momentum energy

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Daniel Harding
General Manager (A/g), Market Performance Branch
Australian Energy Regulator
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Submitted via email: DMO@aer.gov.au

Dear Mr. Harding

Australian Energy Regulator (AER) Default Market Offer (DMO) Prices 2024-25 Draft Determination

Thank-you for the opportunity to provide a submission in response to the DMO Prices 2024-25 Draft Determination (the **Determination**).

Momentum Energy Pty Ltd (**Momentum**, **our** or **we**) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest generator of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We also retail natural gas to Victorian customers.

1. DMO Objective and Competition Margin

The DMO was established as a price cap on standing offers and an electricity benchmark price for consumers to compare the price of different offers. It was based on a median price of market offers that factored in retailers' supply costs and allowed for a reasonable margin to support competition in the market, consistent with the DMO objectives. Momentum understands the AER's important role to balance both the interests of consumers and retailers in the electricity market. However, it is our view that the removal of the DMO competition margin in the Determination is a fundamental divergence from the original objective of the DMO. The AER has moved the pendulum of balance too far from supporting reasonable retailer margins and competition, which ultimately benefits consumers. This is particularly evident by the failure of 11 retailers since May 2022 and the increasing complexity that the AER is experiencing in determining an accurate assessment of an indicative wholesale market cost, that is typical for large, small and new entrant retailers.

The past and expected future volatility of the wholesale electricity market has increased the complexity of this assessment. The removal of the competition margin by the AER in the Determination removes an essential aspect for the ongoing success of the market. It also removes an important buffer for retailers to manage the additional wholesale risks that are managed by retailers between DMO determinations. Momentum is concerned it will result in the removal of many lower priced and innovative market offers that many customers have benefited from in the past.

2. Wholesale Electricity Cost (WEC)

The following issues have increased the complexity for the AER to determine an accurate estimate of the WEC for the DMO:

- **75th versus 95th Percentile.** In DMO 4 and 5, the AER adopted the 75th percentile estimate of modeled WEC outcomes rather than the 95th percentile that was used in previous DMO decisions. Across these periods, the market experienced considerable volatility with 11 retailers failing and Momentum is concerned that the AER continues to maintain its approach of using the 75th percentile of distributed wholesale costs. Momentum believes that the market volatility experienced in recent years justifies another review of the optimum percentile to be used in the wholesale methodology.

- **The Net System Load Profile (NSLP**) is an input into the methodology to calculate the WEC. Due to the transition to interval metering, the AER has chosen to use a blended profile of basic and interval data. This is further complicated for SA Power Networks and Energex network areas, due to the data issues identified that resulted from the interim adjustments made by Australian Energy Market Operator (AEMO) as it transitioned to global settlement. The AER has modelled two separate WECs for these areas and determined the mid-point to offset any errors as the two models resulted in significant differences. This results in another approximated outcome for the Determination.

- **Solar Exported Generation**. Despite retailer requests for the inclusion of small customer solar generation exports into the blended profile, the AER has not adopted this approach. The AER acknowledges these solar exports may deviate the load profile shape causing an increase in the WEC for retailers, however, the AER argues that this deviation is offset by the usage of exported solar generation by other customers that do not have solar. Relying on an estimated assumption by the AER also adds to the potential inaccuracy of the WEC for the Determination.

- **Negative Spot Pricing Events.** In responses to the DMO 6 Issues Paper and in a recent small retailer meeting with the AER, several retailers raised concerns about the WEC exposure caused by negative spot pricing events. In Q4 2023 AEMO reported[1] that 20% of dispatch intervals across the NEM recorded negative or zero prices. The AER has failed to advise in the Determination how this will be accounted for and raises another concern about the accuracy of the WEC Determination.

3. **Network Prices**

There is a risk that the AER will make its final DMO 6 decision based on draft network prices. This is a significant pricing risk issue for retailers, especially as the NSW networks are

[1] https://aemo.com.au/-/media/files/major-publications/qed/2023/quarterly-energy-dynamics-q4-2023.pdf page 16

commencing new 5-year network pricing determinations. Network prices are approximately 42% of the DMO cost stack and this is likely to rise significantly with the various transmission and network development plans required for the transition to renewable energy generation. Any delay in the timeline for the AER to finalise DMO prices constrains the remaining time for retailers to develop, gain internal approval and publish final DMO prices by 1 July each year. The AER manages both the network pricing determination process and the DMO and, while we understand there are various regulatory constraints and considerations in the pricing timeline, we urge the AER to consider this continued issue when determining future DMO decisions.

4. Smart Metering

As the DMO regulations do not allow for true up mechanisms, Momentum supports the AER's suggested approach for the recovery of smart meter costs under the AEMC's accelerated smart meter installation plan.[2] We agree that the legacy meter retirement plans would form a reasonable basis for a forecasted approach to the recovery of this increased retailer cost.

5. Conclusion

Momentum strongly opposes the approach in the Determination to remove the competition margin and impose a minimal retail margin allowance to offset increases in wholesale and network costs for DMO 6. This approach requires a very accurate assessment of all input costs for existing large and small retailers, and new market entrants to ensure the ongoing viability of retailers. As indicated above, estimating the future WEC is becoming increasingly complex each year and it is inevitable that network prices will continue to increase. Momentum supports consistency and predictability of approach when determining the DMO each year. Momentum believes that it is increasingly difficult for retailers to compete effectively across jurisdictions where the DMO applies due to this lack of predictability in a highly volatile and challenging market.

Yours sincerely

[Signed]
Randall Brown
Head of Regulatory Affairs

[2] AEMC accelerated smart metering installation plan expected to commence on 1 July 2025 subject to rule changes.