



6 December 2018

Mr Mark Feather
Australian Energy Regulator
GPO Box 520
Melbourne, VIC, 3001

Dear Mr. Feather

Submission on the Position Paper: Default Market Offer Price

Powershop Australia Pty Ltd (**Powershop**) thanks the Australian Energy Regulator (**AER**) for the opportunity to provide comments on the AER Position Paper, Default Market Offer Price (the **Paper**).

Powershop acknowledges the Federal Government's concerns in relation to the cost of electricity for consumers, and more specifically that many consumers are paying more for their electricity than is necessary due to the fact that they are on standing offers or not the best or most appropriate market offer available to them. Powershop believes that the various measures being taken both by the Federal Government and industry participants (including notification of the end of contract term, reduction in standing offer rates, adoption of a voluntary reference price etc.) will achieve a fairer outcome for these consumers without any unintended or adverse consequences (customers being worse off, disengagement of customers from the market and impediment to innovation). On this basis, Powershop believes the introduction of a Default Market Offer (**DMO**) should not be pursued until such time as the effect of the current measures can be measured and analysed.

Powershop understands the AER has no policy remit over the DMO. We have taken this into account in our responses to the questions posed by the AER in the Paper, below.

Q.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 Distribution zone?

Powershop supports the intent of utilising QCA's analysis to inform the AER's determination of the DMO price in South-East Queensland. Powershop understands why the AER intends to utilise a 'top-down' pricing methodology in the first iteration due to the imposed time constraints.

Q.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.

Powershop believes that the DMO should be calculated using all residential tariff types in all distribution zones to determine the DMO price per tariff and distribution zone. Factoring all residential tariff types per distribution zone is essential in determining a true DMO price for all customers within a distribution zone. As network and other costs vary greatly between distribution zones, it is essential to take into consideration the actual underlying retail tariff structures. The AER must also consider the more innovative tariffs being developed by distributors and retailers.

Q.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.

Powershop's response to Q.2 also applies to small business customers, insofar as all business tariff types in all distribution zones must be considered to ensure that the DMO price is accurate and informative. In addition, the prevalence of demand charges for business must be taken into account.

Q.4 What factors should we take into account in determining DMO prices?

In addition to the factors set out by the AER in the Paper (wholesale costs, including appropriate allowance for the increasing costs of risk management, network costs, environmental scheme costs, retail operating costs to serve, acquire and retain customers, and a retail profit margin etc.) the AER should also consider the following:

- regulatory costs – heavy regulatory intervention in the market is increasing major resource and system development costs, across two divergent regulatory regimes (NECF and non-NECF). The DMO price must consider these ongoing and future costs; and
- innovation – the DMO price should take into account innovative approaches that are designed to disrupt the market and enhance customer choice and experience (e.g. . the development of technology that allows customers to monitor and reduce their usage and costs, the development of virtual power plants and demand response mechanisms, etc). The DMO price should consider investments retailers make in their customers' experience, as failure to acknowledge this investment may have the unintended consequence of deterring investment in this area.

Q.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 AER should consider that different retailers have different cost structures, different overall shareholder return requirements and various business strategies (i.e. early stage-growth companies may accept additional risk or lower returns in the short term), which impact price positioning.

Q.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.

The proposed methodology to calculate the thresholds is reasonable given the policy intent. However, the AER should consider taking a weighted average for standing offers based on customer numbers per retailer, in order to capture any outliers. This methodology would better factor in the concentration of standing offer customers.

In regards to the DMO range in distribution zones, the range should reflect the available comparable tariffs and usage profiles.

Q.7 For small business 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.



Please refer to our response in Q.6 regarding a weighted average approach.

Powershop encourages the AER to consider the concentration of demand tariff customers in the Ausgrid distribution network (EA302 for business customers with load between 40-160MWh), given the spread of cost for demand charges.

Q.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.

Powershop supports the AER's use of distribution businesses' Economic Benchmarking RIN as a source of historical data for consumption. Powershop also encourage the use of ACIL Allen benchmarking data where appropriate.

Q.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.

Please refer to our response to Q.8.

Q.10 Given defined upper and lower bounds, at what point within the range should the DMO price be set? What factors should we take into account in determining this point?

Powershop believes that the DMO should be set, at least in its first iteration, closer to the standing offer threshold. Setting the DMO price closer to the standing offer price will ensure that smaller retailers with lower scale advantages are not squeezed out of the market and ensure adequate head room for market innovation.

Additionally, Powershop feels that the introduction of the DMO must be applied cautiously over a period of time, with close monitoring and review mechanisms to ensure that the DMO achieves the intent of the policy and does not stifle market competition and innovation.

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

Please refer to our response to question 4.

In addition to the above, the AER should consider setting the DMO price at the upper end of the standing offer price curve and gradually change it as required. This will enable the AER to factor in any findings from previous periods and minimise the risk of deterring competition and limiting innovation.



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

Powershop is happy with the AER's suggested approach of presenting the DMO price in the form of an annual bill amount, but would prefer the inclusion of a daily amount, because it is more easily understood and comparable for the customer.

Q.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?

Powershop believes that the DMO's price determination should be updated quarterly at a minimum, to reflect the wholesale market norms and to better factor in the volatile wholesale market and the de-harmonising, consistently changing regulatory space, of which both factors contribute to customer energy costs.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely,

Edward McManus
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