alintaenergy

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Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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By e-mail: DMO@aer.gov.au

Dear Mark

Position Paper – Default Market Offer Prices 2021-22

Alinta Energy welcomes the opportunity to respond to the AER's position paper on the Default Market Offer for 2021-22.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers has a strong interest in the determination of the DMO. The setting and level of the DMO has a significant impact on the competitiveness of the retail energy market.

General comments

Alinta Energy remains opposed to oversight and regulation of retail energy prices. As multiple market reviews have identified, the long-term impact of such regulation is not in the interests of energy consumers; it is deleterious to consumer choice and the efficiency and competitiveness of the retail energy market.

Notwithstanding our position, we are generally supportive of the AER's approach to determining the DMO for its third annual period. Uncertainty in relation to the COVID pandemic on retailer operating costs and its wider impact on the economy will require careful consideration by the AER. The full impact on the capacity of energy consumers to pay for consumption and the cost of compliance with the AER's Statement of Expectations is unknown, but clearly will present a material downside risk to energy retailers during the DMO3 period. Alinta Energy intends to share relevant information with the AER as it becomes available.

COVID-19 pandemic impacts

While we note the AER's position that the DMO is not an estimate of the costs of an efficient retailer based on a bottom-up approach, and retrospective adjustment to under and over estimates of costs is not contemplated as a feature of the DMO, we believe consideration should be given to the *likely* impact of the COVID-19 pandemic on retailer operating costs, particularly in relation to bad and doubtful debt. Given the unprecedented impact of the pandemic, Alinta Energy suggests the AER make some allowance in retail operating costs once retailers have provided cost data. Alternatively, rebasing cost components in future DMO determination may be an alternative mechanism to manage variations between forecast and actual costs faced by retailers.

Wholesale energy costs

Alinta Energy considers the AER's approach to estimating a risk averse retailer's wholesale costs (including applying the 95th percentile of the distribution of spot price outcomes) remains appropriate to achieving the DMO's policy objectives. We are supportive of the overall approach to estimating a retailer's WEC.

Alinta Energy believes maintaining the longer book-build approach more appropriately reflects how a risk-averse retailer would behave and does not support a book build period to hedge wholesale energy exposure of 18 months.

Productivity factor

Alinta Energy does not consider the application of a productivity factor to be consistent with the objectives of the DMO or its method of calculation. It departs from the top-down approach as acknowledged by the AER on page 40 of the position paper and is an approach more appropriate applied to bottom-up regulation of monopoly energy distribution networks.

This risk associated with the departure from the approach and objective of the DMO associated with the application of a productivity factor is amplified given the uncertainty of the impact of the COVID-19 pandemic on the retail energy market.

Network costs

While the AER's approach does not allow for a 'true up' mechanism in relation to under (or over) recovery of network costs, we note the indicative network prices applied in DMO2 were lower than the actual network costs retailers have incurred. This shortfall should be accounted for in the indexation approach applied for DMO3.

Step change impacts on retail costs

We support the approach of using the step change framework from DMO2. Regarding the impact of the COVID-19 pandemic and the Consumer Data Right on retailer cost to serve, we believe both will be material during the DMO3 period (and likely DMO4). As noted above, Alinta Energy intends to provide relevant data to the AER as it becomes available that demonstrate changes in our costs.

In relation to the CDR, Alinta Energy does not believe the cost estimates made in 2018 are accurate as they could not account for the impact of the COVID-19 pandemic or the competing and material demands on retailer resources resulting from a number of significant energy market reforms. This includes five minute and global settlement, the Wholesale Demand Response Mechanism and the changes that will arise from the post 2025 NEM market design work being undertaken by the Energy Security Board.

Model annual usage, timing and pattern of supply

Alinta Energy supports the continued use of the model annual usage applied to DMO2. We agree that the diversity of small business customers makes it difficult to arrive at a truly accurate annual estimate and 20MWh per annum remains a reasonable estimate for small business customers.

Alinta Energy believes the AER should maintain a simple time of use profile in preference to a more complex profile. The challenge in balancing the benefits of a complex TOU profile against the administrative benefits of a simpler profile reflects the difficulties associated with price regulation. The uptake of time of use tariffs and the penetration of advanced metering in jurisdictions covered by the DMO remains low, providing further reasoning to maintain a simple profile for DMO3.

We welcome further discussion with the AER as it works towards its draft determination. Please contact David Calder on (03) 9675 5359 in the first instance.

Yours sincerely

Graeme Hamilton
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