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Date: 20 April 2023

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Att: Electricity Division

## **Default Market Offer Post-review consultation**

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the recent consultation paper released by the Department of Climate Change, Energy, the Environment and Water (DCEEW) regarding the implementation of the 2022 Default Market Offer (DMO) review outcomes.

The AER supports all small customers in embedded networks receiving pricing protections. Currently there are varying degrees of protection across the National Energy Market (NEM), depending on jurisdiction and selling arrangement.

The AER does not have a role in retail electricity regulation outside of the National Energy Customer Framework (NECF) regions (Queensland, NSW, SA, ACT and Tasmania). Consequently, our submission focuses on the proposed amendments in relation to their operation in the NECF.

## **Current pricing protections**

In NECF regions, customers of *exempt sellers* in embedded networks receive pricing protections under condition seven of the *Retail Exempt Selling Guideline*. Condition seven requires exempt sellers to not supply electricity above the standing offer of the local area retailer. In NECF regions the standing offer is regulated by different agencies:

- In NSW (Ausgrid, Endeavour Energy and Essential Energy distribution zones), South-east Queensland (Energex) and South Australia (SA Power Networks) the DMO code applies, which requires retailers to price standing offers at or below the Default Market Offer.
- In other NECF regions the standing offer price is regulated by the local economic regulator (ICRC, OTTER and QCA).

However, customers of *authorised retailers* in embedded networks do not receive pricing protections. This is because:

- Authorised retailers are not subject to the exempt selling guidelines, and there is no equivalent pricing requirement placed on authorised retailers under the retailer authorisations process or the broader NERR, NER, NERL.
- The current DMO code excludes operation in embedded networks.

This is summarised below in Table 1

**Table 1 Summary of pricing protections in DMO and other NECF regions**

<b>Customer type</b>	<b>DMO regions</b>	<b>Other NECF regions</b>
Distribution Network Service Provider (DNSP) connected customer	Standing offer must be at or below DMO price	Standing offer regulated by economic regulator
Embedded network customer supplied by an <i>exempt</i> seller	Condition 7 of exempt seller guidelines	Condition 7 of exempt seller guidelines
Embedded network customer supplied by an <i>authorised retailer</i>	Currently no pricing protection	Currently no pricing protection

### **DMO regions**

The AER supports extending the current DMO prices to equivalent customers in embedded networks in DMO regions. This approach would align pricing protections for DNSP-connected and embedded network customers. This approach would also afford similar pricing protections for both embedded network customers supplied by authorised retailers and exempt sellers. The AER considers it appropriate for all consumers to receive similar pricing protections regardless of the nature of their connection.

We encourage the DMO code to be simple as possible, and to continue its current functions which require the:

- AER to determine a DMO in regions where other economic agencies do not regulate standing offers.
- ACCC to enforce retailer obligations to price standing offers at or below the DMO.

### **Other NECF regions where DMO does not apply**

We caution against expanding the operation of the DMO code so that it requires authorised retailers in embedded networks to price at or below the local standing offer in jurisdictions where the DMO does not currently apply. In these jurisdictions the standing offer is set by another agency under different regulatory frameworks with varying objectives, customer definitions and tariff structures.

Expanding the DMO code to require authorised retailers in embedded networks to charge at or below the local standing offer would introduce a pricing obligation in the DMO code without a corresponding ability to amend the scope, customer type, procedures, objectives or other matters considered by the agency that is determining the standing offer price. This may cause issues if the current pricing regulation regimes in these jurisdictions do not appropriately correlate to:

- The products, tariff codes and structures offered to customers in embedded networks.
- The types of customers in embedded networks.

For example:

- Customers in embedded networks with an authorised retailer may be on an 'energy only' offer and pay the embedded network owner/operator a separate bill for network costs. In these cases, the appropriate regulated standing offer price would not include recovery of network costs to prevent customers being double-charged for network costs.
- Economic regulators may be required to determine an appropriate price for a set of specified tariff codes for particular customer types that may not be applicable in embedded networks.

This would require these separate agencies to develop appropriate standing offers under regulatory processes separate to the DMO code.

### **Energy only offers**

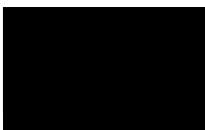
As discussed above, customers in embedded networks with an authorised retailer may be on an 'energy only' offer and pay the embedded network owner/operator a separate bill for network costs. If the retailer is permitted to charge a price that includes recovery of network charges, the customer could end up paying for network costs twice, once in their bill to the retailer as well as the separate bill to the network owner/operator.

The AER supports amending the DMO code so that it requires authorised retailers supplying 'energy only' offers in DMO regions to not charge more than the DMO price minus the network component. This would prevent customers on energy only offers in DMO regions from being charged twice for network costs.

For the reasons outlined above in the preceding section, the AER considers there are issues with the department's proposal to have the local standing offer apply in embedded networks outside of DMO regions. The local standing offer price is likely to include recovery of DNSP costs and would be set at an unsuitable price for customers of Authorised retailers on energy only offers. As discussed above, the AER considers allowing QCA, OTTER and ICRC to determine appropriate prices in embedded networks, including energy only offers, the most suitable approach.

We thank DCCEEW for the opportunity to provide input to this consultation. If you have any questions about our submission, please contact Chloe Haseltine on [REDACTED].

Yours sincerely,



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Australian Energy Regulator