

Topic	Questions	AER response
<b>Step change materiality</b>	<ul style="list-style-type: none"> <li>• The AER talks about the materiality threshold needing to be met before an additional cost can be considered. How is this threshold calculated? <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> <li>• Can the AER please enlighten the group as to why the materiality test is only internal to the AER? If it is not \$10, what is material? \$10 is clearly material <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> <li>• Advanced Metering costs are material. Why does the AER just assume a retailer can absorb this cost? DMO3 is miles off a retailer's true costs. <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> <li>• Retailers are absorbing costs - digital meter, COVID, regulatory. Combined these costs are material. What price does the AER consider material? <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> <li>• Is there any use in retailers providing additional data on bad debt costs in 2021-22 if these costs will not be able to meet the AER's threshold for 'material'? <ul style="list-style-type: none"> <li>- <b>Matt Giampiccolo, Simply Energy</b></li> </ul> </li> <li>• Then the step change framework and high threshold needs to adapt to real costs being incurred by all retailers in the real market. Framework clearly flawed <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> </ul>	<p>The DMO step change framework sets out our approach for taking account of additional material costs faced by retailers that are otherwise not included in the DMO price.</p> <p>We have not defined what constitutes a material cost increase.</p> <p>However, we do regard the materiality requirement as a high threshold to meet. One reason is that under our approach the retail residual component of the DMO price already captures costs for bad debt and regulatory change that were present when we set the first DMO price. CPI is applied to this component each year, so some growth in these costs is already assumed to occur.</p> <p>In considering whether COVID-19 and other cost increases are material, we have also had regard to the DMO policy objectives.</p> <p>These are that retailers can: make a reasonable profit, recover efficient costs to serve; and that retailers have incentives to compete and innovate, and customers have incentives to engage in the market.</p> <p>Our Draft Determination position was that, given the DMO is above what we consider an efficiently priced offer in each region, the policy objectives would not be jeopardised if we did not adjust the DMO price to account for COVID-19, advanced meter and other cost increases.</p>
<b>COVID-19/SOE/Bad debt</b>	<ul style="list-style-type: none"> <li>• Given the AER is making retailers NOT disconnect customers through the SOE, which is likely to be extended, will that decision influence COVID BDD provisions?</li> </ul>	<p>The AER's Statement of Expectations (SOE) notes an expectation retailers will not disconnect customers who are engaging with retailers. However, the usual collection process would apply to those who have not been in contact with their retailer. Hence, disconnections are somewhat more limited</p>

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Margin between market offers and the DMO	<ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> <li>• If the picture is so rosy, then why are the AER planning on extending the SOE?</li> <li>- <b>Anonymous</b></li> <li>• There is not a compulsion not to disconnect in the SOE - and there is not a direct relationship between disconnection and actual debt reduction.</li> <li>- <b>Anonymous</b></li> </ul>	<p>under the SOE. Whether this has a bearing on retailer debt levels is unclear.</p> <p>While a disconnection notice may prompt some customers to engage with retailers, we also note customers experiencing financial difficulty are generally encouraged to contact retailers to avoid disconnection.</p> <p>COVID-19 has led to increases in retailer debt levels, though we also note macroeconomic data and retailer annual and semi-annual reports indicate an improved outlook and lower provisions for bad and doubtful debt for the DMO 3 period.</p>
	<ul style="list-style-type: none"> <li>• Will the AER networks team, the AER SOE team and the AER DMO team discuss their relevant regulatory decisions internally before formal publication?</li> <li>- <b>Anonymous</b></li> </ul>	<p>Yes. The AER DMO team confers with networks and retail teams as necessary in calculating DMO prices.</p>
Efficient costs	<ul style="list-style-type: none"> <li>• Is the difference between the median market offer and the DMO weighted by size of retailers/customers on those offers - or is it a simple difference?</li> <li>- <b>Anonymous</b></li> </ul>	<p>We have used the median market offer as an indication of an efficient price in each region.</p> <p>Our analysis looks at the difference between the DMO and median market offer without taking account of customer numbers on each offer. We are aware that the median may be influenced by factors including market strategy.</p>

