Hon Dan
van Holst Pellekaan MP

Government
of South Australia

MEM18D1181

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
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Default Market Offer Price - Position Paper

Dear Mr Feather

The South Australian Government thanks you for the opportunity to comment on the Australian Energy Regulator's Default Market Offer Price Position Paper.

While we understand the importance of reducing consumer's electricity bills, we are concerned that the introduction of default market offers could have unintended consequences on competition and market offer prices.

Introducing a default market offer, effectively re-introducing retail price regulation, may adversely impact on non-vertically integrated retailers that would be unable to absorb a potential squeeze between wholesale costs and regulated retail prices.

This may disadvantage smaller retailers which will in turn impact retail competition. Some of these retailers have been the most active in innovating in terms of pricing, tariff and value-added service offerings.

In their 2018 Retail Energy Competition Review the AEMC stated that retail price re-regulation is not justified in deregulated jurisdictions solely because competition is not delivering the expected benefits to consumers at this point in time.

They consider that any assessment of price re-regulation must assess the likely reduction in competitive choice, and dampened levels of innovation and customer service by incentivising exit of existing retailers and acting as a disincentive to new entrants.

At a recent COAG Energy Council meeting it was agreed that the AEMC should undertake work on the impacts of the Commonwealth's proposed default tariff on competition issues and customer impacts including price for both standard and market customers in relevant jurisdictions.

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Given the potential for this proposal to have unintended consequences, we strongly support the Commonwealth Government awaiting receipt of the AEMC's advice on the impacts of the proposed default tariff before discussions continue on the need for a default offer.

The AEMC work will outline the winners and losers of the proposed default tariff. This should address recent suggested benefits of the proposal which we believe have been greatly exaggerated. As at 31 March 2018, only approximately 11 per cent of small electricity customers in South Australia were on Standing Offers which suggests that potential benefits will only be possible for a small percentage of customers.

In addition, the standing offers of South Australia's two largest retailers, AGL and Origin, are on the lower end of the scale meaning annual savings for customers on these contracts would potentially lower if customers were switched to a default market offer.

While the actual benefits would only be known once a default price is set, using the methodology described in the AER's Position Paper, an estimate for a mid-point of the lower and upper thresholds for a South Australian customer is currently $2,385 per annum.

The current standing offers of AGL and Origin are $2,460 and $2,400 respectively. This does not take in to account AGL's recent announcement that customers will now be protected by a safety net that will automatically discount bills for standing offer customers.

This suggests only a moderate saving potential for the majority of the 11 per cent of South Australian customers on standing offers, and this does not take in to account the potential negative consequences of introducing the default market offer proposal, such as a reduction in competitive choice.

A comparison of offers at 30 June 2018 revealed the most competitive market offers in South Australia were offered by Lumo Energy and Simply Energy, both of which had higher standing offer prices than AGL and Origin at that point. It is important that this policy does not result in these lower priced market offers being eroded.

The South Australian Government is committed to reducing consumer's electricity bills and is willing to consider options that could address the matters raised by the ACCC in its Retail Electricity Pricing Inquiry. Consideration of options would be supported that ensure a form of reference price is adopted which establishes a base which all offers can be measured against, but without a maximum price being artificially set by the AER.

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The form of reference price, and the approach adopted by the AER for determining this price, may be similar to the process described in the Position Paper. Importantly, however, we need to take care to ensure any reforms do not result in a reduction in attractive market offers available to consumers.

There are a number of factors that may lead to fundamental changes in the energy markets and competitive market dynamics. The increased use of smart meters, falling solar and battery costs, energy management software, smart appliances, home automation and low financing costs all provide new ways for customers to have greater control over their consumption and bills.

As recently stated by the AEMC, these developments need time to achieve broad take-up, and price re-regulation could adversely undermine this development path, and may slow, delay, or even destroy these consumer benefits.

While more can be done, the primary issue we should be looking to address is ensuring customers can more easily compare offers. This will benefit a greater number of customers given the majority of customers in South Australia are on market contracts, not standing contracts.

Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director - Energy Policy & Projects, Energy and Technical Regulation Division, on (08) 8429 3185.

Yours sincerely

Hon Dan van Holst Pellekaan MP
Minister for Energy and Mining

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