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Lodged online

Dear Mark,

Ausgrid welcomes the opportunity to comment on the Australian Energy Regulator's (AER) position paper for establishing a methodology to set default market offer (DMO) prices for 2021/22. Ausgrid owns and operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that stretches from the Sydney CBD to the Upper Hunter. Customer have told us that energy affordability is their number one concern, and over the past six years we have worked tirelessly to become a more efficient business. Since 2014, our network prices have reduced by \$226 for the average residential customer in our network area.

We are supportive of the policy intent of the DMO to protect consumers who are not engaged in the market from paying unreasonably high prices and agree in principle with the proposed methodology for setting the new DMO.

Retrospective changes

We are supportive of the AER's position to not make retrospective adjustments to reflect variances between forecast costs included in the DMO 2 price and actual outcomes. With respect to network costs in Ausgrid's distribution area, adjusting for the difference between the forecast for 2020-21, taken from the 2019-20 pricing proposal and the 2020-21 pricing proposal charges would have resulted in a 0.3% increase to network charges for residential customers in Ausgrid's area¹. We do not think this is material enough to warrant a retrospective change.

Network costs

The proposed flat and controlled load network tariffs proposed by the AER for Ausgrid's distribution area are appropriate for assessing the change in network prices.² We also agree with using submitted pricing proposals for DMO 3, rather than indicative prices from the previous year pricing proposal. This reduces the risk of not accounting for potentially material adjustments such as unders and overs and other post-smoothing adjustments that may occur before each year's allowed revenue is finalised.

¹ Calculated by comparing rates for the indicative EA10 tariff for 2020-21 in Ausgrid's 2019-20 pricing proposal (p47) and the EA10 tariff rates outlined in Ausgrid's 2020-21 pricing proposal (p12)

² AER, Position Paper – Default Market Offer Prices 2021-22, October 2020, p71.

With respect to metering costs, using the movement in ACS metering costs for distribution businesses is currently an appropriate proxy for metering price changes. As noted in our submission to the 2020-21 DMO, this will not always be the case as the number of advanced meters installed since the implementation of Power of Choice increases. Over time, the balance between customers with type 5 and 6 meters and advanced meters will tip towards advanced meters and it will be less appropriate to link movements in prices to distributors' ACS revenue determinations.

Model usage

The AER's proposed position is to use the same model usage that was used in 2020-21.³ We agree that it is preferable to maintain model usage across years to maintain simplicity, consistency and comparability. The table below shows the proposed model usage and residential customer usage data for Ausgrid's distribution area in FY20 which indicates that the model usage remains appropriate.

Customer type	AER proposed (annual kWh)	Actual FY20 (annual kWh)
Residential without controlled load	3,900	3,979
Residential with controlled load – general	4,800	4,821
Residential with controlled load – controlled load	2,000	1,893

Time of use profiles

The AER's position paper indicates that further data collected since the DMO 2 determination may allow for new TOU profiles which incorporate differing consumption profiles for weekdays and weekends and potentially variations in seasonal consumption.⁴ Of the options under consideration, we are of the view that the AER's preferred option 1—single day with usage specified at 1 hour intervals—would be the most appropriate for use in the DMO instrument. The other options would add significantly more data and complexity to the DMO calculations for a marginal improvement in precision.

If you have any queries in respect of this submission, please contact Fiona McAnally (02 9160 3730 or fiona.mcanally@ausgrid.com.au).

Yours sincerely



Alex McPherson
Head of Regulation

³ AER, Position Paper – Default Market Offer Prices 2021-22, October 2020, p46.

⁴ AER, Position Paper – Default Market Offer Prices 2021-22, October 2020, pp48-49.