

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



IRF22/3729, DOC23/353433

Ms Clare Savage
Chair
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

By email: aerpolicy@aer.gov.au

Dear Ms Savage

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. I recognise the consultative approach that the AER takes to the development of its methodology and the determination of the appropriate DMO prices each year.

The DMO is set to increase across all network regions over 2023-24. In NSW, residential customers on standing offers have seen price increases between 8.5 and 18.3 per cent in 2022-23, and based on the draft determination for 2023-24, will see further price increases of between 20.9 and 23.7 per cent.

I recognise that the DMO's policy objectives include to ensure that retailers can recover the costs they incur to serve customers and make a reasonable profit. However, the change in the method implemented by the AER for its 2022-23 determination to provide a retailer allowance as a percentage of the total DMO price, has increased allowable retail margins in dollar terms significantly. The retailer allowance is expected to increase in the NSW network regions for residential customers by between \$34 and \$57 from 2022-23 to 2023-24 alone.

I request AER consider whether the 10 per cent retail margin, and effective increase in absolute profit per customer, is justified in the current context and specifically address this in its final determination. Data from the Australian Competition and Consumer Commission, published 8 December 2022, showed electricity retail margins for residential customers were at an average of 2 per cent across the National Electricity Market and 3 per cent in NSW in 2021-22.

I also request the AER consider whether alternatives are more appropriate, including an inflation indexed 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 have increased DMO prices to a lesser degree in 2023-24, while still adhering to the DMO's objectives.

I understand the consultation period on AER's draft 2023-24 DMO determination ended on 6 April 2023. Nevertheless, I request AER treat this as a submission in that process.

I understand the AER is in the final stages of preparing the 2023-24 DMO and I would appreciate your accommodation of these issues in the final determination. I look forward to hearing your views and would welcome a meeting with you ahead of the AER Board making its final determination later this month.

Please reach out to my office at office@sharpe.minister.nsw.gov.au to arrange a mutually suitable time to meet.

Should you have any questions about these matters, please contact Andrew Lewis, Acting Deputy Secretary, Energy Climate Change and Sustainability on 0411 286 210.

Sincerely,



Penny Sharpe MLC

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

5/5/23