



18 October 2019

Mark Feather  
General Manager, Policy and Performance  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mark

QCOSS welcomes the opportunity to provide input to the Australian Energy Regulator's (AER) Position Paper on the Default Market Offer Price 2020-21 (DMO 2). Everyone in Queensland must be able to access affordable energy as an essential service. We know many people on low incomes pay more for energy services due to a complex market. This has resulted in a system that further entrenches thousands of people into poverty and disadvantage, which is unacceptable for delivery of an essential service.

As in our 2018 submission to the 2019/20 DMO<sup>1</sup>, we support the intent of a DMO price, reference bill and reference price in that it aims to lower bills for customers who have been unable to get good outcomes in the market. QCOSS is satisfied that the DMO has helped make some progress to making the energy market easier and more transparent for people to navigate. Nonetheless, we see opportunities for the DMO to further improve outcomes for consumers made vulnerable by the market. We specifically have some comments on:

- The need to apply the DMO to a wider range of customers;
- Our preference for a more bottom-up approach for calculating the DMO (Option 3 as described on page 19 of the Position Paper<sup>2</sup>);
- Community organisations must be resourced to provide support to ensure the DMO and reference bill reforms will deliver tangible outcomes to those in most need.

The DMO is an effective measure for customers who remain on standing offers, however it does not provide any assistance to customers who are on market offers where the benefit period has expired, or to customers on pay-on-time discount offers who are unable to pay on time. These customers are likely to be better off on the DMO or one of the 'unconditional' discount plans introduced into the market since 1 July 2019. However, given the well-recognised barriers people face in shopping around, we are concerned many people will remain on legacy market offers and will not benefit from the DMO. We understand that some retailers have voluntarily applied the DMO price to some market customers as well, however this is inconsistent across retailers. We recommend retailers be required to apply the DMO

<sup>1</sup> [https://www.qca.org.au/wp-content/uploads/2019/05/33512\\_QCOSS-submission-Draft-Determination-on-Regulated-Retail-Electricity-Prices-for-2018-19-3.pdf](https://www.qca.org.au/wp-content/uploads/2019/05/33512_QCOSS-submission-Draft-Determination-on-Regulated-Retail-Electricity-Prices-for-2018-19-3.pdf)

<sup>2</sup> The Position paper has Option 2 and 3 in section one switched around when compared with the rest of the paper, we are referring to the description on page 19.

to all customers that would be better off, including market customers paying standing offer prices and those not benefitting from conditional discounts.

In developing the DMO price, we urge the AER to ensure that the DMO is more affordable, fairer, and easier to understand than the current standing offers. As an essential service, energy must be accessible and affordable to all, not just those who can understand and engage in what is an increasingly complex market place. To achieve this, QCOSS recommends that the AER uses the more bottom-up approach proposed as Option 3 in establishing DMO 2 price determination. This is in line with the original ACCC Retail Energy Price Inquiry recommendation for the DMO which states that the “*price should be the efficient cost of operating in the region, including a reasonable margin as well as customer acquisition and retention costs.*” However, while we support a bottom-up approach, we strongly recommend any margin or adjustment for customer acquisition and retention costs (CARC) be minimised to the greatest extent possible, recognising that the DMO has been introduced in the first place because many customers are not engaging in the market. Our reasons for recommending Option 3, and rationale for not supporting Options 1 and 2, are detailed in the attached report from Etrog Consulting.

Finally, we consider that the DMO, reference price and reference bill reforms are likely to be ineffective in addressing the experience of people made most vulnerable by the system unless there is more effective information and support provided to people with diverse needs. While the AER has produced education material, many vulnerable consumers will continue to miss out on the benefits of these reforms. It is essential that these reforms are implemented alongside a well-resourced and targeted program of information and support targeted at those who face additional barriers to participating effectively in the market. QCOSS strongly believes that funding must be made available for community organisations to deliver this support, as per the Australian Competition and Consumer Authority’s Retail Electricity Price Inquiry Recommendation 38 which states:

*“In addition to existing funding, the Australian Government and the relevant state or territory government should fund (to a value of \$5 per household in each NEM region, or \$43 million NEM-wide, per annum) a grant scheme for consumer and community organisations to provide targeted support to assist vulnerable customers to improve energy literacy. This grant scheme should be modelled on the approach taken by the Queensland Council of Social Service in administering the Switched On Communities program. This targeted support will assist vulnerable consumers to participate in the retail electricity market and choose and offer that suits their circumstances.”<sup>3</sup>*

Please find attached our external consultant’s report as part of our submission. We would be pleased to discuss our submission with you. Should you have any questions, please contact Luke Reade, Senior Policy Officer, on 3004 6910 or [luker@qcross.org.au](mailto:luker@qcross.org.au).

Yours sincerely



Mark Henley  
Chief Executive Officer

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<sup>3</sup> [www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage](http://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage)