AER - Default Market Offer - Draft price Determination 2022-23 - 18 February.pdf](#)

Our assessment of the margins chosen by the AER



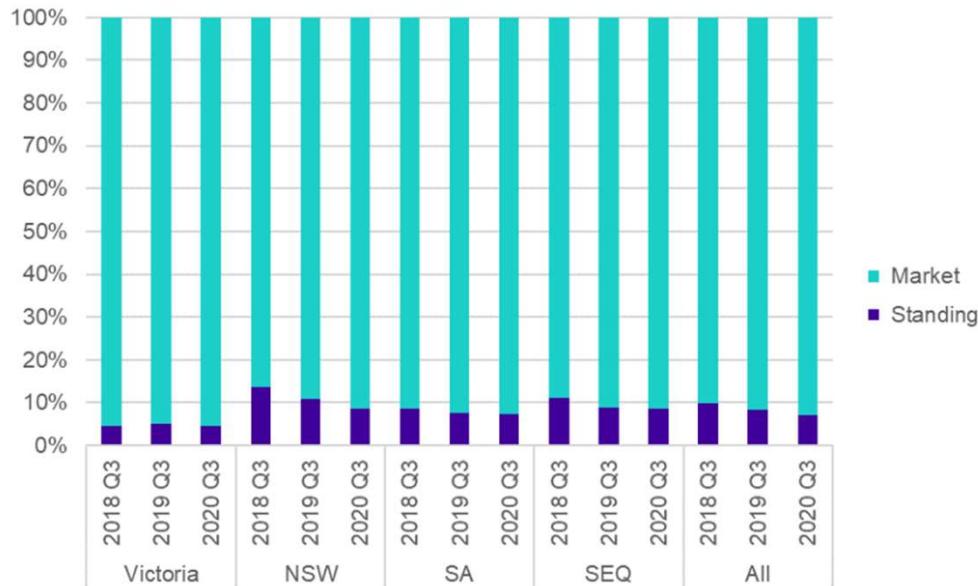
“The DMO 1 price was set using market offers from October 2018 and the variance in residual reflects the market conditions at that time. These market conditions may no longer be relevant.”

Regulator	Margin ²⁴
Essential Services Commission, VIC (ESC)	5.7%
Independent Competition and Regulatory Commission, ACT (ICRC)	5.3%
Office of the Tasmanian Economic Regulator (OTTER)	5.4%

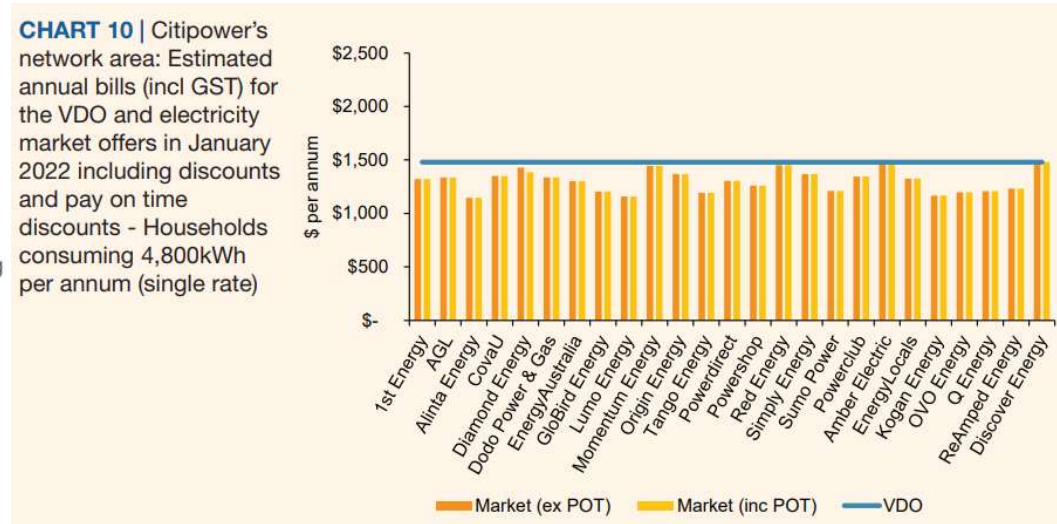
Source: [AER Default Market Offer prices Options Paper 2022-23](#)

