



**SACOSS' Submission to the
Australian Energy Regulator on the
Default Market Offer prices 2025-26: Issues Paper
November 2024**

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Introduction

The South Australian Council of Social Service is the peak non-government representative body for health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians*. SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, business, and communities for actions that disadvantage vulnerable South Australians.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia. With a strong history of community advocacy, SACOSS and its members aim to improve the quality of life for people disadvantaged by the inequities in our society.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities, like water and electricity, impacts greatly and disproportionately on people experiencing vulnerability and disadvantage.

SACOSS would like to thank the Australian Energy Regulator (AER) for the opportunity to provide feedback on the *Default Market Offer Prices: Issues Paper, (the Issues Paper)*, dated October 2024.¹

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.²

When setting the DMO, the Regulations require the AER to have regard to certain matters, including (SACOSS' emphasis):³

- **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

¹ Australian Energy Regulator (AER), [Default Market Offer Prices: Issues Paper](#), October 2024

² 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](#)

³ Regulation 16(4) of the [Competition and Consumer \(Industry Code- Electricity Retail\) Regulations 2019](#)

- 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 overarching purpose of the DMO is to **protect consumers from unjustifiably high prices** by providing for an electricity price ‘safety net’ (while also allowing retailers to recover costs). The AER establishes this price ‘safety net’ by determining a reasonable maximum price (based on ‘model annual usage’) retailers can charge **standing offer** customers. The DMO also has other important functions by operating as a ‘reference price’ in retailer’s communications with customers. Under the DMO Regulations, retailers must compare their offered prices (market offers) with the DMO / reference price when:

- advertising or publishing market offers, and
- notifying customers of **a change to the retailer’s prices** under their **current offer**.⁴

The DMO therefore provides an important function as a benchmark for existing market offer customers, assisting those households with understanding whether their current offer is unreasonably high. The DMO is also used as a benchmark for households participating in Virtual Power Plants (VPPs). For example, the South Australian VPP for Housing SA tenants currently guarantees electricity prices that are 25% lower than the DMO.⁵ Into the future, SACOSS submits the DMO may more properly be characterised as an electricity price ‘**life-line**’ for South Australian smart meter households, as it is likely to be the only flat-rate offer available for those households seeking to avoid often punitive time of use (TOU) tariffs.⁶

The AER’s DMO determination and analysis of costs stack inputs also provides a level of transparency around cost drivers and bill impacts. For DMO jurisdictions, this analysis has replaced the Australian Energy Market Commission’s (AEMC’s) Residential Price Trends Report. The AER’s DMO analysis is useful for advocacy and policy development, but the granularity and complexity of the methodology is proving to be a barrier to meaningful consumer engagement.

⁴ SACOSS has recently viewed a retailer’s price change notification letter which included a small italics footnote advising the customer that their existing offer was 30% above the reference price.

⁵ <https://www.energymining.sa.gov.au/consumers/solar-and-batteries/south-australias-virtual-power-plant>

⁶ Retailers in South Australia are transferring all smart meter households to TOU tariffs with no choice of a flat rate tariff option. The AEMC has suggested jurisdictions pass regulations requiring retailers to provide a flat rate tariff standing offer. Into the future, the only choice open to SA smart meter households will be a flat rate standing offer or a TOU market offer. See: SACOSS, [Submission to the Department for Energy and Mining on the Review of South Australia’s NERL \(Local Provisions\) Regulations 2013](#), October 2024

Given the broader impacts of the DMO process, the importance of establishing a prudent, efficient and reasonable DMO (in conjunction with associated contract protections), cannot be overstated. The AER must have regard to the overarching imperative that the DMO operates as a ‘reasonable (and we would argue, fair) offer’ to properly protect *all* consumers in a transforming and increasingly complex energy system.

Summary of Submissions on DMO 7 Issues Paper

- SACOSS strongly supports a holistic review of the regulatory frameworks underpinning the DMO, to ensure South Australia households on low-incomes or experiencing disadvantage have a fair and efficient flat rate offer they can default to, and existing market offer customers are protected from paying above the standing offer price cap.
- SACOSS notes the increasing information asymmetry and resourcing disparity between consumers and retailers in providing input into appropriate DMO methodologies, and we are calling on the AER to support a principle-based approach to determining the DMO that allocates greater weight to achieving the best price outcome for consumers in regard to each input.
- SACOSS strongly supports the AER in taking full advantage of its new Wholesale Market Monitoring powers,⁷ to obtain all relevant information from retailers and other entities in order to determine a reasonable and prudent wholesale price for DMO 7.
- SACOSS is calling on the AER to liaise with networks and about modelled benefits to consumers through lower wholesale costs due to increased level of DER exports (‘wholesale market value streams’). If wholesale market benefits are established, then those benefits should be included in the DMO.
- SACOSS strongly cautions against the AER using billing data for *existing* customers as an input into determining ‘the prices electricity retailers charge’. There is limited visibility around how retailers are pricing existing customers (particularly TOU customers), but we know that existing plans are likely to be more expensive than acquisition offers (often unreasonably so), and the AER should therefore only have regard to retailers’ acquisition offers.
- SACOSS understands additional jurisdictional scheme costs may be incorporated into the network cost component of South Australian energy bills in 2025/26. In the interests of transparency, we are calling on the AER to break down the network component of the DMO into DUOS, TUOS and separate jurisdictional scheme costs.
- SACOSS is seeking the AER liaise with the DNSPs to obtain more granular consumption data, and provide clarification and transparency on the various inputs the AER uses to determine the model annual usage.

⁷ [Statutes Amendment \(National Energy Laws\) \(Wholesale Market Monitoring\) Bill 2023](#)

Is the DMO operating to protect consumers?

The findings in the ACCC's December *Inquiry into the National Electricity Market Report*⁸ call into question the effectiveness of the operation of the DMO as a safety net to protect 'disengaged' consumers from unjustifiably high prices, supporting the need for a review of the DMO regulatory framework, as well as the need for additional residential energy market pricing and contract protections.

For the first time in its December Report, the ACCC used its compulsory acquisition powers to look at the *existing* market retail energy contracts of over 5 million customers providing pricing information current up to August 2023. Previously, the ACCC had analysed retailers' 'acquisition offers' which are published on the Energy Made Easy website.

