

7 December 2018



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To: Mr Mark Feather  
General Manager, Policy & Performance  
By Email: [DMO@aer.gov.au](mailto:DMO@aer.gov.au)

Dear Mark,

**Re: AER Position Paper: Default Market Offer Price**

Following is our submission in reference to the AER Position Paper on the Default Market Offer Price (DMO).

OC Energy is a niche National Retailer delivering electricity and a range of other utility services to customers residing mostly in multi-unit apartment buildings operating as embedded networks (EN).

Page	Clause	Comment
4	1.2 Table2	OC Energy is one of many suppliers delivering electricity to customers residing mostly in multi-unit apartment buildings operating as embedded networks. The Table reference benchmark of 2-3 person household will not be relevant to the bulk of customers in this segment as energy use patterns are considerably different. With the growth of the multi-unit dwellings nationally, we would recommend that this customer group be created as a separate segment and used for comparison purposes as the outcomes will be more relevant and applicable to these customers. Not doing so may result in these customers seeing an overstated DMO (where a \$ value is provided).
4	1.2 Table2	The statement that headline discounts must only include 'guaranteed' discounts requires clarification. Does this mean that retailers will not be able to offer products that incentivise Pay On Time & Direct Debit payments?
4	1.3	Clarity is requested on how the transition from standing offers to DMO will occur. What happens to existing market offers that reference the Standing Offer price when the DMO is introduced? It would seem that the two will need to operate side by side for a transition period. Is this intended to be the case?
6	1.5	It needs to be recognised that the CARC for EN's is different to conventional retailers as it covers elements of distribution management e.g. network services and metering. How will this be accounted for in calculations?
14	Q4	EN's typically buy future contracts and don't trade in the wholesale market like many conventional retailers. For an EN, DMO prices must reflect the future value in forward contracts in the wholesale market (including all components



		<p>such as Environmentals). Noting that the DMO is proposed to be set once per year, significant changes that occur in the market, such as the closure of a power station, may result in sustained periods of market volatility and high or low prices. The DMO mechanism should include the option to vary in the event of significant market changes.</p> <p>Some retailers set prices around particular strategies that suit them at that time e.g. campaign specific initiatives, predatory pricing, and ‘book building’. At any given time, these market offers may distort the median market offer. In setting the DMO, both extreme top and bottom pricing should <u>not</u> be included in calculations to avoid artificial distortion of the DMO. Item 1 in clause 2.3.1 states that you will source “all the relevant standing offers and market offers...”. We submit that some retailers from time to time offer loss-leading pricing and as such these do not represent the “efficient costs of providing retail services” and that a top-down approach has to disregard these market offers.</p> <p>EN Operators represent a different segment to conventional market retailers as they provide a level of distribution service management, including funding items such as the Embedded Network Manager (a real cost borne by the ENO that cannot by law be passed on to the customer). This means that the cost base is different and accordingly, we would recommend that EN’s be separately categorised from a costs perspective.</p>
16	Q5	See response to Q4. Top down approach favours large retailers with big customer bases who can spread their costs across a large customer footprint and multi-fuel bundled offers. How will the DMO prevent multi-fuel retailers from shifting margin or costs into the other product offers e.g. gas?
17	3a	Only ‘guaranteed discount’ pricing should be considered for the analysis as using POT (pay on time) or DD (direct debit) offers in the mix fails to consider the real dollar value of these offers and is not an ‘apples for apples’ comparison. Alternately, the real value of POT and DD offers need to be factored back into the price.
19	Q8	Multiple consumption categories should be used i.e. typical number of residents, type of home (apartment/ house), and location, as these inputs significantly affect the usage.
19	Q9	For SMEs, the usage and load shape vary considerably around a range of different factors such as business type (e.g. food premises can consume considerably more than a retail clothing shop). Consideration needs to be given to offering a range of different consumption bands e.g. 100-200kWh/day etc. This will make it easier for SMEs to get a relevant DMO.

19	Q10	<p>The DMO needs to allow sufficient room for competition and not stifle this by being a form of price regulation. The range of data used for determining the median prices and range impacts where the DMO is set. See previous comments.</p> <p>The Policy intent is to make pricing more certain. On this basis, OC Energy would recommend setting the DMO in the higher part of the range and then evaluate what effect this has on the market. As an example, the DMO price needs to be set at a point that still incentives customers such as ‘occupiers’ to contact a retailer and set up a market offer.</p> <p>Setting a DMO in the higher price range allows some flexibility to accommodate market price movements.</p>
20	Q12	<p>Subject to previous comments, OC Energy favour representing the DMO as an overall amount - annual \$ per residence type (house/ apartment/ number of people) per zone. From a customer perspective this is the most relevant benchmark. Representing this as a fully specified tariff will limit the ability to structure tariffs to suit.</p> <p>If the DMO is set as a “fully specified tariff including caps on the fixed and variable components” [refer clause 2.3.2], then regard needs to be had to the fact that ENOs operate in a part of the retail market where average apartment consumption is lower than the average dwelling and the ENO incurs network/distribution style costs in operating the EN. As such, a higher fixed component is appropriate to reflect both the ENOs costs, the different retail model, and the efficient cost of providing retail services in medium to high density living arrangements.</p>

If you require any clarification on any of the above, we are happy to elaborate further.

Yours faithfully,



Chris Wilson  
Managing Director  
OC Energy