



EnergyAustralia

LIGHT THE WAY

9 April 2024

Australian Energy Regulator
Daniel Harding
A/General Manager,
Market Performance Australian Energy Regulator
By email: DMO@aer.gov.au

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

AER Default Market Offer 2024-25 – Draft determination – Public version

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise more than 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to make this submission to the AER's Draft Determination for the 2024-25 Default Market Offer (DMO6).

We appreciate the challenges the AER faces in setting the DMO6 in the context of rising living costs, inflation, and the impacts of electricity affordability for consumers. We have seen consumers affected by such financial pressures as national participation in our hardship program in late 2023 rose considerably from the previous year. EnergyAustralia recognises that falling on hard times of financial difficulty can happen to anyone for a variety of different reasons. Our team strives to treat our customers with respect and empathy.

Overall, we encourage the AER to maintain a long-term perspective on DMO price regulation. Competition is key to ensuring customers receive value from their energy provider and putting downward pressure on retail prices. We would expect that the AER's decision to exclude a competition cost provision in the DMO6 to help offset rising supply costs and the impact of inflation signals that an inverse decision will be considered in the future under more stable economic conditions. The concern with the AER's approach in DMO6 is that retailers bear the risk of rising network costs, which is likely to continue with the energy transition, and the question becomes whether a provision to maintain incentives for retailers to continue to compete will be accepted for future DMO decisions. Previous DMO decisions would indicate that once a change has been made the AER is unlikely to revert. A narrowing of headroom can limit competition and customer offerings in the market. It can also reduce the amount that companies can spend on bringing new innovative products to the market.

On timing of the DMO6, we would like to draw attention to the significant downstream risk to retailers from the timing of electricity network decisions for NSW and ACT. The AER must publish its final DMO price determination by the first business day after 25 March, which is 27 May 2024. However, 2024 is a network determination year (end of the 5-year regulatory period) for NSW and ACT networks - making it high risk that there will be late decisions on material changes such as network prices or tariff structures.¹ The late timing of these decisions make it challenging for the AER to assess and approve prices for inclusion in the DMO6 calculation, an issue that retailers have already raised. There is also considerable downstream risk for retailers to take these changes into account following publication of the final DMO. Retailers have strict regulatory obligations to prepare and deliver individualised customer communications that must be received by customers at least five business days ahead of the price changes (e.g. July 1st, 2024, for standing offer tariff customers). These communications and briefings to agents who respond to customers' enquiries are most valuable if retailers have sufficient time to consider the range of impacts and communicate this clearly and accurately to customers.

To effectively manage these risks, we urge the AER to aim for a final DMO6 decision by May 24th, 2024. If achieving this target proves impossible, we request an advanced copy

¹ In mid-2020, the final network tariffs for Energex were received only two business days prior to 1st July 2020. This was driven by the unusual circumstances through the Covid-19 pandemic that affected the network determination start of the 5-year regulatory period. This highlights that there was no ability for retailers to receive this information at least 6 weeks ahead of the effective date for the new tariffs as occurs in the years when there are annual resets within the 5-year regulatory period.

of the decision by the same date. This advanced notice would provide retailers with the required time to prepare for price changes and communicate effectively with customers.²

We request an opportunity to discuss this further with the AER as we want to ensure the concern is well understood.

Further comments on the draft DMO6 that we have relate to the:

- Revised approach to the retail margin, which raises risks to the market and consumer's long term-interests. We support CARC being included in the DMO approach as it is a cost to operate effectively in a competitive market.
- Smart meter allowance approach, which needs revising given network tariff metering changes in NSW.
- Recovery of AEMO fees, which should be revised given a shift in how AEMO charges its fees.
- Load profile wholesale approach, which should adopt the adjusted NSLP load profile approach for South Australia and south-east Queensland.

We discuss these issues in turn in our full submission set out in the **Attachment**.

If you have any questions in relation to this submission, please contact me (maria.ducusin@energyaustralia.com.au or 03 9060 0934).

Yours sincerely,

Maria Ducusin

Regulatory Affairs Advisor

² The information required at a minimum are the tables showing the DMO prices per tariff type and zone, and the half hourly profile information published in the final determination. It would be helpful if the latter was provided in Excel format rather than PDF.

Retail approach raises risks to the market & long-term consumer interests

The AER’s draft decision to exclude a provision for competition in DMO6 represents a fundamental departure from past decisions. This provision serves as a critical buffer for retailers to invest in competitive offerings or navigate cost fluctuations from under recovery in other parts of the DMO cost stack. Its absence introduces a shift in policy and uncertainty and will have a significant impact to retailers. [**CONFIDENTIAL:** [REDACTED]].

