SACOSS
South Australian Council of Social Service

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8 November 2023

Gavin Fox
A/General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email: DMO@aer.gov.au

Dear Mr Fox,

RE: Consultation on AER Issues Paper: Default Market Offer Prices 2024-25

The South Australian Council of Social Service (SACOSS) is the peak body for non-government, not-for-profit health and community services in South Australia, with a mission to advocate for the interests of people on low incomes or experiencing disadvantage across the state. We thank the Australian Energy Regulator (the AER) for the opportunity to comment on its *Default Market Offer Prices 2024-25 Issues Paper,* dated October 2023 (the Issues Paper). SACOSS also refers the AER to the Public Interest Advocacy Centre's (PIAC's) submission to the Issues Paper, to which SACOSS is a signatory.

The Issues Paper is seeking feedback on refinements for the 2024-25 Default Market Offer (DMO 6), including whether:[1]

- *the approach to retail allowances remains appropriate*
- *to change the AER's approach to the customer load profile which is used to model wholesale costs as the uptake of advanced meters and installation of solar PV systems continues*
- *the AER should continue collecting confidential hedge contract data from all retailers and generators to assess that the publicly-available data remains a reasonable reflection of this component of wholesale costs*
- *a different wholesale forecasting method is required for South Australia given the currently limited (and decreasing) hedge contract liquidity levels in South Australia*
- *to change the AER's methodology for calculating bad and doubtful debts for all customers and the retail operating cost calculations for small businesses.*

SACOSS acknowledges the issues raised by the AER for DMO 6, particularly in relation to the specific energy market challenges and additional costs facing South Australian households,

[1] Australian Energy Regulator, *Default Market Offer Prices 2024-25 Issues Paper*, October 2023, p. 2

but we wish to once again repeat our broader call for the DMO to operate as an efficient and fair price all consumers can default to when no other choice is made, or can be made. [2]

Summary of submissions

In summary, SACOSS' submissions on the Issues Paper urge the AER to:

- support our joint call for Energy Ministers to include an equity stream in the Energy Transformation partnership, including reforming the DMO to ensure its primary objective is to operate as a fair and efficient offer for all residential and small business energy consumers in DMO jurisdictions
- in the absence of DMO reform, take into consideration issues of fairness, efficiency and prudency when performing its functions under the current DMO Regulations - this is particularly important in light of the ongoing volatile market conditions and expected future costs to consumers associated with the energy transition
- ensure the current energy affordability crisis in South Australia forms a 'relevant consideration' in its determination of DMO 6[3]
- ensure all its decision-making has energy affordability as a primary consideration[4]
- allocate greater weight to the DMO objective of 'providing protection to consumers' when establishing DMO 6
- conduct a 'vulnerability impact assessment' of the DMO 6 determination, ensuring the AER gives 'regard to the impact on, or creation of, experiences of vulnerability from regulatory decision making', in accordance with Action 12 of the *Towards Energy Equity – a Strategy for an inclusive Energy Market*[5]
- scrutinise retail practices on the basis of what a 'prudent retailer' would do - tests for prudency and efficiency are central to the energy system and to ensuring consumers pay no more than is necessary for each component of the service
- review the wholesale forecasting methodology for South Australia and obtain the most relevant data and information the AER can, in order to determine a reasonable and prudent wholesale price in South Australia, and to consider more broadly how we can make the system fairer for South Australian energy consumers, including through identifying market failures and establishing a fair and efficient DMO
- access more accurate consumption data (even if lacking in transparency)
- impose requirements on distributors to publicly report on consumption data
- ensure all retail costs are justified and efficient
- ensure smart meter costs are excluded from retail cost calculations, unless there is greater transparency around how retailers are incurring and recovering those costs
- introduce independent assurance requirements for metering costs and consider a regulated schedule of efficient metering costs and cost recovery methods

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[2] SACOSS, Submission to the AER on its Default Market Offer 2023-24 Issues Paper, 5 December 2022

[3] The AER is required to have regard to 'any other matter the AER considers relevant' when setting the DMO in accordance with Regulation 16(4) of the *Competition and Consumer (Industry Code- Electricity Retail) Regulations 2019*

[4] Secretary to the Treasury Speech, 8 November 2022 https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-4

[5] AER, *Towards Energy Equity – a Strategy for an Inclusive Energy Market*, October 2022, p.34

- ensure the retail allowance is calculated as a percentage of the retail cost to serve only (removing CARC and profit), rather than the entire cost stack. If retained, maintain or reduce the current 6% retail allowance for South Australian residential consumers under DMO 6
- align the residential and small business retail allowance under DMO 6, but only on the basis that the 15% currently imposed on small businesses in South Australia is reduced to reflect the 6% (or lower) retail allowance applied to the DMO for residential customers
- consider the particular circumstances of smart meter Time of Use customers in South Australia (32% of South Australian customers) in the DMO 6 Determination.[6]

A fair and efficient DMO

Electricity is essential to life and it is vital that all consumers, particularly people on low-incomes or experiencing disadvantage, are able to access a fair and efficient price for this essential service. With this core principle in mind, SACOSS strongly supports the development and application of effective, regulated price protections in the National Electricity Market.

The current cost of living and energy affordability crisis is placing unsustainable pressures on South Australian households and small businesses. As previously submitted to the AER, we strongly believe Default Market Offer (DMO) determinations must have the overarching objective of ensuring South Australian energy consumers are protected from unjustifiable, unfair and unreasonable energy costs, both now and into the future.

We remain deeply concerned about the increasing inequity in the distribution of electricity costs across all elements of the price stack. Non-transparent retail trading practices and risk management strategies, as well as an increasingly volatile wholesale market and the future costs of the energy transition (including forecast network expenditure and metering costs), all combine to place additional and increasing cost and risk burdens on consumers. Low-income households, renters and others unable to reduce grid consumption through access to distributed energy resources, disproportionately bear the burden of these costs. The role of an independent regulator in establishing a fair and efficient price for electricity cannot be overstated in the context of current energy market failures and future uncertainties. Consumers are relying on the AER to refrain from reflecting and incorporating the inefficiencies of the current market within the DMO, and to proactively establish prudent and efficient parameters for industry behaviour and investment, in order to ensure equitable outcomes in a transforming system. The AER is uniquely placed to access information and expertise, and to use its functions and powers to ensure consumers are protected from unreasonable and unfair electricity prices, both now and into the future.

