

06 March 2020

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

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

Re: Draft Determination Default Market Offer Prices 2020-21

I refer to your draft determination for retail electricity default market offer (DMO) prices to apply from 01 July 2020 to 30 June 2021 and provide thanks to the Australian Energy Regulator (AER) for the opportunity to provide a submission.

1st Energy is a non-integrated, second-tier electricity and gas retailer for residential and SME customers. Founded in April 2015, 1st Energy operates throughout the eastern states of Australia including New South Wales, Queensland, Tasmania and Victoria.

The Draft Determination for the DMO 2020-21 seeks to adjust the 2019-20 DMO prices to reflect forecast changes in wholesale, environmental and network costs; and an adjustment for remaining costs, including retail costs, to reflect changes in the Australian Consumer Price Index (CPI). In the context of the requirements of the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019, 1st Energy is broadly supportive of this approach however, we intrinsically consider price regulation intrusive in a competitive market.

We provide the following commentary on the DMO:

Wholesale energy costs

We are supportive of market-based approach (using financial derivative data) to assess wholesale costs for 2020-21. The draft determination states Reliability and Emergency Reserve Trading (RERT) costs are captured however, we note that RERT costs attributable to New South Wales RERT events that occurred throughout January 2020 are yet to be included and anticipate this number will be revised with the availability of the market data.

Environmental costs

We consider the current non-binding small-scale technology percentages, (STP's) as historically unreliable and in absence of the Clean Energy Regulator's binding target, are supportive of utilisation of the Consultant revised 2021 STP estimate, presuming this estimate captures the relevant period of the binding target to be made available in March 2020.

Network costs

In the absence of final network tariffs, we provide support for the use of draft network tariffs. We do not support the use of network determinations as an input for setting DMO prices; determinations are high level and not tariff specific.

Metering

It's unclear in the draft determination if current meter replacement costs have been captured within the AER's analysis which we estimate at \$140.00 on average per annum and given the progressive uptake overall metering costs are increasing year on year. We urge the AER to recognise that Power of Choice meters cost significantly more than the residual basis meter and factor an appropriate cost into the DMO.

1st Energy thanks the AER for the opportunity to provide a submission. For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, aneta.graham@1stenergy.com.au 03 7001 3724.

Yours sincerely

A handwritten signature in black ink, appearing to read "Liam Foden".

Liam Foden
Managing Director
1st Energy Pty Ltd