



Government
of South Australia

Department for
Energy and Mining

Our Ref: 2024D013268

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

Dear Mr Harding

Default Market Offer Net System Load Profile approach - Consultation Paper

The Strategic Policy and Delivery Division (the Division) of the South Australian Department for Energy and Mining thanks you for the opportunity to comment on the Default Market Offer (DMO) Net System Load Profile (NSLP) approach - Consultation Paper.

The South Australian Government remains committed to reducing consumers' electricity bills and thanks the Australian Energy Regulator (the regulator) for raising this matter as part of its consideration of an appropriate methodology for determination of the 2024/25 DMO.

As noted in our submission to the regulator's Issues Paper, with electricity prices having risen to extraordinary levels in recent times, we expect the regulator to appropriately examine current and expected future market conditions to ensure price relief is delivered to consumers in the 2024/25 DMO. In this light, we are buoyed by recent reports of decreases in wholesale prices which, we consider, should lead to a more reasonable DMO outcome in 2024/25.

With regard to selecting a NSLP for DMO 6, the Division is supportive of Option 1, using the NSLP data as published by AEMO.

We recognise that the issue that has arisen is not ideal, and that whichever option that the regulator progresses will have its drawbacks. However, as the regulator's methodology for determining wholesale costs in the DMO assumes that a retailer's book build takes in to account all available ASX trades from the first date of trade, providing a book with a 2 to 3 year timeframe, it is the data proposed under option 1 that would have been driving retailers' hedging strategies for the past 2 years. While it is noted this may not have been the case since AEMO amended its data in October 2023, given this is a shorter period we consider it should therefore have a reduced impact.

As we noted in our submission to the regulator's issues paper, the Division is wary of too many methodology changes occurring which may erode any easing of the wholesale cost component. Noting the significant increases in the DMO arising from wholesale cost increases in recent years, customers should not be burdened again due to methodological tinkering.

It is noted that the issue that is the subject of this consultation is not a standard one, and that it does require some form of amendment to methodology. However, we consider that option 2

Strategic Policy and Delivery

Level 8, 11 Waymouth Street, Adelaide, SA 5000 | GPO Box 320 Adelaide SA 5001 | DX452
www.energymining.sa.gov.au | ABN 83 768 683 934





**Government
of South Australia**

Department for
Energy and Mining

requires further data adjustments being made, which may or not prove to be accurate, but will certainly not be transparent for stakeholders to assess. It could be argued it is proposing to apply a non-transparent manual adjustment to overcome issues associated with a previous manual adjustment. The proposal under option 2 will also only be based on 6 months of data, which we agree may reduce its accuracy.

The regulator's paper notes the complexity and time it takes to model forecast wholesale costs for the DMO. We therefore query if adding further complexity via option 2 is warranted. It is this complexity that the regulator suggests will result in data post-1 October 2023 not being able to be included in the draft DMO 6 determination, which is also a concern.

While generally supportive of amendments that more closely reflect a retailer's actual costs, it is not clear to the Division that option 2 achieves this with sufficient accuracy. It is also hoped that as AEMO continues to improve its methodology as part of its long-term solution to the issue, any approach the AER adopts will be a short term one, further putting in to question whether a non-transparent adjustment is warranted.

We also note the regulator's comment in the consultation paper that if the 2022/23 data with the AEMO adjustment removed had been used in the creation of the load profiles for DMO 5, it would have resulted in a flatter load shape than what was actually used (DMO 4 data).

The Division questions if this were the case whether wholesale costs used in DMO 5 may have been overstated, given that flatter load profiles result in a lower wholesale cost component, with the result being an inflated DMO and associated market offers. Should this be true, we consider that any decision made at this time which may reduce this cost component, and its impact on customers, should be strongly considered for DMO 6.

The Division thanks the regulator for the work on this important determination. Should you have any questions in relation to this submission, please contact Mr Chris Leverington, Senior Policy Officer, Strategic Policy and Delivery Division, on (08) 8429 3298.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Vince Duffy'.

Vince Duffy
**DEPUTY CHIEF EXECUTIVE
DEPARTMENT FOR ENERGY AND MINING**

22/2/2024