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	<ul style="list-style-type: none"> <li>• Has the AER undertaken any analysis to verify that the median market offer in each region reflects efficient retailer costs?               <ul style="list-style-type: none"> <li>- <b>Lawrence Irlam, EnergyAustralia</b></li> </ul> </li> </ul>	<p>We also consider the median market offer among the largest 10 retailers by market share to minimise the potential influence of below price offers. The median market offer is similar to the overall median market offer in each region, and there is a similar level of margin between these median market offers and the DMO.</p> <p>We will consider possible available sources of information on retailer costs as part of our methodology review.</p>
<b>DMO coverage</b>	<ul style="list-style-type: none"> <li>• Why doesn't the DMO apply to authorised retailers who supply embedded networks? Will this gap be closed?               <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> </ul>	<p>The DMO regulations currently exclude embedded networks and therefore the DMO price determined by the AER does not directly apply to retailers selling in embedded networks. Currently only exempt sellers selling under the AER's Exempt Selling Guideline are indirectly complying with the DMO by ensuring they do not charge more than the local area retailer's standing offer contract (i.e. the DMO price).</p> <p>For the DMO to apply to retailers selling in embedded networks, the Regulations would have to be amended. The Department of Industry, Science, Energy and Resources (DISER) will undertake a review of the DMO regulations (Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019) in the second half of 2021. DISER has not released terms of reference as at April 2021.</p>
<b>Productivity adjustment</b>	<ul style="list-style-type: none"> <li>• Consumer stakeholders were regarding productivity adjustment as a forward looking measure to adjust residual retail allowance not reflect actual changes.               <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> </ul>	<p>While we have opted not to include a productivity adjustment for DMO 3, we may consider this as part of our methodology review we will undertake from mid-year.</p>
<b>DMO review</b>	<ul style="list-style-type: none"> <li>• The current discussion with deciding materiality or otherwise of costs is clear evidence of the value of actual cost calculation of DMO, note for review process               <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> <li>• How will AER review sit alongside DISER review? In parallel? After?</li> </ul>	<p>We may consider alternative calculation methods for the DMO cost components, including the residual, as part of our upcoming review of our DMO methodology.</p> <p>The Department of Industry, Science, Energy and Resources (DISER) is planning a review of the DMO regulations (Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019) from mid-year. The regulations</p>

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	<ul style="list-style-type: none"> <li>- <b>David Prins, Etrog Consulting</b></li> <li>• What are the timings on the 2 reviews - when are they expected to be completed by?</li> <li>- <b>Anonymous</b></li> </ul>	<p>cover matters such as the customer types the DMO applies to, timing of DMO decisions, and what the AER must have regard to in determining DMO prices.</p> <p>In light of DISER's review, we are planning on reviewing our DMO methodology, including our method for calculating the DMO cost components, from mid-year.</p> <p>The two reviews will run separately and in parallel, covering their respective areas of focus.</p> <p>For information on DISER's review process and timing we suggest stakeholders contact DISER or await further published information on their review. We intend to conclude our review of the DMO in time for implementation in DMO 4 (the 2022-23 DMO price determination).</p>
<b>Timing of the DMO final price determination</b>	<ul style="list-style-type: none"> <li>• Thought Final DMO 3 was locked in via Federal Govt legislation to being published on 30 April. Please confirm if 30 April is locked in or not?</li> <li>- <b>Jennifer Brownie, Queensland Energy Users Network</b></li> </ul>	<p>The DMO Regulations require us to publish DMO prices by 1 May each year. We will meet this requirement for the DMO 3 Final Determination.</p>
<b>Standing offer benefits</b>	<ul style="list-style-type: none"> <li>• Queensland Competition Authority states a standing offer provides benefits over a market offer but QCA will not quantify - headroom composition is important.</li> <li>- <b>Jennifer Brownie, Queensland Energy Users Network</b></li> <li>• What is the "benefit" of a DMO over a market contract? Has the AER quantified in \$ terms the "benefit" of the DMO over a market contract?</li> <li>- <b>Jennifer Brownie, Queensland Energy Users Network</b></li> </ul>	<p>Standing offer contracts in DMO regions have model terms and conditions specified in the National Energy Retail Rules. Retailers have more discretion in setting terms and conditions for market offer contracts. There are a range of market offers containing differing terms and conditions and offered at different prices.</p> <p>In setting DMO prices, our methodology does not seek to quantify the 'value' of standing offer model terms and conditions over market offers. This would involve considerable complexity and we consider is unlikely to be an appropriate approach.</p> <p>As we have set the DMO price well above the level of efficient costs, we consider the DMO price enables retailers to recover any higher costs to service standing offer customers.</p>

