Default market offer prices 2022–23

Draft determination

February 2022

AUSTRALIAN ENERGY REGULATOR

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Contents

Invitation for submissions

Interested parties are invited to make submissions on this draft determination by 17 March 2022.

We will consider and respond to all submissions received by the date in our final determination. Submissions should be sent to DMO@aer.gov.au. Alternatively, submissions can be sent to:

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General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submissions should be in PDF, Microsoft Word or another text readable document format.

We prefer that all views and comments be publicly available to facilitate an informed and transparent consultative process. Views and comments will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information should:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential information will be placed on our website. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy (June 2014) on our website.[1]

1 https://www.aer.gov.au/publications/corporate-documents/accc-and-aer-information-policy-collection-and-disclosure-of-information

Shortened forms

Shortened form	Extended form
ACCC	Australian Competition and Consumer Commission
AEC	Australian Energy Council
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASX	Australian Securities Exchange
CER	Clean Energy Regulator
CL	Controlled load
COAG Energy Council	Council of Australian Governments Energy Council
CPI	Consumer price index
DMO	Default market offer
DMO 1	Default market offer determination for 2019–20
DMO 2	Default market offer determination for 2020–21
DMO 3	Default market offer determination for 2021–22
DMO 4	Default market offer determination for 2022–23
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
ECA	Energy Consumers Australia
EME	Energy Made Easy
ESCV	Essential Services Commission Victoria
EWOSA	Energy and Water Ombudsman South Australia
FiT	Feed-in tariff
ICRC	Independent Competition and Regulatory Commission
kW	Kilowatts
kWh	Kilowatt hours
kVa	Kilovolt amperes
LAR	Local area retailer
LRET	Large-scale Renewable Energy Target
MMO	Median market offer
MO	Market offer
MSO	Median standing offer
MWh	Megawatt hours
NEM	National Electricity Market
NER	National Electricity Rules
NERL	National Energy Retail Law
NERR	National Energy Retail Rules
NGL	National Gas Law
NUOS	Network use of system
NSLP	Net System Load Profile
OTTER	Office of the Tasmanian Economic Regulator

Shortened form	Extended form
PIAC	Public Interest Advocacy Centre
PV	Photovoltaic system / solar power system
QCA	Queensland Competition Authority
QCOSS	Queensland Council of Social Service
REPI	Retail Electricity Pricing Inquiry
RET	Renewable Energy Target
RPP	Renewable power percentage
SAPN	SA Power Network
SME	Small and medium-sized business customers (enterprises)
SO	Standing offer
SRES	Small-scale Renewable Energy Scheme
STP	Small-scale technology percentage
TOU	Time of use
TUOS	Transmission use of system
UTP	(Queensland) Uniform tariff policy
VDO	Victorian Default Offer

1 Executive summary

This is our draft determination for retail electricity default market offer (DMO) prices to apply from 1 July 2022 to 30 June 2023, known as DMO 4.

The DMO is the maximum price an electricity retailer can charge a standing offer customer each year. A customer might be on a standing offer if they have never switched to a retailer's market offer or for a range of other reasons.

The objectives of the DMO price[2] are to:

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

In setting DMO 3 for 2021–22, we committed to undertake a holistic review of our price setting methodology as part of DMO 4. We released an options paper in October 2021 and sought stakeholder feedback on issues including:

- our overarching approach to setting the DMO price – that is, whether we should continue to index prices or use a cost build-up approach
- our approach to retail costs and the way they are adjusted
- how we could reflect the expected costs of a 'representative retailer' in our wholesale cost forecasting methodology
- how we should treat costs to serve customers with advanced meters or on time-of-use (TOU) tariffs
- our 'model annual usage' determination, including ensuring our residential and small business annual usage benchmarks are broadly representative.

We have considered stakeholder feedback on these options and our draft decision is to adopt a cost build-up approach for the DMO 4 determination. We expect to continue using this approach in DMO 5 (2023–24) and DMO 6 (2024–25). Our view is that, moving forward, a cost build-up approach will best support the policy objectives.

In particular, it ensures that the policy objectives will be met consistently across all the customer types and regions. Very low retail margins such as the little over 1% for some residential customers in South Australia at present are inconsistent with the objectives to allow retailers to cover their efficient costs and maintain incentives for competition. The much higher margins for other customers (e.g. 13% for some residential customers and over 28% for some small business customers in New South Wales) could be inconsistent with the

[2] The DMO objectives are set out in several sources including: Treasurer's and Minister for Energy's request to the AER to develop a DMO, 2018, the ACCC Retail Electricity Pricing Inquiry final report, 2018, the Explanatory Statement accompanying the DMO Regulations, 2019.

objective to protect customers from unreasonable standing offer prices. We will move towards standardised retail allowances for each customer type to balance all three policy objectives.

Our view is that a 10% retail allowance for residential customers (encompassing the retailer profit margin and the allowance to meet the DMO objectives which were previously part of the 'residual' component of the DMO), protects customers while enabling retailers to make a reasonable margin and compete below this ceiling. For small business customers, we consider a 15% retail allowance achieves these objectives.

We intend to provide a transitional pathway to these allowance targets over 3 years where required to minimise price increases for some customers while maintaining similar levels of revenue in the market as a whole.

