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### **Default Market Offer prices (DMO) 2024-25: Issues Paper**

AGL welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) Default market offer prices 2024-25: Issues Paper (Issues Paper) published on 5 October 2023.

AGL operates nationally across the energy supply chain and delivers gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with a generation capacity of over 11,000 MW, accounting for approximately 20% of the total generation within Australia's National Electricity Market.

In our response, we have provided feedback on the several amendments to the DMO 6 methodology proposed by the AER. In summary, unless there is a substantial case for change, AGL considers that consistency in approach for will be vital in ensuring stability as the market continues to evolve.

If you have any questions in relation to this submission, please contact Emily Gadaleta on [egadaleta@agl.com.au](mailto:egadaleta@agl.com.au).

Yours sincerely,

Chris Streets

General Manager

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## Attachment A: AGL Responses to the Issues Paper

### Wholesale costs

Question: What approach should we take towards estimating load profiles? Should we retain profiles based on the NSLP and CLP, create blended profiles using the NSLP/CLP and advanced meter data, or take another approach towards estimating load profiles? Which is most reflective of a reasonable retailer's approach?

AGL believes load profiles should be estimated using blended profiles that include data from interval meters as well as accumulation meters. This would more closely align with the shape retailers face in reality.

The sheer volume of customers that have now installed solar PV (and typically switched to an interval meter as part of that process) means that the shape of the NSLP is materially different (and flatter) than the load profile facing retailers in reality. Accordingly, use of a load profile that does not take into account interval meter data would materially underestimate the WEC.

Please refer to our submission to the DMO 5 draft determination for further analysis of the solar customers meter data and the comparison between NSLP and Mass Market load profiles.<sup>1</sup>

Question: Is the lack of transparency of AEMO's advanced meter data a major issue for stakeholders? What information could we provide stakeholders to address issues with transparency of data?

AGL believes that the aggregated or normalised profile used should be made publicly available if possible.

However, AGL submits that even if that is not possible, load profiles should still be estimated based on a blended profile that includes interval as well as accumulation meter data. In AGL's view, the most important issue is to ensure that the load profiles used in the calculation of the WEC accurately reflect the load shape faced by retailers in reality.

If the data underlying an aggregated or normalised profile cannot be made public, AGL submits that the AER should ensure the inputs and calculation methodology are transparent and the AER's consultant should be given sufficient information to satisfy themselves that the correct shape has been determined. With this in mind, AGL believes that further clarity would be required for market participants to understand the exact dataset that is being provided for these purposes.

Question: Should the AER determine separate load profiles for residential and small business customers? Is this reflective of a prudent retailer's approach?

AGL submits that the AER should use a consistent approach unless there is a clear need for change and, on this issue, does not consider there is any identified need for the AER to alter its existing approach.

Question: Should the AER have a singular profile for the entire NSW region instead of individual load profiles based on distribution zone? Is this reflective of a reasonable retailer's approach?

AGL submits that the AER should use a consistent approach unless there is a clear need for change and, on this issue, does not consider there is any identified need for the AER to alter its existing approach.

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<sup>1</sup> [AGL Submission – 2023-24 DMO Draft Determination](#)



Question: What additional data should we consider when assessing contract pricing for DMO 6, given the lack of liquidity in South Australia remains?

As the AER is aware, AGL has raised concerns in DMO consultations in previous years that the lack of liquidity of ASX contract data in South Australia for those years raised doubts on whether the ASX data accurately reflected the costs retailers faced in South Australia.<sup>2</sup> As this depends on liquidity, AGL submits that the question should be considered at the Draft Determination stage based on data available at that time (which will provide a more accurate indication of the level of liquidity for the upcoming financial year in the relevant period).

Question: In the absence of sufficient exchange traded South Australian contract data, what other methodologies could the AER investigate to determine the wholesale cost in South Australia? Would consideration of a retailer holding Victorian futures contracts with SRAs be reflective of the practice of a reasonable retailer? How would we model this?

AGL submits that the AER should use a consistent approach unless there is a clear need for change and, on this issue, does not consider there is any identified need for the AER to alter its existing approach at the present time. However, AGL notes that this issue should be revisited at the time of the Draft Determination based on the data available at that time.

Question: Should we consider any other changes to the wholesale cost methodology in light of a changing wholesale market?