The ACCC found that approximately 70% of customers in 2023 were on Older Plans, compared to 30% of customers on Newer Plans, and 82% of residential customers were on calculated annual prices at or above the median offer on Energy Made Easy and Victorian Energy Compare, up from 43% in 2022. In all states, customers on Older Plans were paying higher average prices than those on Newer Plans,⁹ showing retailers are pricing existing customers differently to 'acquisition' offers, and customers need to continually re-engage in the market to obtain the 'benefits' of competition.

Overall, the ACCC found that nearly half (47%) of all customers and 42% of concessions customers were paying equal to or above the DMO price, and that 79% of customers would be better off if they switched to competitive acquisition offer in Energy Made Easy.¹⁰ In relation to South Australia, the ACCC found that 61% of South Australian energy customers on flat rate plans were paying at or above the DMO, with 9% of customers paying 25% or more above the DMO in 2023. By comparison, 41% of Victorian residential customers on flat-rate plans were paying at or above the VDO (see Figure 1, below).¹¹

⁸ ACCC, [Inquiry into the National Electricity Market Report](#), December 2023

⁹ ACCC, [Inquiry into the National Electricity Market Report](#), December 2023, p.68

¹⁰ ACCC, [Inquiry into the National Electricity Market Report](#), December 2023, p.68

¹¹ ACCC, [Inquiry into the National Electricity Market Report](#), Appendix C, Tab 9 [Cost Stack Data and Charts in the NEM](#), December 2023

Supplementary Table C9.6

State by state, 2023

	VIC	NSW	SA	SEQ
>25% below	7%	2%	2%	2%
20-25% below	8%	1%	2%	0%
15-20% below	4%	1%	11%	3%
10-15% below	9%	6%	2%	3%
5-10% below	14%	17%	10%	12%
1-5% below	17%	12%	13%	21%
Equal to DMO/VDO	22%	21%	17%	33%
1-5% above	3%	15%	10%	12%
5-10% above	1%	11%	14%	3%
10-15% above	2%	4%	5%	3%
15-20% above	3%	2%	4%	1%
20-25% above	1%	6%	2%	1%
>25% above	9%	2%	9%	6%

Figure 1: Residential customers on flat rate plans at or above the DMO by State. Source: ACCC, December 2023

The ACCC's December 2023 analysis of TOU plans in South Australia found that in 2023-24, for three retailers (anonymised), between 85% and 100% of customers were paying tariffs that were **at or above the DMO** (see Figure 2, below).¹² Remembering that the DMO is not designed to be the cheapest offer in the market, but is a cap on standing offers and is there to protect 'disengaged' consumers from 'unjustifiably high' prices.

¹² ACCC, [Inquiry into the National Electricity Market Report](#), December 2023, p. 56

Figure 3.6 Pricing approaches vary between retailers

Proportion of residential customers on time-of-use only tariffs paying equal to or more than the DMO by retailer (anonymised) and year, SA Power Networks distribution region

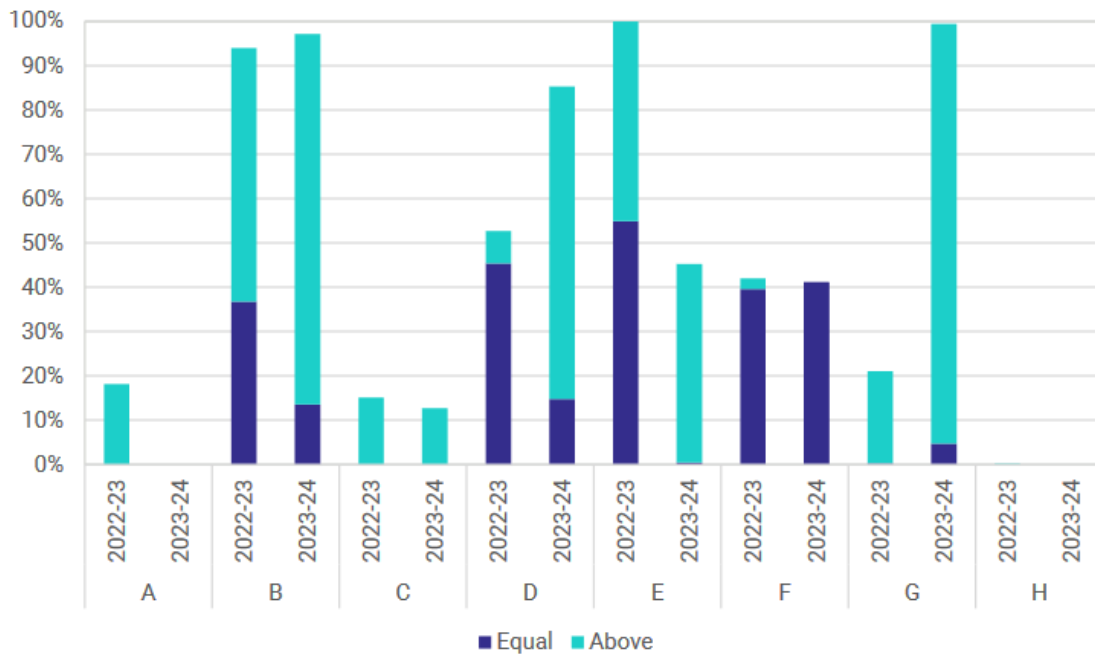


Figure 2: Proportion of residential customers on a TOU tariff in SA paying at or above the DMO. Source: ACCC, December 2023¹³

Apart from the ACCC’s analysis, we have little to no visibility of how retailers are packaging existing offers into TOU plans for existing customers. Existing tariff fees and charges differ markedly from the ‘acquisition’ TOU offers published by retailers on Energy Made Easy. We do know from consumer feedback that being transferred to a TOU retail plan (without consent, advanced notification or the option to choose a flat rate plan) is leading to significant bill shock and energy stress for many households in South Australia.

The number of market customers on offers above the DMO underpins the importance of ensuring the DMO represents a reasonable, prudent and efficient offer, that all customers can default to. SACOSS acknowledges the DMO does not provide a price cap on market offers, but the operation of the DMO as reference price is failing to adequately protect existing market offer customers and requires continual engagement on behalf of the customer to take advantage of offers below the DMO (with no guarantee those offers will remain below the DMO for any length of time).

As outlined above, when setting the DMO, the Regulations require the AER to have regard to ‘the prices electricity retailers charge for supplying electricity in the region to that type of small customer’. SACOSS strongly submits the AER disregard the prices being charged to

¹³ ACCC, [Inquiry into the National Electricity Market Report](#), December 2023, p. 56

existing customers in determining a reasonable DMO price. The AER should only have regard to retailer's acquisition offers, with the costs of those offers thoroughly interrogated.

