



Review of the retailer of last resort scheme

Stakeholder submissions invited on new review

The Australian Energy Market Commission (AEMC or Commission) has published a consultation paper for a review requested by energy ministers. The review seeks to consult on proposed amendments to the Retailer of Last Resort (RoLR) scheme to improve consumer outcomes and to enhance the financial market stability of the NEM. Stakeholder submissions must be lodged with the Commission by **19 November 2020**.

Review of the retailer of last resort scheme

On 8 October 2020 the ministerial forum of Energy Ministers (formerly COAG Energy Council) requested that the AEMC conduct a review to provide advice to governments on updating the RoLR scheme. The request follows the Commission's analysis and recommendations in the 2020 Retail energy competition review final report to amend the RoLR scheme. The review's terms of reference request that a Final report be provided three months after initiation of the review by the Commission.

The aim of this review is to refine the Commission's recommendations to improve the RoLR scheme and provide an opportunity for stakeholder input. The Commission considers that it is an appropriate time to consider changes to the RoLR scheme due to the heightened risks prevalent in the electricity sector due to the COVID-19 pandemic, which may last for a prolonged period.

Issues for consultation

The AEMC published a consultation paper on 22 October 2020 seeking stakeholder feedback on a number of specific issues and recommendations to improve the RoLR scheme. These issues are:

- Removing the RoLR requirement for small customers to be placed on the standard retail contract, as recommended in the AEMC's 2020 Retail energy competition review, to improve consumer outcomes if a RoLR event occurs.
- Making some of the changes to the RoLR scheme as previously recommended in the AEMC's NEM financial market resilience review and 2020 Retail energy competition review. Those changes included:
 - providing greater clarity on RoLR cost recovery arrangements
 - delaying designation of RoLRs
 - delaying requirements for the RoLR to provide credit support to AEMO associated with the additional customers.
- Making RoLR plan requirements less prescriptive (an additional issue suggested by the AER).

In addition, the Commission has asked stakeholders to consider feedback on other issues related to the RoLR scheme for the purposes of identifying issues that may warrant further consideration at a later time.

Context

Through the 2020 Retail energy competition review final report the Commission assessed the retail market under the COVID-19 pandemic conditions. The Commission traced through the effects of the pandemic on consumers, retailers and the market as a whole.

Given the Commission's findings that there had been a sizeable impact on the retail

market the Commission assessed the adequacy of the existing market and regulatory framework to deal with the potential for retailer failures. The Commission updated the extensive analysis it previously conducted in the [NEM financial market resilience review](#) for pandemic conditions. These specific conditions relate to the failure of a retailer or retailers with a large number of customers, due to a significant increase in the number of customers who are deferring or unable to pay their bills. This may:

- heighten the risk of the existing RoLR scheme triggering financial contagion across the sector through the transfer of non-paying customers to retailers who already have a growing number of non-paying customers
- result in both paying and non-paying customers being automatically placed on the receiving retailer's standing retail contracts, when experience shows that it will take many years for customers to shift onto lower priced market offer contracts
- reduce competitive pressure on prices generally through the loss of second and third tier retailers who have over recent years been increasing their market shares at the expense of the "Big 3".

To address these risks the Commission considered that changes should be made to the RoLR scheme to improve outcomes for small customers and to enhance the financial market stability of the NEM. For more information on the Commission's analysis and recommendations see chapter seven of the [2020 Retail energy competition review final report](#).

For information contact:

Director, **Ben Davis** (02) 8296 7851

Adviser, **Samuel Martin** (02) 8296 0646

Media: Media and Content Manager, Kellie Bisset 0438 490 041

22 October 2020