AGL believes the AER should revert its approach to using the 95<sup>th</sup> rather than the 75<sup>th</sup> percentile of the modelled price outcomes. AGL considers its position is supported by the volatility in outcomes in the spot market over recent years, the risk that volatility could be high during FY25, and the fact that any risk retained by retailers could result in very significant losses that could arise from spot market fluctuations in only a small number of trading intervals over the year.

As noted in AGL's submission to the DMO4 draft determination, AGL considers that the use of the 75<sup>th</sup> percentile of modelled outcomes significantly increases the risk that retailers' actual wholesale energy cost will exceed the AER's forecast allowance.<sup>3</sup>

## Retail costs

Question: Do you consider these current methodologies used appropriate, and if not, what alternatives should be considered?

AGL considers the 'cost-stack' methodology remains appropriate for DMO 6 with updates to the relevant cost calculations with the 2023–24 information from the ACCC (as well as from relevant information requests to retailers).

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<sup>2</sup> [AGL Submission – 2023-24 DMO 5 Issues Paper](#)

<sup>3</sup> [AGL Submission – 2022-23 DMO 4 Draft Determination](#)



## Metering costs

Question: Is the method for cost recovery of advanced metering costs appropriate for DMO 6 and/or future DMO decisions? If not, what alternative methods should the AER investigate to recover the cost of advanced meters?

The AER needs to carefully consider whether the methodology for cost recovery of advanced metering costs for DMO 6, and into the future remains appropriate with acceleration targets. The Australian Energy Market Commission received a joint rule change request from Intellihub, SA Power Networks and Alinta Energy. The rule change proposal seeks to implement the AEMC's recommendations from their final report published in August 2023. Once in effect, the proposed new rules will implement a framework for universal deployment of smart meters to all customers by 2030.

Question: Should the AER project advanced meter installations instead of using historic data in future DMO decisions?

AGL supports the AER determining advanced meter costs based on projecting installations instead of using historic. We understand that the AER's preference is to continue to use historical costs incurred by retailers; however, this is no longer a suitable approach alongside the progression of the rule change submitted to the AEMC to accelerate the rollout of smart meters.

To date, the AER's approach has been effective in deriving its allowance as the annual cost in each jurisdiction of a smart meter divided by the proportion of customers with a smart meter. However, as retailers install greater numbers of meters with the AEMC's proposed mandatory rollout, we could potentially see significantly more meters installed each year. This will result in the annual costs incurred by retailers being significantly higher than the allowance. While in subsequent years the allowance will capture the increasing number of installations, there will always be a one-year lag until 100 per cent penetration is achieved. This could create significant financial exposure risk for retailers.

Question: What operational and capital expenditure advanced metering costs should the AER include in the costs recovered by retailers? Should these costs be subject to independent audit or review?

AGL encourages the AER to engage with retailers on an individual basis to understand how best to include advanced metering costs in the DMO. This engagement will aid in developing appropriate requirements and structure for the independent audit or review of costs. We welcome engaging with the AER further on metering costs for DMO 6 and future DMO determinations.

## Retail allowance

Question: Are there methodological changes that would allow us to better balance the objectives in the retail allowance?

AGL believes that the appropriate balance has been achieved and therefore the AER should leave the retail allowance unchanged. The DMO is guided by several policy objectives that it should:

- reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices
- allow retailers to recover the efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention
- enable competition, innovation and investment by retailers, and retain incentives for consumers to engage in the market.



Retail margin has always been determined as a percentage of total revenue to ensure that it accounts for retailers' risk (and investment), it covers the cash flow challenges of retailers being required to carry all debt in the energy supply chain and therefore forced to carry higher debts at times of high costs and subsequent prices; and the retailer can access necessary working capital.

There are no changes required to the retail allowance under DMO 6 as the current methodology strikes the appropriate balance as it complies with the DMO policy objectives and achieves the outcomes noted above.

Question: Should the retail allowance differ for residential and small business consumers? If so, what risk or cost factors drive this difference and how should this be calculated?

As noted by the AER, analysis of underlying retailer costs in the DMO 4 position paper and draft determination found that the implicit retail allowance present in DMO 1 and DMO 3 were on aggregate approximately 10% and 15% of DMO prices for residential and small business customers, respectively. AGL supports retaining the split between residential and small business customers as that higher retail allowance for small business customers meets the DMO objectives as it reflects the different market characteristics of the customer type.