Having said that, to simply compare 'acquisition' offers with the DMO and draw conclusions as to the benefits of competition fails to acknowledge the reality of higher, and arguably unreasonable, prices for a high percentage of households on market offers.

The current DMO regulatory framework is also leading to variable outcomes for standing offer customers. The framework requires the AER to determine a 'model annual usage' – which is how much electricity a broadly representative small customer would consume in a year, as well as a reasonable total annual price for supplying electricity in accordance with that usage (the DMO Price). The DMO does not specify tariffs. The Victorian Default Offer (VDO) differs from the DMO in that it specifies a range of tariff caps for standing-offer customers (including flat-rate and time-of-use), with prescribed usage and supply charges. As noted by the ACCC, this results in *'less variation in outcomes for standing offer customers in Victoria than in Default Market Offer regions, because retailers have less flexibility in how they comply with the price cap'*.¹⁴

Appendix E to the ACCC's June Report provides a comparison of effective prices for standing offer and market offer customers in South Australia and Victoria, showing the sharp increase in effective prices in the third quarter of 2023 and the breadth of effective prices paid by standing offer (or DMO / VDO) customers in each state (see Figure 3 for South Australia, and Figure 4 for Victoria).

¹⁴ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, p.51

Figure A1.5: Effective prices paid by residential market and standing offer customers in SA



Figure 3: Effective Prices paid by residential market and standing offer customers in SA. Source ACCC, June 2024¹⁵

Figure A1.3: Effective prices paid by residential market and standing offer customers in Victoria



Figure 4: Effective Prices for standing and market offer customers in Vic. Source: ACCC, June 2024¹⁶

According to the ACCC’s analysis, in Q3 2023 DMO standing offer customers in South Australia paid effective prices between 31.9 c/kWh (25th percentile) and 52.9 c/kWh (75th percentile); a variation of 21.1c/kWh in effective standing offer prices, whereas Victorian VDO standing offer customers paid between 29.2 c/kWh and 43.8 c/kWh – a variation of

¹⁵ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

¹⁶ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

14.6 c/kWh in effective prices. As noted earlier, the VDO allows for less variability in effective prices for standing offer customers due to the establishment of specified tariffs, which limit retailers' flexibility around compliance with the price cap. For Q3 2023, Victorian Standing offer customers faced a median effective price of 35.6 c/kWh compared to 43.8 c/kWh in South Australia.

SACOSS is concerned about the number of market offer customers on offers above the DMO (44% of customers on flat rate plans in South Australia), and the price variability of standing offers in South Australia. We are also concerned about the impact of the South Australian requirement that standing offers must be TOU offers for all smart meter customers.¹⁷

SACOSS strongly supports a holistic review of the regulatory frameworks underpinning the DMO, to ensure South Australia households on low-incomes or experiencing disadvantage have a fair and efficient flat rate offer they can default to, and existing market offer customers are protected from paying above the standing offer price cap.

DMO 7 Methodology

SACOSS refers the AER to the joint submission from Justice and Equity Centre, SACOSS and ACOSS for our responses to the questions posed in the Issues Paper. This submission will provide feedback on issues of concern to SACOSS or of particular relevance to South Australia.

Whilst we strongly support the AER's identification of the issues outlined in the DMO 7 Issues Paper, we do not have capacity to provide meaningful feedback on the complex inputs required to determine the impact of solar PV and low market liquidity on reasonable wholesale contracting costs, or the calculation of TOU costs and usage for standing offers. We note the increasing information asymmetry and resourcing disparity between consumers and retailers in providing input into appropriate DMO methodologies, and we are calling on the AER to support a principle-based approach to determining the DMO that allocates greater weight to achieving the best price outcome for consumers in regard to each input.

That said, we provide some additional context around the importance of determining reasonable / prudent wholesale costs, acknowledging the challenges associated with establishing 'annual usage' and TOU standing offers in this State in further detail, below.

Wholesale Costs

SACOSS has repeatedly raised our concerns around the impact of market volatility (due to solar PV) and low liquidity on wholesale prices faced by consumers in this State. As noted by the AER, *'South Australia has the highest percentage of installed rooftop solar capacity, 40% of its total installed capacity, and the highest percentage of renewable capacity, 74% of its total installed capacity,'*¹⁸ but households are failing to see any benefits of this renewable

¹⁷ Regulation 6A of the NAERL (Local Provisions) Regulations

¹⁸ AER, [State of the Energy Market 2024](#), p. 33

energy generation through reductions in wholesale energy costs. Conversely, the spot price volatility due to high solar PV penetration is leading to increased wholesale costs for households in this state, largely due to retailers' hedging practices around the risks of peaky load.

DMO 5 saw South Australian households experience a 68% increase in the wholesale cost component of the DMO,¹⁹ with wholesale costs then representing 44% of the price stack. Overall, DMO 5 for SA increased by 24%²⁰ on 2022-23 levels, with DMO 6 delivering a small 2.2% (or \$49) decrease²¹ (even with affordability considerations prioritised by the AER), pointing to a stabilisation of DMO prices at high levels for 2024-25. The 2.2% overall reduction in DMO 6 prices was largely due to the reduced wholesale cost component, decreasing from \$998 in DMO 5 to \$806 in DMO 6 (a reduction of 19%).

Concerningly, the AER's recent Wholesale Markets Report for Q3 2024²² highlights the extent of market volatility in this State, with South Australia accounting for half (27) of the 54 high price periods (exceeding \$5,000 per MWh) in Q3, and also 30% of **negative** price intervals. Notably, average volume weighted prices in South Australia increased by 35% in the last quarter and were up 76% on Q3 2023, and South Australia had the highest average quarterly wholesale price in the NEM for Q3 2024 (see **Figure 5, below**).

