

6 April 2023

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Dear Ms Jolly,

RE: Consultation on AER Draft Determination: Default Market Offer Prices 2023-24

The South Australian Council of Social Service (SACOSS) is the peak body for non-government health and community services in South Australia with a mission to advocate for the interests of people on low incomes or experiencing disadvantaged across the state. We thank the Australian Energy Regulator (the AER) for the opportunity to comment on its *Default Market Offer Prices 2023-24 Draft Determination*, dated 15 March 2023 (the Draft Determination).

The AER's Draft Determination is to increase the DMO price for South Australian residential standing offer customers by \$401 (without controlled load) and \$485 (with controlled load). This is an increase in the residential DMO price for 2023-24 of around 22%. South Australian small business customers on a standing offer (around 15.5% of small businesses) will see an increase of \$1,151, or 25.4% in 2023-24.

Whilst SACOSS acknowledges this consultation has been confined by the AER to a defined set of issues, given the current extraordinary market conditions and energy affordability crisis, we repeat our call for the AER to consider and respond to the following matters raised in our previous submission on the *Default Market Offer Prices 2023-24 Issues Paper*¹, including that the AER:

- take into consideration issues of fairness and efficiency when performing its function under the DMO Regulations, especially given current market conditions
- ensure the current energy affordability crisis in South Australia forms a 'relevant consideration' in its determination of DMO 5
- allocate greater weight to the DMO policy objective of 'providing protection to consumers' when establishing DMO 5
- conduct a 'vulnerability impact assessment' of the DMO 5 decision, ensuring the AER 'give regard to the impact on, or creation of, experiences of vulnerability from

¹ SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022.

regulatory decision making', in accordance with Action 12 of the *Towards Energy Equity – a Strategy for an inclusive Energy Market*

- ensure all retail costs are justified and efficient.

In addition, we are calling for the AER to:

- provide clear reasoning as to why the inclusion of supernormal network profits in a calculation of 'network costs' for DMO 5 is justified in the context of the DMO's regulatory framework, and
- investigate alternative data sources to support its 'annual average usage' calculation for South Australian energy consumers.

DMO Objectives and Purpose

As set out in our previous submission, SACOSS believes the current DMO framework does not preclude the AER from taking into consideration issues of fairness and efficiency in making its determination for DMO 5. Doing so would also align with the AER's overarching objectives and functions.² We note the Draft Determination did not respond to these submissions, but it did repeat the policy objectives of the DMO which it says are set out in various sources, including:³

- the *Treasurer's and Minister for Energy's request to the AER to develop a DMO*, 22 October 2018,
- the *ACCC Retail Electricity Pricing Inquiry final report ACCC Retail Electricity Pricing Inquiry final report*, June 2018,
- the *Explanatory Statement accompanying the DMO Regulations*, 2019.

The imputed objectives of the DMO are to:

- *reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices*
- *allow retailers to recover the efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention*
- *maintain incentives for competition, innovation and investment by retailers, and incentives for consumers to engage in the market*

These are policy (not statutory) objectives, and whilst they may be useful to guide the AER's decision making on DMO 5, there remains scope and flexibility for the AER to accord additional weight to the need to protect customers from extreme and unjustifiable energy prices through the application of fairness and efficiency considerations, especially given the current energy affordability crisis. More broadly, SACOSS considers there is an urgent need for a re-examination of the purpose and application of the DMO at a state and federal government level with a view to establishing clear statutory objectives contained in the

² [AER Strategic Plan 2020-2025, National Energy Objectives](#)

³ The [Treasurer's and Minister for Energy's request to the AER to develop a DMO](#), 22 October 2018, the [ACCC Retail Electricity Pricing Inquiry final report ACCC Retail Electricity Pricing Inquiry final report](#), June 2018, the [Explanatory Statement accompanying the DMO Regulations](#), 2019.

National Energy Laws and Rules to better protect consumers from inefficient and unfair pricing. As set out in our previous submission on the Issues Paper, concerns raised by the ACCC in 2019⁴ around the Victorian Default Offer having negative impacts on competition and switching rates, have proven to be baseless, and a reassessment of the DMO objectives is required.

DMO 5 – Network costs

When setting the DMO, the Regulations⁵ require the AER to have regard to certain matters, including **‘the cost of distributing and transmitting electricity in the region’**. The Regulations do not require the AER to have regard to the total revenue of network businesses.

The October 2022 Report by Simon Orme for the Institute for Energy Economics and Financial Analysis⁶ (IEFFA), highlighted the issue of ‘supernormal profits’ (total revenue minus total cost) being extracted by network businesses in NEM jurisdictions. Based on AER data converted into dollar amounts, the Report estimated that ‘supernormal profits’ represented 8.1% of the average annual market retail bill in South Australia in 2020, and supernormal network profits imposed an additional cost of \$1,231 on South Australian energy consumers between 2014 and 2021 (the highest amount of all NEM regions).⁷

A recent supplementary Report⁸ estimated the impact of supernormal network profits on retail bills with reference to the DMO prices in the Draft Determination (see Table 3, below). The Report estimates that South Australian residential energy consumers would see a 7% decrease in DMO 5 if supernormal profits were removed from the calculation of ‘network costs’.

