

Presentation to AER DMO Forum



Sydney, 26 November 2019



Overview

1. Provide a retailer perspective on the AER's method and approach to setting the DMO price.
2. Provide a retailer's perspective on areas where we would like the AER to devote attention – namely:
 - Wholesale Energy Costs and Market Risks.
 - Environmental Costs.
 - Exceptional Costs.
3. Some initial observations on the impact of the DMO on market performance.

AER Approach to setting DMO Price

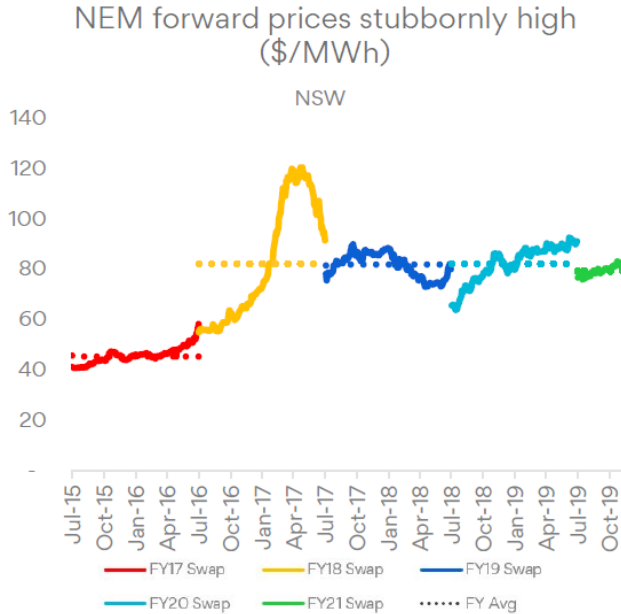
- AER's approach to the determination of DMO 1 was pragmatic given the time constraints.
- DMO 1 method cannot be repeated.
- Support the adoption of a price based index approach to transition to DMO 2.

Need to strike balance between setting a fair standing offer price for customers with allowing retailers a reasonable opportunity to recover their efficient costs

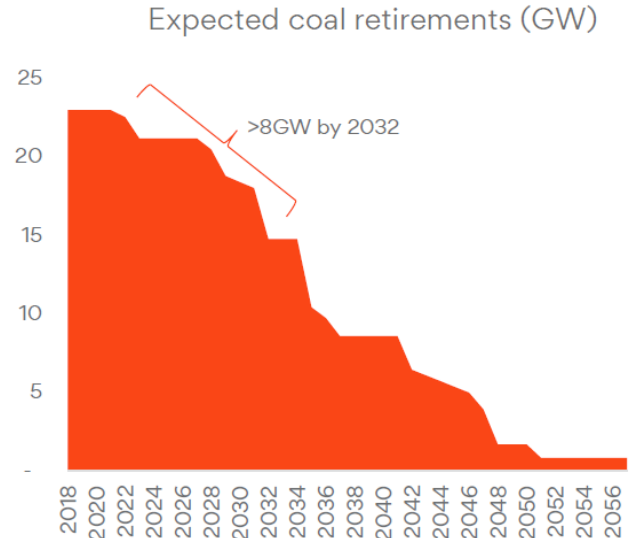
Wholesale Energy Costs - Approach

- Support a market-based approach to estimate WEC.
- Shape of the load profile is important – need to separate residential from SME.
- Need to maximise the size of the data set to ensure that volatility is appropriately captured.
- An appropriate measure for price volatility risk needs to be considered.

WEC – Risk and Issues



Source: AEMO/Bloomberg

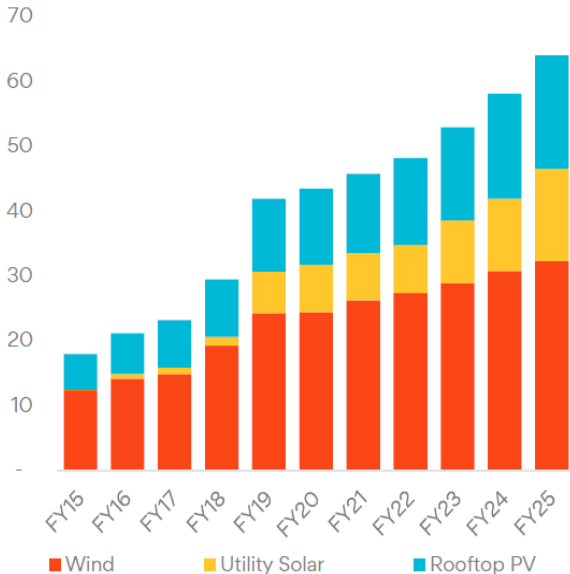


Source: AEMO

1. Ageing NEM baseload brown coal fleet causing increased reliability issues.
2. Renewables delayed coming onto the grid.
3. Reliability issues over summer can also result in periods of high volatility.