In justifying the AER’s draft decision to exclude a cost provision for competition it considered the impacts of inflation on network and retail costs. The concern with this approach is that retailers bear the risk of rising network costs, which is likely to continue with the energy transition.

The energy transition is likely to mean higher network costs. AEMO’s Draft 2024 Integrated System Plan reveals that close to 10,000 km of new transmission lines and upgrades to existing networks by 2050 is required to connect new generation across the power system.³

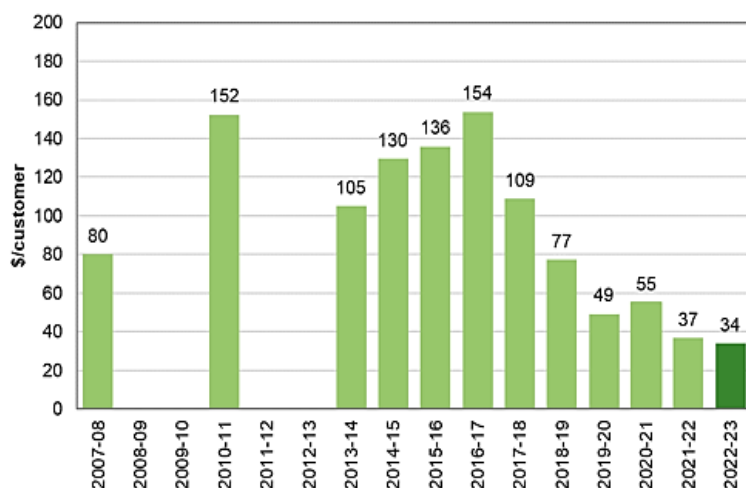
In the context of rising network costs with the transition and the challenging and competitive retail environment, the DMO6 is unlikely to encourage new entry and retail competition given the:

- lower retail margin and exclusion of a cost provision for competition.
- regulatory uncertainty that future DMO price decisions may be lower as network costs rise and a cost provision for competition will not be acceptable.

The figure below also published by the ACCC illustrates the competitive and challenging retail environment with margins (EBITDA) contracting materially over time. Further to increasing the barriers of entry for new players, the Draft DMO6 runs the risk that existing retailers are unable to invest in innovative offerings to the market.

³ [AEMO’s Draft 2024 Integrated System Plan fact sheet.](#)

Figure C8.4 (Figure 2.12 in report): Average retail margins (as earnings before interest, tax, depreciation and amortisation or EBITDA) per residential customer across the NEM, 2007–08 to 2022–23, real \$2022–23, excluding GST



Source: ACCC analysis based on retailers' data.

Support for CARC in the competition cost provision of the DMO

The proposed approach of setting the competition cost provision in DMO6 solely on retailer costs, excluding the cost to acquire and retain customers (CARC) overlooks the costs of competing effectively. All retailers regardless of size, incur costs associated with attracting new customers. In a competitive market, retailers need to differentiate themselves and offer attractive value propositions to stand out. This can involve added costs for innovative products and services, customer service initiatives, and targeted marketing campaigns.

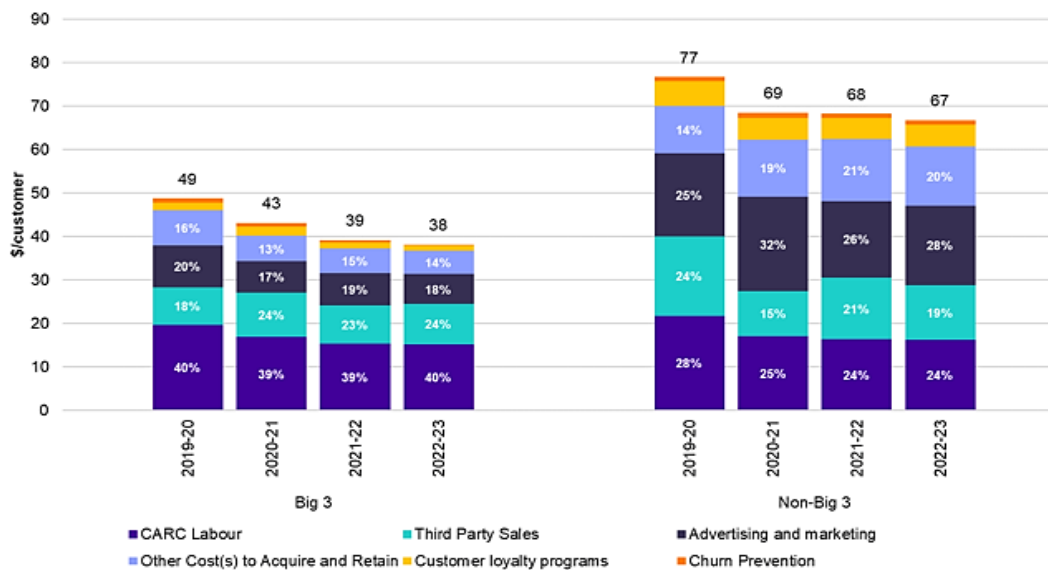
The AER recognises that CARC is relevant to an allowance for competition, as it refers to CARC in reference to the competition cost provision in the VDO when justifying its approach to the retail margin.⁴ In our view, relying on 'conservatism' in the AER's retail margin being above the VDO efficient margin is not an effective substitute for the consideration of CARC.