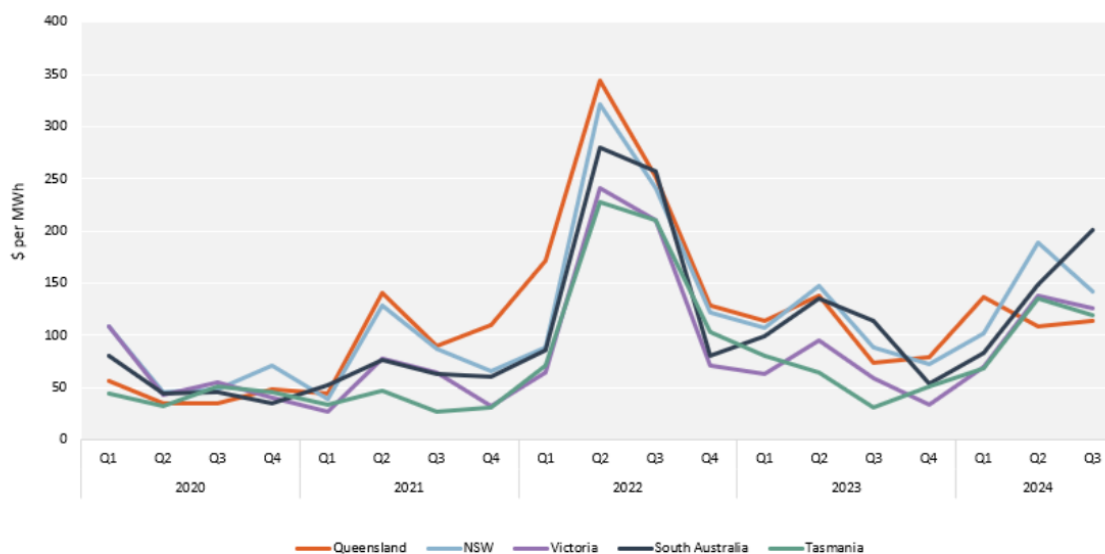
¹⁹ AER, [Default Market Offer Prices 2023-24 Final Determination](#), p. 27

²⁰ AER, [Default Market Offer prices 2023-24: Final Determination](#), p.6

²¹ AER, [Default Market Offer 2024-25 Final Determination](#), 3 June 2024, p. 108

²² AER, [Wholesale Markets quarterly, Q3 2024](#),

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.

Figure 5: Average Quarterly Prices in the NEMQ3 2024. Source: AER, 2024²³

The issues of retailer’s hedging practices in the transforming energy market in South Australia are likely to be faced by other states in coming years, and we note the ACCC examined these issues in its December Report. SACOSS supports an increased focus on these issues as well as market interventions to increase liquidity and improve transparency in line with the ACCC’s recommendations that:

- Government should investigate, in consultation with the ASX and market participants, whether there are ways to support new hedging products being listed on the ASX in a timelier manner, and
- Governments can increase liquidity in the contract market during the transition by making more contracts available from **government-supported renewable energy and storage projects**.

DMO 7 will be the first determination where the AER can exercise its new information gathering powers to assess competition and the effective functioning of wholesale markets. SACOSS strongly supports the AER in taking full advantage of its new Wholesale Market Monitoring powers,²⁴ to obtain all relevant information from retailers and other entities to determine a reasonable and prudent wholesale price for DMO 7. Input into calculating the

²³ AER, [Wholesale Markets quarterly, Q3 2024](#), p.3

²⁴ [Statutes Amendment \(National Energy Laws\) \(Wholesale Market Monitoring\) Bill 2023](#)

DMO is clearly a stated purpose of the new powers as detailed in the Wholesale Market Monitoring and Reporting Guideline:²⁵

‘Where appropriate, we may then use the information collected for other AER purposes, including, for example, for compliance and enforcement purposes, or calculation of the default market offer. However, the information collected will be taken to have been provided in confidence’

Where the AER determines that the wholesale market is not functioning effectively, then SACOSS strongly submits those costs should not be reflected in the DMO (on the basis that they are unreasonable) and a more prudent estimation of wholesale costs should be established. Consumers should be protected from the costs of unlawful trading practices.

SACOSS also notes that in June 2020 the Australian Government introduced further price protections for electricity under Part XICA (which relates to prohibited conduct in the energy market) of the *Competition and Consumer Act 2010*. Part XICA prohibits certain behaviour by market participants in relation to access to electricity hedging contracts and spot market bidding.²⁶ In setting the DMO, the ‘underlying cost of electricity’ is relevant input to the wholesale methodology and SACOSS is calling on the AER to use its information gathering powers to uncover potentially prohibited conduct that impacts market performance, and to refer those findings to the ACCC for compliance action.

Regarding solar PV exports and the impact on wholesale costs faced by consumers, SACOSS understands network businesses and the AER use a modelling tool known as the Customer Export Curtailment Value Methodology (CECV)²⁷ to assess the potential reductions to wholesale pricing that can be achieved from enabling additional CER exports:²⁸

‘CECVs represent the benefit to all customers from the alleviation of curtailment which allows a greater level of DER exports’

SA Power Networks has advised SACOSS that ‘the CECV provides networks with a time-series indication of how additional solar PV exports impact the costs for generator dispatch and FCAS across the NEM, in 30-minute intervals from 2025 – 2050’. How does the AER reconcile the CECV modelling tool (which identifies reduced wholesale costs for consumers as a result of increased solar PV exports) with the reality facing South Australian customers of increasing wholesale costs as a result of increasing solar PV generation? The CECV is driving network investment to enable increased solar PV exports, and yet the wholesale costs actually faced by South Australian consumers are impacted by an increasingly peaky load. Either the CECV should take into account the impact of solar PV on wholesale contracting practices (and therefore costs to consumers), or the DMO wholesale

²⁵ AER, [Wholesale Market Monitoring and Reporting Guideline](#), November 2024,

²⁶ ACCC, [Guidelines on Part XICA – Prohibited conduct in the energy market](#), May 2020

²⁷ AER, [Customer Export Curtailment Value Methodology](#), June 2022 (CECV)

²⁸ AER, [Customer Export Curtailment Value Methodology](#), June 2022 (CECV), p.5

methodology should identify reduced wholesale costs for consumers as a result of increased solar PV generation. Both cannot be true. This highlights the issue with theoretical economic analysis at a network level failing to align with the actual impact on consumers at a household level (as has also been seen in South Australia with the mandatory assignment of all smart meter households to TOU retail tariffs on the basis of ‘cost reflectivity’).

SACOSS is calling on the AER to liaise with networks and about modelled benefits to consumers through lower wholesale costs due to increased level of DER exports (‘wholesale market value streams’). If wholesale market benefits to consumers are established, then those benefits should be included in the DMO.

Retail Costs

Retail costs for DMO 6 increased by 25% in South Australia from DMO 5 due to increases in operating costs, bad and doubtful debt costs and smart meter costs.²⁹ SACOSS refers the AER to the joint JEC submission for our submissions on retail costs and margins.