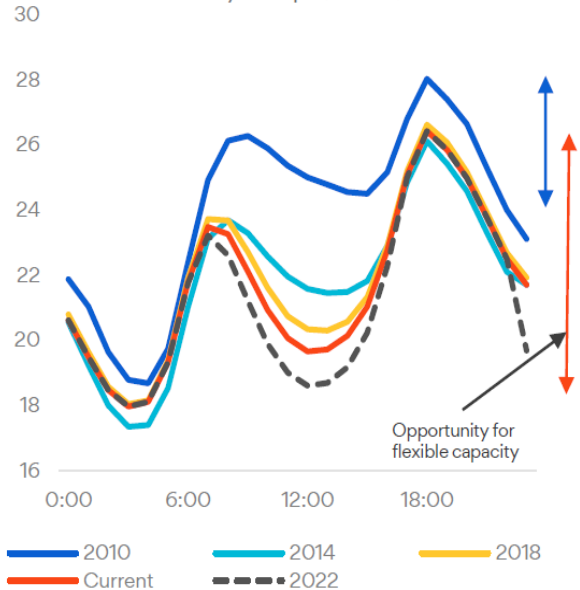
WEC – Risks and Issues

NEM Renewable Generation (TWh)



Source: AEMO, ISP 2018 Forecast

Average NEM demand July- Sep (GWh)



Source: AEMO

Renewables generation expected to continue to increase, contributing to increasing intra-day volatility.

Environmental Costs

Challenges for the AER:

- Retailers in the NEM must buy renewable certificates (LGCs and STCs) to meet their obligations under the Commonwealth renewable targets (LRET).
- Retailers entered into Power Purchase Agreement (PPA) to cover their LRET obligations – made in good faith to meet a policy objective.
- LRET scheme is imperfect in how it treats over-supply and has a fixed life.
- LGCs have not just been fully supplied but oversupplied.
- LGCs as traded in futures markets may not be reflective of the investment retailers have made to cover our environmental obligation.

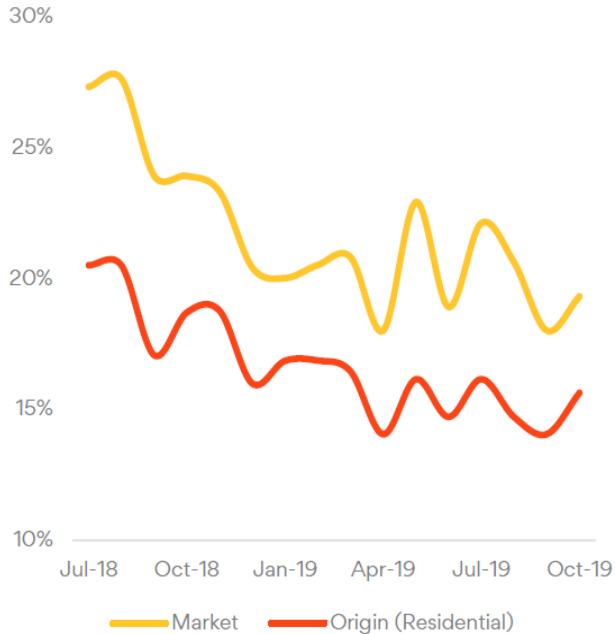
AER needs to ensure that it applies the most up to date SRES percentage.

Exceptional Costs and Other Issues

- Method to transition to DMO 2 allows retailers an opportunity to reasonably recover their retail operating costs. However, significant market changes that will have material impact on retailers costs:
 - 5 Minute Settlements.
 - Consumer Data Rights.
 - Retailer Reliability Obligations.
- Need a clearly defined pass-through mechanism.
- AER needs to ensure retailers have an opportunity to recover underlying network costs from the DMO when the tariff structures are not aligned i.e. TOU tariffs.

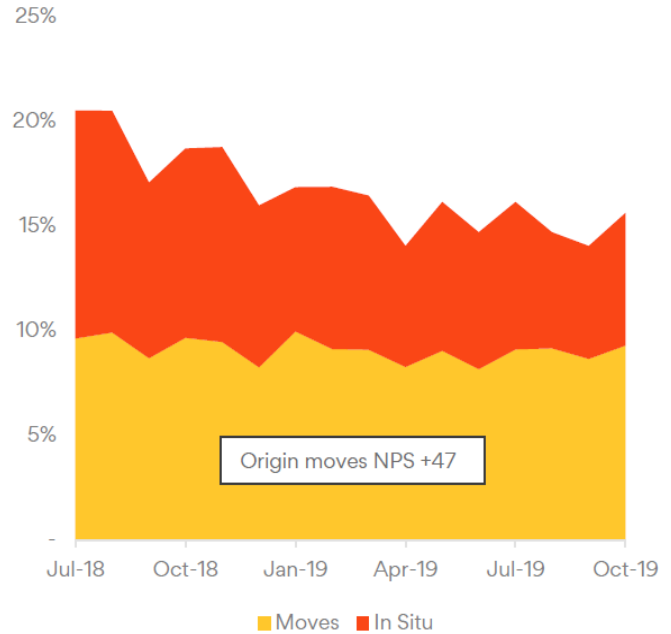
Early Observations

Customer churn (Monthly)



Source: AEMO/AER

In Situ vs moves churn (Monthly)



Thank You

For more information

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