Led by ACOSS and together with other organisations, the Councils of Social Service across Australia have jointly signed onto a letter to the Energy Ministers seeking the inclusion of an Energy Equity and Inclusion workstream in the National Energy Transformation Partnership. We have **attached** a copy of the letter sent to South Australia's Energy Minister the Hon

[6] See SACOSS, Submission to the AEMC on the Review of Regulatory arrangements for metering, 9 February 2023, p.12

Tom Koutsantonis MP, dated 1 November 2023. The letter highlights the inadequacy of a DMO that unfairly burdens consumers with unreasonable wholesale costs and retail costs that are not reflective on an efficient cost to serve. The letter calls on the Energy Ministers to pursue reforms, including to:

> *Retail price regulation to ensure people can expect a fair deal that meets their needs. This should include a requirement for retailers to offer an efficient, flat tariff default offer, ensuring other energy offers are simple, transparent and easy to compare, and a guaranteed genuine consumer choice of retail tariff. Better regulatory oversight is needed to ensure these measures are delivered along with greater penalties for retailer breaches.*

Whilst SACOSS strongly supports the development of clear statutory objectives around fairness and efficiency to guide DMO determinations, as previously submitted, we believe the current regulatory framework does not preclude the AER from ensuring DMO 6 is a fair and efficient offer, reflecting prudent industry behaviour.

In performing all its functions, the AER is guided by the National Electricity Objectives:[7]

> *to promote **efficient investment in, and efficient operation and use of, electricity services** for the long term interests of consumers of electricity with respect to —*
> *(a) price, quality, safety, reliability and security of supply of electricity;*
> *and*
> *(b) the reliability, safety and security of the national electricity system; and*
> *(c) the achievement of targets set by a participating jurisdiction —*
> > *(i) for reducing Australia's greenhouse gas emissions; or*
> > *(ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.*

The Australian Energy Market Commission has explained that:[8]

> *Efficiency is a vital consideration in our work as all three national energy objectives require efficient investment in, and operation and use of, **each component of the service**.*

Economic efficiency underpins the objective of achieving the long-term interest of consumers. Previous DMO determinations aimed at achieving efficiency through promoting retail competition have arguably failed to meet the NEO. SACOSS considers that, as part of determining a regulated price, the AER needs to independently scrutinise retailer costs and contracting behaviours to ensure the industry is operating prudently and efficiently, so consumers pay no more than is necessary for wholesale and retail electricity costs (reflecting an efficient cost to serve). We also consider super-normal network profits

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[7] Section 7 of the National Electricity Law, see also the National Energy Retail Objective (section 13 of the National Energy Retail Law) and the National Gas Objective (section 23 of the National gas Law).

[8] AEMC, Guide to AEMC Decision making, September 2023, p. 5

(network profits exceeding allowed regulated profits) should be removed from DMO calculations.[9]

The DMO Regulations give the AER statutory responsibility for determining 'a ***reasonable per-customer annual price*** *for supplying electricity'* in a certain region to small customers.[10] When setting the DMO, the Regulations require the AER to have regard to certain matters, including (SACOSS' emphasis):[11]

- the prices electricity retailers charge for supplying electricity in the region to that type of small customer
- the principle that an electricity retailer should be able to make a **reasonable profit** in relation to supplying electricity in the region
- the following costs:
    - the wholesale cost of electricity in the region
    - the cost of distributing and transmitting electricity in the region
    - the cost of complying with the laws of the Commonwealth and the relevant State or Territory in relation to supplying electricity in the region
    - if relevant to the region—the cost of acquiring and retaining small customers
    - the cost of serving small customers
- **any other matter the AER considers relevant**

The Cambridge Dictionary defines 'Reasonable' to mean '*based on or using good judgment and therefore fair and practical*'.[12] SACOSS would argue the concept of fairness is inextricably linked with the concept of reasonableness; an unreasonable market offer, would also be unfair, and an unreasonable retail profit would equally be unfair. In considering what is a 'reasonable per-customer annual price', SACOSS submits the AER is not precluded from considering what would be a fair price.

We also submit the current energy affordability crisis in South Australia and record energy company profits[13] should form relevant considerations in the AER's DMO 6 determination.

Energy affordability crisis in South Australia

AER's most recent Retail Performance data from Q3 2022-23 shows increasing numbers of customers repaying energy debt, and high debt levels across all indicators, clearly demonstrating an energy affordability crisis in South Australia:

- the number of customers repaying energy debt has increased from 22,331 in Q1 2022-23 to 27,561 in Q3 2022-23 (an increase of 23.4% in 6 months). This is slightly

[9] SACOSS, Submission to the AER's DMO 5 Draft Determination, ##

[10] In accordance with the per customer amount of electricity supplied, and the timing or pattern of supply, see Regulation 16(1)(a) and 16(1)(b) of the *Competition and Consumer (Industry Code- Electricity Retail) Regulations 2019*

[11] Regulation 16(4) of the *Competition and Consumer (Industry Code- Electricity Retail) Regulations 2019*

[12] Online Cambridge Dictionary, 'reasonable' definition

[13] SBS, Origin Energy reports $1 billion profit amid cost of living crisis, 17 August 2023

above the 22.4% increase in the number of customers repaying energy debt seen Nationally from Q1 2022-23 to Q3 2022-23 (increasing from 154,300 to 188,969).

- South Australia has the largest average residential energy debt (of customers not in a hardship program) in the NEM. The average debt of residential customers in SA is now $1,227, $228 above the National average. This represents an increase of $183 in the average amount of residential energy debt in SA from 2018/19 (pre-pandemic) levels.
- Average debt on entry into hardship programs in Q3 2022-23 was $1,727 (highest after Tasmania), and $471 above the national average of $1,256. However, the average debt on entry to hardship programs in SA has reduced by $610 from $2,337 in the 12 months since Q3 2021-22, which may point to retailers being more proactive in providing hardship supports in this state.
- Average debt of hardship customers has increased significantly from pre-pandemic levels - in Q3 2022-23 the average debt of a SA hardship customer was $2,535 – the highest in the Nation (overtaking Tasmania), up $672 from $1,863 in 2018-19, and $664 above the national average of $1,871. Average debt of hardship customers has increased by 7.2% in 12 months since Q3 2021-22 up from $2,364 to $2,535.
- 2,965 customers were disconnected for non-payment in SA over the 12months to Q3 2022-23, this is still well below pre-pandemic levels of 10,317 (or 1.33%) of customers disconnected in 2018-19. SA was above the National average of customers disconnected in 2021-22 (.56% as compared to .43% of customers).
- The number of customers on payment plans in SA increased by 276 in three months, from 15,473 or 1.9% of customer in Q2 2022-23, to 15,749 or 2.0% of customers in Q3 2022-23, but is still well below pre-pandemic levels (down from 2.7% of customers in 2017/18).
- Hardship customer numbers in SA increased by 453 (or 3%) in three months from 15,749 in Q2 2022-23 to 16,202 in Q3 2022-23, just slightly above pre-pandemic levels of 15,933 (or 2.05% of customers) in 2018-19.
- In total, the percentage of smart meter customers in SA on a time of use or flexible tariff, with an underlying distributor-based time of use or flexible network tariff, has increased from 52.3% 12 months ago, to 79.9% in Q3 2022-23.