Comparison to other Jurisdictions

Figure 3.1: Proportion of residential customers on market and standing offers

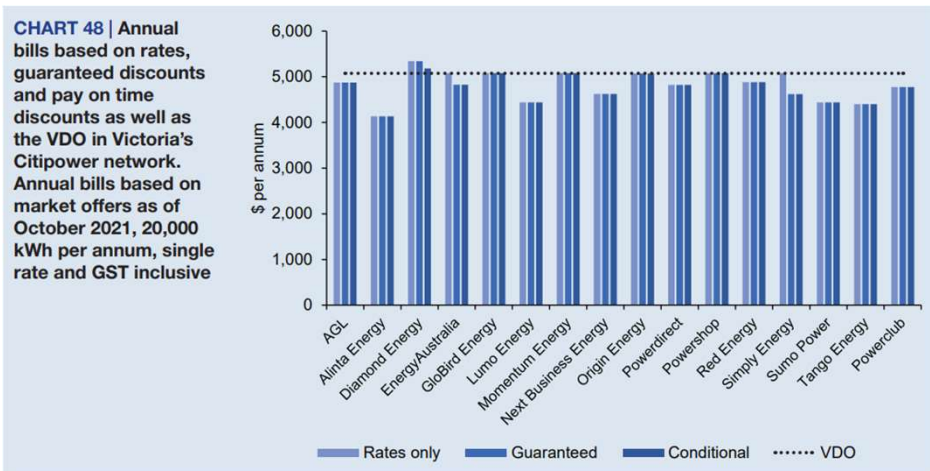


Source: ACCC Inquiry into the National Electricity Market May 2021



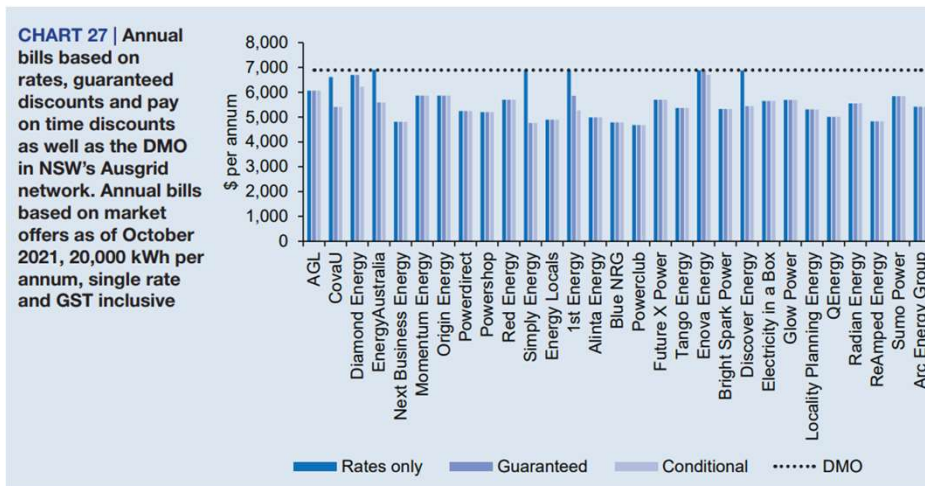
Source: St Vincent Tariff Tracker January 2022

Comparison to other jurisdictions – small businesses

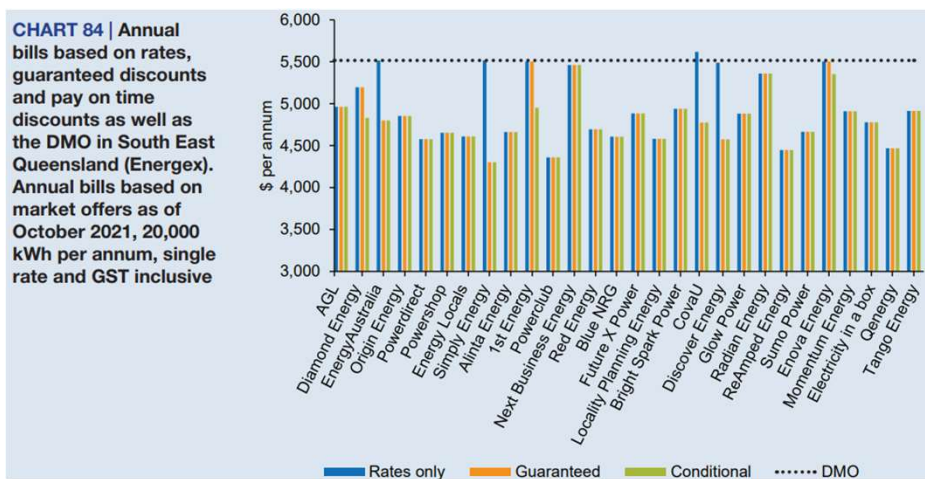


VIC

Source: [ECA SME Tariff Tracker December 2021](#)



NSW



South-East QLD

Final Thoughts

- DMO is intended to protect consumers from **unjustifiable retail margins**
- Broadly support the switch to a bottom-up approach.
- We also support efforts to keep prices stable through a three-year transition period.
- We support a three-year period for this methodology as it aligns with the availability of the ACCC data.

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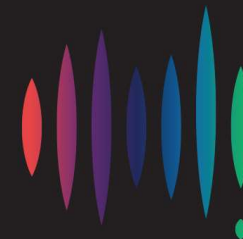
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