Network Costs / TOU DMO

The Issues Paper is seeking feedback on whether the network tariff component of the DMO should be a blend of flat-rate and time of use network tariffs.

SACOSS notes the DMO (cap on standing offer prices) does not apply to small business customers on time of use tariffs. This is particularly problematic in South Australia, where all smart meter customers are being transferred to TOU retail tariffs, all standing offers for small customers must be TOU offers³⁰ and around 15.5% of small businesses are on standing offers. Does this mean (smart meter) small business TOU customers on standing offers do not received the protection of a price cap?

In relation to network tariffs, SA power Networks’ analysis for its 2024/25 Pricing Proposal shows 51.16% of residential customers and 32.76% of small business customers are on a TOU network tariff (see Figure 6, below):³¹

	Customer type	Ratio of customer type	Consumption (kWh)	2022-23	2023-24	2024-25	\$ change in 2024-25	% change in 2024-25
Residential Single Rate	Residential	48.04%	3,814	\$726.65	\$739.13	\$810.58	\$71.45	9.67%
Residential Time of Use	Residential	51.16%	3,688	\$706.26	\$718.74	\$787.92	\$69.18	9.63%
Business Single rate	Small business	39.92%	6,557	\$1,236.44	\$1,295.04	\$1,415.72	\$120.68	9.32%
Small Business Time of Use	Small business	32.76%	18,319	\$2,613.65	\$2,724.70	\$2,984.83	\$260.13	9.55%

Figure 6: TOU Network tariff customer percentages. Source: SAPN, 2024³²

²⁹ AER, [Default Market Offer 2024-25 Final Determination](#), 3 June 2024, p. 109

³⁰ Regulation 6A of the NERL (Local Provisions) Regulations

³¹ SA Power Networks, [AER-Stakeholder Report – SAPN – 2024-25 Annual Pricing Proposal](#), updated 17 July 2024

³² SA Power Networks, [AER-Stakeholder Report – SAPN – 2024-25 Annual Pricing Proposal](#), updated 17 July 2024

At a network level, we are told TOU tariffs are designed to benefit consumers. However, retailers see default TOU network tariffs as a risk, and are consequently transferring existing smart meter customers onto TOU retail tariffs to avoid that 'risk'.

Over the past few years, SACOSS has consistently and repeatedly raised the risks and negative customer impacts associated with the mandatory re-assignment of smart meter households to TOU retail tariffs in South Australia (both standing and market offers) - which to date has occurred with no customer consent, no advanced notification, no education and no option to choose a flat rate retail tariff option.

The AER's most recent available data from Q3 2023/24 clearly shows the mandatory transfer of smart meter customers to TOU **retail** tariffs undertaken by major South Australian energy retailers over the past few years. In 2020/21, 3.6% of South Australian smart meter customers were on a TOU retail tariff, and **83.8% of SA smart meter customers** are on a TOU retail tariff as at Q3 2023/24:

- 90% of AGL's smart meter customers in SA are on a TOU retail tariff
- 97.7% of Alinta's smart meter customers in SA are on a TOU retail tariff
- 100% of Origin's smart meter customers in SA are on a TOU retail tariff.

Around 39% of **ALL energy customers** (or 298,175 customers) are currently on TOU retail tariffs in South Australia. We acknowledge the AER's obligation to determine both a flat rate and TOU DMO price for residential customers under the DMO Regulations. Whilst only 7.1% of residential customers are on standing offers in South Australia,³³ the DMO does operate as a reference price for market offers, and it is therefore extremely important that the 300,000 TOU market offer customers in SA are able to compare their offers against a TOU DMO price to know whether they are being charged unjustifiably high prices by their retailer. Given SACOSS has seen peak prices (for a 14-hour period) at 68 c/kWh, we would suggest many households are facing unreasonably high prices.

There is very little visibility of what consumers on TOU tariffs are actually paying for electricity at a retail level. The ACCC's June Report did look at a sample of bills for customers on TOU and flat rate tariffs, which showed there was no benefit to TOU pricing. In all percentiles, the TOU effective price was either more than or equal to the flat rate effective price (see Figure 7, below).

³³ AER, [Default Market Offer Prices 2025-26: Issues Paper](#), October 2024, p. 45

Figure 3.22: Customers on time-of-use and demand tariffs have similar outcomes to those on flat tariffs⁶⁴

10th, 50th and 90th percentile effective prices paid by residential customers on time-of-use and flat rates, SA Power Network, excluding solar customers, from quarter 3 of 2022 to quarter 3 of 2023

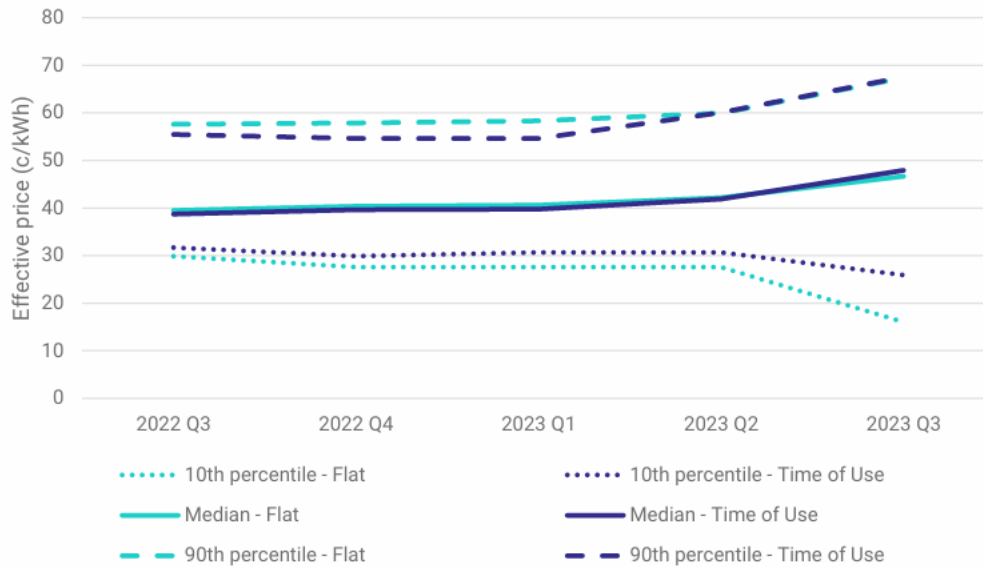


Figure 7: Effective prices paid by non-solar residential customers on TOUs and flat rate tariffs. Source: ACCC, June 2024³⁴

The challenges faced by the AER in determining a TOU DMO highlight some of the issues associated with the DMO reflecting how much electricity a broadly representative customer would consumer in a year and the pattern of that consumption (model annual usage). SACOSS submits there is no ‘average customer’ or ‘average consumption’ in the current market, and it is impossible to generalise (as outlined further, below). However, networks have determined there is consumer benefit in applying TOU tariffs (even without changes in energy consumption behaviour), and SACOSS submits weight should be given to inputs that demonstrate consumer benefit³⁵ in setting the DMO. SACOSS refers the AER to SA Power Networks’ Tariff Structure Statement for 2025-2030 (largely approved) which establishes the cost benefits of TOU network pricing for residential consumers.