The pressure to provide supports for people who are struggling to meet rising costs of living and energy costs is being felt across the community services sector, with calls to the National Debt Helpline in South Australia increasing by 25% in the past 12 months. Uniting Communities has also seen a 12.5% increase in the number of people seeking Emergency Assistance services between June – August 2023. Notably, 45% of people seeking emergency assistance were new clients to the service, 74% of emergency assistance requests were for food, and there was a 10% increase in the number of people reporting they were homeless.

Between January and June 2023, 49% of people engaging with Uniting Communities Financial Inclusion program were seeking assistance with the cost of utilities and essential services – an 18% increase on the previous year. Uniting Communities have identified a notable shift in the proportion of clients seeking assistance with their financial well-being that either own or are paying off a mortgage - in 2022, only 5.3% of clients reported owning or paying off a mortgage, but in 2023 this percentage has increased to 16%.

Recent broad surveys show 53% of respondents were extremely concerned about electricity bills,[14] this pressure is reflected in Uniting Communities' feedback on the strategies South Australian households are using to try and manage their expenses, including:

- families sleeping in one room when cold
- going to bed fully clothed
- reducing showers and turning off hot water services
- rarely inviting friends or family to avoid cooking/heating expenses
- going without nutritious food, medicines, or selling possessions to pay bills
- putting themselves in danger through using inappropriate heating sources – e.g., ovens, bringing outdoor heaters inside
- going without meals frequently.

In March 2023, St Vincent de Paul Society had seen demand for services in South Australia continue to climb by up to 40% compared to 2022. South Australian CEO Evelyn O'Loughlin said:[15]

> *'Inflation, rental increases, the cost-of-living crisis, and a lack of affordable housing are just some of the factors that are pushing more and more people to the brink of homelessness… We are hearing from people who have never had to reach out to a charity for help before, and who don't fit society's view of who would typically become homeless. People in employment and younger people who simply can't make ends meet are an emerging group requiring our help. A 10% increase in the number of women experiencing homelessness is also very alarming.'*

Small businesses are also facing extreme pressures, with a recent Business SA survey for the June Quarter 2023 showing nearly two thirds of businesses (65.7%) cited the 'cost of doing business' as their biggest concern. High energy costs have contributed to the soaring cost of business overheads in the three months to June, with one respondent saying the cost of energy 'greatly reduces the profitability and viability of the business', and their current plan is to close the business down in 2024/25.[16]

The AER's purpose, as established in its Strategic Plan 2020-2025 is to 'make energy consumers better off, now and into the future', with its primary objective to 'protect vulnerable consumers, while enabling consumers to participate in energy markets'.[17]
The AER is also guided by the NEO (including the underpinning considerations of efficiency in all its functions), and the DMO Regulations require the AER to determine what is a reasonable, or fair, price. SACOSS therefore submits the AER is not precluded from considerations of fairness or efficiency in performing its function under the DMO Regulations, and the current energy affordability crisis should form a 'relevant

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[14] SEC Newgate Australia, Mood of the Nation, August 2023

[15] St Vincent de Paul Society SA, New census figures estimating growth in homelessness no surprise, 22 March 2023

[16] Business SA, June Quarter 2023 – Survey of Business expectations, p.24

[17] AER, Strategic Plan 2020-2025, p.5

consideration' in the AER's determination of DMO 6. Ensuring all cost inputs are based on prudent industry behaviour and decision-making is an essential component of ensuring those costs are reasonable. The current market may be operating imprudently and unreasonably, and if so, these unjustifiable costs should not be reflected in the DMO. This approach would align with the AER's stated purpose and objectives.

In terms of impact on competition, we refer to our previous submissions comparing the impact of the Victorian Default Offer with the DMO,[18] and also note the median market offers increased as at July 1 in line with price increase under DMO 5, but minimum offers increased later and still remain well below DMO 5. We also note that South Australian smart meter customers (around 41% of South Australian households) have been largely been transferred to time-of-use tariffs by retailers with no choice of a flat rate tariff, removing consumer choice from the market.[19] Any consideration of impacts on competition should look to what the reality is for South Australian households under current market conditions.

Wholesale methodology

SACOSS has previously highlighted the stark disparity between the low wholesale spot prices in South Australia and the high wholesale costs paid by consumers.[20] DMO 5 saw South Australian households experience a 68% increase in the wholesale cost component of the DMO,[21] with wholesale costs now representing 44% of the price stack.

The liquidity of the South Australian market for 'on-demand' electricity has been the subject of a South Australian Productivity Commission Inquiry,[22] and analysis by the University of Wollongong.[23] It is clear the high penetration of rooftop solar and the operation of the wholesale market in South Australia is not benefitting consumers through lower energy bills. Whilst AEMO predicts that greater orchestration of generation over the next 10 years will lead to reduced wholesale costs for consumers, SACOSS remains deeply concerned about the energy cost impacts on households, both now and into the future. We are particularly concerned about low-income households, renters and consumers in vulnerable circumstances who face barriers to accessing renewable technology and are shouldering the burden of the costs of the system through higher average grid consumption, without any ability to source energy from behind the meter during the day.

The high penetration of rooftop solar, lower and peakier demand is demonstrably impacting the cost of electricity for low income households in this state. SACOSS supports the AER having access to increased information around demand and contracting practices of

[18] SACOSS, Submission to the AER on the DMO Issues Paper 2023-24, pp. 4-6

[19] SACOSS, Submission to the AEMC on the Review of Regulatory arrangements for metering, 9 February 2023, p.12

[20] SACOSS, Submission to the AER on the DMO Issues Paper 2023-24, p. 8

[21] AER, Default Market Offer Prices 2023-24 Final Determination, p. 27

[22] South Australian Productivity Commission, Inquiry into South Australia's renewable energy competitiveness: Final Report, 10 August 2022 (published 9 November 2022), p. 7

[23] University of Wollongong, Analysis of historical wholesale electricity spot price volatility in South Australia and their projections in 2030 and 2040, April 2022.

