18 March 2021

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By e-mail: DMO@aer.gov.au

Dear Mark

Draft Determination – Default Market Offer Prices 2021-22

Alinta Energy welcomes the opportunity to respond to the AER's draft determination 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.

We make specific comments on elements of the draft determination below.

Additional costs due to the COVID-19 pandemic

The AER has not made an allowance for COVID-19 related costs - changes to operating costs due to staff working remotely, bad and doubtful debt costs (that may be compounded by the AER's statement of expectations) and increased costs associated with managing customers experiencing hardship. Alinta Energy acknowledges the difficulty for both retailers to provide supporting data and the AER to rely upon this evidence to estimate material costs that may form part of the DMO.

While recognising the DMO is not intended to be an estimate of retailer's efficient costs, we would encourage the AER to continue to consider the ongoing impact of the pandemic on retailer operating costs, particularly when debt management and collection activity resumes. Alinta Energy supports the AER's commitment set out on page 63 of the Draft Determination that it remains open to considering cost impacts in the future. We discuss the materiality of costs and the relationship of these with the indexation approach below.

Productivity adjustment

Alinta Energy supports the AER's decision to not apply a productivity adjustment in determining the DMO. Any measure of energy sector productivity will be less significant than the step-change, industry-wide impacts from the COVID pandemic. These include the implementation of reforms such as the Consumer Data Right, or the significant changes to retailer operations that will be brought about by the five minute and global settlement, customer switching and wholesale demand response mechanism rule changes, all of which will generate costs for retailers during the DMO3 period.

Indexation

While the AER considers that COVID-19 costs, which are beyond retailer's control, the additional cost of implementing significant regulatory reforms (described above) and the increasing cost of advanced metering, are not material enough at this time to warrant a step change, the cumulative impact of these costs will impact retailer margins and competition. While the forthcoming review of regulation of the DMO offers an opportunity to examine the treatment of step change costs and their materiality, retailers must bear these costs in the meantime. The accumulation of these costs in our view is material and we welcome consideration of how exogenous costs will be considered in future DMO determinations following the review.

Network costs

The misalignment of the approval of final network tariffs and the determination of the DMO remains an ongoing and avoidable challenge. While the AER is required to publish the DMO within certain timeframes, the obvious solution (since it is only one component of the DMO itself), would be to publish final network tariffs earlier.

While we appreciate the AER would seek to apply the most recent CPI data to its determination of network prices, the materiality of not using the most recent quarter of actual CPI data to determine network tariffs is less significant than applying proposed network tariffs to the DMO.

This misalignment has been a feature of price regulation in the Australian energy market since deregulation (where price oversight was applied). Alinta Energy acknowledges the AER is examining this issue but would encourage resolution to it as soon as possible.

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

Yours sincerely

Shaun Ruddy
Manager National Retail Regulation