SACOSS strongly cautions against the AER having regard to TOU pricing information in billing data for *existing* customers obtained by the ACCC. SACOSS is unsure how retailers are pricing existing customers, but we know that existing plans are likely to be more expensive than acquisition offers.

³⁴ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, p.59

³⁵ Which Raises the question why are retailers claiming greater risk, or if there is greater risk, what is the benefit to consumers of ‘cost reflective tariffs’?

Jurisdictional Scheme costs as part of Distribution costs

The network cost component for DMO 6 increased by \$82, or nearly 10% for 2024-25 from 2023-24 levels, largely reflecting SAPN's Pricing Proposal.³⁶

Currently, South Australian energy consumers pay for the Premium Feed-in-Tariff Schemes and AGL Designated Services costs through the network cost component. For 2024-25 alone, SA Power Networks will recover \$86.2m from South Australian energy consumers through their energy bills (linked to grid consumption) for the cost of these jurisdictional schemes (\$5.2m for the AGL Scheme and around \$81m for the PFIT Schemes).³⁷

SACOSS has long argued this method of cost recovery for policy priorities unrelated to the direct provision of energy services is inherently unfair and inequitable. There are two reasons for this:

- energy expenditure is highly regressive; those on the lowest incomes spend proportionately more of their household income on energy than those on higher incomes,³⁸ and
- households with higher grid-consumption (like hardship or payment plan households) pay disproportionately more for the costs of these Schemes, as compared to those who can access energy from behind the meter and reduce their grid consumption (solar PV / battery households).

SACOSS understands additional jurisdictional scheme costs may be incorporated into the network cost component of South Australian energy bills in 2025/26. In the interests of transparency, we are calling on the AER to break down the network component of the DMO into DUOS, TUOS and jurisdictional scheme costs.

Environmental Costs

In addition to increasing network costs, DMO 6 also saw an increase in environmental and retail cost components from DMO 5. The environmental cost component for South Australia increased by 14.3% from DMO 5 levels, the largest increase across all jurisdictions. The AER noted a 43% increase in the costs recovered from South Australian households to support the South Australian Retailer Energy Productivity Scheme (REPS).³⁹

We refer the AER to the JEC Joint submission in relation to Environmental Scheme Costs.

Whilst we acknowledged the AER is required to include environmental costs in the DMO, we will continue to call for reform to exclude these costs from the bill stack. Relevantly, we also note the second target in Energy Consumers Australia's recently released 'Three Year

³⁶ AER, [Default Market Offer 2024-25 Final Determination](#), 3 June 2024, p. 109

³⁷ [AER-Stakeholder Report – SAPN – 2024-25 Annual Pricing Proposal updated](#), 17 July 2024

³⁸ SACOSS, [Working to make ends meet: Low income workers and energy bills stress](#), November 2020, p.42

³⁹ AER, [Default Market Offer 2024-25 Final Determination](#), 3 June 2024, p. 109

Plan’,⁴⁰ is Value: I pay a fair share for the energy I use, and includes the objective of ‘No further non-energy services paid via energy bills’:

*‘Unlike taxes, which are progressive (i.e. the more you earn, the higher the rate of tax you pay), energy bills don’t take into account your income or personal circumstances, which is why it’s so hard for low-income families, and small businesses that need to use more energy, to afford them. In the middle of a cost-of-living crisis, we need to make sure that **only energy costs are added to our energy bills** – not costs for other policy priorities.’*

SACOSS strongly agrees with this objective. The inclusion of environmental costs in consumers’ energy bills has inequitable impacts, especially in the context of the other existing ‘non-energy services’ South Australian households are already inequitably paying for in their energy bills,⁴¹ and the current energy affordability crisis in this State.

ECA’s and the CSIRO’s Stepping up Report⁴² clearly highlights the regressive nature of energy bills and the increasing divide between those who can afford energy costs, and those who cannot. The ECA found that ‘for those who earn less than \$40,000 per annum, energy bills (electricity and gas) are between 5.7% and 12.7% of their income. In contrast, for those that earn over \$150,000 pa, energy bills make up just 1.5%’ (see Figure 8, below).

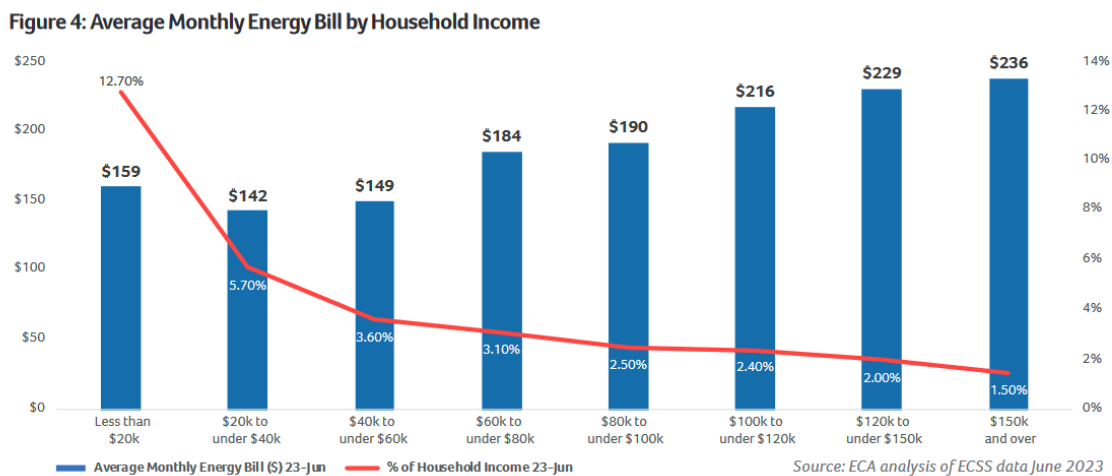


Figure 8: Average monthly energy bill by household income. Source: ECA, CSIRO, August 2023⁴³

This growing energy divide is particularly stark in South Australia where we continue to have the highest effective price for electricity in the Nation (see Figure 9, below) coupled with the highest penetration of roof top solar, which means that fewer households are solely reliant

⁴⁰ [Energy Consumers Australia – Three Year Plan](#), October 2024

⁴¹ Including the PV FiT Schemes, the AGL Designated Services costs, the Retail Energy Productivity Scheme, and both federal and state renewable energy target schemes.

