

18 October 2019

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulatory
GPO Box 520
Melbourne VIC 3001

Via email to DMO@aer.gov.au

Dear Mr Feather,

Re: Default Market Offer Price 2020-21– Position Paper

Simply Energy welcomes the opportunity to provide feedback on the Default Market Offer (DMO) to apply from 1 January 2020 draft decision. Simply Energy is a leading energy retailer with over 720,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. As a leading retailer focused on continual growth and development, Simply Energy supports the development of effective tools to facilitate competition and positive consumer outcomes in the market.

Simply Energy thanks the Australian Energy Regulator for engaging with industry at this early stage on the development of the methodology behind the second form of the Default Market Offer 2020-21 (DMO 2). While Simply Energy understands the policy intent behind the introduction of the Default Market Offer, and considers that DMO 1 met the policy intent, it must be stated that Simply Energy still does not support price regulation.

Approach to setting the DMO 2 annual price

Option 1 – Price-based approach using the Default Market Offer 2019-20 (DMO 1)

Simply Energy supports the use of option 1 in setting the DMO annual price. That is, using the annual DMO 1 price and updating based on realistic forecast changes in efficient costs of supply for 2020-21. That being said, Simply Energy would highlight the risk in this approach if there are errors in the method the AER use to forecast the underlying costs retailers face in the process of selling electricity. This is particularly important as many of the costs Simply Energy and retailers more broadly face is out of the control of energy retailers.

Simply Energy agrees that the first iteration of the DMO (DMO 1) balanced the policy objectives of preventing unjustifiably high standing offer prices with allowing retailers to recover the efficient costs of providing services.

Simply Energy would also point out the risk of setting DMO 2 too low, where the requirements under the National Energy Retail Rules around marketing on inflated base rates effectively set a market price cap for a large proportion of generally available market offers.

¹ See NERR r 46B.

While Simply Energy supports the safety net for those disengaged customers on standing offers, the DMO should continue to provide retailers with the necessary headroom to provide innovative, competitive and value-added offerings to allow engaged customers to benefit from the competitive market that has continued to exist under DMO 1.

Option 2 – Price-based approach using observed market offers in 2019-20

Simply Energy considers that option 2, where a top-down market assessment is completed by the AER, has merit. Appropriate protections for standing offer customers would continue, as would sufficient headroom for retailers to operate in a competitive manner while recovering efficient costs.

Simply Energy disagrees with the AER that there is significant risk that retailers would 'game' the offer spread in response to the option 2 methodology being adopted². The fundamental operation of the competitive market would prevent such 'gaming', whether this approach was adopted or not. If the AER sees significant risk with this approach, there are ways in which the AER could mitigate such risk. Completing an a top-down assessment of market offers where retailers were not made aware of the exact time and date when such an assessment took place, for example.

If this methodology were adopted by the AER, Simply Energy would suggest that, rather than considering all generally available offers from all retailers, the median of each retailer's offerings should be used to calculate the overall median of generally available offers in the market. This would prevent the skewing of the median where retailers may have multiple market offers at different price points.

Option 3 – Bottom up cost assessment

Option 3, where the AER would complete a detailed bottom up cost assessment, similar to the way the VDO is calculated in Victoria, is not supported by Simply Energy. Simply Energy agree that the policy intent of the DMO would not be reflected in this approach. As stated in the position paper, the DMO is intended to act as a safety net, not to be the lowest price offer in the markets in which the DMO exists.

Simply Energy sees the benefit in greater levels of pricing predictability that option 1 and 2 would bring. Option 3 carries risk where the development of a bottom up cost stack approach involves many factors and a high degree of complexity. Simply Energy considers that option 3 carries significant risk of error in correctly accounting for all relevant inputs that make up the retail cost stack. Simply Energy understands the many assumptions that need to be made in order to correctly forecast certain elements, especially around wholesale electricity costs.

Time of Use and Solar

Simply Energy supports the AER's position to use the flat rate DMO annual usage and price for residential time of use (TOU) tariffs. Simply Energy considers that the AER proposed approach for solar and time of use would appropriately balance the policy objectives if the AER is required to determine a DMO price for those tariffs.

If the Commonwealth Government intends to proceed with amending the regulations to apply the DMO price cap to time-of-use and solar customers, there are considerations that Simply Energy would highlight to the AER. Generally, the network costs for these consumers vary from those

² Australian Energy Regulator, Default Market Offer Price 2020-21: Position Paper, September 2019

customers on a single rate or single rate with a controlled load. In the case of solar customers especially, the metering costs incurred by retailers is generally higher.

In light of this, Simply Energy's view is that any increase in the underlying costs incurred by retailers in serving customers on these tariffs should be included in the single DMO annual bill per distribution zone. This would allow the DMO to continue to be a safety net for a wider range of consumers, while allowing retailers to rely on the DMO not impacting their ability to recover efficient costs.

Simply Energy agree with the AER that a single annual bill amount per distribution zone aids consumer understanding, consistency in advertising while continuing to give consumers greater trust and engagement in the market.

Concluding remarks

Simply Energy is pleased to have been engaged at this early stage to aid the AER in the development of DMO 2. While Simply Energy agrees with the preferred approach for the setting of DMO 2, there are some concerns that need to be addressed, particularly if the Government proceeds with amending the regulation to include both TOU and solar tariffs in the DMO price cap.

In closing, Simply Energy looks forward to continuing to work actively with the AER in ensuring that the appropriate methodology for setting the DMO is selected. Furthermore, that any calculation involved in the underlying costs retailers face accurately reflect the changes and forecasting in those costs. We look forward to receiving a draft decision from the AER in relation to DMO 2

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact James Ell, Senior Regulatory Adviser, on, telephone, (03) 9617 8352 or at james.ell@simplyenergy.com.au

Yours sincerely



James Barton
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Simply Energy