The cost build-up approach also provides greater transparency on the cost drivers in a market in which the pace of change continues to accelerate. We have used the ACCC Inquiry into the National Electricity Market November 2021 report cost information as our base estimate of retailers' operating costs and made adjustments for bad and doubtful debt and advanced meter costs.[3] Under the previous methodology, these retailer costs were also subsumed into the 'residual'.

In addition, we have made the following decisions about the methodology in determining the draft DMO 4 prices:

- While we have retained assumptions that retailers minimise their exposure to the spot market through their hedging strategies, we have adopted less conservative settings that are less likely to overstate the risks to highly hedged retailers of purchasing wholesale energy.
- We have included the costs retailers pay for Australian Energy Market Operator directions in wholesale energy costs in South Australia for the first time. We have also included costs for advanced meters and bad and doubtful debt. We consider these are all costs a prudent retailer is likely to incur during the DMO 4 period.
- We have retained our approach to calculating network costs and forecasting environmental costs.
- We have reviewed the residential annual usage benchmarks and found they are still broadly representative, as the Regulations require.[4] We have adopted a 10,000 kWh benchmark for small business users because it is more representative than the previous 20,000 kWh per year benchmark. We intend to use these benchmarks for DMO 5 and 6.

The cost build-up approach was the preferred approach of consumer representatives and a small number of retailers. However, many retailers raised concerns about the challenges and risks in us estimating representative costs using this methodology. We have given these issues careful consideration and provided a response throughout this determination document.

[3] ACCC, Electricity market monitoring 2018-2025, accessed 7 January 2022
[4] Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019, section 16

For most customers the change in prices is either comparable to or below forecast inflation.

Residential customers in south-east Queensland face increases of around 1.8% for customers with controlled load and 2% for customers without controlled load above expected inflation (in nominal terms, increases of 5.8% and 5.6%).

South Australian residents without controlled load will experience price rises slightly below inflation (3.1% in nominal terms). Those with controlled load face increases of around 1.1% above expected inflation (a 4.9% increase in nominal terms).

In New South Wales, residential customers without controlled load will see price decreases of 4.2% to 5.6% adjusting for expected inflation (0.6% to 2% decreases in nominal terms) compared with DMO 3, depending on their network distribution region.

For small business customers, draft DMO 4 prices are not directly comparable with DMO 3 prices due the new usage benchmark. However, when compared using the previous benchmark, south-east Queensland prices will increase 2.1% above inflation (5.9% in nominal terms), but those in other regions will see decreases in real terms of between 0.2% and 5.9% (in nominal terms, between a 3.5% increase and a 2.4% decrease).

For most customers, the DMO 4 prices under the new methodology are lower than they would have been if we had continued to use our previous methodology.

Wholesale costs are forecast to rise in all regions. Key factors in this are the slowing of investment in new capacity, a reduction in thermal generation and higher coal and gas costs. Increasingly ‘peaky’ demand is also driving up the cost of hedging for retailers. In south-east Queensland and South Australia increased frequency control ancillary service charges and directions costs, respectively, contribute additional pressure to these costs.

The transition to consistent retail allowances contributes to price reductions in New South Wales, where the effective retail allowances were previously higher. The shift to standardised allowances contributes a small amount to price rises in South Australia and south-east Queensland but this effect is moderated by the transitional pathway for allowances.

Network costs and environmental costs have reduced slightly in all regions.

Customers who shop around will continue to save off their bills. Based on offers available in February 2022, residential customers switching from the DMO 4 price to the lowest market offer could save 21.6% to 27.5% and small business customers could save 26.1% to 33.5%, depending on their region.

2 DMO 2022–23 draft prices

2.1 DMO draft prices

DMO prices for 2022–23 for each customer type in each distribution region are set out in Table **2**.**1**. The table also shows the changes from DMO 3 in both real terms (that is, adjusted for forecast inflation) and nominal terms.

The draft DMO prices are based on the most recent data available. The draft prices will be adjusted for our final determination as required to consider updated data or other issues that arise between February and April. In particular, we note the potential for higher contract prices to flow through to the final DMO price calculations in April.

The small business DMO prices in the table are based on our new annual usage benchmark of 10,000 kWh per year. Due to this change, DMO 3 and DMO 4 prices are not directly comparable. However, to provide an indication of the year-on-year change, we have set out the percentage change, based on a comparison of the DMO 3 price and a nominal DMO 4 price calculated based on a 20,000 kWh per year benchmark.

Table 2.1 DMO 2022–23 draft determination prices, including changes from DMO 3 in nominal and real terms*

