

AER DMO Forum



Purpose

To examine what should be an appropriate retail allowance by considering the following:

1. What is the difference between a retail margin and a competition allowance.
2. What are their respective purposes.
3. Is a competition allowance necessary.
4. What does the evidence show.

Focussing Question

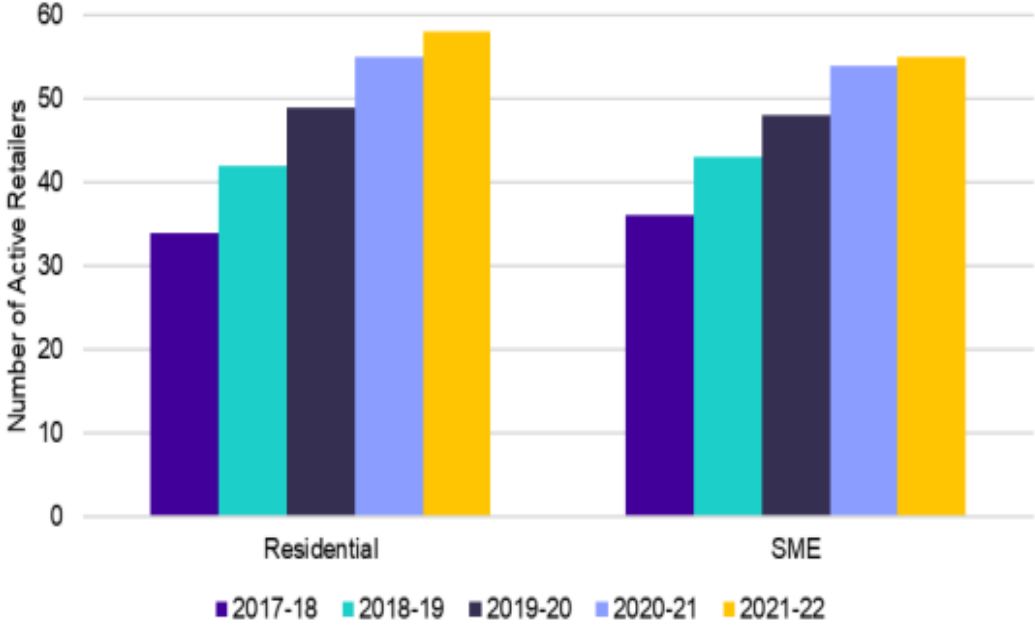
Is a competition allowance necessary to achieve the DMO objectives?

Retail Margin and Competition Allowance – Different Objectives

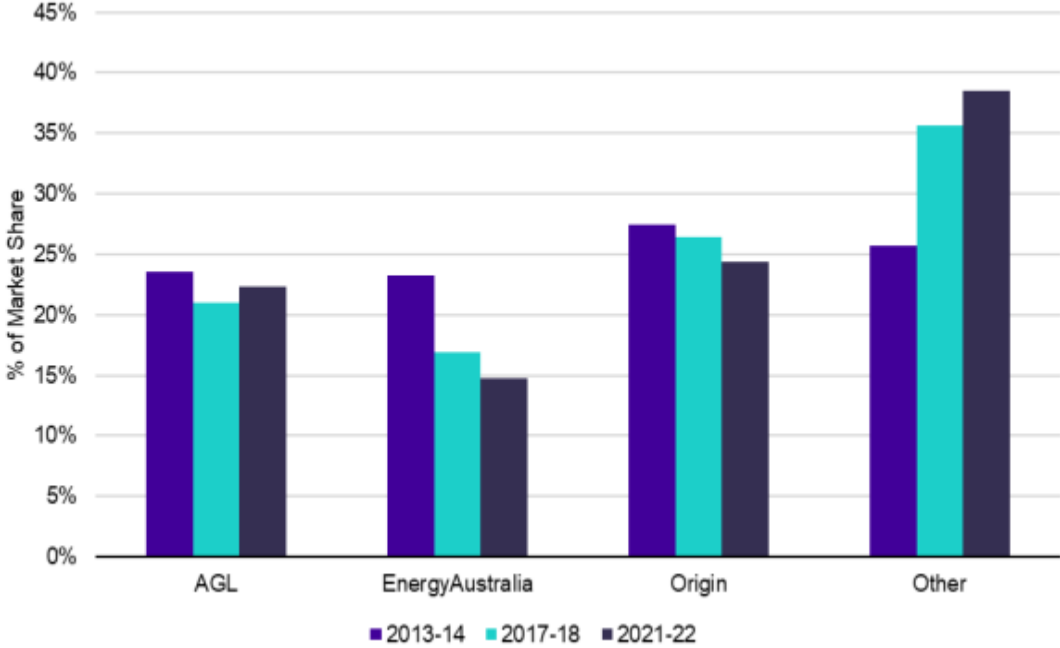
- The retail margin represents the return that a retailer requires to attract sufficient capital in order to finance the ongoing operation of its business. This includes compensation for both the capital associated with the business, and the risks associated with the investment.
- The competition allowance seeks to promote efficient new entry from retailers by providing an allowance for their costs directly related to entry into the market.
- The challenge for the AER:
 - If the regulated price is set too low this will deter investment and innovation and deter new entrants.
 - If set too high this will be to the detriment of customers.