A fixed competition cost provision (\$66 for residential customers) excluding CARC may not adequately account for the higher relative CARC cost faced by some retailers. The ACCC figure below shows CARC is higher for smaller retailers at \$67 per residential customer.⁵ Excluding CARC risks incentivising short-term cost-cutting measures at the expense of long-term customer engagement and loyalty. Retailers facing greater cost pressure, might prioritise immediate cost reductions, leading to a decline in service quality or a less diverse range of offerings.

⁴ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 67.

⁵ ACCC, *Inquiry into the National Electricity Market report – December 2023*, Appendix C, Figure C8.8.

Figure C8.8: Average Cost to Acquire and Retain per residential customer across the NEM by retailer tier, 2019–20 to 2022–23, real \$2022–23, excluding GST



Source: ACCC analysis based on retailers' data.

Note: Data labels for small cost components have been omitted for readability. CARC = costs to acquire and retain.

Further, if the retail margin and competition cost provision does not adequately reflect the cost of attracting and retaining customers, retailers may be less likely to invest in initiatives that enhance customer experience, loyalty programs, or innovative product offerings. This stifles market dynamism and reduces consumer choice.

The AER considers 'it is in the long-term interests of customers that the retail market remains competitive with many retailers offering a diverse range of market offers'.⁶ However, excluding CARC overlooks the cost of competing in the market which can ultimately stifle innovation and lead to less consumer choice and value in market offerings. Even the VDO, which has a distinct policy objective that must not include 'headroom' in its price setting, reflects a competition cost provision with CARC. This recognises that CARC is a genuine cost to operate in a competitive market and so provision for this is in keeping with the long-term interests of consumers.

Like the VDO, we support CARC being reflected in the competition cost provision of the DMO. We support a data-driven approach - using the CARC data published by the ACCC. As with retailer operating costs tracked and reported by the ACCC for several years, which the AER acknowledges is subjective,⁷ the same logic stands with ACCC published data for CARC. We do not consider there is an issue with subjectivity in using CARC costs published by the ACCC. Using ACCC published cost data for some retail costs, but not all (by

⁶ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 53.

⁷ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 65.

excluding CARC) signals the choosing of numbers to engineer an outcome, unlikely to provide confidence that the approach is objective.

Further specificity on the competition cost provision should be considered

In justifying its revised approach to the retail margin for the draft DMO6, the AER acknowledges:

- that the approach to determining margin and meeting the additional DMO objectives has varied across DMO determinations, and
- it is important for stakeholders to have confidence and an ability to anticipate possible changes to the calculation of the DMO price.⁸

The AER outlines the following considerations on whether it will apply or adjust a competition cost provision in future DMO decisions:

- the state of retail competition alongside the extent of pricing pressures in the economy, and
- assessing the performance of CPI relative to the RBA target band.⁹

It is positive that the AER has set out these two considerations, however we encourage further clarity and predictability for retailers to have confidence and an ability to anticipate possible changes to the calculation of the DMO price.

To understand retail competition, the AER notes it intends to monitor dynamics such as:

- retailer market share
- switching rates
- spread of market offers relative to the DMO price and
- extent of discounts in DMO regions.¹⁰

On inflation the AER notes it may choose to exclude the competition allowance in periods where CPI exceeds the RBA target band in a material and sustained way.¹¹

It is unclear how the AER intends to assess these factors in considering whether it will apply or adjust a competition cost provision for future DMO decisions. For example, is the expectation by the AER that there needs to be changes to all the above factors for it to consider applying a competition cost provision? We encourage the AER to provide further

⁸ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 67.

