Government of South Australia
Department for Energy and Mining

2024D024558

Mr Daniel Harding
General Manager (A/g), Market Performance Branch
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Harding

Default Market Offer prices - 2024/25 draft determination

The Strategic Policy and Delivery Division (the Division) of the South Australian Department for Energy and Mining thanks you for the opportunity to comment on the Default Market Offer (DMO) prices – Draft Determination.

The South Australian Government remains committed to reducing consumers' electricity bills and thanks the Australian Energy Regulator (the regulator) for its work on the 2024/25 DMO determination.

We are pleased that the regulator's draft determination has resulted in a potential reduction in the DMO price for South Australian electricity consumers, and trust that regulator will maintain these reductions in its final determination.

This is a significant improvement on recent years' electricity price rises. This follows positive signs of the wholesale market stabilising from the highs of recent years. Base futures prices (ASX) for the DMO 6 financial year (2024–25) have reduced by around 50 per cent from the peaks in October 2022, to late March 2024. This includes decreases since late in 2023. ASX Caps also continue to decline in South Australia for the DMO 6 period, with a 26 per cent decrease since the release of the regulator's Issues Paper in October 2023.

While we note that the regulator's methodology for determining wholesale energy costs accounts for the more expensive contracts traded before these reductions in forward contract prices, this is still a positive trend that should be acknowledged.

The South Australian Government is also pleased that the regulator has placed increased weight on protecting consumers in this draft determination. As we noted in our submission to the regulator's Issues Paper, while all DMO objectives are important, at this point in time, protecting consumers from unreasonably high prices should be the central objective considered.

The regulator's *Retail performance report for Q2 2023/24* revealed an increase in the number of consumers entering into hardship programs and payment plans, reflecting that customers are finding harder to pay their energy bills. This follows electricity, and gas, prices having risen to extraordinary levels in recent years.

Noting the impact that high energy prices are having on consumers, we consider it is critical now more than ever, that the DMO is set as low as possible to ensure price relief is delivered to consumers in 2024/25.

The Division therefore considers it imperative that the regulator's final determination maintains at least the level of price reduction as determined in the draft decision for South Australian consumers.

We acknowledge the number of matters raised in the Division's submission to the Issues paper that the regulator has considered. We also acknowledge the additional analysis undertaken regarding wholesale electricity costs in South Australia. The regulator's collection of over-the-counter (OTC) contract market data is valued, and we continue to support obtaining and analysing additional data that may assist in ensuring wholesale costs are reflective of operating in the South Australian market.

Despite only resulting in a minor increase to the DMO, we question the inclusion of up-front installation fees in the smart meter allowance calculation. Given this is a change for one year only, and based on information from just three retailers, we query this decision, considering the change may result in some retailers over-recovering costs.

While not explicit in the draft determination, we assume this additional amount will not be removed from the smart meter part of the retail costs component, and thereby enables some retailers to charge twice for this amount.

We note the regulator's decision in DMO 5 was to subtract up-front advanced meter costs from the advanced meter allowance component. This was stated as being preferable to allowing retailers to over-recover advanced meter costs. The regulator's statement in the DMO 5 Issues Paper noted that *if retailers tend to use upfront fees to recover some of the annual costs they incur for smart meters…, then it could be appropriate to make an adjustment to the smart meter component included in the DMO to avoid retailers over-recovering these costs*. We therefore question this year's draft determination which appears to reverse this decision.

As you would be aware, the Division has consistently argued against the regulator's method to determine retailer allowances. We therefore supported the decision to reconsider the approach to this cost component.

The Division is not supportive of all aspects of the regulator's proposed changes to the determination of the retail allowance; however, we do support the removal of the glidepath approach adopted in DMO 4. This would have effectively seen retailer allowances for South Australian retailers increase from around 1 per cent in DMO 3 to a proposed 10 per cent in DMO 6.

The regulator's analysis of an efficient margin appears reasonable, but we question the draft decision to then adopt a margin which sits above the midpoint of the two estimates provided. Further, the draft decision for the efficient margin is much greater than the analysis of margins for South Australia, as shown by the draft determination. It could also be questioned why retail margins are not being assessed on a state-by-state basis given other costs are, including bad and doubtful debt costs as proposed from this year. This results in higher retailer margins being included in the draft DMO for South Australian consumers, according to the regulator's analysis.

The Division supports the regulator's decision not to apply the competition allowance in the DMO 6 draft determination. The addition of the newly proposed allowance would have effectively changed the draft DMO determination from a price reduction to a price increase for South Australian residential customers. This would be completely unacceptable in the current climate and would have significant adverse impacts on households and businesses, and worsening pressure on the cost-of-living crisis.

We do, however, query the potential future use of the proposed competition allowance. The addition of the allowance, combined with the conservatism built into the retail margin, may end up resulting in a larger cost component than that provided by current retail allowance approach.

It could be argued that the conservatism built in to the 6 per cent retail margin meets the objective of the competition allowance by providing further room for small retailers to compete. It would be a disappointing outcome for consumers if future wholesale and network cost changes resulted in a decrease in the DMO, but overarching market conditions led to the inclusion of an additional competition allowance, which eroded some of the decreases in other components.

Finally, we thank the regulator for its decision to revert the DMO's annual usage amount back to pre-DMO 5 levels (i.e., 4,000 kWh per annum for SA residential customers without controlled load). This approach provides consistency with the majority of DMO determinations.

The Division thanks the regulator for the work on this important determination. Should you have any questions in relation to this submission, please contact Mr Chris Leverington, Senior Policy Officer, Strategic Policy and Delivery Division, on (08) 8429 3298.

Yours sincerely

Rebecca Knights
EXECUTIVE DIRECTOR, STRATEGIC POLICY AND DELIVERY
DEPARTMENT FOR ENERGY AND MINING

9 / 04 / 2024