



AER Default Market Offer 2021-22 Stakeholder forum

29 October 2020

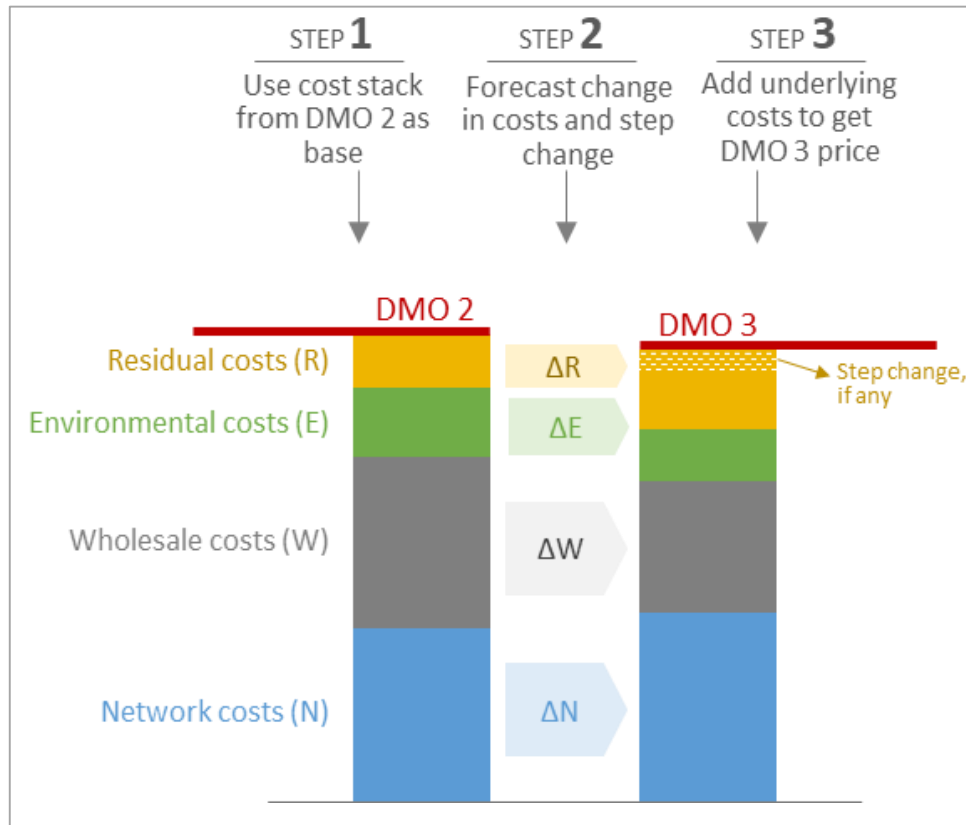
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Purpose of today

- Discuss key issues we are consulting on in our 2021-22 Default Market Offer Determination (DMO 3) Position Paper, including:
 - Pricing methodology
 - COVID-19 impacts
 - Wholesale energy cost – forecast assumptions
 - Productivity adjustment
- Wholesale electricity and environment cost forecasting approach
 - **Richard Lenton** – Executive Director, ACIL Allen
- Retailer and consumer perspectives
 - **Martin Exelby** - Chief Operating Officer, Retail, Red Energy/Lumo
 - **Jacqueline Crawshaw** - Acting Director Advocacy & Communications, Energy Consumers Australia

Pricing methodology

- We will continue the indexation approach as applied in DMO 2



Wholesale energy costs

- **Load profile** – investigating feasibility of separate residential and small business load profiles for WEC forecasts.
- **Hedging strategy**
 - we assume a ‘risk averse’ retailer that gradually builds their hedge book over time (generally 36 months prior to the period, but most trades occur within the last 24 months)
 - Do these assumptions remain appropriate?
- **Wholesale energy cost estimate**
 - Our Consultant models a range of scenarios to generate approx. 500 spot price outcomes.
 - It bases wholesale estimates at the 95th percentile of outcomes.
 - Does this approach remain appropriate?

Network costs

- No network business revenue resets in DMO 3 period
- Draft Determination – use indicative network tariffs for 2021-22 from 2020-21 annual pricing proposals approved by the AER.
- Final Determination - use **final network tariffs from 2021-22 annual pricing proposals** that the network businesses are expected to submit by 1 April 2021.
- Alignment of network pricing approvals and DMO timing:
 - Australian Energy Council (AEC) looking at this issue
 - We are open to possible solutions, and will continue to progress our own consideration of the issue.

Environment costs

- Continue DMO 2 approach
- Continue to use market-based approach to estimating LGC costs
 - Transparent and robust
- Challenges in using PPA LGC costs in the DMO methodology
 - Practical challenges – e.g. un-bundling LGC and energy costs, different PPA formats
 - Consistency with our market-based approach to forecasting wholesale costs

Retail costs

- Apply forecast CPI to the retail 'residual' component
- Other material retail cost changes – 'step change' framework
 - COVID-19 impacts, including bad and doubtful debt
- Evidence that retailers' costs are reducing over time
 - Reflect this through a DMO productivity adjustment?

Annual usage and TOU

- Annual usage - Is there a compelling reason to change them?
- TOU profiles
 - Updating balance ‘reasonably representative’ with practical and simple implementation?
- TOU customer costs
 - Given we can only set one DMO price, how should we deal with any higher costs for these customers?

DMO 3 timeline

