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Paula Conboy
Chair
Australian Energy Regulator
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Sent electronically

Dear Paula

AER's Default Market Offer price - draft determination

I refer to the AER's call for submissions on its draft determination for retail electricity Default Market Offer (DMO) prices. The DMO prices are for network distribution zones in the National Electricity Market (NEM) where there is no retail price regulation, and will also be used to establish a common reference bill in those zones.

As we submitted on 7 December 2018 in response to the AER's position paper on DMO prices, the ACCC's interest in the process is to ensure that the DMO is implemented in a way that achieves the goals set out in the ACCC's 2018 Retail Electricity Pricing Inquiry (REPI) final report, in which we recommended the introduction of the DMO.

The ACCC strongly supports the AER's proposed pricing approach of a 'top down' method using observed pricing data from generally-available offers as of October 2018, and setting the DMO price for each distribution zone at the mid-point (50th percentile) of the range between the median market offer and median standing offer. The ACCC also supports the DMO prices being expressed as annual price amounts, based on benchmark consumption levels, rather than as fixed and variable charges.

As the AER is aware, in its 2018 REPI final report, the ACCC recommended the introduction of the DMO to address two broad issues in the retail electricity markets in the NEM:

- standing offers are often the highest priced offers in the market, which imposes unreasonably high costs on customers that are unable to effectively engage in the retail electricity market
- marketing of retail offers has become focused on headline discounts, but these discounts are not calculated off the same base price, which means that customers who do seek to engage in the market cannot effectively compare offers.

As the AER has noted in its draft determination, the ACCC considered that the DMO price should not be the lowest price, or close to the lowest price in the market, nor should it be set an 'efficient' level. Rather, its purpose is to act as a reasonable fall-back position for those

not engaged in the market for whatever reason or for those that require its additional protections, whilst also allowing scope for continued competition in retail offers.

Perhaps even more importantly, as a common reference bill, the DMO price would also help customers more easily compare offers and identify a better deal, which will further enhance competition and so assist a wider group of customers.

The ACCC considers that the AER has struck an appropriate balance in its methodology for setting DMO prices at levels that are low enough to minimise the 'loyalty tax' currently levied on disengaged customers, while not being so low that they would risk stifling competition or would not enable retailers to recover their efficient costs in servicing customers. We consider it critical that the DMO is not set at too low a level because of the benefits that competition drives, including efficiency and innovation.

The ACCC will continue to engage with the AER in relation to the implementation of the DMO and, in addition to its enforcement role under the Australian Government's proposed mandatory code under the *Competition and Consumer Act 2010*, intends to closely monitor the effect of DMO prices over time for all customers as part of its new long-running public inquiry into the supply of electricity in the NEM.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rod Sims', written in a cursive style.

Rod Sims
Chair