

18 March 2021

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

AER Reference 64687

Submitted via email to: DMO@aer.gov.au

Dear Mr. Feather

Default Market Offer Prices 2021-22 Draft Determination

Thank-you for the opportunity to provide a submission in response to the Australian Energy Regulator's (AER) Default Market Offer Prices 2021-22 Draft Determination (The Draft Decision).

Momentum Energy Pty Ltd (Momentum) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest producer of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We also retail natural gas to Victorian customers. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

1. AER Assessment of Additional Cost Items

Momentum is concerned that several of the additional cost items raised in the Draft Decision by retailers are being assessed individually and dismissed as not being material enough to breach the threshold required to increase the DMO. Alternatively the argument used by the AER to ignore these costs, is based on the rationale that they could not be considered in isolation for DMO 3 without reopening both DMO 1 and DMO 2 pricing decisions due to the indexation approach. While we support the AER's suggested approach for a full bottom up review of all costs for DMO 4 we do not understand why particular cost increases such as COVID-19 debt, regulatory change system costs and smart metering costs cannot be included in the DMO 3 determination as DMO 4 is likely to be determined outside of the former indexation methodology. As there is no wash up or catch up mechanism for under recovered costs in either DMO 1 or DMO 2 we believe that DMO 3 should be adjusted to capture these additional costs.

Moreover the AER’s reference, in the Draft Decision, to the fact that new costs have not breached the “materiality threshold” is somewhat complexing as this threshold has never been clearly defined nor made public. Momentum asks that the manner in which the AER determines the “materiality threshold” be made transparent to stakeholders.

The following sections, supported by confidential data, identify the areas in which Momentum has experienced additional costs that we believe support the need for an increase in both DMO 3 and 4 as some of these cost items will need to be recovered over several years.

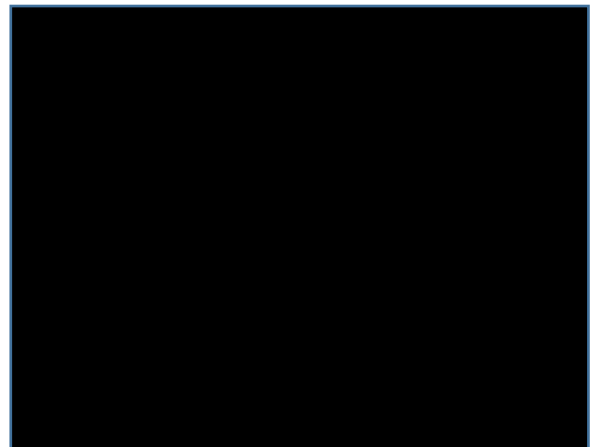
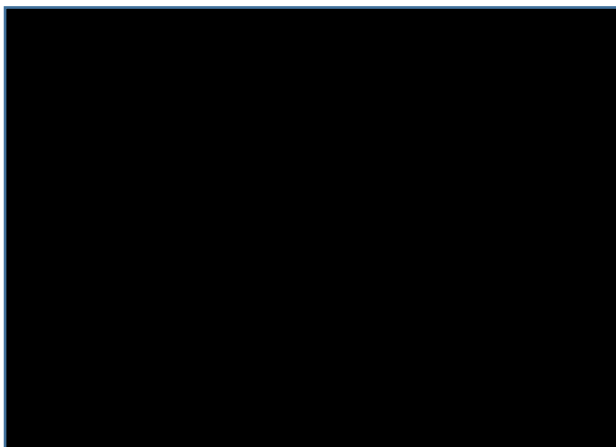
a) Increased Debt Due to AER Statement of Expectations

Momentum has experienced a significant increase in 90 day plus debt due in part to the limitations imposed by the AER on debt recovery activities during the COVID – 19 pandemic. The recovery rate of this debt is unknown, although it is expected that it will be much less than normal, given the far reaching effects on employment and consumer incomes.

The charts below show the increase in 90 day plus debt from Feb 2020 compared to Feb 2021 for Residential (RESI) and small business (SME) customers in both NSW and SA.

- Our total 90 day plus debt balance for existing residential and small business (SME) customers has increased by around 51%.
- Customers with an outstanding balance greater than \$300 has increased by 59%.
- There has also been a 32% increase in the number of these customers that fail to make contact with Momentum.

