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23 November 2018

Mark Feather
Australian Energy Regulator
Melbourne VIC

Dear Mark,

We appreciate the ability to represent our members in making a submission on the AER Position Paper on the Default Market Offer Price.

Handled (https://handled.com.au) currently offers any member of the public the ability to understand the energy plan they are on and see how that plan compares to what is available to them in the market today. We present all of the retailers to our members and help them to change plan whether we have a commercial relationship with the retailer or not.

We are part of the current market forces that are driving prices down for energy consumers.

We have three key points of view we hope you will consider:

1. We believe there is an easier, more effective approach to an on ongoing DMO.

   Instead of an annual bill amount, we propose that each retailer should have a maximum percentage allowable difference between their Standing offer and best Market offer. This simple mechanism would protect customers in line with policy intent, but not risk stifling competition in the energy market.

2. This policy should be split to determine an initial DMO and then an ongoing DMO mechanism.

   The initial DMO should be focused on ensuring that all Standing offer energy consumers receive a better deal, by default. How much better can be determined using the thresholds as set out in the position paper.

3. Energy consumers who are being moved from a standing offer to the new DMO as part of the initial implementation should be given the option to choose a new Retailer.

If the competitive market mechanism were to be employed these customers would churn away from the Retailers who currently have them on a Standing offer. We believe customers should be given the choice to change Retailers as part of the move to a DMO.

We would urge you, our policy makers, to look beyond the short-term gains and look at the long-term impact of any intervention in the market to ensure the right outcome for consumers.

Please find our answers to the questions posed in the pages to follow.

Yours sincerely

Carl Prins
Co-Founder & CEO
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Question 1:
To what extent and how should we take into account the QCA analysis for maximum prices for South-East Queensland standing offers in determining a DMO price in Energex's distribution zone?

QCA analysis for maximum prices in South-East Queensland should be used as a reasonability check on the DMO price for Energex, but not directly drive the new DMO determination. Doing this would create an inconsistent approach across other Distribution Zones.

Question 2:
For residential customers, what type of tariff structures should be subject to a DMO price?

We agree with the proposed approach to make flat-rate and controlled-load tariffs subject to the DMO only. The complexity of the 'mix' of peak, shoulder, off-peak (seasonally in some Distribution Zones) will make an effective DMO very hard to determine and leave room for abuse. Including Time of Use where the meter type is still physically read may lead to better consumer protection though, as most would be unaware of the tariff type they are on.

Should there be different types of tariff structures subject to a DMO price in different distribution zones?

We do not believe that different types of tariff structures should be subject to a DMO in different 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?

We deal mainly with residential customers, so do not have a strong view on this one.

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

1. Retailers all use Standing Offers differently, so perhaps a DMO could be set per Retailer.

As illustrated in Figure 3, some retailers, like Powershop already don't have a large difference between their Standing offers and Market offers. One could argue that no intervention is required there. Click Energy, Qenergy and others clearly have a vast difference.

A DMO may not be appropriate in the form of an annual bill amount. Further consideration should be given to the circumstances of individual retailers and how much they “game” the market by creating a huge difference between Standing Offers and their Market offers.

We propose that each retailer should have a maximum percentage allowable difference between their Standing offer and best Market offer. This simple mechanism would protect customers in line with policy intent, but not risk stifling competition in the energy market.

This would more effectively reflect their own business cycles and energy consumers would be free to move to a new Retailer with a more attractive price offering if costs force a Retailer to become uncompetitive.

2. There is a “one-off” impact as any energy consumer on a current standing offer are moved onto a DMO as well as a post ‘write-down’ market to consider.

This policy could be split to determine an initial DMO and then an ongoing DMO mechanism. The initial DMO should be focused on ensuring that all Standing offer energy consumers receive a better deal, by default. How much better can be determined using the thresholds presented in the position paper.

It is the post write-down market that should then be carefully managed to ensure that participants are not dis-incentivised to participate. Under the current proposal, if the DMO is set too low, the market will stagnate.