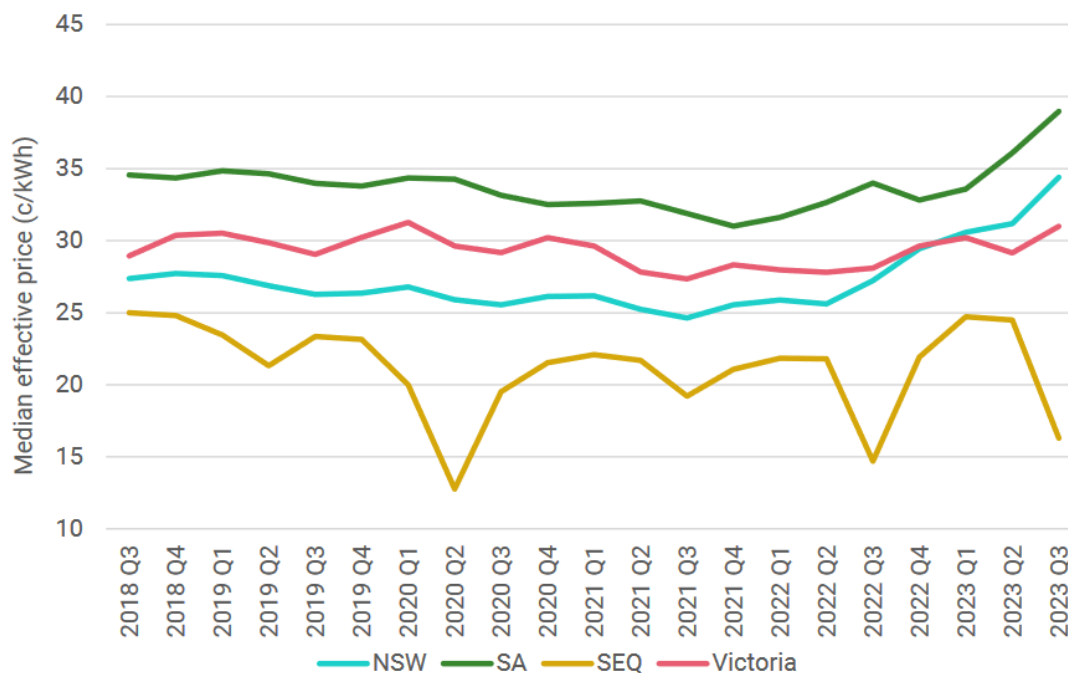
⁴² ECA, and CSIRO, [Stepping Up Report](#), August 2023, p. 9

⁴³ ECA, and CSIRO, [Stepping Up Report](#), August 2023, p. 9

on grid-consumption (renters, people on low-incomes), and those households are paying disproportionately more for network costs (including jurisdictional scheme costs).

Figure 3.1: Residential customers paid higher effective prices in all regions except South East Queensland

Median effective prices paid by residential customers by region, all quarters, from quarter 3 of 2018 to quarter 3 of 2023



Source: ACCC analysis of retailer billing data. Nominal dollars, excluding GST.

Figure 9: Median effective residential price for electricity. Source: ACCC, June 2024⁴⁴

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. 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. The cost of environmental schemes should be borne by businesses, or paid for by governments from tax revenue.

Issues with ‘model annual usage’

SACOSS considers it is useful to provide further South Australian context around the issues with the model annual usage calculations. These calculations are often used to determine bill impacts for all kinds of expenditure, including jurisdictional schemes. As outlined above, there are significant challenges with identifying a ‘broadly representative customer’ in this

⁴⁴ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

State, due to high solar PV penetration and the higher grid consumption of households experiencing energy hardship and payment difficulty.

The AER’s *Annual Retail Market Report* for 2022/23⁴⁵ found that South Australia had amongst the lowest **average** annual household electricity usage in the Nation, at 4,583 kWh, with the AER using a model annual usage of 4,000 kWh (or around 1,000kWh a quarter) to determine Default Market Offer (DMO) 6. SACOSS submits that ‘model annual usage’ calculations used by the AER to determine the DMO (and also to measure energy affordability), fail to adequately consider the impact of lower grid consumption due to roof-top solar penetration, or the higher energy consumption patterns of households experiencing energy hardship or payment difficulty.

The ACCC’s June Report⁴⁶ shows the annual grid usage by different residential customer groups in South Australia (Figure 10, below):

Figure A3.21: Annual grid usage by residential customer groups in SA

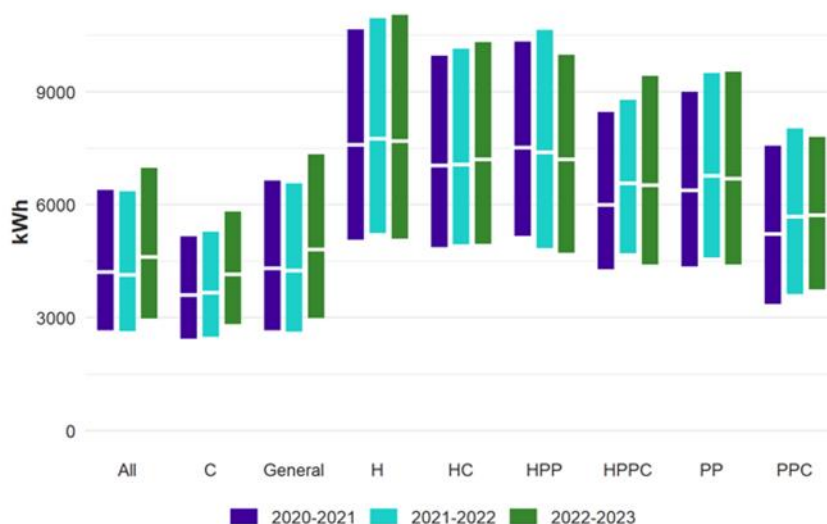


Figure 10: Annual grid usage by customer group. Source: ACCC, June 2024⁴⁷

The ACCC’s data (from billing information) shows the median grid usage for hardship customers (not on a concession) for 2022-23 was 7,684 kWh, with hardship customers on the 75th percentile using 11,035 kWh in that year. The median usage of a hardship customer was **66% higher** than the median usage of a South Australian residential customer in 2022-23, leading to much higher bills. For customers on a payment plan (not receiving a

⁴⁵ AER, [Annual Retail Market Report 2022-23](#), 30 November 2023

⁴⁶ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

⁴⁷ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

concession) median usage was 6,686 kWh for 2022-23 and up to 9,535 kWh for the 75th percentile.