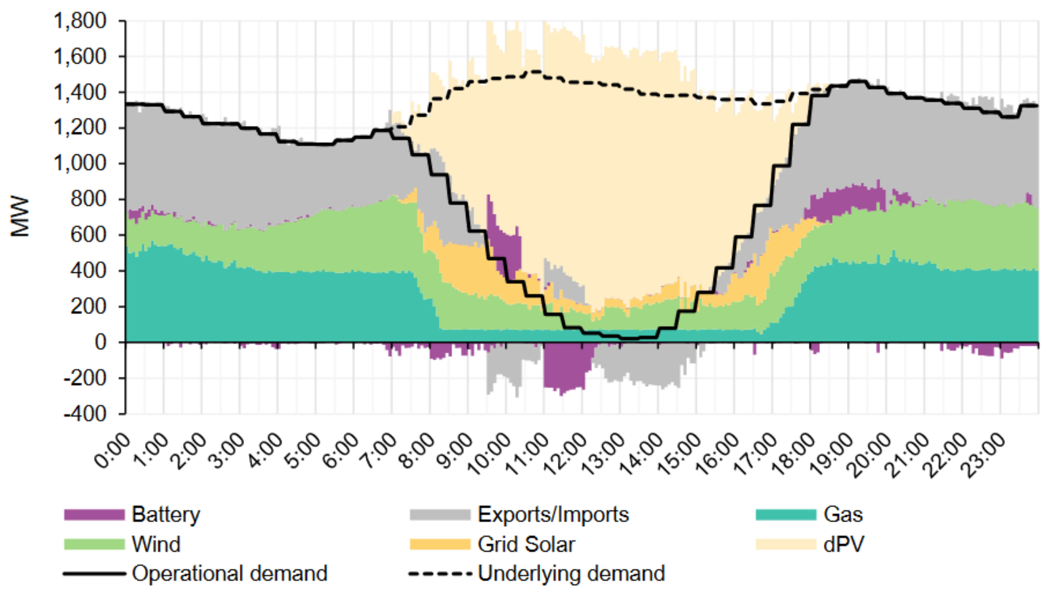
retailers, but we want to see governments and market bodies publicly identifying the inequitable impacts of a changing system, and work towards identifying a long-term solution. As outlined above, South Australian consumers are struggling now, and cannot afford to wait 10 years for more affordable energy, especially given future costs associated with the ISP, increasing interest rates and metering costs.

The issues identified by the AER in relation to wholesale costs in South Australia are set out below. We note that as more households (who can afford to) install rooftop solar to lessen the impact of increasing energy costs, these issues are likely to worsen for South Australian households who remain reliant on grid energy. We expect those energy consumers who can least afford it will unfairly and disproportionately carry the risk and cost burden of the transition.

It is worth noting AEMO's Energy Dynamics Report for Q3 shows that South Australia's minimum operational demand hit an all-time low in September 2023. On 16 September 2023, it was 21 MW, when distributed PV output represented 98.5% of underlying demand.[24]

Figure 9 South Australia hit an all-time minimum operational demand of 21 MW

South Australia demand (line) and generation by fuel type – 16 September 2023



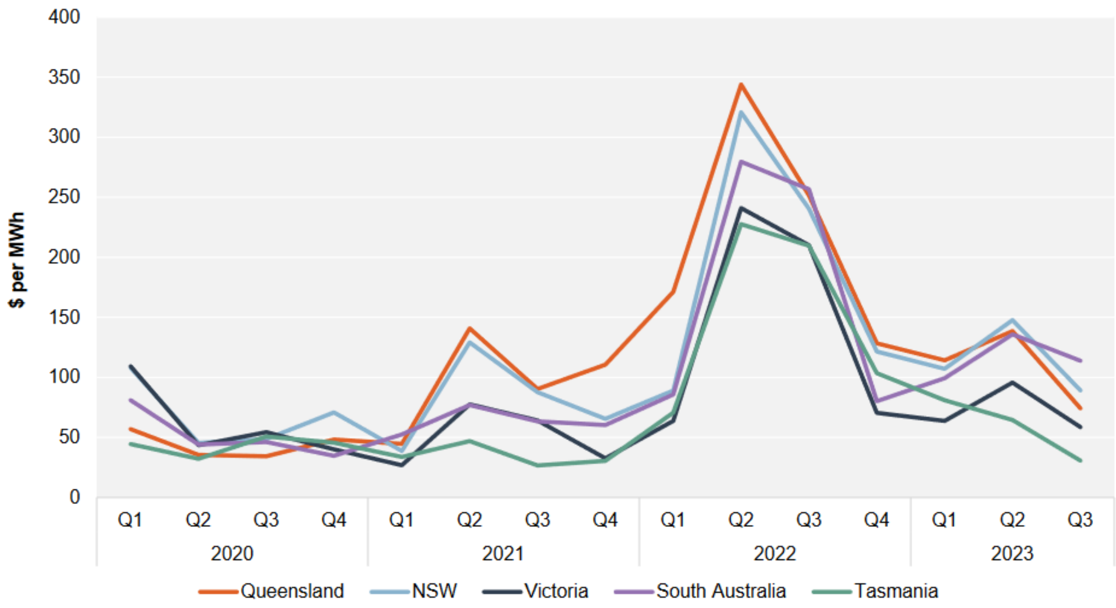
On 27 October 2023, it was reported that the cumulative price in South Australia had turned negative, a sign of prolonged low and negative pricing.[25] Despite (or maybe because of) low and negative pricing, the AER's Q3 Wholesale Markets Report showed South Australia has the highest average wholesale prices in the NEM, with average NEM prices in Q3 2023 ranging from $31 per MWh in Tasmania to $114 per MWh in South Australia (Figure below).[26]

[24] AEMO, Quarterly Energy Dynamics Q3 2023, October 2023

[25] Watt Clarity, 27 October 2023

[26] AER, Q3 2023 Wholesale Markets Quarterly Report, October 2023, p. 4

Figure 1 Average quarterly prices in the NEM



Note: This chart illustrates volume weighted average quarterly prices, meaning prices are weighted against native demand in each region. The AER defines native demand as the sum of initial supply and total intermittent generation in a region.
Source: AER analysis using NEM data.

In contrast to the other states, South Australian Q3 prices were well above typical levels for that time of year. The AER states that South Australian prices were, in part, higher than other regions due to high price events (South Australian 30-minute prices exceeded $5,000 per MWh 8 times during Q3).[27] As discussed in further detail below, we are calling on the AER to ensure, through its DMO 6 Determination, that South Australian households are not facing unjustifiable costs as a result of retailers' overly cautious and opaque risk approach.

Load Profile assumptions

Question 1: What approach should we take towards estimating load profiles? Should we retain profiles based on the NSLP and CLP, create blended profiles using the NSLP/CLP and advanced meter data, or take another approach towards estimating load profiles? Which is most reflective of a reasonable retailer's approach?

Question 2: Is the lack of transparency of AEMO's advanced meter data a major issue for stakeholders? What information could we provide stakeholders to address issues with transparency of data?

Question 3: How should we consider the impact of solar PV exports in advanced meter data when estimating load profiles?

Question 4: Should the AER determine separate load profiles for residential and small business customers? Is this reflective of a prudent retailer's approach?