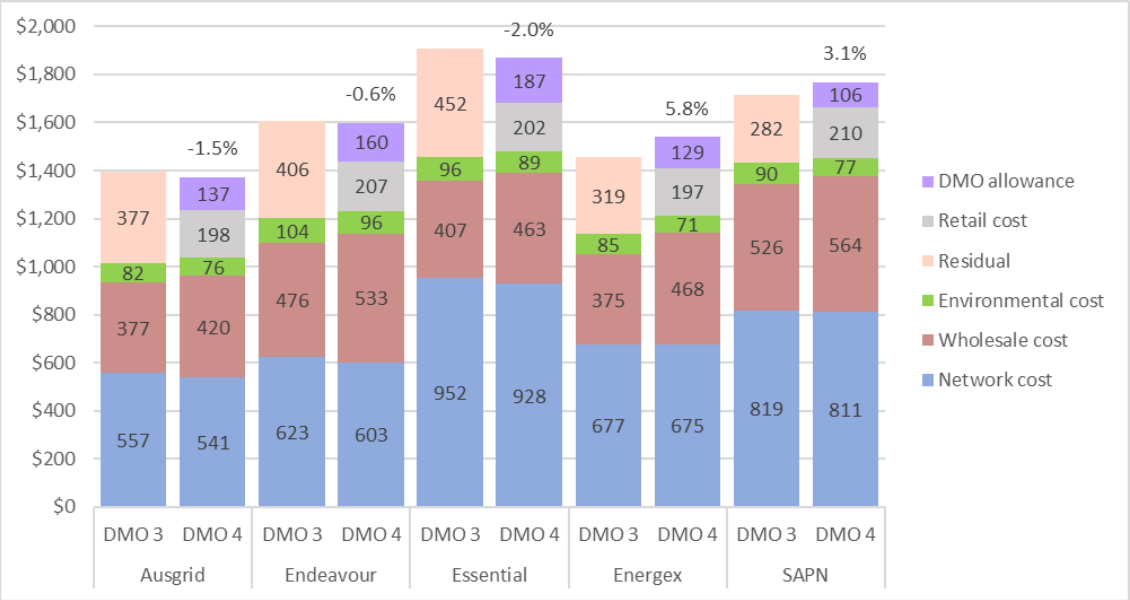
Distribution zone		Residential without controlled load (CL)	Residential with controlled load (CL)	Small business without CL
Ausgrid	DMO price for annual usage of	$1,372 3,900 kWh	$1,887 General usage 4,800 kWh + CL 2,000 kWh	$3,901 10,000 kWh
	Change y-o-y (nominal)	-$21 (-1.5%)	-$25 (-1.3%)	-$165 (-2.4%)
	Change y-o-y (real)	-$73 (-5.1%)	-$97 (-4.9%)	-$424 (-5.9%)
Endeavour	DMO price for annual usage of	$1,599 4,900 kWh	$2,055 General usage 5,200 kWh + CL 2,200 kWh	$3,306 10,000 kWh
	Change y-o-y (nominal)	-$10 (-0.6%)	+$41 (2%)	+$201 (3.5%)
	Change y-o-y (real)	-$70 (-4.2%)	-$35 (-1.7%)	-$14 (-0.2%)
Essential	DMO price for annual usage of	$1,869 4,600 kWh	$2,204 General usage 4,600 kWh + CL 2,000 kWh	$4,365 10,000 kWh
	Change y-o-y (nominal)	-$38 (-2%)	-$67 (-3%)	+$117 (1.5%)
	Change y-o-y (real)	-$110 (-5.6%)	-$152 (-6.5%)	-$175 (-2.2%)
Energex	DMO price for annual usage of	$1,540 4,600 kWh	$1,839 General usage 4,400 kWh + CL 1,900 kWh	$3,250 10,000 kWh
	Change y-o-y (nominal)	+$85 (5.8%)	+$98 (5.6%)	+$327 (5.9%)
	Change y-o-y (real)	+$30 (2%)	+$33 (1.8%)	+$120 (2.1%)
SAPN	DMO price for annual usage of	$1,769 4,000 kWh	$2,178 General usage 4,200 kWh + CL 1,800 kWh	$4,369 10,000 kWh
	Change y-o-y (nominal)	+$53 (3.1%)	+$101 (4.9%)	+$132 (1.6%)
	Change y-o-y (real)	-$11 (-0.6%)	+$23 (1.1%)	-$169 (-2.0%)

*Real comparisons with DMO 3 are based on RBA 2021–22 inflation forecast of 3.75% in its February 2022 Statement on Monetary Policy.
DMO 3 and 4 prices for small business are not directly comparable due to the new usage benchmark. Percentage changes in this table are based on a comparison of the DMO 3 small business price and a nominal DMO 4 price calculated at 20,000 kWh per year.

The Regulations require that the draft DMO prices are indicative prices based on a set model annual usage. They are not a 'maximum bill'. Individual customers' bills will vary depending on how much electricity they use, their distribution region and how their retailer has set the fixed and variable charges on their standing offer. As required under the Regulations, we have specified DMO prices as annual prices, based on the model annual usage (which is discussed in Chapter 9 of this report).[5] Under the Regulations, retailers must structure their tariffs to not exceed the DMO annual price for the model annual usage.[6]

Figure 2.1 illustrates the change in DMO price components between DMO 3 and DMO 4 for residential customers without controlled load. Appendix E contains the full set of these figures for each customer type.

