

AER DMO 2023-24 Draft Determination

PUBLIC FORUM

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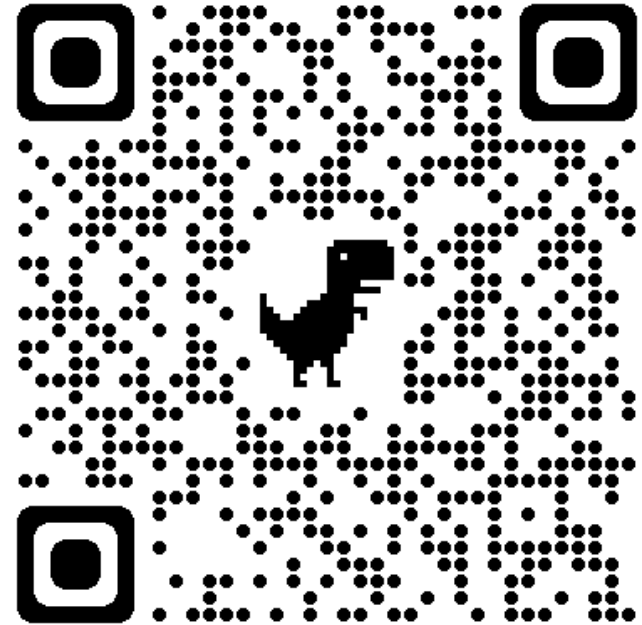




We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to the land, waters and community.

We pay our respects to them, their cultures, and Elders past, present and emerging.

Join in the
discussion and
submit
questions via
Slido.



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#AERDMO2324



- The first Default market offer (DMO) came into effect on 1 July 2019. DMO policy came out of the ACCC's Retail Pricing Inquiry 2018.
- The DMO is the maximum price a retailer can charge a standing offer customer.
- The DMO sets a benchmark for market offers.
- The purpose of the DMO is to act as a fall-back for those consumers who are not engaged in the market.

DMO PRINCIPLES

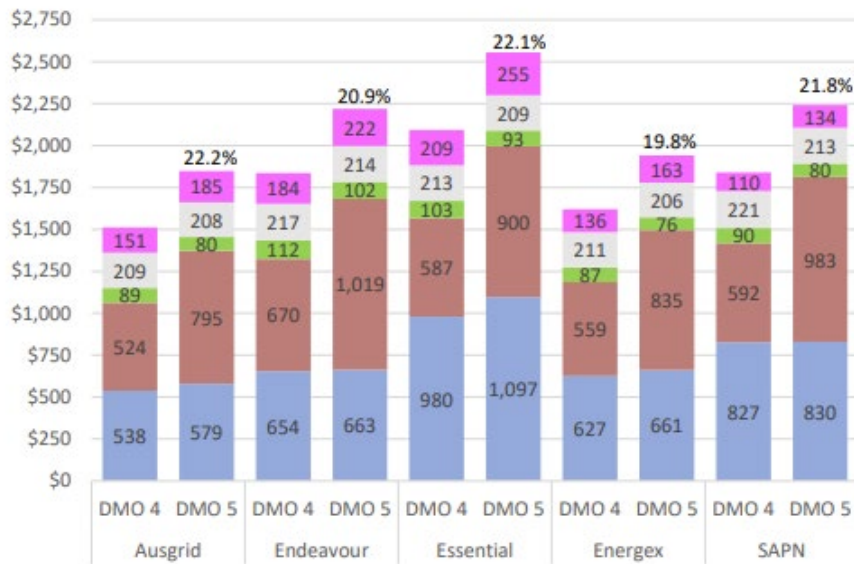
The DMO price determination is set by the AER each year to:

Reduce	Reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices
Allow	Allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention
Maintain	Maintain incentives for competition, innovation and investment by retailers, and incentives for consumers to engage in the market

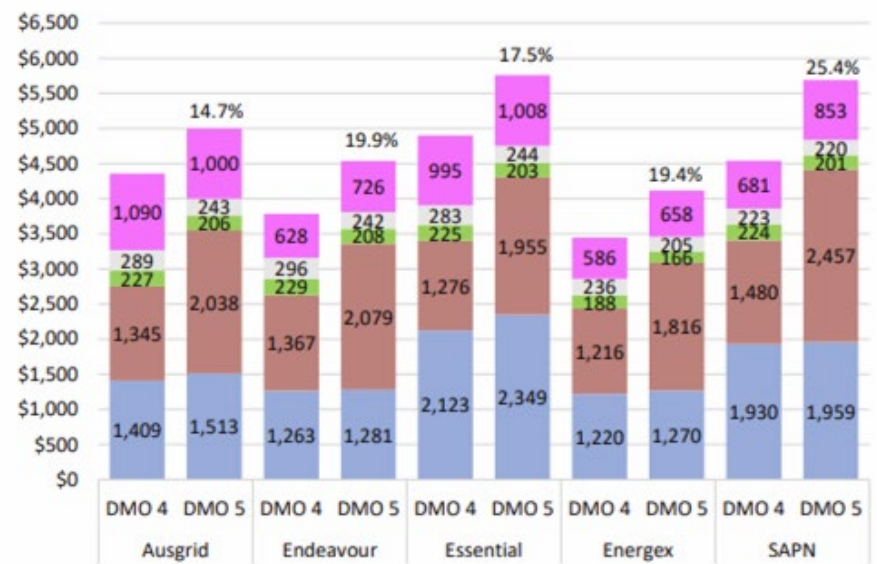
DMO 4 to DMO 5 PRICE MOVEMENTS

The charts below show the movement in the DMO cost components between DMO 4 and DMO 5, with the overall height indicating the total DMO price for each DNSP.