In terms of a “bottom up” look at costs, the fact that each Retailer experiences a different wholesale cost based on their ability to secure contracts should not be mis-classified as a controllable cost.

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?

The DMO is currently to be determined on an annual basis. The market offers and standing offers that would be used as a basis for determining the amount are (with a few exceptions) not fixed for a year. So, there is a mis-match in timing.

We propose that the fixed/variable nature of offers are taking into account to match the duration of the DMO. Not doing this would remove the incentive for prices to come down as the wholesale market moves over time and effectively does not pass on any benefits to energy consumers.

The spread in Market Offer to standing offer on a per-retailer basis should be taken into account. Where Retailers are clearly inflating prices to advertise a large discount, they will have the biggest margins. It could be possible to express the DMO in terms of a maximum “spread” between Market Offers and Standing Offers that each retailer needs to adhere to.

Question 6:
For residential customers, are the proposed upper and lower thresholds reasonable, given the policy intent?

Yes. For the lower threshold the median market offer seems reasonable.
We consider the proposed alternative methodology to be the fairest approach as these reflect the amounts that these customers are actually paying.

If a more targeted upper threshold was used, which retailers standing offers should be included?

Enough to represent at least 85% of the market in that Distribution Zone. (i.e. be representative of the actual costs)

Are there any offers or categories of offers that we should not include as inputs into our proposed methodology?

Yes, generally available offers that have additional eligibility requirements (like club membership, new customer only, promo code only and others)

Should the range be the same in each distribution zone?

The methodology should be consistent across different zones.

Question 7:
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The methodology should be consistent across different zones.

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 believe the average consumption per customer in each distribution zone based on EBRINs is appropriate.

Question 9:
For small business customers, on what basis should we set the consumption benchmark as part of our proposed methodology? Please provide reasons for your preferred approach.

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Question 10:
Given defined upper and lower bounds, at what point within the range should the DMO price be set?

We would advocate halfway between the upper bound and the mid-point.

What factors should we take into account in determining this point?

The longer term incentives for competition to exist should be prominent and should ensure that the price is not set too low. This would ironically have the impact of reducing competition which will lead to price increases for consumers in future.

It will also negatively impact businesses like ours. A small Sydney startup that has invested huge amounts to help consumers overcome their energy bills, but also start engaging with new technology.

If the saving for a customer who engages is sufficiently low, energy users will disengage from the market. Price is currently the point of engagement for most energy consumers, which if nurtured can move on to greater interest which enables new energy innovation to flourish. Removing this initial engagement point will spell the end of mass energy consumer engagement.

As an industry the current cost of this activity is very low.

Question 11:
What type (and sources) of information should the AER have regard to in considering the likely direction and magnitude of any forecast changes in the main input cost for 2019-20 in setting a DMO price?

We don't believe this is something that can be fully known. If it were, wholesale energy trading desks would make a fortune. Rather than risking getting it wrong, it could be more prudent to increase the frequency of the price setting.

How should we incorporate forecast changes in efficient input costs as part of our proposed pricing approach for determining DMO prices?

Per above. Increase the frequency of DMO publication.

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

Of the two options, the overall annual amount is preferable for the reasons given.

For us, this highlights the fact that every energy consumer is different and that a one-size-fits the average solution will have it's shortcomings.

Question 13: What should be the duration of the AER's DMO price determination? Please provide reasons for your preferred approach.

We believe there are two parts to this.
There is the initial "write-down" of retailers portfolios which will be instantly felt. So the initial DMO matters immediately, rather than over a period of time.

Over time, it is a relative play to the original DMO. Fluctuations in the DMO should thus be set to reflect the timing of Network costs, wholesale electricity costs and other key drivers for Retailers.
This almost certainly means effectively switching to a "bottom-up" approach and setting up a rolling mechanism.

To what extent and under what circumstances should there be scope to reopen the AER's determination?

Where Retailers would be making a loss by acquiring customers at the DMO.