Figure 2.1 Change in DMO price components for DMO 4, residential without controlled load, nominal



The draft prices continue to balance the other DMO policy objectives. In particular:

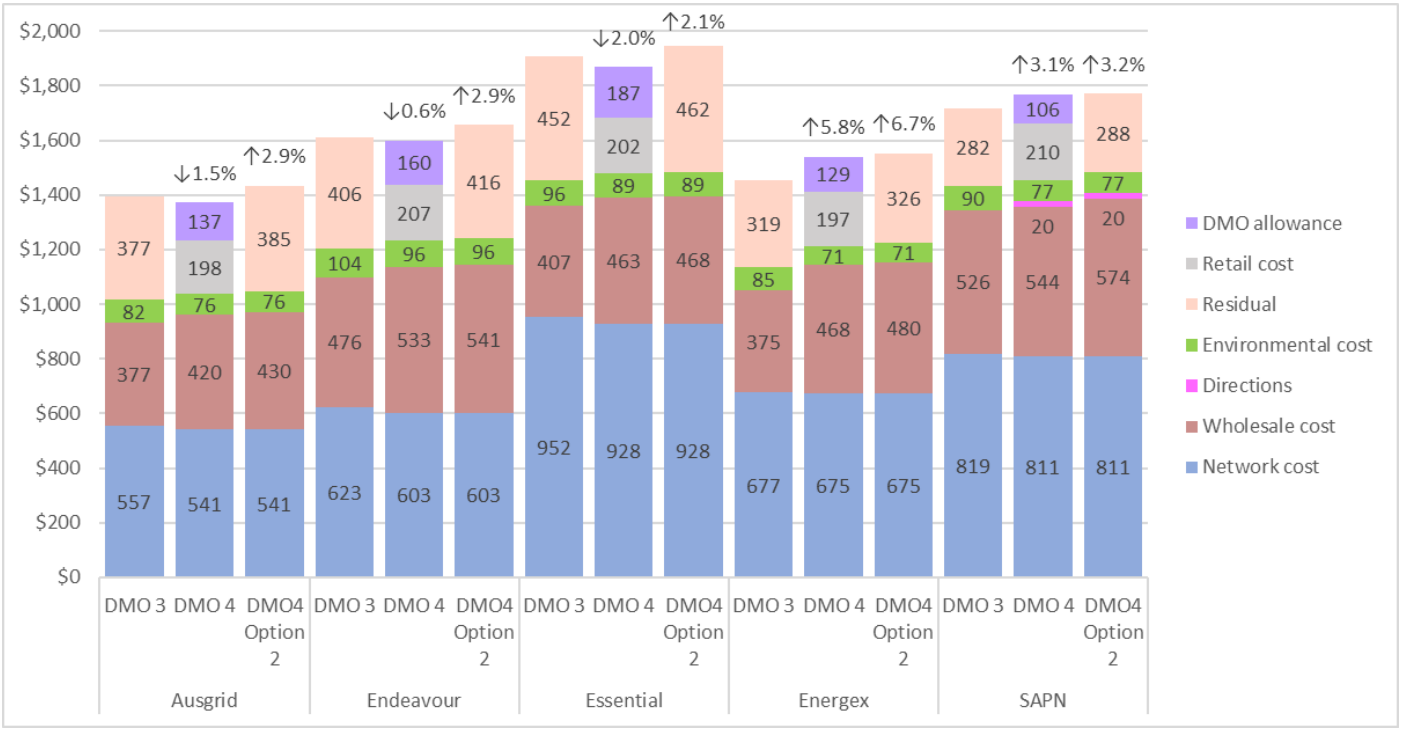
- Consumers in DMO regions will continue to receive protection from unjustifiably high prices. Retail allowances in DMO 4 are lower for small business customers in most regions and for many residential customers in NSW than they have nominally been under previous DMO determinations. Overall standing offer prices also remain well below the high price standing offers that existed before the DMO. In real terms, residential DMO 4 prices are around 16% to 24% lower and small business DMO 4 prices are 17% to 125% lower than than the median standing offer before the introduction of DMO.[7]
- The careful consideration given to each cost driver and the approach to the retail allowance means retailers can recover the costs they incur to serve customers and make a reasonable profit.

5 Regulations s. 16.
6 Regulations s. 10.
7 AER analysis of EME offer data, October 2018 standing offers. Small business DMO 4 prices based on 20,000 kWh of usage for comparison purposes.

- The gap between standing offer prices and median market offer prices, as well as the new products and services marketed by retailers, shows retailers have incentives to compete on price and offer discounts, innovate and invest.
- The gap between the draft DMO 4 and market offer prices in each area, and the range of retailers and services on offer, indicates there are still strong incentives for DMO customers to shop around and switch to a market offer.

We note that prices calculated under the new methodology are generally lower than prices had we continued to use the previous methodology (option 2 as set out in the options paper). Figure 2.2 compares DMO 4 draft prices with the nominal price outcome under option 2, along with DMO 3 prices.

Figure 2.2 Change in DMO price components for DMO 4, Residential without controlled load (nominal, % change from DMO 3), including indicative Option 2 price



3 Background to the DMO

The AER is the independent regulator for Australia's national energy market. Our functions include regulating electricity networks and covered gas pipelines, in all jurisdictions except Western Australia. We enforce the laws for the National Electricity Market (NEM) and spot gas markets in southern and eastern Australia. We monitor and report on the conduct of market participants and the effectiveness of competition.

We protect the interests of household and small business consumers by enforcing the National Energy Retail Law (NERL). Our retail energy market functions cover New South Wales (NSW), South Australia, Tasmania, the Australian Capital Territory (ACT) and Queensland.

Our objectives include:

- protecting vulnerable consumers, while enabling consumers to participate in energy markets
- effectively regulating competitive markets primarily through monitoring and reporting, and enforcement and compliance.

Under the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (the Regulations), our role is to set the DMO price each year for regions that have no retail price regulation – NSW, south-east Queensland and South Australia.

