



MEM19V0275

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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Default Market Offer Price – Draft Determination

Dear Mr Feather

The South Australian Government thanks you for the opportunity to comment on the Australian Energy Regulator's (AER's) Default Market Offer (DMO) Price Draft Determination.

South Australia understands the importance of reducing consumer's electricity bills and enabling consumers to better compare offers. It is however imperative that the implementation of these provisions does not negatively impact on retail competition. Importantly, we need to take care to ensure any reforms do not result in a reduction in attractive market offers available to consumers.

Some of the retailers that have been the most active in innovating in terms of pricing, tariff and value-added service offerings have been smaller, second tier retailers. Currently around twelve smaller, second tier retailers have their best market offer below the draft DMO for South Australian residential customers. We would be disappointed if these retailers were disadvantaged by the introduction of a DMO which would in turn negatively impact retail competition.

We note the views of the Australian Energy Market Commission (AEMC) in its advice to the Council of Australian Governments (COAG) Energy Council in December 2018. They suggest that retailers' response to the introduction of the default tariff is likely to be changes in their market offers.

They have suggested that an increase in the price of market offers, a decrease in the range of offers and an increase in the price of standing offers may all eventuate in the short term following the introduction of a DMO.

The AEMC modelled how retailers may respond to a decrease in revenue from standing offer and higher priced market offer customers following the introduction of a capped default offer. They suggest it is likely that retailers will respond to the introduction of the default offer by increasing market offers.

While the extent to which might occur is uncertain, results from AEMC modelling show that in South Australia a default offer set 10 per cent below current average standing offer prices increases the lowest market offers by 25.8 per cent (in order to recover half of the lost revenue from the introduction of the default offer).

As the AER's draft DMO is close to a 10 per cent reduction on the current average standing offer prices of the retailers in SA, the Government is mindful of the impact the DMO may have on the lower market offers in the retail market going forward.

We also note the possibility that standing offers may increase up to the DMO. While the AER in their draft determination note that they do not expect that the DMO price would impact these retailers' standing offer prices and their customers would continue to receive the current standing offer price levels. This will impact South Australia as a few retailers, including second tier retailers, currently have standing offers set well below the draft DMO. We consider this will need to be monitored closely following implementation of the DMO.

We note that the AER expects that no customer should be worse off under the implementation of DMO prices, irrespective of their consumption level. Further, if a retailer's fixed and variable cost structure remains consistent, the AER do not expect that fixed or variable charge components of existing standing offer prices will increase.

While we agree that it is important for retailers to remain able to maintain different tariff structures, and are allowed some flexibility to set their fixed and variable tariff components, we do question how the AER can be confident that no customer will be worse off. For example, we question how retailers will reduce current standing contract tariff levels in order to meet the DMO. If, for example, retailers reduce the variable component more (or less) than the fixed component, this will impact on certain customers differently. So, while retailers may not *increase* current tariff levels, the potential for retailers to *disproportionally reduce* each tariff component may impact on certain customers differently. The AER should release analysis in support of their assertion.

We query whether retailers could structure their offers in such a way to disadvantage certain customer types, or avoid compliance, or potentially confuse customer comparisons against the DMO or reference price. The AER should therefore consider how potential gaming could occur, and be overcome, in its approach to determining the final DMO.

The South Australian Government is committed to reducing consumers' electricity bills and thanks the AER for its work in determining a draft DMO and reference price.

Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director - Energy Policy and Projects, Energy and Technical Regulation Division, Department for Energy and Mining on (08) 8429 3185.

Yours sincerely



Hon Dan van Holst Pellekaan MP
Minister for Energy and Mining