Looking at usage on a quarterly basis, for quarter 3 in South Australia across 2020 – 2023, the median grid consumption for *all* South Australian residential customers in Q3 2023 was 1047 kWh, for customers *not in the other identified groups* (not hardship customers, concession customers or payment plan customers etc.), median usage was 1061kWh (about the same as the AER's average annual usage). For customers on a hardship plan in South Australia, the median usage for Q3 2023 was 1,960 kWh, or **84% higher than customers not in the other identified groups**.⁴⁸

The ACCC noted that usage tends to be highest in quarter 3 each year, but hardship and payment-plan customer groups have median usage significantly above the DMO's model annual usage of 1,000 kWh per quarter **at all times of year**.

The Issues Paper identifies limitations associated with the consumption data used by the AER in determining annual usage and pattern of supply. SACOSS is seeking the AER liaise with DNSPs to obtain more granular consumption data, and provide clarification and transparency on the various inputs the AER uses to determine the model annual usage.

Previous submissions

SACOSS has previously provided the following submissions on DMO consultations, and we are seeking those submissions continue to be taken into consideration in this consultation and future consultations:

- PIAC, ACOSS, SACOSS, [Joint submission to the AER on the Default Market Offer Draft Determination](#), 11 April 2024.
- SACOSS, [Submission to the AER on the Default Market Offer Prices 2024-25 Issues Paper](#), 8 November 2023.
- SACOSS, [Submission to the on the AER Draft Determination Default Market Offer Prices 2023-24](#), 6 April 2023.
- SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022.
- SACOSS, [Submission to the AER on its Consultation on Default Market Offer Prices: Options Paper for the 2022-23 Determination](#), 23 November 2021.

With this in mind, we repeat the following submissions made by SACOSS in previous consultations:

⁴⁸ ACCC, [Inquiry into the National Electricity Market Report](#), June 2024, Appendix E

Overall approach to setting the DMO

- The **DMO must be an efficient and fair price all consumers can default to when no other choice is made, or can be made.**⁴⁹
- The AER must take into consideration issues of fairness and efficiency when performing its function under the DMO Regulations, especially given current market conditions.⁵⁰
- The AER must ensure the current energy affordability crisis in South Australia forms a ‘relevant consideration’ in its DMO determinations.⁵¹
- The AER must allocate greater weight to the DMO objective of ‘providing protection to consumers’ when establishing the DMO.⁵²
- In the absence of DMO reform, the AER must take into consideration issues of fairness, efficiency and prudence 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.⁵³

South Australian issues

- For South Australian small customers, the AER must investigate and address the impact of:⁵⁴
 - mandatory time of use (TOU) standing offers for smart meter customers in South Australia (see Regulation 6A of the *NERL (Local Provisions) Regulations*),
 - the impact on small customers of the removal of flat rate tariff offers for smart meter customers from the market, and

⁴⁹ SACOSS, [Submission to the AER on its Consultation on Default Market Offer Prices: Options Paper for the 2022-23 Determination](#), 23 November 2021, p.2

⁵⁰ SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022, p. 1

⁵¹ SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022, p. 1

⁵² SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022, pp.2-7

⁵³ SACOSS, [Submission to the AER on the Default Market Offer Prices 2024-25 Issues Paper](#), 8 November 2023, p.2.

⁵⁴ SACOSS, [Submission to the AER on its Consultation on Default Market Offer Prices: Options Paper for the 2022-23 Determination](#), 23 November 2021, pp. 3-8

- wholesale market volatility and low liquidity on the energy contracting practices of generators and retailers.

Wholesale costs

- The AER must obtain the best data it can in order to see what retailers are actually paying for electricity, including through having greater visibility of confidential contract information from market participants in South Australia, as well as options and risk management strategies to add into the book build process.⁵⁵
- The AER must scrutinise retail practices on the basis of what a 'prudent retailer' would do - tests for prudence and efficiency are central to the energy system and to ensuring consumers pay no more than is necessary for each component of the service.
- The AER should continue to 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.

Retail costs

- The AER must ensure all retail costs are justified and efficient.
- The AER should review the retail allowance glide path, with a retail allowance (if included at all) based on the marginal costs of the retailer and not on the price stack as a whole.
- Competition allowance (headroom) - over and above efficient retail cost and reasonable, benchmarked retail profit margin - is not required to meet the objectives of the DMO and is not in the interests of consumers.

Network costs

- SACOSS supports the extension of DMO pricing protections to embedded network customers, ensuring the design and application of the DMO does not result in those customers being charged twice for network costs.
- SACOSS considers it is unreasonable to include provide clear reasoning as to why the inclusion of supernormal network profits in a calculation of 'network costs' is justified in the context of the DMO's regulatory framework.

Environmental costs

⁵⁵ SACOSS, [Submission to the AER on the Default Market Offer Prices 2023-24 Issues Paper](#), 5 December 2022, pp. 8-10

- SACOSS considers it is unreasonable for energy consumers to be required to pay for the cost of retailers' compliance with environmental schemes or the cost of jurisdictional green schemes in energy bills, and these costs should be excluded from the DMO.

Average annual usage

- The AER should consider the most recent performance data around usage profiles of the average customer in South Australia, when compared to a South Australian hardship customer.
- The AER should investigate alternative data sources to support its 'annual average usage' calculation for South Australian energy consumers.
- SACOSS supports the AER accessing more accurate consumption data (even if lacking in transparency).
- SACOSS support the imposition of requirements on distributors to publicly report on more granular consumption data.

Conclusion

Thank you for the opportunity to provide feedback in relation to the DMO 7 Issues Paper. We would welcome the opportunity to expand on any of our submissions through further engagement, if required. Please do not hesitate to contact Georgina Morris on 8305 4214, or Georgina@sacoss.org.au, if you have any questions in relation to this submission or require any further information or clarification.