Competitiveness of the Market

Active Electricity Retailers in the Market



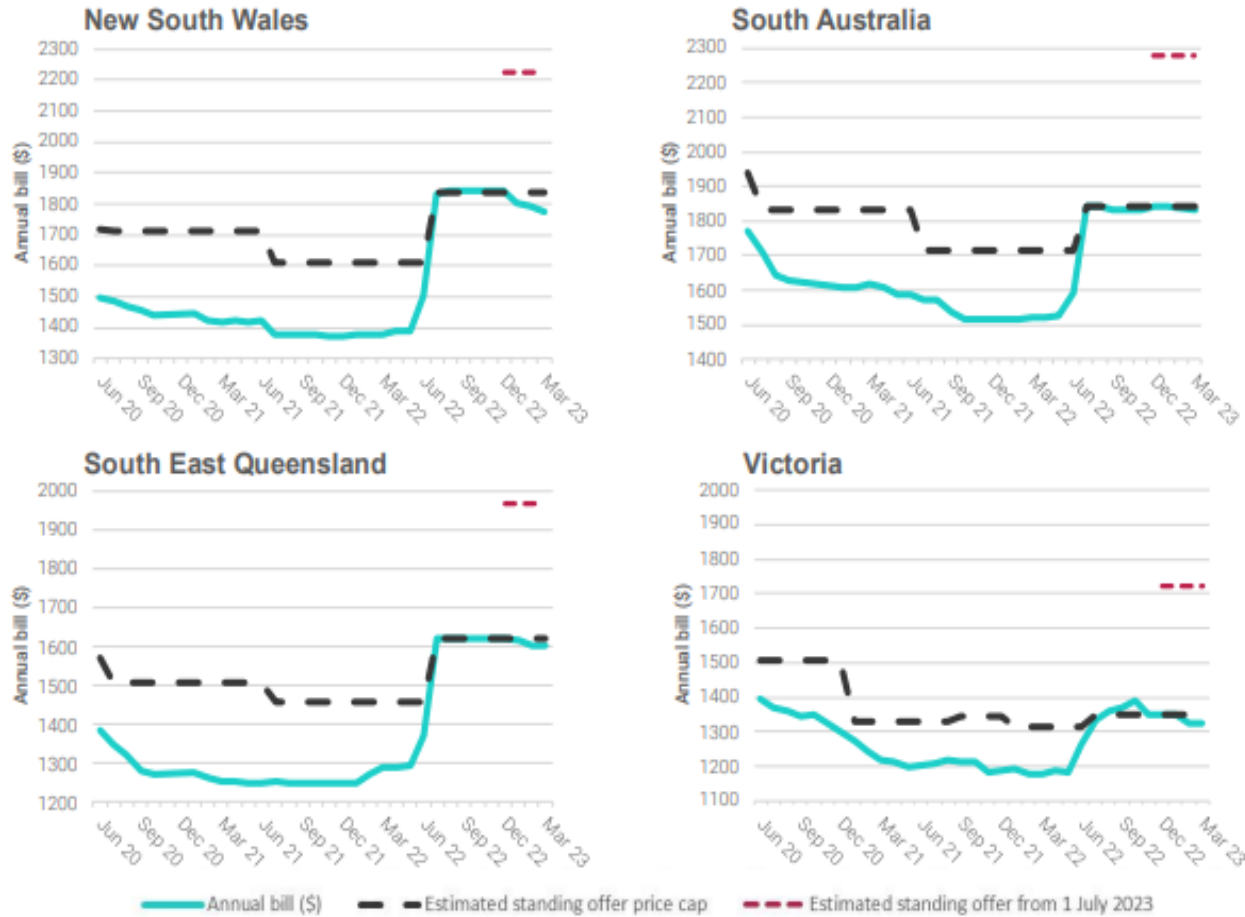
NEM-wide Small Customer Market Share



Source: ACCC Inquiry into the National Electricity market, November 2022 Report

Retailer Discounting

Median Market Offers vs DMO



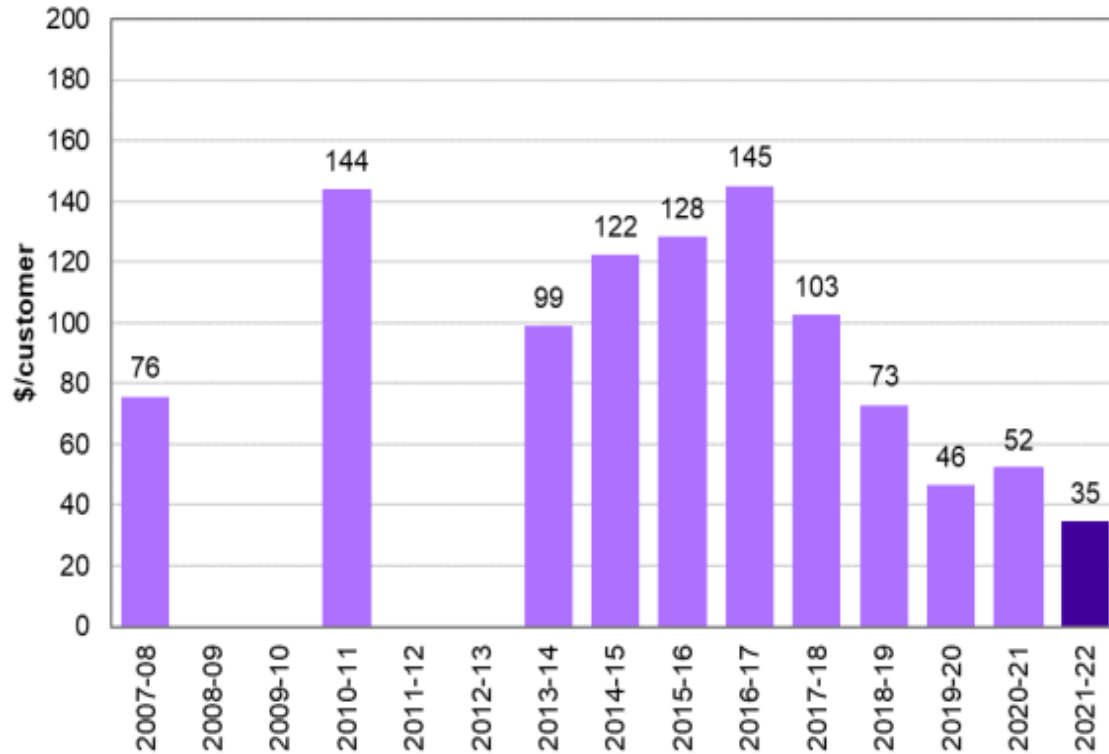
Observations

- Since the introduction of the DMO there has been active competition in price discounting.
- This changed in DMO 4 because of extraordinary conditions in 2022 that increased risks for retailers (and generators).
- These risks are slowly easing. Discounting is starting to rebound. Retailers now more willing to compete than what they were 12-18 months ago.
- Retail price regulation cannot protect customers from price increases driven by market factors.

Source: ACCC Inquiry into the National Electricity market, June 2023 Report

Retailer Margins

Average Retail Margins (EBITDA) per Residential Customer (real \$2021-22)



Observations

- Since the introduction of the DMO retail margins have declined to the lowest levels on record.
- The extraordinary events of DMO 4 have impacted earnings.
- Prevailing observation is that retailers are competing away the competition allowance implicit in the retail allowance.

▪ Source: ACCC Inquiry into the National Electricity market, November 2022 Report

Conclusions

1. There has been increasing market entry since the introduction of the DMO.
2. Increased participant levels have coincided with greater price competition through discounting.
3. Active customers are benefiting through lower market offers.
4. Competition in discounts is competing away the competition allowance evidenced through lower retailer earnings.
5. The evidence infers that the retail allowance of 10% is meeting the DMO objectives of enabling competition and incentivising consumers to engage in the market.
6. Need to think about the risks to competition (discounts and innovations) if the AER departs from this value. This risk is this is a detriment to both customers and retailers.

Thankyou