

# Default Market Offer 2022-23

Draft determination

Public forum

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March 2022

# Agenda

- Context
- Retail costs and allowance
- Wholesale energy costs
- Conclusion



# Context: DMO objectives

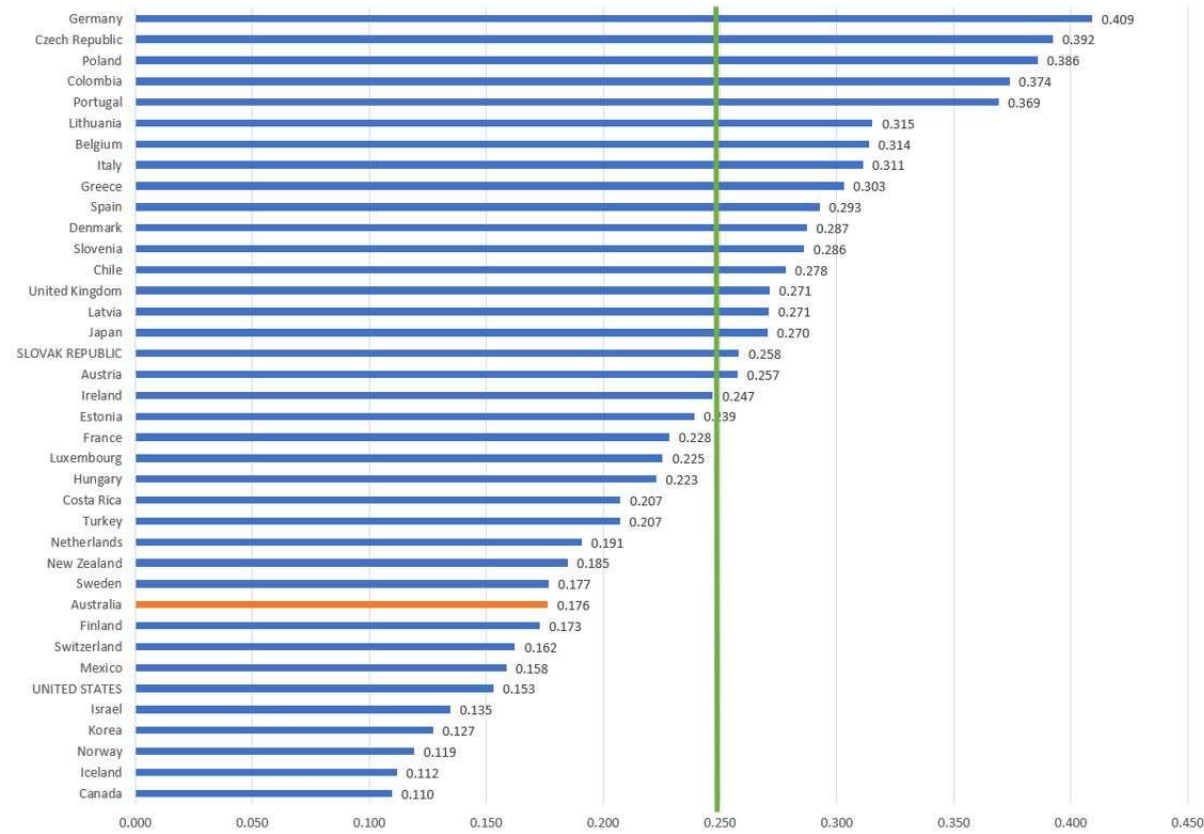
The objectives of the DMO price are to:

- reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices
- allow retailers to recover their 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.