Momentum 90 plus day debt for DMO regions of SA and NSW.



b) Smart Metering Costs

The DMO currently has an allowance of approximately \$36 for basic metering costs. This is considerably lower than the weighted average metering costs for Momentum as indicated in the table below (██████████).

As smart meter penetration continues to expand, the under recovery in metering costs will only increase. On this basis, it is imperative that the allowance be increased in the DMO 3 and 4 cost stacks to ensure the DMO reference price suitably reflects the cost borne by retailers as a result of the transition to smart metering.

There is an expectation across the energy industry that smart meter penetration needs to increase to allow customers to better control and optimise their electricity use in the changing energy market. We welcome this increased penetration however, we are concerned that the current allowance for smart metering costs in the DMO does not encourage meter upgrades unless there is a consumer product incentive, such as solar, or for faulty or end of life meter replacements.

Momentum Metering Costs

Customer Type	Existing Smart Meter Penetration	Average Cost per Smart Meter	Weighted Average Cost of all Metering (per non-Vic customer)
RESI	17%	██████████	██████████
SME	12%	██████████	██████████
TOTAL	16%	██████████	██████████

c) System Costs due to Regulatory Changes

The national electricity market is consistently undergoing significant change which often requires retailers to amend and upgrade their systems and processes. Most of these changes fail to deliver any revenue or efficiency benefit for retailers. For example the changes required to implement 5 minute settlements will primarily benefit electricity generators that have the ability to take advantage of short term wholesale peak prices however this has imposed considerable cost on retailers in amending their systems and processes to ensure compliance.

Similarly, the NEM customer switching changes, scheduled for October 2021 will deliver no efficiency benefit for retailers but will impose significant costs. This change was initiated by AEMO as directed by the AEMC to deliver faster transfers for small customers especially those without smart meters. While some customers may achieve a faster transfer to another retailer many of these transfers will occur on estimated meter reads which will require adjusted billing by retailers.

The table below lists the recent market changes and the estimated system costs that have been or will be incurred by Momentum. Momentum believes that it would be fair and

reasonable for DMO 3 and successive DMO's to be adjusted so that these capital costs can be progressively recovered, if only partially.

Regulatory Change	Estimated System Change Costs	Expense Timing
NEM Customer Switching		October 2021
Gas Life Support		April 2021
Customer Data Right		September 2022
5 Minute Settlement		October 2021
NSW Social Program Energy Code		July 2020
Life Support AER		Dec 2019
DMO Solar Reference Price		Dec 2020
Total		

