

9 April 2020

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator

Sent via email: DMO@aer.gov.au



Dear Mr Feather,

Submission to Letter regarding impact of COVID-19 on the DMO for 2020-21

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's request for input into the implication of COVID-19 on the DMO determination for 2020-21.

While COVID-19 has numerous potential implications for energy consumption levels and patterns, we draw the AER's attention to two significant contributors to a retailer's cost of operation which are likely to decrease:

- Wholesale prices for retailers are likely to decrease as levels of consumption reduce across the NEM.
- Network prices for residential customers are likely to decrease due to the revenue cap nature of network regulation. While there is a reduction in energy consumption overall, data shows an increase in the volume of residential consumption. Therefore, in order for networks to stay within the revenue cap, PIAC expects a reduction in network prices for residential customers.

The other implications of COVID-19 on retailers' costs are more uncertain and are generally smaller than the two described above.

For instance, retailers' customer acquisition costs may increase as shopping around for energy offers becomes a lower priority for many households and retailers' customer retention costs may decrease for the same reason. These potential changes are small, and the net result is likely to balance out.

As a result, PIAC recommends the AER make no change to these inputs to setting the DMO.

While it is possible that retailers may experience increased costs related to payment assistance programs, there are significant government packages and support measures being implemented that will assist consumers in hardship and alleviate the costs borne by retailers – for instance the support package recently announced by the Energy Networks Association and various governments.

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Recommendation

PIAC recommends that the AER revise down the DMO determination for 2020-21 to reflect the expected net reductions in retailers costs as a result of wholesale and network prices as well as the support mechanisms being implemented.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

Douglas McCloskey

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