⁹ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 67.

¹⁰ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 67.

¹¹ Ibid.

clarity and specificity on the conditions related to these factors. Transparency allows for planning and predictability fosters a more stable market environment.

Further, beyond traditional competition metrics, the AER's approach overlooks the broader landscape of innovation in the energy sector. As the industry undergoes a transformative shift towards renewable energy and customer centric solutions, consideration on how to measure innovation in the retail market to assess competition may be worthwhile. The spread of market offers relative to the DMO price, will not encapsulate the innovation in market offerings for example.

In setting the DMO it may be worthwhile understanding the dynamics between innovation of product offering and CARC in the context of rising network costs. We stress the importance of allowing incentives for competition and investment in innovation in setting the DMO. We do not support the exclusion of CARC as this is a genuine retailer cost and overlooking this can risk stifling innovation. This appears to be a gap the AER may want to consider in its monitoring of the retail market and the state of competition.

Smart meter approach needs revising given network metering changes

Given distribution network tariff metering changes in NSW, the NSW smart meter allowance approach for DMO6 should be revised. These changes relate to:

- **Ausgrid** - metering charge which will remove the capital and non-capital charges and instead have a single combined amount to all customers who currently pay a metering charge to Ausgrid.
- **Endeavour and Essential** - metering charge which will be moved from Alternative Control Services (ACS) to SCS (Standard control services) meaning that it will apply to 100% of customers.

The current smart meter allowance approach involves:

- Taking the average cost per advanced meter
- Subtracting the entire ACS metering allowance (which includes capital and non-capital costs)
- Adding back the average legacy capital charge per advanced meter
- Multiplying this result by the percentage of customers with advanced meters.¹²

Given NSW distribution network metering tariffs reverting away from capital and non-capital costs to a combined fee, we no longer consider it valid to discount the entire ACS metering allowance from the average cost per advanced meter then re-add the capital portion. Instead, in calculating the smart meter allowance for DMO6 for NSW regions we

¹² [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), Cost assessment model, Retail cost.

suggest deducting a portion of the ACS allowance based on the percentage of customers who do not pay for ACS.

The change between current and our suggested revised approach is represented by the following formulas:

Current Smart Meter Allowance approach = [Average Cost per Advanced Meter
– ACS Metering Allowance
+ Average legacy capital charge per advanced meter]
x Percentage of customers with advanced meters.

Suggested revised Smart Meter Allowance = [Average Cost per Advanced Meter
– (1 – % Customers with incurring Capital Charge)
x ACS Metering Allowance]
x Percentage of customers with advanced meters.

By applying the revised approach formula, changes to the NSW smart meter allowance would see the following:

- **Ausgrid:** instead of discounting the ACS and then re-adding the capital proportion, the revision would not remove the ACS amount but instead remove a portion of ACS for the % of customers who do not pay it. The % of customers who do not pay for ACS would be calculated as: $100\% - 85.6\% = 14.4\%$.
- **Ausgrid smart meter allowance** = [Average Cost per Advanced Meter of \$110.14
– 14.14% x ACS Metering Allowance]
x 27.48%.
- **Endeavour and Essential:** as their revised metering charge will apply to all customers, the percentage of customers who do not pay ACS will be zero.
- **Endeavor smart meter allowance** = [Average Cost per Advanced Meter of \$107.05
– 0% x ACS Metering Allowance]
x 41.09%.
- **Essential smart meter allowance** = [Average Cost per Advanced Meter of \$121.01
– 0% x ACS Metering Allowance]
x 39.31%.

The ACS metering allowance would be based on the final metering cost in approved network pricing proposals in April/May 2024.

South Australia and Queensland are still on the older method as they are still in a regulatory period so the current existing method for smart meter allowance can still hold. It is envisaged that these jurisdictions will change next year when network determinations reset. Similarly, if this occurs, we expect that the DMO7 would reflect the revised smart meter approach for SA and south-east Queensland as proposed for NSW.

Advanced meter calculation appears to have an error

Notwithstanding our strong recommendation to revise the smart meter allowance in NSW given network tariff metering changes in NSW, our analysis suggests that the AER appears to have made an error in calculating the average per advanced meter cost net of ACS metering allowance, including legacy meter capital charges. This is highlighted in the AER's figure below.

