



Government
of South Australia

Department for
Energy and Mining

Our Ref: 2023D022438

Stephanie Jolly
General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Ms Jolly *Steph*

Default Market Offer prices - 2023/24 draft determination

The Energy and Technical Regulation 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 is committed to reducing consumers' electricity bills and thanks the Australian Energy Regulator (the regulator) for its work in developing the DMO draft determination for the 2023/24 period.

We also acknowledge the number of matters raised in the Division's submission to the Issues paper that the regulator has taken into account, as well as the additional analysis the regulator has undertaken with regard to the wholesale electricity cost methodology.

While we consider there has been benefit in this work, the increases proposed in the draft determination are still concerning. All that can be done to ensure consumers are not unfairly burdened by an excessive increase in the 2023/24 DMO, and to reduce the impact on consumers, is encouraged as the regulator works towards its final determination.

While the proposed DMO increase is not at the level forecast during late 2022, the proposed increases to South Australian consumers' bills is concerning. Price increases of this scale are completely unacceptable to the community and will have significant adverse impacts on households and businesses, worsening pressure on the cost-of-living crisis, reducing real disposable income and impacting economic growth.

We note that the forward contract prices have begun to fall following the Federal Government's intervention into the energy wholesale markets. While we acknowledge the regulator's methodology still results in a relatively high wholesale cost component, given the expensive contracts traded before the government intervention contribute to this, we request that the regulator review further movements in these wholesale costs up until the release of the final

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determination that may result in reductions to the DMO. We note that since the regulator's analysis in mid-February, average spot prices in South Australia have reduced further to the end of March 2023. There have also been reductions in base future contract prices across most quarters since this time.

The Division notes the further discussion regarding the regulator's decision to use the 75th percentile estimate of modelled price outcomes. We continue to support the decision made in the DMO 4 determination, and therefore would not support calls to revert back to using the 95th percentile, given the potential for further cost increases to consumers. As the regulator notes, despite the increased energy costs during 2022, the 75th percentile along with other risk-averse assumptions in the DMO methodology, have enabled retailers to recover their efficient costs of providing their services during the DMO 4 period. Given this finding, we do not see a reason to revert to the use of the 95th percentile.

The Division welcomes the regulator's decision to pause the glidepath for residential retail allowances. We have previously been unsupportive of the glidepath approach, and continue to question its appropriateness, noting the regulator's pause is likely to only be temporary. It is worth noting that if the allowances referenced in DMO 3 were maintained it would have resulted in a reduction of between \$40 and \$130 for the allowance component for residential customers (dependent on controlled load).

While supportive of the pause, we are nevertheless aware of the dollar impact this decision still has on South Australian consumers in the 2023/24 DMO.

Despite the negligible change in percentage terms for the allowance component for small businesses, the dollar figure increase is around \$172 and a significant increase when compared to other jurisdictions. We note the considerable impact this decision will have on small businesses in South Australia, with around 15.9 per cent of small businesses on standing contracts (versus 7.8 per cent for residential customers). As many small businesses are family enterprises, or individuals in business - they are effectively impacted twice by the DMO increases - once at their business and again for their residence.

Some comments referenced in the draft determination regarding the DMO not being an "appropriate mechanism to provide vulnerable customers with financial relief and that tightening the retail allowance would provide little bill relief to customers" are a concern. Noting that one of the objectives of the DMO is to "reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices", we consider that any bill relief is a welcome outcome.

While there are certainly other avenues that assist vulnerable customers, the DMO has a direct impact on these, given the impact of the assistance is dependent on the overall bill the customer pays. Further, it is not just vulnerable customers that this decision impacts.





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Customers on the verge of hardship, all customers experiencing cost of living pressures and many small businesses who may not be eligible for financial relief would appreciate bill relief in any form. If relevant wholesale, network and retail costs are, in the regulator's mind, appropriately accounted for in the draft DMO price, a percentage increase in retailer allowance on the overall DMO increase is a larger dollar figure than previously applied. We again stress that the regulator's approach to this component of the DMO be reconsidered to provide some relief to consumers.

While we are cognisant of the impact this may have on market offer discounts, and smaller retailers' competitiveness, it is worth noting that the current lowest generally available market offer in South Australia is from a retailer with 0.2 per cent of the market share suggesting it is possible for small retailers to compete below the DMO.

It is important that consumers can have confidence that the energy system is working in their interests to deliver reliable and cost-effective services in the transformation to a low carbon energy supply. This is why the Minister for Energy and Mining has referred a Terms of Reference to the Essential Services Commission of South Australia to conduct an Inquiry into evidence of, or the potential for, a party (retailer, generator, trading entity or relevant other party) in the electricity industry (and/or the gas industry) to earn or have earned sustained super profits to the financial detriment of South Australian energy consumers.

This work supports the South Australian Government's establishment of a National Energy Crisis Committee of Cabinet and supporting Taskforce to develop a response to the forecast electricity price increases with the aim of implementing measures that can reduce the scale of increase and mitigate the impact on the community.

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, Energy and Technical Regulation Division, on (08) 8429 3298.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Vince Duffy'.

Vince Duffy
**EXECUTIVE DIRECTOR
ENERGY AND TECHNICAL REGULATION**

11 / 4 / 2023



