



20 February 2024

Daniel Harding
A/g General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted by email: DMO@aer.gov.au

Dear Mr Harding,

Net System Load Profile approach – Consultation Paper

Origin Energy (Origin) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) DMO Net System Load Profile approach Consultation Paper.

We recognise the challenge for the AER in developing demand forecasts for DMO 6 given that the 2021-22 net system load profile (NSLP) data set has been compromised following the transition to 5MS. We agree that given the time and data constraints faced by the AER, the alternative options presented in its Consultation Paper are the most viable to consider.

It is vital the AER adopt the alternative that best achieves an estimate of the default market offer (DMO) that is as accurate as possible. We believe that making a manual adjustment (Option 2) will best meet this objective.

Our views on the respective options are set out below.

Option 1 – Use NSLP data as published by AEMO

A key feature of the estimation of wholesale energy costs (WEC) is that it is based on a method that estimates costs from a retailer's perspective.¹

Under Option 1, the NSLP data impacted by the AEMO adjustment would be used in calculating the WEC. The rationale seemingly is that despite being inaccurate, the data is likely to drive retailers hedging strategy, and that the approach would be transparent.

However, the adjusted AEMO data is not an accurate representation of the load shape for retailers over this period. The consequence of the adjustment is that it has flattened the relative load profile shape. At the core of the AER's market-based approach is an assumed contracting strategy that an efficient retailer would use to manage its electricity market risks.² Option 1 understates the peakiness of the demand profile and is therefore not suitable in deriving a retailer's contracting strategy. It would also further exacerbate the issues created from the continual use of the NSLP more broadly, which the AER had indicated they would look to address for DMO 6.

The adjusted AEMO data is also unlikely to have driven retailers hedging strategies for accumulation meter customers over the last two years. Retailers generally hedge their forecast demand on a forward basis, typically one to three years ahead of the relevant period.³ There is no forecast NSLP on which

¹ AER, Default Market Offer 2023-24: Final Determination, p. 22.

² ACIL Allen, Default Market Offer 2023-24 Wholesale energy and environment cost estimates for DMO 5 Final Report, p. 13.

³ ACCC, Inquiry into the NEM – December 2023 Report, p. 19.



this could be based, meaning retailers will rely on their own internal forecast of expected demand to inform hedging requirements.

Furthermore, because the use of the compromised data would artificially flatten the load profile, once the profile falls out of the historic three-year window there would be a step change increase in the NSLP and WEC, as a peakier more accurate shape is restored. To avoid this scenario, the AER should address this issue as soon as practicable rather than deferring the impact to future decisions.

For these reasons we do not support Option one.

Option 2 – Manually adjust the NSLP data

The alternative option would involve making a manual modification to the NSLP data to ameliorate the impacts of the AEMO adjustment. This approach is more likely to generate a load shape closer to that prevailing before and after the AEMO adjustment was in effect and therefore a more accurate wholesale energy cost estimate. This option also addresses the issue now rather than deferring the impact for future DMO decisions.

While the AER has set out conceptually how it would do this (i.e. modifying by the observed change in loads between the three months prior and the three months post the AEMO adjustment), we consider a detailed explanation of the calculations should be included in its draft decision.

Also, we do not believe Option 2 would decrease transparency to stakeholders or would limit stakeholders from replicating wholesale cost outcomes any more than what the current method given the proprietary nature of key aspects of ACIL Allen's modelling.

For these reasons, we consider option two would better ensure that the AER is able to meet its objectives of developing a benchmark wholesale cost that reflects the costs from a retailer's perspective and mitigates potential future price shocks.

Option 3 – Use NSLP Data from DMO 4 and DMO 5

We agree that the NSLP datasets used in DMO 4 and DMO 5 are sufficiently outdated that they are unlikely to be a realistic load shape for the DMO 6 period. We agree that this option is not appropriate for the development of DMO 6 draft determination.

If you wish to discuss any aspect of this submission further, please contact Sean Greenup (sean.greenup@originenergy.com.au).

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "Steve Reid".

Steve Reid
General Manager, Regulatory Policy