Can the AER provide an explanation for the inclusion of supernormal profits within the calculation of network costs, given these additional profits are over and above the ‘cost of distributing and transmitting electricity in the region’, as required by the Regulations? The Regulations give the AER statutory responsibility for determining ‘a *reasonable per-customer annual price for supplying electricity*’ in a certain region to small customers.⁹ Can these supernormal profits be said to be reasonably incurred by network business in ‘supplying electricity’, and are consequent bill impacts justified?

⁴ See ACCC, Submission to the [Essential Services Commission Victorian Default Offer Advice](#), 4 April 2019, p.2

⁵ Regulation 16(4) of the [Competition and Consumer \(Industry Code- Electricity Retail\) Regulations 2019](#)

⁶ Simon Orme, IEFFA Guest Contributor, [Regulated Electricity Network Prices are Higher than necessary: An assessment of the economic regulation of Australia’s electricity networks](#), October 2022

⁷ Simon Orme, IEFFA Guest Contributor, [Regulated Electricity Network Prices are Higher than necessary: An assessment of the economic regulation of Australia’s electricity networks](#), October 2022, p. 5-6

⁸ Simon Orme, IEFFA Guest Contributor, [No relief from electricity network supernormal profits](#), 30 March 2023

⁹ In accordance with the per customer amount of electricity supplied, and the timing or pattern of supply, see Regulation 16(1)(a) and 16(1)(b) of the [Competition and Consumer \(Industry Code- Electricity Retail\) Regulations 2019](#)

Table 3: Estimated Impact of Supernormal Network Profits on Retail Bills

Retail market (network)	Retail bill increase, draft decision (\$) ^{21 22}	Retail bill increase, draft decision (%) ^{23 24}	Estimated network supernormal profit/loss per customer (\$)	Network supernormal profit as % of retail bill increase (%)	Retail bill increase if supernormal profit removed (\$)	Retail bill increase if supernormal profit removed (%)	Percentage point change in retail bill increase (%)
Ausgrid	+455	21.5%	67	14.8%	+388	18.3%	-3.2%
Endeavour	+564	23.7%	166	29.4%	+398	16.7%	-7.0%
Essential	+533	21.4%	-8	-1.5%	n.a.	n.a.	n.a.
Energex	+383	19.5%	75	19.6%	+308	15.7%	-3.8%
SAPN	+484	21.3%	158	32.7%	+326	14.3%	-7.0%
Simple average DMO excl. Essential	+472	21.5%	117	24.1%	+355	16.3%	-5.2%
Simple average VDO	+426	30.4%	76	17.9%	+350	24.9%	-5.4%

Notes: DMO figures are shown for residential households with controlled load. Similar but not identical results apply to customers without controlled load. Nominal figures have been used.

Average Annual usage – solar and non-solar customers

SACOSS' submission on the Issues Paper raised questions around the impact of rooftop solar customers on average annual grid usage calculations for the DMO in South Australia. More than 1 in 3 households in South Australia have rooftop solar, and approximately 30,000 homes have batteries. SA Power Networks estimates the greatest savings for solar customers are made from in-house use of energy generated through solar (i.e. a reduction in grid usage). St Vincent de Paul's Tariff Tracker¹⁰ estimates solar customers in SA with a 3kw system spend (on average) \$1,050 less on energy bills than non-solar customers. The Draft Decision references ACCC analysis of billing data, which shows the Annual grid usage by residential non-solar and solar customers across all regions combined is very similar. SACOSS finds the ACCC analysis difficult to reconcile with the bill reductions experienced by solar customers as a result of reduced grid usage.

We note the Draft Decision is that higher or lower average annual grid usage amounts will not negatively impact customers when selecting a competitive offer. That said, we still consider accuracy in determining average annual grid usage amounts is important for consumers for comparative purposes when using the DMO as a reference price.

Given the extremely high penetration of rooftop solar in South Australia, and the relatively low annual average usage (especially as compared to South Australian payment plan and hardship customers who are less likely to have solar), SACOSS is seeking the AER request additional grid consumption data on solar versus non-solar customers from SA Power Networks or other alternative sources.

¹⁰ St Vincent de Paul Society, [South Australian Energy Prices July 2022: An update report on the South Australian Tariff-tracking project](#), August 2022, p.25

DMO 5 – Retail costs and allowances

SACOSS repeats and supports previous submission made by us and PIAC¹¹ in relation to retail costs and allowances.

Whilst we support the AER's Draft Determination to delay the increase in the retail allowance percentage for South Australian customers, we remain concerned about the 10%-15% glidepath, and urge the AER to consider a margin closer to that used in the Victorian Default Offer (5.7%). Even with the pause, DMO 5 prices set out in the Draft Decision see increases in retail allowance costs of between 21.3% and 25.4% for South Australian residential and small business customers.

We are also concerned about the inclusion of metering costs given the lack of transparency in the allocation and recovery of costs associated with the smart meter roll-out. As set out in the Draft Determination, South Australian residential customers face the highest average annual cost per customer for metering costs in all regions, at \$26.61 per customer. In the context of the current energy affordability and cost of living crisis, where low-income households are struggling to afford the basic necessities and every dollar counts, we urge the AER to do all that it can to ensure all retail costs are justified and efficient in DMO 5.

If you have any questions in relation to this submission, please contact Georgina Morris at georgina@sacoss.org.au or 8305 4214.

Yours sincerely,



Dr Rebecca Tooher

Director of Policy and Advocacy
South Australian Council of Social Service

¹¹ PIAC, [Submission to Default Market Offer Prices 2023-24 Issues Paper](#), November 2022