3.1 Policy context for the DMO

The purpose of the DMO as identified by the ACCC at its conception is to act as a fallback for those who are not engaged in the market and should not be a low-priced alternative to a market offer.[8] The policy objectives of the DMO are that it should:

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

Customers on standing offers

The Australian Energy Market Commission (AEMC) and ACCC have identified that customers on standing offers are those who:

- have not taken up a market offer since the introduction of retail competition in that jurisdiction
- are supplied under a retailer's 'obligation to supply' (for example, if a poor credit history means other retailers will not supply them)[9]

8 ACCC, AER Default market offer, Submissions to the draft determination, 20 March 2019, p.1–2.
9 Unlike other retailers, under s. 22 of the NERL Local Area Retailers cannot refuse to supply customers.

- have moved into a premise and receive supply from the existing retailer supplying the premises but are yet to make contact with the retailer[10]
- have defaulted to a standing offer following the expiry of a market contract.[11]

The majority of customers on standing offers are served by 'Tier 1' retailers – AGL Energy, EnergyAustralia and Origin Energy.

Table 3.1 Customers on standing offers in DMO areas

Region	Residential customers (number and %)	Small business customers (number and %)
NSW	347,483 (10.4%)	64,211 (19.2%)
South-east Queensland	167,520 (11.5%)	24,234 (21.7%)
South Australia	65,516 (8.2%)	13,701 (15.6%)
Total standing offer customers	580,519 (10.4%)	102,146 (19.2%)

Note: South-east Queensland figures extrapolated from all Queensland by excluding Ergon customers. Other retailers have customers in regional Queensland so figure is approximate. Standing offer customers calculated by subtracting market offer customers from total customers.
Source: AER Retail Market Performance update, Quarter 4 2020–21.This information will be updated for the final determination.

The Regulations also prescribe a mandatory industry code with DMO reference provisions requiring:[12]

- standing offer prices for small customers not to exceed a price determined by the AER[13]
- small customers to be told how a retailer's prices compare with the AER determined annual price[14]
- the most prominent price related feature in an advertisement is not be a conditional discount, and any conditions on other discounts are clearly displayed.[15]

The ACCC is responsible for enforcement and compliance with these provisions.

3.2 DMO regulatory framework

The legislative framework for implementing DMO prices and the reference bill mechanism are contained in the Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019.

10 AEMC, Advice to COAG Energy Council: Customer and competition impacts of a default offer, 20 December 2018, p. 15.
11 Section 10 of the Regulations makes clear the DMO price only applies to customers on an electricity retailer's standing offer. It does not apply to customers who are on ongoing market contracts where discounts have expired. In practice these customers may be paying a retailer's standing offer prices. We do not know how many customers may be in this situation.
12 The Code for the purposes of Part IVB of the Competition and Consumer Act 2010.
13 Regulations s. 10.
14 Regulations s. 12
15 Regulations s. 14.

Part 3 of the Regulations confers price setting functions on the AER. Specifically, we are required to determine:

- how much electricity a broadly representative small customer of a particular type in a particular distribution region would consume in a year and the pattern of that consumption[16] (the model annual usage)[17]
- a reasonable total annual price for supplying electricity (in accordance with the model annual usage) to small customers of a type in a region (the DMO price).[18]

The DMO price applies to residential and small business customers on standing offers in NSW, South Australia and south-east Queensland.[19]

The Regulations set out that we must determine DMO prices for:

- residential customers – on flat rate or TOU tariffs
- residential customers with controlled load – these are separately metered tariffs used for appliances such as electric hot water storage systems, pool pumps or underfloor heating
- small business customers – on flat rate tariffs.[20]

Each category includes customers with solar tariffs.[21]

The Regulations require us to consider a range of specific factors in determining a reasonable annual price. These include wholesale electricity, network and retail costs, costs to acquire, retain and serve customers, the principle that a retailer should be able to make a profit, and other matters we consider relevant.[22]

3.3 DMO regulations review

The Australian Government Department of Industry, Science, Energy and Resources (DISER) commenced a review of the DMO Regulations in September 2021. This review has now reached a second round of consultation. Most aspects of reform are likely to be of relevance for DMO 5 and beyond. However, the department proposes to change the final date by which the DMO determination must be published each year from 1 May to 21 May. It intends to implement these in time for DMO 4.[23] Because this change has yet to be implemented, we will continue to prepare DMO 4 on the current timetable. This may be adjusted once the proposed regulatory change takes effect.

16 The AER is not required to determine the pattern of consumption in the case of small business customers.
17 Regulations, s. 16(1)(a).
18 Regulations, s. 16(1)(b).
19 Section 8 of the Regulations specifies that the instrument would not apply in a distribution region if any standing offer prices, or maximum standing office prices, for supplying electricity in the year in the region to a small customer are set by or under a law of a State or Territory.
20 Small business cutomers are those who use less than 100 MWh per annum.
21 We are not required to determine an annual price and usage for customers on other tariff types, such as, tariffs with a demand charge, small business controlled load and TOU tariffs, tariffs offered in embedded networks.
22 Regulations, s. 16(4).
23 Australian Government Department of Industry Science Energy and Resources, *Directions consultation paper*, January 2022, p. 10.

4 Overview of options paper

This chapter provides an overview of the main methodological issues we sought stakeholder views on in our October 2021 options paper.