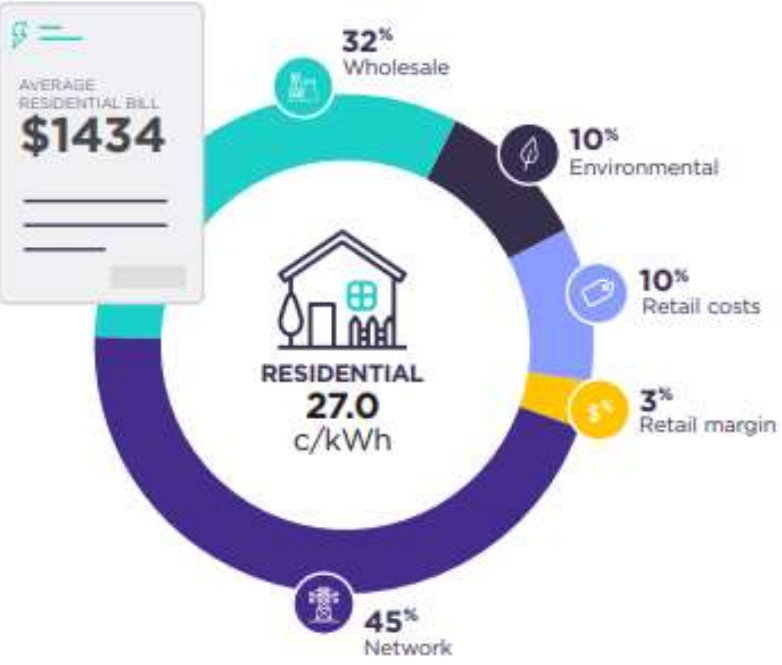


# Context: Electricity prices in Australia

Household electricity prices (PPP adjusted) (USD)



Source: AEC analysis of OECD data. — OECD average. Note: The Australian price is based on the ACCC's average residential price of 27 c/kWh.



Source: ACCC Nov 21 report

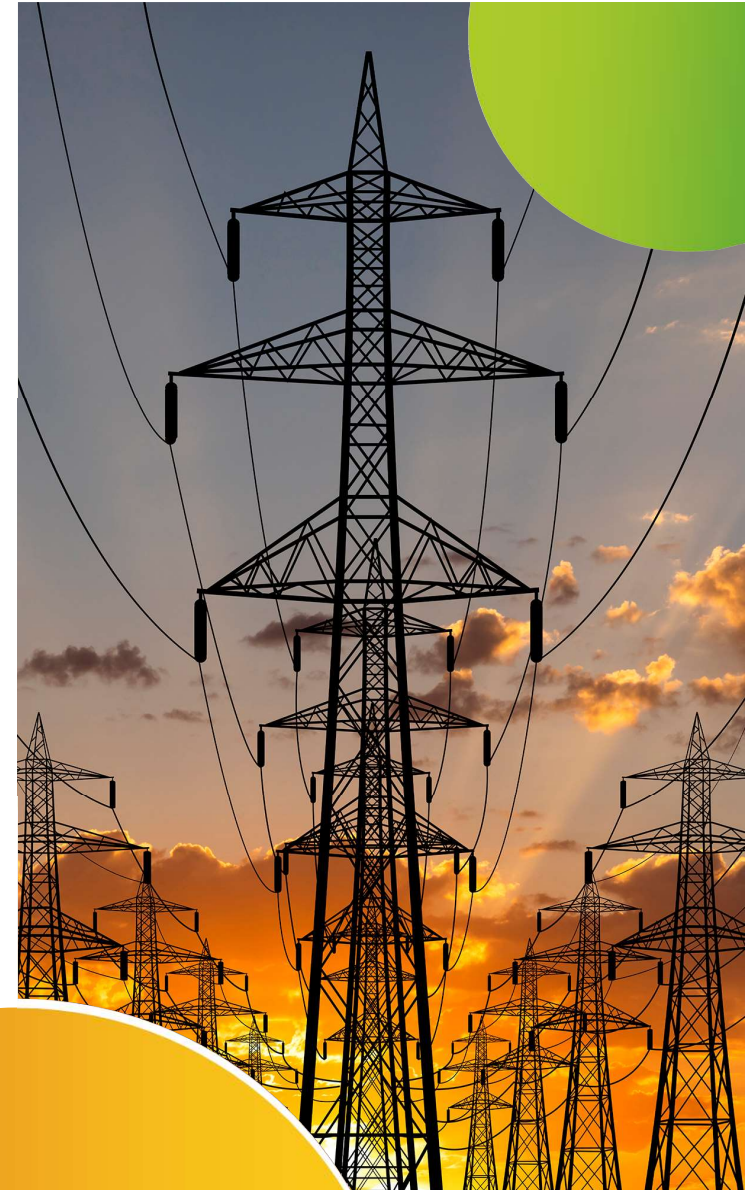


# Retail costs and allowance

- A bottom-up cost methodology is more relevant to setting a regulated price in the market (such as the Victorian Default Offer).
- We expect the retail allowance to become the focus of contention during DMO price reviews.
- How can the retail allowance be calculated in a transparent manner that is also replicable in the future?

# Wholesale energy costs

- The wholesale cost estimate should enable the recovery of reasonable costs.
- The proposal to move to the 75<sup>th</sup> percentile may increase the wholesale cost risks faced by retailers in a volatile wholesale market.
- As the DMO provides fallback protection, it is beneficial to be conservative.



# Conclusion