In relation to load profile assumptions, the AER has raised the following issues:

[27] AER, Q3 2023 Wholesale Markets Quarterly Report, October 2023, p. 4

- The consumption profile of rooftop solar customers has been excluded from previous DMO load profile assumptions.
- Including the 'carve out' of demand in the blended profile will likely result in a higher cost component of the DMO due to increased use of more expensive 'cap contracts' by retailers.
- There is an increased risk that retailers 'over-hedge' to avoid the price impact of potential high demand periods that don't eventuate.
- AEMO's advanced metering data on is not able to distinguish between consumption and export.
- A blended load profile that includes smart meter data would more accurately represent a load that a prudent retailer would hedge.

Firstly, SACOSS welcomes the AER looking to scrutinise retail practices on the basis of what a 'prudent retailer' would do. Tests for prudency and efficiency are central to the energy system and to ensuring consumers pay no more than is necessary for each component of the service (as discussed in relation to the NEO, above).

SACOSS also supports the AER having access to more accurate consumption data. We support the regulator having all relevant information needed to make assessments of reasonableness and prudency in retailer behaviour, to ensure all costs are justified. We consider accuracy is more important than consumers having complete transparency of these matters.

That said, more accurate and publicly available consumption data is needed. SACOSS opposed the removal of the Rule requiring distributors to provide information for the development of consumption benchmarks,[28] and we have also called for distributors to be required to publicly report on energy consumption data under amendments to the AER's *Retail Performance Monitoring and Reporting Guidelines*.[29] SACOSS strongly considers more data is required around consumption, not just to feed into load profile assumptions, but also to gain a clearer picture of the disparity between solar households' grid consumption, and the grid consumption of those households who are unable to access solar PV. We know households that consume more energy from the grid pay disproportionately more for network costs, and this inequitable distribution of costs is likely to worsen throughout the transition (particularly in light of increased transmission expenditure). Distributional analysis of household grid consumption based on network data is a necessary input into policy-making to ensure an equitable transition.

We have also previously called for a more accurate assessment of 'average annual usage' in DMO determinations. We know the high penetration of rooftop solar in South Australia impacts calculations of the 'average' annual household usage. The much higher usage of hardship households noted by the AER shows that hardship households in SA use 73% more energy than the average SA households (7,830 kWh average annual hardship household usage, compared to 4,526 kWh for average households). Which means energy is more unaffordable for hardship households in SA, at around 8% of disposable income. The AER

[28] SACOSS, Submission to the AEMC on Consumption Benchmarks Rule Change, 20 July 2023

[29] SCOSS, Submission to the AER on the Retail Performance and Monitoring Guidelines, 7 August 2023, p. 9

has indicated this increased usage may be explained by those households being less likely to have access to roof top solar.

Whilst we support more accurate data, we remain concerned about any flagged increases in wholesale costs as a result of improved accuracy of load profile assumptions, and we urge the AER to hold as a central consideration the reasonableness and prudency of retailers' hedging practices. We also urge the AER to consider more broadly how we can make the system fairer for South Australian energy consumers, including through identifying market failures and establishing a fair and efficient DMO.

Use of Confidential contract information

Question 6: What additional data should we consider when assessing contract pricing for DMO 6, given the lack of liquidity in South Australia remains?

Question 7: In the absence of sufficient exchange traded South Australian contract data, what other methodologies could the AER investigate to determine the wholesale cost in South Australia? Would consideration of a retailer holding Victorian futures contracts with SRAs be reflective of the practice of a reasonable retailer? How would we model this?

The AER has identified the following issues in relation to the contracting practices of retailers in South Australia:

- ASX trade data is not reflective of a prudent retailer's hedging costs
- South Australia continues to experience low volumes of trading (the lowest in a decade) and this is continuing to decline significantly
- The more expensive cap contracts are now the most traded contract type in South Australia, with base future contracts for the 2024-25 year scarcely traded (the volume of base futures is 71% lower for DMO 6 period than for DMO 5).
- Open interest in South Australian base futures is continuing to decline and liquidity is worsening.

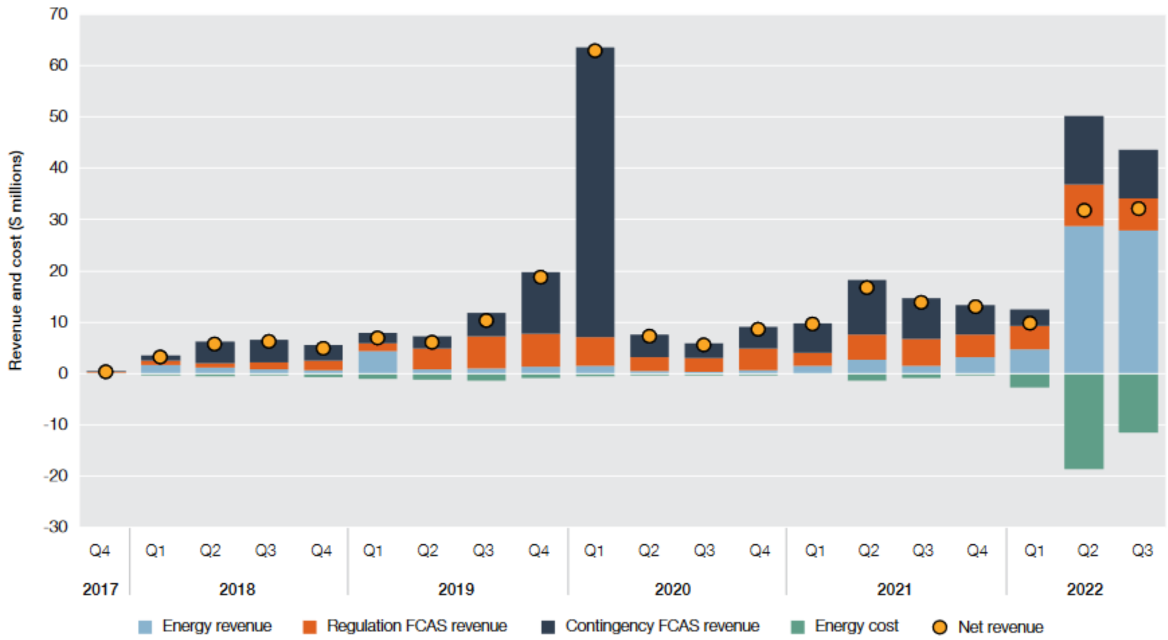
SACOSS is extremely concerned about retailers' hedging practices and the impacts of increasing wholesale costs on South Australian households. Once again, SACOSS supports the AER determining what a prudent retailer would do, and we urge the AER to make a DMO determination based on prudency and efficiency, that does not reflect or incorporate 'over-hedging' practices in South Australia. It is important to remember that consumers (and disproportionately low-income consumers) bear all of the costs and the risks across all components of the energy market, and it is vital there is clarity and transparency around retailer's practices to ensure consumers are paying no more than is necessary, and only what is justifiable. If the market is failing South Australian energy consumers, then this should be acknowledged and addressed through the DMO.