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<b>Wholesale/Total energy costs</b>	<ul style="list-style-type: none"> <li>• Is the ACIL Allen approach to allocation of ancillary services for the DMO consistent with its Queensland approach on notified prices, if not please explain. <ul style="list-style-type: none"> <li>- <b>David Prins, Etrog Consulting</b></li> </ul> </li> <li>• If the AEMC excludes prudential costs from its calculations, should the AER also consider excluding prudential costs from the DMO, or explain why DMO differs? <ul style="list-style-type: none"> <li>- <b>David Prins, Etrog Consulting</b></li> </ul> </li> <li>• Do the AER intend to engage more than one consultant for the estimate of wholesale and Total Energy Costs? Has any back casting been done on TEC for DMO2? <ul style="list-style-type: none"> <li>- <b>Jennifer Brownie, Queensland Energy Users Network</b></li> </ul> </li> <li>• Total Energy Cost is not a regulatory judgement but the estimate of a consultant that is accepted by the AER. <ul style="list-style-type: none"> <li>- <b>Jennifer Brownie, Queensland Energy Users Network</b></li> </ul> </li> </ul>	<p>For DMO 2, we adopted the same approach for the DMO as the Queensland Competition Authority (QCA) did in setting Queensland Regulated Electricity Prices in relation to allocating ancillary services charges.</p> <p>Our revised approach for DMO 3 will be more cost reflective. In its 2021-22 Regulated Electricity Prices draft determination, the QCA also revised its approach to forecasting ancillary services charges to use region specific averages.</p> <p>The AEMC and AER forecasts are made for different purposes, and with different constraints. The DMO price accounts for actual costs incurred by retailers, which includes prudential costs.</p> <p>The DMO is forward looking and we do not compare forecasts to actual costs.</p> <p>In determining the consultants to employ for the DMO we consider our particular needs and seek value for money. When forecasting costs, we check forecasts against a range of data, including information from other regulators and consultants.</p> <p>Cost estimates from our consultant are based on a number of assumptions, such as the hedge book build period, load profiles, and market-based Large-scale Generation Certificate prices. We have consulted with other regulators and stakeholders in developing our methodology for DMO 2 and DMO 3, to ensure our assumptions are reasonable. For our DMO 3 draft determination we made adjustments to the methodology developed in DMO 2, based on stakeholder feedback.</p>
<b>Monitoring prices</b>	<ul style="list-style-type: none"> <li>• Will the AER monitor whether the draft DMO leads to an increase in market offer prices? Will the AER engage with retailers to avoid major price increases? <ul style="list-style-type: none"> <li>- <b>Anonymous</b></li> </ul> </li> </ul>	<p>We will continue to monitor market offers.</p> <p>In adopting the DMO 2 methodology, and in seeking to retain it for DMO 3, we have tracked the difference between the median market offer and DMO price. We have also been tracking market offer price movements, including the spread of</p>

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		<p>prices, and movements in the lowest and higher market offer prices.</p> <p>The DMO does not appear to have had adverse effects on market offer prices.</p> <p>The ACCC has found from Q3 2018 to Q3 2019:</p> <ul style="list-style-type: none"> <li>• The median effective price paid by market offer customers in DMO regions decreased by 1.4 per cent to 7.6 per cent for residential customers. Market offer price reductions for small business customers ranged between 1 per cent and 3.7 per cent.</li> <li>• The report also noted the decrease in the median market offer effective price was greater than the decrease achieved by other likely contributing factors, including reductions in network, wholesale and environmental costs and other factors.<sup>1</sup></li> </ul> <p>Prior to the DMO's taking effect in July 2019, the AEMC provided advice to COAG Energy Council that the introduction of the DMO may lead to:</p> <ul style="list-style-type: none"> <li>• a decrease in price dispersion, including price increases in the lower priced market offers available to consumers, which may reduce the incentive for consumers to engage in the market and could lead to decreased switching.</li> <li>• retailers attempting to recover lost revenue by increasing prices for their other customers, or at least in the short term, withdrawing their lower priced market offers.</li> <li>• increased risk to retailers driving higher financing and overall costs, lower levels of innovation leading to a smaller range of products and services, and higher</li> </ul>

<sup>1</sup> ACCC: *Inquiry into the National Electricity Market September 2020 report*, 21 September 2020, p. 5, 11, 21.

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		<p>barriers to entry and changes to consumer behaviour resulting in decreased competition.<sup>2</sup></p> <p>The AEMC's 2020 retail competition review noted that while it was too early to assess the full impact of the DMO, its analysis showed competition had continued to develop and that its earlier predictions had not yet eventuated. The AEMC found in DMO regions between 2019 and 2020:</p> <ul style="list-style-type: none"> <li>• market concentration continued to decrease. New retailers entered the market and some brands expanded into new jurisdictions. There was a continued trend of consumers switching from Big 3 to Tier Two retailers.</li> <li>• average and median residential offers below the DMO were largely stable with minor movements up or down, depending on the network distribution area.</li> <li>• in all distribution areas where the DMO was introduced (except Essential Energy) retailers reduced the price of their lowest small business offers in 2020.</li> </ul>

<sup>2</sup> AEMC: *2020 Retail Energy Competition Review*, Final Report, 30 June 2020, p. 3–4.