Customer Consultative Group discussion – Default market offer consultation

Attendees: CCG Chair, CCG members, AER Board members (Jim Cox and Lynne Gallagher) and staff

12.15pm, 2 November 2023

AER staff provided an overview and context for the AER's 2024–25 Default Market Offer (DMO) price determination and sought CCG member views on the recently published issues paper. In particular, they sought views from members on the following components:

- What factors should we consider in our determination, with specific focus on whether to include solar PV system data in our load profiles for DMO 6
- How to change our retail allowance methodology to ensure we give the appropriate weight/balance to the DMO objectives.

Comments from all CCG members

1. <u>What factors should we consider in our determination, with specific focus on whether to include solar PV system data in our load profiles for DMO 6</u>

   - This data should be included. Noting that the DMO price point includes solar in the average, but not in the load profile, this may send the wrong signal to households - Where it is necessary to choose between them, impact should be prioritised, which means that transparency isn't as important as consistency, symmetry and accuracy in treatment and handling of solar.
   - However, there needs to be confidence in the method, particularly where the detail will not be transparent. Therefore, there has to be a transparent explanation of the method and demonstration of why it is capable of providing greater consistency and accuracy. The AER should continually review the methodology as the market is changing rapidly.
   - The AER should consider cost tax of the DMO at various consumption levels, for example, 2000 kWh / 4000 kWh / 8000 kWh to represent solar households, dual fuel, households and all electric households, average consumptions and with these costs at the various consumption levels, highlight how green schemes in particular are allocated based on various consumption. It could furthermore provide insights about how the DMO, which is a price point and how it may as a result inadvertently result in reallocation of various cost by some retailers in particular those who price with an inclining block tariff.
   - Inclining block tariffs – There was concern from CCG that retailers may be structuring their retail tariffs so that customers that consume more than the DMO usage amounts return a higher margin for the retailer. Customers may be charged more for any energy they consume that is above the assumed DMO consumption. The AER should look at retailers' customer profile and generation portfolio and determine whether they're doing that – weighted in particular ways based on profile of customer base. Longer term, the AER should consider how the approach of retailers may undermine the intent of the DMO and what further/future reforms may be required to address this.
   - Members asked how the blended load profile is achieved and requested it be made available publicly for stakeholders, including an explanation of methodology from the

consultant, so that stakeholders may have the transparency to be confident of accuracy.

- Load profiles should include data from the COVID period where there has been an impact on demand, and account for different loads from regional areas.
- A request that the language of the DMO be revisited and referred to as a default reference price vs a safety net as it is currently. CCG members noted a discussion offline is needed on wholesale liquidity in South Australia given SA has one state-wide distribution network but there is considerable variation between areas.

2. <u>How to change our retail allowance methodology to ensure we give the appropriate weight/balance to the DMO objectives.</u>

- Cost of living pressures are significant right now. Given the current landscape, energy affordability for consumers should be the AER's priority and this process should take every opportunity to address affordability in aspects of the DMO decision. Annual approach to 'balancing' objectives must be flexible and responsive to circumstances.
- It is hard to consider the range in 'efficient margins' (noting ACCC's Inquiry into the National Electricity Market - November 2022 report observed margins achieved by top 15 retailers in Australia average at about 2.5% of the bill and the AER's margin has been set at around 10% for residential customers). Members questioned the notion of an excess allowance to pay for the benefits of competition – why should consumers pay more for their energy so they can have the theoretical potential to pay less?
- Noting the ACCC's language in their retail price inquiry report[1] regarding 'unjustifiable margins' members believe there is scope within the objective and remit of the AER to define what is justifiable.
- Members noted it would be good to understand actual margins and current levels – scope to define what is an unjustifiable price. The AER needs to have clear communication of cost of competition – do customers want to pay for the extra cost for competition?.
- Having the retail allowance broken up into separate components (efficient margin and competition allowance) is a more transparent approach. It would provide greater transparency on retailer costs.
- Basing this new methodology on the cost of a new entrant is not the best approach. The cost of market entry will depend on which retail model you base it on, including target segment. Hard to use a generic cost of entry model as a basis.
- We have a pricing market that exists to protect consumers. That is a very different question to incentivising market entrants. Guaranteeing retailers a margin disincentivises competition. This looks like the AER is assuming a perfectly competitive market. The AER should consider what type of market we will be dealing with for DMO 6. An important metric is market concentration – this will help you understand the reality of this assumption.
- Including the cost to operate (e.g. for advertising) plus a competition allowance on top of that is hard to understand. Is this doubling up on these costs? The AER needs to explain this and look into avoiding this duplication.

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[1] https://www.accc.gov.au/retail-electricity-pricing-inquiry-final-report

- There is uncertainty on where retail costs are being allocated and how? Cost allocations on volume vs fixed needs explaining. *Is there an overall volume issue here?*
- There is an impact on particular household types based on consumption. Reallocated costs add other challenges to the market – the AER needs to explore this moving forward (incl. change over time).
- Where is the efficiency incentive for retailers? Look into that as a priority where the current approach to the DMO ensures consumers must pay a premium (ie cost) to retain the prospect of retailers being more efficient and innovative - that is consumers carry the cost and retailers have the benefit, where is the incentive for retailers to actually compete on efficiency?
- It is a good time to look at differences for small business and residential – small businesses are definitely taking brunt of cost rises at the moment, and a great deal of small businesses are now found in a residential location.

CCG members that attended this session include:

COTA Australia
Ethnic Communities' Council of NSW
Financial Counselling Australia
Financial Rights Legal Centre
Mark Henley (individual)
NSW Business Chamber
Public Interest Advocacy Centre
St Vincent de Paul Society
Tasmanian Council of Social Service
Tenants' Union of NSW