Our detailed consideration of these issues, including our draft decision on these, is set out in chapters 5 to 9.

4.1 Network costs

Network costs represent the cost of transporting electricity through transmission and distribution networks and the cost of meters operated by network businesses to measure customers' electricity consumption. Retailers pay this cost to distribution networks on behalf of their customers.

Network tariffs are approved by the AER annually. We reference AER approved network tariffs to calculate the network cost component in the DMO price. At times, approved tariffs have not been available to use for DMO final price calculations. In this case, we have used distributors' proposed network charges for the relevant DMO period. In particular, we refer to the network charges for residential customers on flat rate network tariffs.

In the options paper we sought stakeholder views on whether the network cost component should also include network costs for TOU customers, given the DMO price cap applies to this customer group. We also sought stakeholder comment on whether we should true up network costs to reflect differences between estimated and actual network tariffs in previous periods.

Our consideration of stakeholder submissions received and our draft determination on these issues is set out in chapter 5.

4.2 Wholesale costs

To calculate wholesale energy costs, our consultant (ACIL Allen) simulates the costs a retailer incurs when buying energy in the National Electricity Market (NEM).[24] The costs combine hedging and spot market costs (wholesale energy costs) and other fees related to participation in the NEM (other energy costs).

We refer to this as a 'market-based' forecast approach. Under the approach, the wholesale price is influenced by energy supply and demand forecasts, an assumed strategy to manage exposure to the spot market (hedging strategy), and any residual exposure to forecast spot market prices.

The hedging strategy we seek to model is for a risk-averse retailer who doesn't want to be exposed to the possibility of very high spot market prices.

[24] The AER contracts ACIL Allen to provide consultancy services relating to the wholesale and environmental cost elements of the DMO. ACIL Allen produces a companion report discussing its wholesale and environmental cost forecasting approach in more detail, that is published alongside the draft and final DMO determinations.

In the options paper we sought stakeholder views on:

- the assumed hedging strategy of our representative retailer, including hedge book build period
- the nominal risk margin in our forecasts and specifically whether we should retain the 95th percentile or adopt a less conservative estimate.

The stakeholder submissions received and our draft determination on these issues are set out in chapter 6.

4.3 Environmental costs

To forecast environmental costs we include:

- **Large-scale renewable energy target (LRET) costs**, which are a function of large-scale generation certificates (LGC) prices and the renewable power percentage (RPP). As part of our market-based approach, the LGC price would be set at the trade-weighted average of LGC forward prices for 2022 and 2023, from when they commenced trading. LGC trade data will be provided by broker TFS Green Australia. The RPP for 2022 will be determined by the Clean Energy Regulator (CER) by 31 March, and the RPP for 2023 will be estimated by ACIL Allen based on mandated LRET targets and liable acquisitions.
- **Small-scale renewable energy scheme (SRES) costs**, which are a function of small-scale technology certificate (STC) prices and the small-scale technology percentage (STP). The STC price is set at the STC Clearing House price of $40 per certificate (excluding GST). The CER will publish binding 2022 STP by 31 March, as well as a non-binding STP for the following 2 years. While the non-binding STP published by the CER is intended to give an indication of what the STP will be in those years, ACIL Allen may use a different STP for 2023 based on estimates of STC creation and liable acquisitions.
- **Jurisdictional green scheme costs**, which include the Energy Savings Target (ESS Target) and the South Australian Retailer Energy Productivity Scheme (REPS). ACIL Allen's estimates for the ESS Target draw on the Independent Pricing and Regulatory Tribunal's determinations and forward prices broker TFS Green Australia. ACIL Allen draws upon the AEMC Residential Electricity Price Trends 2021, which estimated REPS costs for 2022–23 to be $2.50/MWh.[25]

We also consider distribution loss factors (DLF) and marginal loss factors (MLF).

In the options paper we sought stakeholder views on whether our approach to estimating environmental costs remains appropriate for future determinations.

Our consideration of stakeholder submissions received and our draft determination on these issues is set out in chapter 7.

4.4 Retail costs – cost build up vs residual indexation

For DMO 1, we established a 'top down' methodology setting the DMO price at the midpoint between the median standing offer and median market offer. Our goal for subsequent