Residential without CL, % change from DMO 4 (nominal)



Small business, % change from DMO 4 (nominal)



- DMO allowance
- Retail cost
- Environmental cost
- Wholesale cost
- Network cost

NETWORK COSTS

- Under the National Electricity Rules, the AER regulates network charges.
- Distributors set these network charges annually, offering a range of tariff structures for each class of customer. The DMO network cost component is adjusted each year to reflect changes in distributor network costs for the relevant tariff.
- The proposal and approval of network tariffs occurs in the 8 weeks preceding the final DMO determination and are therefore unavailable for the draft DMO determination. The network costs used in our previous DMO draft determinations have used indicative network tariffs submitted by distributors as part of earlier pricing proposals.
- For the 2023–24 year, these indicative prices were set in March 2022, when a number of significant impacts could not be reasonably estimated. As a result these prices were not fit for the purpose of the draft DMO determination.

NETWORK COSTS

- With the cooperation of Ausgrid, Energex, Endeavour Energy, Essential Energy, and SA Power Networks, we have calculated network costs that incorporate better estimates for the purpose of the draft DMO determination.
- In doing this, we have incorporated relevant inflation and debt data available at the time of the draft DMO determination, and better estimates of other components of the network cost stack.
- In addition, this process allowed us to ensure the draft DMO determination reflects new jurisdictional schemes that have been introduced for the 2023–24 year, including the NSW Roadmap.

WHOLESALE COSTS

- The wholesale energy market has faced unprecedented supply challenges and volatility.
- Wholesale costs are the predominate driver of price changes in our draft determination for DMO 5.
- Wholesale costs driven by:
 - increases in contract prices
 - the shape of the load profiles
 - spot price outcomes.
- There has been decreases in the contract market since the government began to signal interventions in coal and gas prices.
- However, prices remain elevated due to:
 - stronger coal and gas costs than prior years
 - reliability concerns with ageing coal-fired generation assets
 - closure of Liddell Power Station in April 2023.

WHOLESALE COSTS

The increases in the contract prices for 2023–24 were:

- NSW – an increase of base futures contract prices of \$43.10/MWh and an increase of cap contract prices of \$11.00/MWh
- QLD – an increase of base futures contract prices of \$31.00/MWh and an increase of cap contract prices of \$6.50/MWh
- for SA – an increase of base futures contract prices of \$43.20/MWh and an increase of cap contract prices of \$14.80/MWh.

Customer type	Region	2022–23 (final) (\$)	2023–24 (draft) (\$)	Change year-on-year (%)
Ausgrid (NSW)	Flat rate	122.23	185.28	52%
	CL 1	88.62	114.53	29%
	CL 2	87.26	111.17	27%
Endeavour Energy (NSW)	Flat rate	124.25	188.98	52%
	CL 1	114.5	173.64	52%
	CL 2	114.5	173.64	52%
Essential Energy (NSW)	Flat rate	115.97	177.77	53%
	CL 1	87.48	112	28%
	CL 2	87.48	112	28%
Energex (SE QLD)	Flat rate	110.53	165.11	49%
	CL 1	86.65	110.15	27%
	CL 2	93.47	116.17	24%
SA Power Networks (SA)	Flat rate	134.53	223.32	66%
	CL 1	73.52	105.38	43%

WHOLESALE COSTS

- Use of over-the-counter (OTC) confidential contract information.
 - Our draft determination relies on futures contracts traded on the ASX.
 - We sought additional OTC contract market data from retailers.
 - This decision was based on our current assessment of the ASX and OTC market data.
 - We will continue to collect confidential contract data.
- Additional contracting products in hedging strategy.
 - Our draft determination includes base futures that are traded as a result of exercising base options. We have also included the up-front premium cost for call option contracts, irrespective of whether the option is exercised.
- 2 to 3 year book build period.
- 75th percentile of modelled price outcomes.
- Use AEMO's net system and controlled load profiles, which is created using basic meter data.
- Only including known AEMO and AEMC compensation costs in the wholesale component.

WHOLESALE COSTS

- Investigate the possible use of OTC market information in the final determination.
- Collect more confidential from retailers and generators to test whether the ASX contract market information remains an accurate reflection of a retailer's contracting costs.
- Monitor all DMO regions, but focus on South Australia where there is low liquidity.
- The draft determination was made based on our best estimates at the time of the decision. Wholesale energy costs in our final determination may be different from the draft determination.
- We are interested in hearing stakeholder thoughts on our draft determination in relation to the wholesale methodology for DMO 5.

RETAIL ALLOWANCE

- Introduced in DMO 4, replacing 'residual' component
- Retail allowance covers:
 - margin
 - incentive for retailers to compete and invest
 - incentive for consumers to engage in the market
 - 'buffer' for variations in costs
- Calculated as a % of the DMO price.
- In DMO4 we intended targets of 10% for residential and 15% for small business customers
- 'Glide path' to transition to targets across DMO 4-6
- DMO 5 Draft decision to hold SAPN and Energex residential retail allowances at DMO 4 values (6 and 8.4% respectively)
- Continue gradual decline to 15% for small business

NEXT STEPS

We recognise stakeholders have a vast range of experience and insight which can strengthen our DMO determinations. For the DMO 5 Issues Paper consultation, a total of 20 stakeholder submissions were received. This total is up from the 16 submissions received for DMO 4, and the 15 submissions received for DMO 3.

As stakeholders often engage with the AER in different ways, we strive to provide easier engagement opportunities to encourage stakeholders to get involved in our consultation process.

