

1 Introduction

The Australian Energy Regulator (AER) released a position paper on 9 November 2018 setting out its initial views on its approach to determine default market offer (DMO) prices and invited interested parties to respond to the issues in this paper.

The intention is that retailers will be obliged to offer the DMO to customers who do not otherwise take up a market offer for electricity retail services. The new feature compared to the current standing offer framework is the introduction of a maximum price that is intended to apply to relevant standing offers for residential and small business customers in each network distribution zone where there is currently no price regulation. AER refers to the maximum price for standing offers as the 'DMO price'.

Vocus Group Limited (Vocus) is an ASX listed, vertically integrated telecommunications provider, operating in the Australian and New Zealand markets. In Australia, Vocus owns an energy retailer M2 Energy Pty Ltd, trading as Dodo Power & Gas and Commander Power & Gas.

Our energy products are targeted to residential consumers in Victoria, New South Wales, South Australia and South-East Queensland through our Dodo brand. The Dodo brand was relaunched in August 2018 to drive broadband sales, as well as being the basis for cross selling products including energy.

As a challenger in the energy retail sector, Vocus welcomes the opportunity to provide a short response to some of the issues canvassed in the position paper. As a challenger brand, we strive to innovate and differentiate our consumer offering from the Tier 1 retailers.

2 Issues and Vocus' response

Issue	Vocus' response
<p>What type of tariff structures should be subject to a DMO price?</p>	<p>Vocus does not agree with AER's proposal that a default market offer for residential customers be established only for flat-rate usage and controlled-load tariff structures given the increase in the new network tariff and pricing options.</p> <p>All types of tariff structures should be subject to a DMO price, so there is flexibility and choice for all residential customers that do not take up a market offer for electricity retail services.</p>

Issue	Vocus' response
<p>What factors should we take in account in determining DMO prices?</p>	<p>Vocus largely agrees with the proposed 'top-down' approach to determining DMO prices in each distribution zone using observed and publicly available data.</p> <p>We submit that the AER must factor into the determination of DMO prices that the level of operating costs to acquire, serve and retain customers is heavily dependent on the size of the retailer.</p> <p>Smaller retailers do not have the scale to apportion their operating costs over a large customer base. If this reality is not factored into the determination of DMO prices, there is a significant risk that the resulting DMO prices will be set too low, resulting in the exit from the market of challenger brands.</p> <p>If too low DMO prices lead to smaller retailers exiting the electricity retail market this will not be in the long-term interests of consumers. As the AER acknowledged in its position paper, the level of a DMO price can affect the development of retail competition and the benefits realised by engaged consumers.</p>
<p>What, if any, other factors or risks should the AER consider in applying the proposed price-based top down approach for determining DMO prices?</p>	<p>In its proposed 'top-down' approach, the AER states it will have regard to both competitive market offers and standing offers.</p> <p>The AER also needs carefully consider what inputs are included as relevant "competitive" market offers when reviewing publicly available price data. For example, including the current lowest market offer as an input would not assist in determining a fair DMO price.</p>

Issue	Vocus' response
<p>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 costs for 2019-20 in setting a DMO price?</p>	<p>The AER should have regard to information on significant input costs such as wholesale and renewable certificates in considering the likely direction and magnitude of any forecast changes in the main input costs for 2019-20 in setting a DMO price.</p>
<p>How should the DMO price be specified?</p>	<p>Vocus agrees with AER's preliminary view that it should specify the final DMO price as an overall annual bill amount, which retailers can then calibrate into a fixed and variable component.</p> <p>The use of an overall annual amount is preferred given the seasonal variations throughout a 12-month period vary significantly across distribution zones and jurisdictions.</p>
<p>What should be the duration of the AER's DMO price determination?</p>	<p>Vocus agrees with the AER's view that DMO prices should be reviewed annually due to the yearly changes in network costs together with the volatile wholesale market.</p> <p>We submit that the AER should conduct this review of the DMO at a specific period scheduled each year.</p>

Please direct any questions regarding this submission to:

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