25 AEMC, Residential electricity price trends 2021, viewed 21 December 2020.

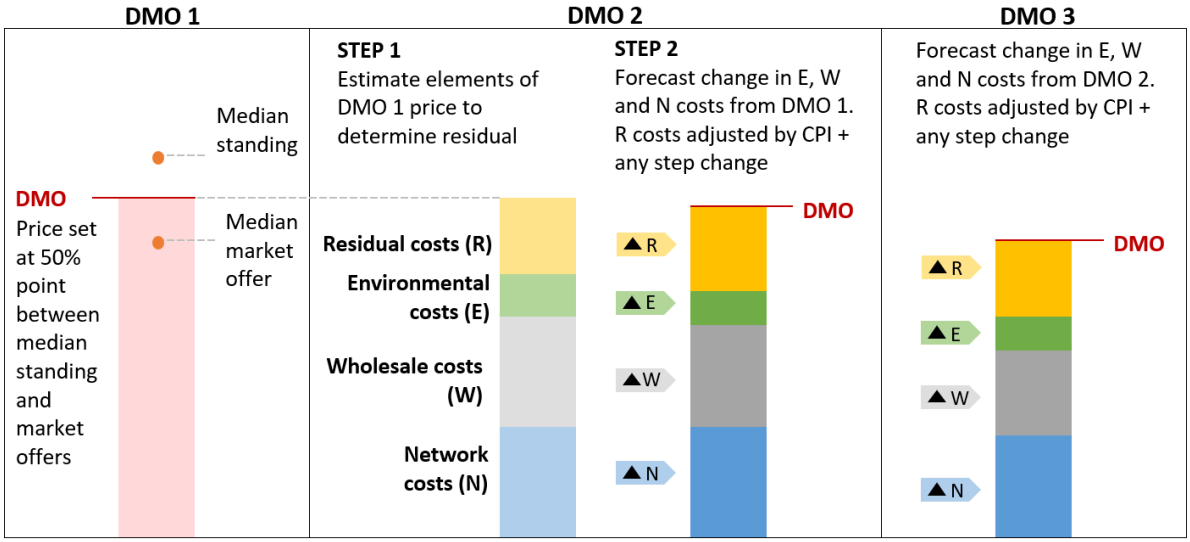
determinations has been to preserve the outcomes we achieved in DMO 1, which prevented unjustifiably high prices while enabling retailers to compete effectively below the cap.

To achieve this, we retrospectively estimated wholesale energy, network and environmental cost components of the DMO 1 price.

The remaining value after these costs were taken into account was the 'residual' that nominally included retailers' operating costs and profit margin. We considered the residual as a whole and did not specify sub-components. We considered that the residual was large enough to achieve the DMO objectives.

In setting subsequent DMO prices we estimated retailers' annual wholesale, environmental and network costs for the coming year and used a cost build-up approach to determine a DMO cost component. We also adjusted the residual component by forecast consumer price index (CPI).[26] The methodology also allowed stakeholders to seek recognition of any material changes in costs relative to forecast CPI via a step-change framework (although this was not used in DMOs 1 to 3). Figure 4.1 illustrates this.

Figure 4.1 Illustration of previous DMO indexation price setting approach



Our options paper sought stakeholder feedback on whether to continue with an indexation approach or adopt a cost build-up approach. The key difference between the options is that a cost build-up approach would require a determination of retail operating costs and an additional overall retail allowance.

Our consideration of stakeholder submissions received and our draft determination on these issues is set out in chapter 8.

[26] For DMO 2, we used the RBA's estimates of inflation of 1.75% for 2020-21 from the RBA's February 2020 Statement of Monetary Policy. For DMO 3, we used the RBA's estimate of inflation of 1.5% for 2021-22 from the RBA's February 2021 Statement of Monetary Policy.

4.5 Retail costs, profit margin and retail allowance

As part of the discussion about potentially adopting a cost build-up approach to setting DMO prices, the options paper noted this approach meant we would need to determine:

- costs for retailers to supply electricity to customers
- a retail allowance to ensure the DMO price meets the DMO policy objectives to protect customers from unreasonable prices, allow retailers to make a reasonable profit and enable competition and innovation.

The paper noted retailers may incur a number of costs when selling electricity. These costs include:

- **costs to serve** – these costs include billing, call centres and hardship programs
- **costs to acquire and retain** – these costs include advertising campaigns and informing new customers of their options, rights and obligations
- **advanced meter costs** – retailers are responsible for managing the installation and ongoing costs of advanced meters
- **bad and doubtful debt** – retailers may set aside revenue to cover instances where customers cannot repay their electricity debt
- **depreciation and amortisation** – retailers may from time to time make upfront purchases and investments, such as software and IT system upgrades, which are depreciated over time.

In the options paper, we proposed to use ACCC data to estimate retailers' operating costs. We noted the ACCC estimates of retail costs did not include advanced meter costs and proposed to separately obtain information on advanced meter costs from retailers.

We also sought feedback on the appropriate retail allowance above the point where a retailer could recover their costs that met the DMO policy objectives.

Advanced meter costs

Retailers are responsible for managing advanced metering installations and they incur the associated costs.

The DMO 1 price implicitly incorporated advanced meter costs via the residual. The residual was indexed by forecast CPI for subsequent DMO determinations, preserving this level of cost recovery for advanced meters in subsequent annual price determinations.

The number of customers with advanced meters is increasing, so we sought stakeholder feedback in the options paper on whether the DMO price should reflect the costs retailers incur in relation to advanced meters.

Our consideration of stakeholder submissions received and our draft determination on all of these retail cost issues is set out in chapter 8.

4.6 Model annual usage, and timing and pattern of supply

Part 3 of the DMO regulations requires us to determine 'broadly representative' annual supply (usage) amounts for residential and small business customers in each distribution region.

The DMO regulations also require us to determine the 'timing and pattern of supply' to residential customers. That is, we need to allocate annual usage to different times of the day/week/year to 'broadly represent' customer patterns of usage.

The annual usage amounts and the timing and pattern of supply determination are used to calculate the annual DMO and reference prices. These elements are referred to in the DMO regulations as the 'model annual usage'.

In the options paper, we noted we would review the annual usage amounts and timing and pattern of supply allocation to check whether they remain broadly representative of customer usage.