The AER should be using ACS numbers for FY25, rather than FY24 as this approach relates to the relevant DMO6 period. By taking Energex residential flat rate as an example:

If the ACS FY24 number of \$42.51 is used, not the new ACS FY25 number of \$44.23 the result is:

$$109.51 - 42.51 + 23.81 = \mathbf{90.81}$$

However the correct figure by using the new ACS FY25 number would be:

$$109.51 - 44.23 + 23.81 = \mathbf{89.09}$$

By taking SAPN residential flat rate as an example:

If the ACS FY24 number of \$25.86 is used, not the new ACS FY25 number of \$26.91 the result is:

$$104.19 - 25.86 + 8.51 = \mathbf{86.84}$$

However the correct figure by using the new ACS FY25 number would be:

$$104.19 - 26.91 + 8.51 = \mathbf{85.79}$$

Table B.1 Residential advanced meter counts and per customer costs

Region	Ausgrid	Endeavour Energy	Essential Energy	Energex	SA Power Networks
Total advanced meter costs incurred by retailers (\$)	45,789,073	41,726,308	35,190,301	54,597,697	35,291,949
Total advanced meter customers	415,720	389,776	290,816	498,586	338,736
Average cost incurred per advanced meter (\$) (ex GST)	110.14	107.05	121.01	109.51	104.19
ACS metering allowance included in network component (\$) (ex GST)	29.60	15.51	59.61	44.23	26.91
Capital metering charge within ACS metering allowance (\$)	15.32	3.74	7.87	27.81	9.95
Advanced meter installations where retailer has incurred a capital metering charge for replacing an accumulation meter (%)	85.6%	85.6%	85.6%	85.6%	85.6%
Average legacy capital metering charges incurred per advanced meter (\$)	13.12	3.20	6.73	23.81	8.51
Average per advanced meter costs net of ACS metering allowance, including legacy meter capital charges (\$)	94.50	85.90	85.30	90.81	86.84
Total customers	1,512,796	948,706	739,718	1,357,877	832,285
Customers with advanced meters (%)	27.48%	41.09%	39.31%	36.72%	40.70%
Advanced meter cost per customer net of ACS metering allowance in network component, including legacy meter capital charges (\$)	25.97	35.29	33.54	33.34	35.34
Additional capital allowance adjustment (see Table B.3)	0.50	0.98	0.86	0.79	0.83

Tariff Code	Distribution zone	Customer	Tariff	2024-25 Variable \$/MWh	ACS	
					2023-24 Fixed \$/yr	2024-25 Fixed \$/yr
8400	Energex	Residential	Flat rate	92.22	42.51	44.23
9000	Energex	Residential	CL1	41.54	12.39	12.89
9100	Energex	Residential	CL2	52.55	12.39	12.89
8500	Energex	Small business	Flat rate	97.93	42.51	44.23
RSR	SAPN	Residential	Flat rate	151.00	25.86	26.91
BCL	SAPN	Residential	CL1	77.50	25.86	26.91
BSR	SAPN	Small business	Flat rate	171.60	25.86	26.91

While this error appears to apply to NSW as well, adopting our suggested revised approach for smart meter allowance in NSW regions makes this error somewhat irrelevant. This is because the average per advanced meter cost net of ACS metering allowance, including legacy meter capital charges would be calculated differently in NSW. As described above it would be:

[Average Cost per Advanced Meter – (1 – % Customers with incurring Capital Charge) x ACS Metering Allowance].

The approach to recover AEMO fees should be revised

AEMO fees are required costs for retailers to operate in the market. In our view, the cost provision for AEMO fees under the draft DMO6 results in under recovery for retailers as AEMO has shifted their fees more to a fixed component and the usage profile adopted by ACIL for the DMO6 includes C&I, which is not appropriate for mass market use.

To include AEMO fees as part of the total energy cost in the DMO cost stack, AEMO fees are expressed in terms of \$/MWh. It appears ACIL have used the volume amount (173,560

GWh) and NMI count (10.7 million) in the AEMO fees document to undertake this conversion.¹³ This volume amount includes C&I usage and in our view is not valid to use for mass market.

For example a simple average of volume (173,560 GWh) per NMI count (10.7million) = 16 MWh/NMI. By comparison the mass market average is around 5 to 6 MWh/NMI). Given AEMO fees are expressed as a variable cost of \$/MWh, a higher usage figure driven by the inclusion of C&I usage has an impact of reducing the cost provision (with usage being the denominator).

