



EnergyAustralia

LIGHT THE WAY

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Issues Paper Consultation
Independent Competition and Regulatory Commission
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Issues Paper: standing offer electricity prices from 1 July 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise more than 5,000 MW of generation capacity.

EnergyAustralia appreciates the opportunity to provide comments to the Independent Competition and Regulatory Commission (ICRC) issues paper on standing offer prices for the supply of electricity to small customers from 1 July 2024.

Terms of Reference on price appears more closely aligned with the objectives of the DMO

We consider the overall policy approach to price appears more closely aligned with the objectives of the Default Market Offer (DMO), than the Victorian Default Offer (VDO). Point 5 of the Terms of Reference requires the:

methodology for determining standing offer price has regard to a reasonable pricing offer for small customers that does not unduly disadvantage those who do not actively engage in the energy market, while balancing the competitiveness of the retail electricity market.

Point 5 of the Terms of Reference appears to be a new factor the ICRC must consider in its price direction that does not feature in the Terms of Reference under the current price direction. There are two interlinked principles to point 5: the first is protective pricing for consumers who do not or cannot engage in the market and the second, is maintaining the competitive dynamics of the retail electricity market.

We consider these two principles are reflected in the objectives of the DMO and not in the VDO. The VDO objective is to 'provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity market'.¹ While there is reference to 'reasonable' pricing to protect consumers under the VDO objective, there is no regard to competition in the retail electricity market. In contrast, the DMO covers both principles in its objectives, which are to:

¹ Clause 3 of the Vic pricing order.

- *reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices*
- *allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention*
- *maintain incentives for competition, innovation and investment by retailers, and incentives for consumers to engage in the market.*²

We recommend adopting the DMO approach should the ICRC change its pricing methodology

Given the DMO reflects both price protection and retail competition principles under point 5 of the Terms of Reference, we recommend adopting the DMO approach across the board where the ICRC is considering changes to its current pricing methodology. This includes adopting the DMO approach to any changes to determine the:

- Retailer operating cost
- Retail margin
- Other price methodology changes.

Overall we consider good regulatory practice means the ICRC should avoid mixing different DMO and VDO regulatory approaches to engineer a price outcome. Regulatory consistency and predictability are critical to maintaining retailers' confidence that they can recover their costs and supporting incentives for competition which benefits consumers.

If you have any questions in relation to our submission, please contact me (maria.ducusin@energyaustralia.com.au or 03 9060 0934).

Regards,

Maria Ducusin
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² AER, *Default market offer 2023–24 Final price determination*, May 2023, p39.