SACOSS strongly supports robust regulation and tests of prudency, and is seeking assurances from the AER that the energy market is not being manipulated by vertically integrated retailers and non-market participants, to the detriment of South Australian households. As previously submitted to DMO 5:

SACOSS overwhelmingly supports greater transparency around the energy wholesale market practices of retailers and other participants. The current wholesale electricity trading practices of retailers and vertically integrated retailers through the use of futures and OTC trades remains completely opaque. We strongly support the AER having greater visibility of these transactions by obtaining confidential contract information from market participants in South Australia, as well as options and risk management strategies to add into the book build process. SACOSS considers all this information should be before the Regulator, and we accept commercial confidentiality issues may result in less transparency from a consumer's perspective. On balance, SACOSS considers it is more important for the Regulator to have visibility of confidential contract information in setting the DMO, than for consumers to have complete transparency of these matters.

In terms of looking to what additional data the AER should consider when assessing contract pricing for DMO 6 (given the lack of liquidity in South Australia), SACOSS suggests it may be useful to look to the increasing energy revenue from batteries and how this might impact inputs into wholesale cost calculations.[30]

Figure 9.10 Estimated battery spot revenue and cost



Note: The revenue calculation for FCAS uses the reserve target for calculation, while the revenue for the spot energy market is only an estimation, based on target values, because we do not know the actual energy generation and consumption for batteries in the spot market alone. There is no battery data before Q4 2017 as the first grid-sized battery started operation in November 2017.

Source: AER analysis of NEM data.

The potential for high revenues from battery in the energy market may be attractive for investors, potentially leading to new entrants and increasing competition. However, if investors feel these revenues are temporary, they may not provide the incentive needed for new entry. We will continue to monitor whether the recent changes to long-term battery revenue trends continue.

[30] AER's Wholesale Electricity Market Report Dec 2022, p120 – 121.

SACOSS is unable to provide input into alternative methodologies or modelling practices to determine the wholesale cost in South Australia. We repeat our submissions made throughout this document that the AER should be guided in all its decision-making by the considerations of efficiency underpinning the NEO, the requirement that costs are reasonable and justified under the DMO Regulations, that the practices of retailers are prudent, and energy consumers are better off (now and into the future) under DMO 6. South Australian households, particularly those in vulnerable circumstances, should not be required to unfairly pay for overly cautious risk approaches and opaque strategies.

Retail costs

SACOSS repeats our submissions made previously on retail allowances, and also supports and echoes the submissions made by PIAC on retail costs in response to this Issues Paper.

Metering costs

Question 10: Is the method for cost recovery of advanced metering costs appropriate for DMO 6 and/or future DMO decisions? If not, what alternative methods should the AER investigate to recover the cost of advanced meters?

Question 11: Should the AER project advanced meter installations instead of using historic data in future DMO decisions?

Question 12: What operational or cash flow considerations should the AER consider in determining the cost recovery of advanced metering costs? How do these considerations differ between large and small retailers?

Question 13: What operational and capital expenditure advanced metering costs should the AER include in the costs recovered by retailers? Should these costs be subject to independent audit or review?

SACOSS is extremely concerned about the lack of transparency around metering costs and metering cost recovery, especially in light of the accelerated smart meter roll-out to commence in July 2025. SACOSS agrees with PIAC that smart meter costs should not be explicitly included in retail cost calculations, unless there is greater transparency around how retailers are incurring and recovering those costs.

Metering is essential infrastructure, and we are urging the AER to undertake robust independent scrutiny for prudency and efficiency of both operational and capital expenditure costs associated with metering (as is undertaken in the regulation of network metering expenditure). Metering costs should be realistic, prudent and efficient, and retailers should not be allowed to recover more than is necessary for the delivery of metering services. Consumers should be assured that retailers are not over-recovering, or recovering costs multiple times through various avenues.

We support independent assurance requirements, and like PIAC, consider a regulated schedule of efficient metering costs, and cost recovery methods would assist with transparency and fairness in cost recovery.

Retail allowance

> **Question 14:** Are there methodological changes that would allow us to better balance the objectives in the retail allowance?
>
> **Question 15:** Should the retail allowance be a fixed dollar amount, and if so, why?
>
> **Question 16:** Alternatively, should the retail allowance be cast as separate components of efficient margin (percentage based) and additional competition allowance? How would these be calculated?
>
> **Question 17:** What components are missing from the retail allowance and why?

SACOSS supports PIAC's submissions in relation to retail margins and allowances.

If retained, we strongly agree with the recommendation that the retail allowance should be calculated as a percentage of the retail cost to serve only (removing CARC and profit), rather than the entire cost stack. This is particularly relevant for South Australia where we are seeing burgeoning wholesale costs and expect to see increased network costs due to higher interest rates and the impact of the ISP. As noted in the AER's Issues Paper for DMO 5, calculating a retail allowance as a percentage of the price stack 'means that increases in input costs such as wholesale costs and network costs result in a larger retail allowance in absolute terms' placing an even greater price burden on consumers. Consumers are already paying for risk across all expenditure categories, and should not be required to pay an additional return on retailer risk.

We repeat our previous submission strongly opposing the retail allowance glidepath and our support for the AER maintaining the retail allowance at 6% for South Australian residential consumers in DMO 5. We do note that even with the halt in the glidepath for DMO 5, South Australian residential households still faced the largest percentage increase in retail allowance of all DMO jurisdictions, at 16.8%, with small businesses facing a 28.9% increase on the DMO 4 retail allowance.[31]

We also note the AER's summary of margins determined by other economic regulators, ranging from 5% to 5.3%, with the Queensland Competition Authority including a 3.9% margin in its most recent price decision. Further, as outlined in the Issues Paper, the margins for NEM wide retailers had decreased from 8.9% in 2016-17 to 2.5% of total cost in 2021-22.[32]

In the context of the current energy affordability crisis in South Australia, as well as increasing wholesale costs and likely increases to network costs as a result of increasing interest rates, SACOSS strongly opposes any proposed increase in the 6% retail allowance component. We would support a reduction in this percentage to more closely reflect the decisions of other economic regulators.

[31] AER, Default Market Offer Prices Final Determination 2023-24, p. 44

[32] P. 22

Question 18: Should the retail allowance differ for residential and small business consumers? If so, what risk or cost factors drive this difference and how should this be calculated?