Further, we note that AEMO shifted their fees more to a fixed component in FY24, meaning the gap is larger compared to previous DMO decisions. Given greater under recovery brought on by AEMO's shift in fees, we consider the approach to recover AEMO fees should be revised. The tables below set out the material difference between AEMO's fees and the draft DMO6 provision for AEMO's fees. As under recovery of AEMO fees commenced in DMO5 it would be worth considering a provision to recover this as part of DMO6. AEMO fees are a direct pass through and are unavoidable costs for operating in the market. We consider material under recovery of these fees should be considered.

The most accurate method to address this is to use AEMO fees as per stated in the document¹⁴ and not convert fixed cost to variable. The AER could calculate the fixed and variable AEMO cost separately with each distribution business and class usage profiles - similar to how the VDO captures AEMO fees¹⁵

That said, we do not have strong concerns with converting AEMO's fixed cost to variable costs, provided the appropriate profile is used and the outcome does not result in material under recovery.

Tables comparing the difference between AEMO's fees and the draft DMO6 provision for AEMO's fees are provided below.

¹³ AEMO, [aemo-fy24-budget-and-fees.pdf](#), p25.

¹⁴ Ibid.

¹⁵ ESCV, [Victorian Default Offer 2024–25: Draft Decision Paper \(esc.vic.gov.au\)](#), p53.

AEMO fees	AEMO FY24 Budget Fees Final		DMO FY25 Draft
	\$/MWh	\$/NMI/year	\$/MWh
National Electricity Market fees	\$0.28	\$4.6	\$0.57
Electricity retail market fee (formally Full retail contestability fee)		\$1.5	\$0.09
IT Upgrade and Five-minute and global settlement compliance fees	\$0.10	\$1.6	\$0.24
Distributed energy resources integration program fees	\$0.01	\$0.2	\$0.02
ECA		\$0.7	\$0.04
Fees	\$0.4	\$8.6	\$0.97

Residential (without CL), \$/year	kWh/year	\$/year	\$/year	\$/year
	DMO Usage	AEMO FY24	DMO FY25 Draft	Variance
Ausgrid	3,900	\$10.1	\$3.8	-\$6.3
Endeavour	4,900	\$10.5	\$4.8	-\$5.7
Essential	4,600	\$10.4	\$4.5	-\$5.9
Energex	4,600	\$10.4	\$4.5	-\$5.9
SAPN	4,000	\$10.2	\$3.9	-\$6.3

Residential (with CL), \$/year	DMO Usage	AEMO FY24	DMO FY25 Draft	Variance
		\$/year	\$/year	\$/year
Ausgrid	6,800	\$11.3	\$6.6	-\$4.6
Endeavour	7,400	\$11.5	\$7.2	-\$4.3
Essential	6,600	\$11.2	\$6.4	-\$4.8
Energex	6,300	\$11.1	\$6.1	-\$4.9
SAPN	6,000	\$10.9	\$5.8	-\$5.1

Small Business (without CL), \$/year	DMO Usage	AEMO FY24	DMO FY25 Draft	Variance
		\$/year	\$/year	\$/year
Ausgrid	10,000	\$12.5	\$9.7	-\$2.8
Endeavour	10,000	\$12.5	\$9.7	-\$2.8
Essential	10,000	\$12.5	\$9.7	-\$2.8
Energex	10,000	\$12.5	\$9.7	-\$2.8
SAPN	10,000	\$12.5	\$9.7	-\$2.8

Exclusive GST

Load profile wholesale cost approach

Overall our position is that we:

- support the AER's decision for consistency in maintaining a single load profile in the draft DMO6 wholesale cost approach, and not separating residential and small business.
- consider the middle road option using AEMO's non-adjusted NSLP and ACIL Allen's adjusted NSLP for the final wholesale energy cost provision is suboptimal. This approach retains flaws introduced by AEMO's adjustment, which flattened the relative load profile shape when considered for DMO purposes. We do not consider it appropriate in setting the DMO6 to use a dataset that is known to produce errors when this can be adjusted for. We reiterate that the value of transparency when a dataset is flawed is questionable.
- agree with ACIL that an adjusted NSLP is appropriate and may align more closely with AEMO's NSLP as published after the interim adjustment was removed in

October 2023, likely allowing greater load profile continuity with DMO 7.¹⁶ This appears preferable as more impacts on NSLP data are likely to occur after AEMO implements further adjustments from 29 September 2024.

¹⁶ [AER - Draft determination - Default market offer prices 2024–25 - 19 March 2024](#), p 26.