5 December 2018

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Via email: DMO@aer.gov.au

Dear Mr. Feather,

RE: Australian Energy Regulator's Position Paper on Default Market Offer Price

The National Farmers' Federation (NFF) welcomes the opportunity to make a submission to the *AER Position Paper Default Market Offer Price* and supports this measure as recommended by the ACCC's *Retail Electricity Pricing Inquiry* (REPI) report to improve transparency in the market for residential and small business customers. In particular, these refer to:

- **Recommendation 30 –** *In non-price regulated jurisdictions, the standing offer and standard retail contract should be abolished and replaced with a default market offer at or below the price set by the AER.*
    - *Designated retailers, as defined in the NERL, should be required to supply electricity to consumers under a default offer on request, or in circumstances where the consumer otherwise does not take up a market offer.*
    - *The default offer should contain simple pricing, minimum payment periods, and access to bill smoothing and paper bills.*
    - *The AER should be given the power to set the maximum price for the default offer in each jurisdiction. This price should be the efficient cost of operating in the region, including a reasonable margin as well as customer acquisition and retention costs.*
    - *The default offer should be used by retailers in all circumstances where a standing offer is currently used. This includes circumstances where a consumer has moved into a premises but has not contacted the retailer, where a consumer has not selected a market offer before the expiry of a market contract, and where a consumer is switched through a retailer of last resort event.*

- **Recommendation 32 -** *If a retailer chooses to advertise using a headline discount claim it must calculate the discount from the reference bill amount published by the AER.*
    - *The AER should publish a reference bill amount for each distribution zone using AER bill benchmarks for medium (2–3 person) households and the price set by the AER for default offers (recommendation 30).*
    - *Retailers must calculate all discounts off the reference bill, including win-back and retention offers that have discounts attached to them*
    - *Headline discounts in advertising must only include guaranteed (unconditional) discounts.*

- **Recommendation 49 -** *The ACCC's recommendation to abolish the standing offer and replace it with a 'default offer' at or below a price set by the AER (recommendation 30) should be extended to all generally available offers including offers for SME customers.*

- **Recommendation 50 -** *The ACCC's recommendation that all discounts must be calculated from a reference bill amount set by the AER (recommendation 32) should be extended to all generally available offers including offers for SME customers. The AER should develop a process for determining a benchmark for representative usage levels for an average SME customer. Similarly, restricting conditional discounts to the reasonable savings that a retailer expects to make if a consumer satisfies the conditions (recommendation 33) should also apply to offers for small business.*

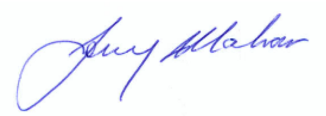
The NFF broadly supports all of the above recommendations which intend to reduce the impact of power prices for customers by improving their ability to navigate through the market. While the recommendations will largely impact those currently on standing offers, having a clear and simple reference price or comparison rate will be a useful change to the previously unnavigable and confusing power price bills that prevented customers from selecting an appropriate market offer. Supposed discounted prices did not necessarily reflect the cheapest offer a customer could take. The ACCC noted that retailers had developed opaque discounting structures which are set with reference to their own independently set prices which were not comparable across the market or zone. This meant that offers with a large headline 'discount' could be more expensive than one with a lower discount.

People living in regional and rural Australia already pay significantly higher power prices than those living in the city. While this measure will provide customers more transparency and allow them to capitalise on better market offers, it must address, or at least account for in the determination of a Default Market Offer (DMO), underlying structural issues creating unnecessarily high power prices for customers in rural and regional Australia.

Poles and wires are a significant cost component for regional users where there are higher transmissions costs and fewer customers to amortise the cost burden across. Retail electricity markets in regional areas also lack adequate competition and as such, there is a lesser incentive for retailers to provide competitive prices. If this is the case, a DMO in areas where there is only one retailer would not yield substantial savings in the absence of a broader energy policy. While this is the case, there is inherent value in providing a simple figure from which customers can receive a meaningful discount from.

The NFF is of the view, in developing a DMO, the price should be communicated in a manner that is simple and which allows customers to easily access and understand. Administrative costs involved in this process should be absorbed by shareholders and not the customer.

Yours sincerely,



TONY MAHAR
Chief Executive Officer