Importantly, SACOSS strongly supports an alignment between the residential and small business retail allowance under DMO 6, but only on the basis that the 15% currently imposed on small businesses in South Australia is reduced to reflect the 6% (or lower) retail allowance applied to residential customers. We would strongly oppose residential customers facing a 15% retail allowance on DMO prices. SACOSS does not consider there is any justification for small businesses to face a significantly higher retail allowance, particularly given the devastating impacts of increasing energy costs on the viability of small businesses, and the higher percentage of standing offer small business customers in South Australia as compared to standing offer residential customers (15.8% as compared to 7.6%).

Environmental costs

SACOSS considers energy consumers should not be required to pay for the cost of retailers' compliance with environmental schemes or the cost of jurisdictional green schemes in energy bills. Energy costs are regressive, with low-income households paying a larger proportion of their income on energy as compared to average income households. Including the cost of these schemes in energy bills has inequitable impacts.

Further, if the costs of the RET scheme are fully recovered from consumers, there is no incentive for industry to change its behaviour by procuring more electricity from renewable sources, or improving customer energy efficiency. Also, it is arguable that premium feed-in-tariff schemes are no longer required to incentivise the uptake of solar PV in South Australia, and low-income households and renters locked out from accessing solar should not disproportionately bear the cost of these schemes. The cost of environmental schemes should be borne by businesses, or paid for by governments from tax revenue.

Network Costs and Annual usage / time of use

South Australian smart meter customers (around 41% of customers) have an underlying default time of use network tariff, which has applied since around 2021.

Since that time, retailers have been transferring smart meter customers onto time of use retail contracts with no option to chose a flat rate tariff. As at Q3 2022/23, 79.9% of South Australian smart meter customers were on a time of use tariff (up from 52.3% in Q3 2021/22), this represents a large percentage of South Australian energy consumers (around 32%). SACOSS considers retailers' approach to transferring customers (without consent or advanced notification) to time of use tariffs has implications for choice, competition, usage patterns and network cost recovery. These issues will have increasing implications with the accelerated roll-out of smart meters to commence in July 2025. Are part of its DMO 6 Determination, SACOSS is calling on the AER to consider implications of compulsory time of use retail offers on South Australian consumers.

The energy affordability context in South Australia, summarised earlier in this submission, highlights the importance of setting a fair and efficient DMO, not just for standing offer customers, but for *all* customers where the DMO is used as a reference price. We are urging the AER to be guided by efficiency considerations, to ensure cost components are fair, reasonable and prudent; with DMO 6 reflecting the fundamental right of all customers to be able to access energy on fair and just terms.

If you have any questions in relation to this submission, please contact Georgina Morris at georgina@sacoss.org.au or 8305 4214.

Yours sincerely,

Dr Rebecca Tooher
Director of Policy and Advocacy
South Australian Council of Social Service

Tom Koutsantonis MP
Minister for Energy and Mining
Via email: minister.koutsantonis@sa.gov.au

CC: Dr Paul Heithersay, CE, Department for Energy and Mining

1st of November 2023

Subject: Include an Energy Equity and Inclusion workstream in the National Energy Transformation Partnership

Dear Minister Koutsantonis

Our organisations represent and advocate for more than 3 million people experiencing poverty and inequality, who are facing severe energy hardship and are at risk of being left behind and further disadvantaged in the energy transformation. We are writing to recommend the addition of an **Energy Equity and Inclusion workstream to the *National Energy Transformation Partnership.*** This workstream should focus on reducing energy hardship and ensuring the energy transformation helps to improve outcomes for people experiencing disadvantage.

Energy is an essential service. It underpins every aspect of people's daily lives, their health, well-being, and employment. People on low incomes pay disproportionately more of their income to support their energy needs. They are more likely to be on worse retail offers, pay late fees, less likely to have access to efficient, electric, renewable homes, and contribute disproportionally to the cost of the transition.

According to the Australian Energy Regulator (AER), energy equity, particularly affordability, remains a significant concern in energy markets.[i]

In the *State of the Energy Market 2023*, the AER noted that "customers experiencing vulnerability are likely to face additional challenges keeping energy bills low because they may be less able to implement some of the most effective means of reducing energy bills, including modifying energy use, making home energy efficiency upgrades, adopting new technologies and shopping around for better deals. As such, customers experiencing vulnerability are more susceptible to periods of high energy prices and disproportionately represented in the number of customers experiencing debt, hardship, and disconnection."[ii]

In a recent national survey of people on low incomes, 97% indicated they were struggling to afford their energy bills and are running out of options. People reported taking drastic measures like not heating their home in the middle of winter, turning fridges off overnight, limiting showers, not having visitors, and going without food or medicine to afford their bills.[iii] Some people are turning to credit products such as Buy Now Pay Later to pay for energy bills,[iv] further increasing their costs of energy, with some falling into spiralling debt.[v] People are getting sick and dying because they cannot afford to heat their homes in winter and cool them in summer.[vi]

If energy equity and inequality are not addressed, there will be further significant impacts to people, government budgets, the economy, and the ability to successfully accelerate the energy transition.

While the AER are undertaking a range of measures to reduce energy hardship,[vii] their remit is limited. **Further regulations and government policies are urgently needed.** This action requires federal, state and territory governments to work together.

Based on extensive research and conversations with people experiencing poverty and disadvantage, our organisations have identified key problem sets and solutions. We recommend the following three areas be included as a priority in an **Energy Equity and Inclusion workstream to the *National Energy Transformation Partnership***.

1. **Accelerate and prioritise access to improved energy efficiency, electrification and small-scale renewables for low-income households.** Building on Finkel recommendation 6.6 [viii] in the 2017 report *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, we are calling for governments to prioritise funding, programs and standards to accelerate access to energy efficiency, electrification and small-scale renewables for low-income households including public housing, community housing, Aboriginal and Torres Strait Islander housing, low-income owner-occupiers, and low-income private rentals. Households can save thousands of dollars each year through improved energy performance.[ix]

   There are significant health benefits and savings to people and governments, especially as temperatures and heat waves are predicted to increase because of climate change.[x] Further it would reduce government budgets for hardship supports in the long term. Economic benefits from improving the energy performance of low-income housing are estimated to deliver additional gross domestic product and would deliver a higher economic impact than retrofits across a broader base.[xi]

   Governments can build social licence for a faster transition if all consumers can see that they are directly benefiting from the transition. While the *Trajectory for Low Energy Buildings* has a consideration of vulnerable households as one of its twelve workstreams, there has been no coordinated strategy to implement this priority developed since 2019.[xii]

2. **Reform energy concessions/rebates to ensure they are accessible, adequate and equitable.** A response to the ACCC recommendation 37 in its 2018 report *Restoring Electricity Affordability and Australia's Competitive Advantage,*[xiii] and AEMC recommendation 6 in the *2017 AEMC Retail Energy Competition Review*,[xiv] is overdue and urgently needed. We are calling for governments to work together and reform energy concessions and rebates, ensuring they are proportional to the size of the bill to better meet the needs of people and changing circumstances. They should be automatically applied to those eligible, and eligibility should be expanded to all people who need additional financial assistance to support their energy needs[xv] People are still falling into energy hardship despite being eligible for energy concessions[xvi] and some of the most vulnerable people in our community are missing out altogether[xvii]

   Fixed energy concessions do not respond to energy price changes, seasonal variations in energy requirements, or the energy performance of the home. Some people are getting more assistance.[xviii] Investment in energy efficiency, electrification and solar for low-income homes, combined with percentage-based concessions, would ultimately reduce the long-term cost to governments as well as households.

