



DMO 2021-22 –Draft Determination

Stakeholder forum – 10 March 2021

The forum will commence at 1.30pm

You can submit questions for AER staff and our consultant,
ACIL Allen, via Slido.

Sli.do code – **DMO3DDW**

aer.gov.au



DMO 2021-22 –Draft Determination

Stakeholder forum – 10 March 2021

Simon Kidd – a/Director, DMO team

Sli.do code – DMO3DDW

[aer.gov.au](https://www.aer.gov.au)

Overview

- COVID-19 costs
- Wholesale forecast assumptions
- Network costs
- Productivity adjustment
- Advanced meter costs
- Methodology review
- Next steps

COVID-19 retail costs – stakeholder views

- Retailers supported a COVID-19 cost adjustment
 - Increased bad and doubtful debt is the major cost impact
 - AER’s Statement of Expectations is a contributing factor
 - suggested costs around \$10 per customer for FY20-21
 - Recent reports suggest outlook stable or improving for FY21-22, although still uncertainty
- We have not made a COVID-19 adjustment:
 - Step change framework has a high threshold given DMO 1 residual component captured some level of bad debt costs – cost increases must be ‘material’.
 - The costs indicated don’t meet this threshold
 - While bad debt cost increases may be higher than CPI, the DMO price is sufficiently above retailers’ efficient costs, that the objectives will met without us making an adjustment for COVID-19.
- Open to considering further information for the Final DMO price

Wholesale costs forecasts

- **95th percentile estimate** of modelled prices.
 - Does this approach overestimate wholesale costs?
 - Stakeholders supported the current position
- **Hedging period** – does our risk averse retailer building their hedge book from the time of the first trade recorded by ASX Energy remain appropriate, or is a shorter period justified?
 - general stakeholder support for current approach
 - Reflects how a risk averse retailer would behave
 - Reduces volatility in forecasts
- **Separate residential/business load profiles**
 - We looked at whether it was feasible to develop separate profiles from AEMO interval meter data
 - Our analysis is that it is not – data set fairly small proportion of business customers. Not confident it reflects broader business load shape

Network cost forecasts

- We will use approved 2021-22 pricing proposals if available in mid-April,
- If not available, we will use the submitted network prices. We still consider this is the best alternative to approved tariffs.
- The AER is undertaking work to consider how the timing of network pricing proposals can be better aligned with the DMO process in the longer term
- A later DMO date would increase the likelihood approved prices would be available – would support this change to the Regulations

Productivity adjustment

- We considered the suitability of a productivity adjustment, consistent with our methodology
- Looked at public information about retailer costs, inc. ACCC data, annual reports and ABS productivity data
- Did not adopt
 - *Public cost info* – could not determine whether retailers have become more productive over time.
 - *ABS data* – closest substitute for energy retail (retail trade) suggests productivity has not changed materially relevant to the overall economy.

Advanced metering costs

- Several retailers considered we should adjust the DMO price to address the higher costs to retailers of advanced meters (AM), noting:
 - revenue risk for DMO customers
 - due to the DMO acting as a cap on market offers, retailers have less headroom for market offer customers
- Retailer info request
 - Among SO customers, 18% of res. and 10% of small bus. customers have AMs
- Our position
 - the relatively low proportion of AM, plus DMO margin above efficient costs, means retailers can absorb AM costs without impacting the policy objectives
- Acknowledge number of AM increasing
 - We will continue to review our approach each year

DMO methodology review

- In developing the DMO ‘indexation’ methodology, we did not set out a specific end-date or ‘reset’ point
- It will be necessary to review our methodology and assumptions in future, to ensure they remain appropriate to the DMO objectives
- We have commenced discussions with DISER on the scope and timing of our respective reviews.
- We expect to have determined the timeframes in the DMO 3 Final Determination

Next steps

- Submissions close – 18 March
- Publish Final Determination – late-April
- DMO prices take effect – 1 July

- Contact – DMO@aer.gov.au

Department of Industry, Science, Energy and Resources

Joe Ritchie, Manager, Electricity Markets
Branch, DISER

Post-implementation review of the DMO

- To determine the impacts of the DMO and Reference Price, the Commonwealth committed to undertake a review two years post-implementation.
 - Outlined in the Explanatory Statement accompanying the Code.
- It is proposed that the review will focus on:
 1. Consumer Outcomes
 2. Pricing Impacts
 3. Implementation of the Code.
- Aiming to commence the review in July 2021.
 - Public submissions will be sought, along with targeted consultation
- For further information please contact Daniel.Raftopoulos@industry.gov.au

Q and A

- Please submit questions via Slido (www.sli.do)
- Slido code: DMO3DDW