



18 October 2019

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne Victoria

Submitted via email: DMO@aer.gov.au

Dear Mark

Default Market Offer Price to apply from 2020-21

Alinta Energy welcomes the opportunity to make a submission on the Australian Energy Regulator's position paper on the Default Market Offer Price to apply from 2020 to 2021.

Alinta is an active investor in energy markets across Australia, with an owned and contracted generation portfolio of nearly 3,000MW, and aim to expand our renewable energy portfolio of built and contracted plant from near 800MW today to 1,000MW by 2020, with in excess of 1.2 million electricity and gas customers.

Alinta does not support price regulation in competitive markets. The ability of a regulator to accurately forecast energy costs is highly problematic, and setting regulated prices too low risks breeding disengagement among energy users, marginalising second tier retailers who have been driving market activity, and entrenching the market power of the large incumbent retailers.

We agree with the AER's continued acknowledgement of the ACCC's policy objective for the DMO to provide a fall-back position for customers, while still allowing for robust competition. As the energy market continues to experience significant reform, the AER must be diligent to ensure that the cost impact of these reforms, such as the introduction of Five Minute Settlement, are accounted for in the determining the DMO price.

DMO Price Setting Approach

Alinta supports the AER's preferred option, "Option 1 - Price based approach using DMO 1" as it is the most consistent with the underlying policy objective.

Such an "indexed" approach provides a level of predictability and certainty that assists (in part) the ability of retailers to manage risk, whilst still balancing the need to protect consumers, overwhelmingly customers of the large incumbent retailers, on standing offers.

Option 3, the bottom-up cost assessment approach, imposes the highest level of market risk, given the need for the AER to accurately estimate all estimates of the retail cost-stack which, as noted above, is highly problematic.

Network Cost Risks

Alinta considers it unacceptable that DMO prices may be determined prior to the finalisation of their corresponding network tariffs. Given that network tariffs can account for over 40% of the retail cost stack, doing so creates the risk that retailers may not be able to fully recover their costs in the market. This would clearly be contrary to the underlying policy objective, whereby the DMO could become a viable option for engaged customers if network tariffs shift sufficiently upwards between their draft and final settings.

The AER should work to align the finalisation of network tariffs and DMO pricing to allow the DMO to fully and accurately capture the impact of network price variations. If this is not possible, a separate network price risk allowance should be provided for in the calculation of the DMO prices to allow for any potential under-recovery, noting that any under-recovery would be competed away in the competitive market.

Annual Usage Assumption

The annual usage/volume assumptions included in the DMO pricing are a key comparison tool used by customers to compare energy offers. Whilst the levels are somewhat arbitrary, adding any complexity through the inclusion of daily load profiles and seasonality would only add unnecessary complexity.

The annual usage assumptions simply serve as a baseline to ensure consistency in comparisons across multiple retailers. To ensure consumer confidence, simplicity in the assumptions is critical. Consistency across DMO determination periods is also important as it allows for year on year comparisons.

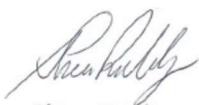
Representative Retailer

The challenge of accurately determining a "representative retailer" is one important example of why Alinta is not supportive of price regulation. The somewhat arbitrary determination of what (elements) constitutes a representative retailer by definition ensures that some current active retailers would sit outside the representative retailer determination.

That is not to say there are inefficient market participants, but rather that they may have unique approaches to servicing specifically targeted customers. The setting of a DMO price based on conservative elements of an assumed representative retailer may place such participants at a material disadvantage.

Should you wish to discuss any aspect of our submission I may be contacted on (02) 9372 2600 or via email: shaun.ruddy@alintaenergy.com.au

Yours sincerely,



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