3. **Provide greater retail protection through reform of retail regulation, pricing and tariffs.** In 2018 the ACCC argued that the energy market and retail competition were failing consumers.[xix] Little has changed following the report and indeed increases in energy prices have arguably seen a deterioration in outcomes for most energy consumers.

   Regulated default offers or price caps of some form have been introduced by regulators in all jurisdictions. However, they are not all sufficient to address the issues identified by the ACCC and are not able to deliver acceptable outcomes for energy consumers. The Default Market Offer (DMO) is ineffective because it intentionally does not provide consumers with the protection of a genuinely fair default. People are burdened with unreasonable wholesale and retail costs that don't reflect an efficient cost to serve.[xx] Many people are on contracts with expired benefits which may be higher than the 'regulated or default' standing offer, meaning people need to **continuously** renegotiate or switch market contracts simply to avoid paying unreasonable prices.[xxi] For people experiencing hardship, language barriers, domestic violence and other barriers, constant switching is not feasible. In fact, constantly switching retailers and monitoring their offers is neither a sustainable nor appropriate expectation to have of any consumers in accessing an essential service. People shouldn't be penalised with higher energy bills for not constantly engaging with a complicated energy market they increasingly cannot trust.

   More effective price regulation and transparency focussed on consumer outcomes is also needed, including careful consideration of the role of tariff structures. Network tariff changes should not result in a loss of retail choice for consumers. No consumer should be forced to take up time-of-use or other retail tariff options which do not suit their needs and may leave them worse off.

   Energy market regulations and consumer protections frameworks designed to promote the interests of consumers are clearly failing in their intent and need to be reformed. As evidenced by increasing numbers of people on energy hardship programs and in energy debt, with disconnections increasing again after the AER's COVID-19 related Statement of Expectations.

   We are calling on governments to pursue retail, pricing and protection reform to ensure energy markets and protections are fit-for purpose. This should include:

   - Retail price regulation to ensure people can expect a fair deal that meets their needs. This should include a requirement for retailers to offer an efficient, flat tariff default offer, ensuring other energy offers are simple, transparent and easy to compare, and a guaranteed genuine consumer choice of retail tariff. Better regulatory oversight is needed to ensure these measures are delivered along with greater penalties for retailer breaches.
   - Stronger energy consumer protection and assistance frameworks, centred on introducing a retail duty of care and obligation to act in the best interests of consumers. Reforms should include better promotion of hardship support, earlier detection of payment difficulties and an obligation to offer more effective support, debt reduction and other assistance. Recognition of the essential nature of energy and its impact on households should also involve a banning of disconnection for non-payment.
   - More effective regulation of energy profits, including through improved transparency and reporting.

Better regulation and policies which meet the needs of people experiencing disadvantage now can help reduce poverty and inequality, improve health outcomes, and enable the acceleration of the transition to zero emissions.

We would welcome the opportunity to meet and discuss these matters further with you. Please contact our Senior Policy Officer Malwina Wyra at malwina@sacoss.org.au or on 8305 4228 and we look forward to working with you to improve the lives of millions of people in Australia.

Yours sincerely

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Ross Womersley
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Ben McAlpine
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[i] AER (2023) *State of the Energy Market 2023*.
[ii] Ibid.
[iii] ACOSS (2023) *Energy and Cost of living snapshot*
[iv] Financial Counselling Australia (2021) *It's credit, it's causing harm and it needs better safeguards*, p 5 and p 9; CHOICE Consumer Pulse survey September 2022 found 1 in 4 BNPL users used this credit product to pay for essential products or services.
[v] For example, The Debt Trap Alliance found that over 5 years, 15% of people who take out payday loans fall into a debt spiral (*The Debt Trap: How Payday lending is costing Australians* (2019) p 6); CHOICE Consumer Pulse surveys from June to September 2022 found:

- 1 in 7 BNPL users were sold more than 20 BNPL loans in the past year.
- 1 in 5 BNPL users missed or had been late with a payment for a BNPL service.

Of those users with late payments, 2 in 5 have taken out another loan to pay for BNPL fees or debts.
[vi] https://www.acoss.org.au/wp-content/uploads/2023/02/ACOSS-Plus-Submission-to-National-Energy-Performance-Strategy-Consultation-paper-07022023.pdf
[vii] AER (2023) *State of the Energy Market 2023*, pp 243-244.
[viii] Finkel (2017) *Independent review into the Future Security of the National Energy Market.*
[ix] (ACOSS (2023) *ACOSS submission to Senate Inquiry on electrification*.
[x] Ibid.
[xi] Deloitte Access Economics (2021) *The Economic Impacts of the National Low-income Energy Productivity Program* found economic benefits from improving the energy performance of 1.8 million low-income homes found it would deliver an additional $4.9 billion in gross domestic product and it would deliver a 17% higher economic impact than an equivalent program delivered across a broader base
[xii] Trajectory for Low Energy Buildings
[xiii] ACCC (2018) Restoring Electricity Affordability and Australia's Competitive Advantage, Retail Electricity Pricing Enquiry, Final Report.
[xiv] AEMC (2017) 2017 AEMC Retail Energy Competition Review.
[xv] See community sector 2022 report Reforming Electricity Concessions to Better Meet Need
[xvi] CPRC (2022) Mind the Gap: identifying the gap between energy concessions eligibility and concessions received. Estimate between 7 and 38% of people, depending on jurisdiction, are eligible by not getting an energy concession.
[xvii] For example, First Nations people on jobseeker in the Northern Territory are not eligible for energy concessions.
[xviii] Reforming Electricity Concessions to Better Meet Need
[xix] ACCC (2018) *Restoring Electricity Affordability and Australia's Competitive Advantage, Retail Electricity Pricing Enquiry, Final Report*.
[xx] PIAC (2022) Submission Default Markey offer prices 2023-24 – Issues Paper
[xxi] AER (2023) *State of the Energy Market 2023*,