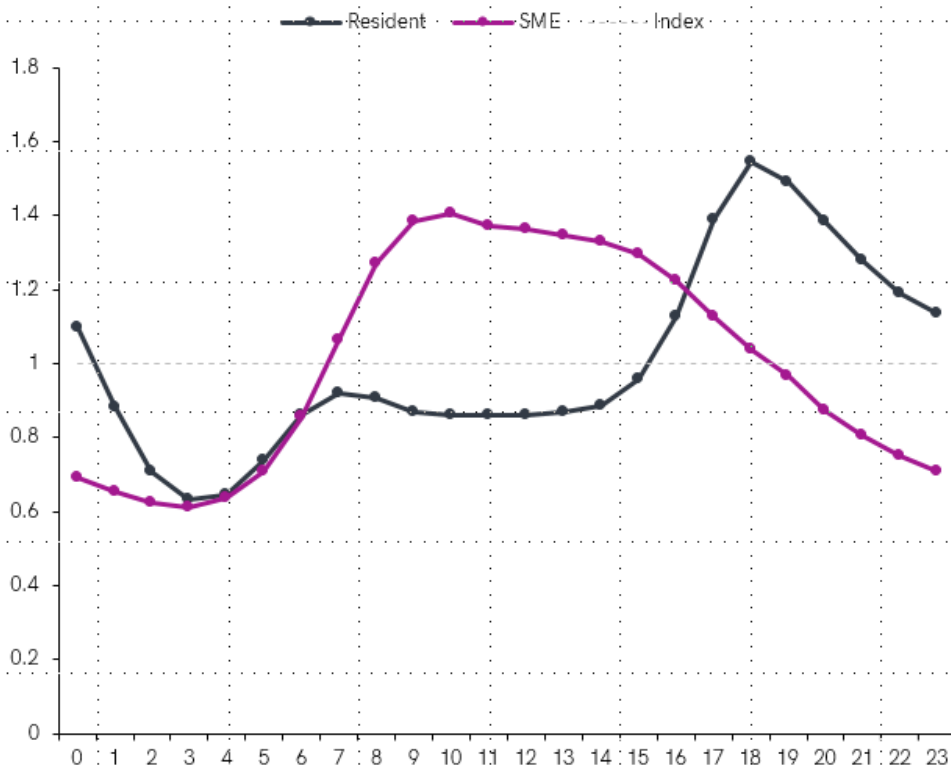
2. DMO Alignment with Network Costs

We note the discussion, in the Draft Decision, on the misalignment of actual network prices used to calculate DMO 2 and the resulting under recovery for this important cost component. As there is no adjustment compensation component contemplated when this occurs there is an urgent need to address this situation. With the current network tariff approval process the AER is unlikely to regularly have final approved network prices prior to making a final DMO determination. We therefore urge the AER to consider a rule change in relation to the timing of the final network approved prices to ensure that these can then be relied on for future DMO determinations. At the very least a new network pricing timeline should be mandated for the five key tariffs used in the DMO determination.

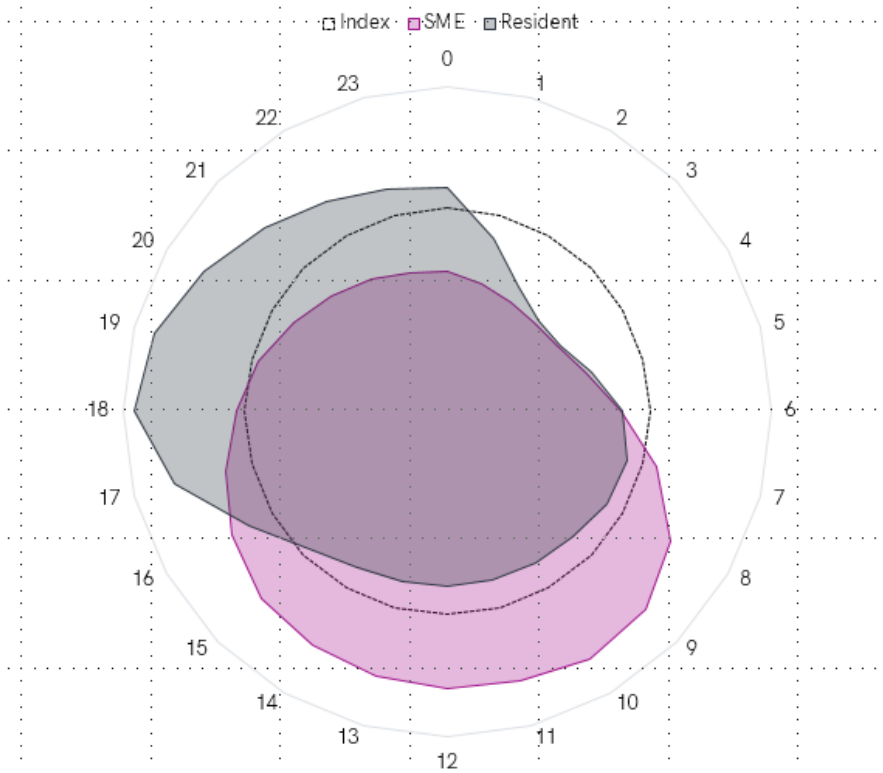
3. Separating Residential and Small Business (SME) load profiles


While the Draft Decision includes some comment on the views of stakeholders regarding the merits of separating residential and small business load profiles, it is disappointing that this has not been implemented. Momentum believes that the load profiles of SME and residential customers are no longer similar and that it would be more equitable for each of these segments to be assessed independently. This will also remove any cross subsidies in DMO pricing for each of these segments. As indicated in the charts below SME customers use most of their electricity during the day when prices are lower whereas peak residential loads occur in the evening. The rapid growth in the uptake of solar installations is continuing to deliver excess electricity into the grid that will increase the difference in the cost of electricity used during the day.

Usage Shapes – SME vs. Resident – Non-Vic – Line Chart



Usage Shapes – SME vs. Resident – Non-Vic – Radar Chart





We are hopeful that the issues noted above will be considered in the final DMO 3 determination. Should you require any further information regarding this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager