

The Hon Penny Sharpe MLC

Minister for Climate Change, Minister for Energy,
Minister for the Environment, Minister for Heritage,
Leader of the Government in the Legislative Council



Our ref: MD23/6213

Ms Clare Savage
Chair
Australian Energy Regulator

By email: DMO@aer.gov.au

Dear Ms Savage *Clare*

I welcome and acknowledge the role of the Australian Energy Regulator (AER) in determining the Default Market Offer (DMO) price each year as established under the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (the Code). I appreciate the opportunity to provide a submission to the AER's DMO prices 2024-25 issues paper.

I acknowledge that the DMO's policy objectives include ensuring retailers can recover the costs they incur to serve customers and make a reasonable profit. I also recognise that the AER reduced the retail allowance in NSW from 10% to 9.3% in DMO 5 (2023-24), mitigating more significant DMO price increases in NSW in the context of broader electricity price volatility for NSW residents. However, the fixed percentage methodology used by the AER in the DMO 5 determination still increased allowable retail margins in dollar terms significantly in NSW and other jurisdictions.

As noted in my previous correspondence to the AER on the DMO 5 final determination on 5 May 2023, I request the AER consider an alternative approach to that currently employed to setting the retail allowance, to better ensure customer bill impacts from energy price volatility are not compounded by the methodology for the retail allowance. Options the AER may wish to explore could include an inflation linked approach, setting retail margins at a lower percentage of the total DMO price or by setting an absolute profit value per customer. These alternatives would limit any compounding of energy price volatility, while still adhering to the DMO's objectives. A long-term approach for the retail allowance methodology will provide governments, retailers, and consumers with better clarity on future DMO determinations.

I also note that the AER has not included reference in its issues paper to the proposed extension of the DMO to customers supplied by authorised retailers in embedded networks. I understand the Australian Government in its post-implementation review of the Code noted that the AER would further consult on how to implement changes, related to extending price cap protections provided by the DMO to customers in embedded networks, in its DMO determination process. I believe it is pertinent the AER consider the issue of the extension of the DMO to customers in embedded networks to ensure that application for the purposes of DMO 6 are possible, subject to any regulatory amendments being finalised.

Should you have any questions about these matters, please contact Andrew Lewis, Acting Deputy Secretary, Energy, Climate Change and Sustainability at the Office of Energy and Climate Change at andrew.lewis@planning.nsw.gov.au or on 0411 286 210.

Sincerely

A handwritten signature in blue ink, appearing to read 'Penny Sharpe'.

Penny Sharpe MLC

Minister for Climate Change, Minister for Energy,
Minister for the Environment, Minister for Heritage

8/11/23

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