



Mr John Pierce AO
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr ^{Joh}Pierce,

On 26 October 2018, the COAG Energy Council considered the ACCC final report to its Retail Electricity Pricing Inquiry (REPI). At the meeting the Council agreed on the need to develop a reference price, and ask the AEMC to undertake analysis of the Commonwealth's proposed default tariff policy.

Consistent with this decision, I ask the AEMC to start preparing analysis on the impacts of the proposed default offer.

Considering the analysis will be on Australian Government policy I ask that the AEMC has regard to the below policy outline and assumptions, and liaise with the Commonwealth on policy design and implementation issues.

The analysis should consider the impacts of the default offer on competition and small consumers, including price for both standard and market offer customers across the NEM. The AEMC should consider which small consumers will benefit from a default tariff policy and which may be worse off. The competition analysis should include the impact on offerings of second tier retailers. The work should analyse the impact of the default offer on NEM states and territories (or parts of states) where the retail market is competitive and retail prices are deregulated.

In preparing this advice the AEMC should be mindful of the ACCC's analysis of retail margins and costs. This includes the ACCC's finding that not all retailers receive the same levels of revenue and that the major retailers are achieving margins well over the expected economic rates of return in a competitive market.

In light of this we ask that the AEMC analysis also has regard to the Australian Government's intention to adopt the ACCC's recommendation to improve retail price transparency and competition (recommendation 32 from the REPI report). For the purpose of this work the Commonwealth's default offer rate is understood to be:

- a price cap set by the AER for each network region where retail prices are deregulated;
- a price cap imposed on standing offers with a flat rate tariff structure and offered by all retailers authorised in competitive markets;

- based on the efficient cost of operating in each region, including a reasonable return on investment, as well as cost to serve customers, and customer acquisition and retention costs; and,
- to be applied by retailers in circumstances where a standing offer is set by the individual retailer and applied to small customers (residential and business customers). The analysis should not include customers of exempt sellers.

The AEMC's analysis should consider consumer and competitive impacts on retail markets in New South Wales, South Australia, and South East Queensland. The analysis should consider residential and small business consumers.

It is the Commonwealth's intent that the default offer is set at a level to ensure that competition remains effective and that the default rate is not so low that it would result in market offer products being crowded out of the market. Therefore we ask that the AEMC also has regard to the scope of retailers to provide competitively priced offers below the prescribed default rate.

In terms of timing I ask that the AEMC provide that advice to the COAG Energy Council by Friday, 7 December 2018. AEMC staff leading on the project are asked to contact Mr James O'Toole, Assistant Secretary of the Electricity Branch at James.O'Toole@environment.gov.au to discuss the project. The AEMC are also asked to liaise closely with officials in New South Wales, South Australia and Queensland on this work.

I look forward to receiving the advice.

Yours sincerely



Mr Rob Heferen

Chair of SCO

12 November '18