Annual usage

We specifically sought feedback on changing the small business benchmark for 20,000 kWh per year to 10,000 kWh per year, in light of concerns the previous benchmark was not representative of the usage of many small businesses raised in previous DMO consultations.

In the options paper we sought stakeholder views on whether to update residential annual usage amounts, whether to average across 3 years of usage data, whether to reflect TOU usage in annual usage estimates and on options for lowering small business usage.

Timing and pattern of supply

To consider timing and pattern of supply, we observe when customers use electricity on these tariff types.

In the options paper we sought stakeholder views on whether to update TOU usage profiles by averaging across 3 years of data, and whether to continue basing profiles on a mix of TOU and flat rate offers.

Our consideration of stakeholder submissions received and our draft determination on these issues is set out in chapter 9.

4.7 Methodology duration

We also sought stakeholder views on how long the methodology should be in place before a future review.

We noted varying benefits of a 3-year and a 5-year duration for the DMO methodology. A key benefit of a 3-year duration was that it would enable us to use detailed cost data provided in the ACCC Inquiry into the National Electricity Market reports, giving stakeholders certainty and consistency.

Most stakeholders preferred we adopt a 3-year timeframe for applying the new methodology before a future review, to align with the ACCC inquiry. Other reasons cited include the increasing uptake of distributed energy resources and other technological developments.[27]

We agree with stakeholders that 3 years is a suitable duration for this methodology before we undertake a further review of the DMO methodology. This provides an appropriate period of regulatory certainty and consistency for stakeholders and aligns with the availability of ACCC cost stack data (the last ACCC report will be provided for 2024–25 prices to be published in late 2025). Expected ongoing changes in customer usage over time due to increasing household PV installations, adjustments in usage behaviour post COVID-19, and other technological trends suggest 3 years is a reasonable interval at which to review the annual usage benchmarks.

We intend to conduct the next review of DMO methodology and assumptions as part of the 2025–26 (DMO 7) determination process.

[27] AEC, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4., AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 5., Origin Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 6; Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2.

5 Network costs

5.1 Options paper

Our options paper identified 2 key matters to consider in relation to estimating network costs:

- whether we should we extend our analysis to capture costs under TOU tariffs for residential customers
- whether we should true up network costs to reflect differences between estimated and actual network tariffs in previous periods.

TOU network costs

To date, we have based the residential network DMO cost component on flat rate network tariffs.

Our options paper sought stakeholder views on whether the network cost component should also include network costs for TOU customers, given the DMO price cap applies to this customer group. We proposed 2 options:

- continue basing network costs on flat rate customers only
- include TOU network tariffs on a weighted cost basis, to reflect the proportion of customers on each tariff type.

Our analysis suggested there is currently little difference (excluding meters) between the network cost for flat rate and TOU customers and there would be little practical impact of including TOU network costs at this time.

True up network costs in future determinations

The options paper noted our preferred approach is to continue to not true up network costs in subsequent DMO determinations.

The risk of network prices not being approved in time for DMO final determinations is now less likely because the AER has streamlined our consideration of annual pricing proposals.

5.2 Stakeholder views

TOU network costs

Most submissions did not support the inclusion of TOU network costs, preferring we continue basing network costs on flat rate customer costs.[28]

AGL noted there is little difference between TOU and flat rate network costs, and that is it therefore reasonable to use flat rate network costs. It suggested cost differences should be monitored going forward.[29]

28 Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p.6; AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 10; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p.7; EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p.11; Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7.

29 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 10.

Origin Energy considered that, since most DMO customers are on a flat rate tariff, it is reasonable to base network costs on these tariffs.[30]

Alinta Energy agreed the number of customers on TOU tariffs is increasing, but suggested TOU network costs should only be included when the proportion of customers on these tariffs reaches 30%.[31]

EnergyAustralia supported retaining costs based on flat rate tariffs if we continue with an indexation methodology.[32]

Some submissions supported basing network costs on TOU tariffs. Ausgrid suggested it is important to capture TOU network costs in the DMO price due to the increasing number of customers on TOU network tariffs.[33] The SA Department for Energy and Mining noted that excluding TOU network tariffs may discourage retailers from promoting switching to TOU tariffs.[34] Enova Energy commented there is increasing uptake of network TOU and demand tariffs and that this cost should be represented accurately.[35]

True up network costs in future determinations

Most submissions considered retailers should be able to pass through the full cost of network tariffs. However, there was no consensus on whether it is necessary to true up network costs.[36]

Simply Energy and Alinta Energy suggested it may be necessary to true up network costs under a cost build-up methodology.[37] However, Origin Energy and Simply Energy agreed there is less need to true up costs if amendments to the Retail Code extend the DMO final determination date.[38]

AGL considered that, apart from in revenue determination years when some network price determinations occur later, our approach is reasonable and true-ups are not required, particularly because proposed network prices are generally similar to approved prices.[39]

Ausgrid and Enova Energy similarly considered true-ups unnecessary.[40]

30 Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7.
31 Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 6.
32 EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 11.
33 Ausgrid, *Submission to DMO 4 Options Paper*, 18 November 2021, p. 1.
34 SA Department for Energy and Mining, *Submission to DMO 4 Options Paper*, 22 November 2021. p. 2.
35 Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.
36 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 10; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; Ausgrid, *Submission to DMO 4 Options Paper*, 18 November 2021, p. 1; Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 2; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.
37 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7; Alinta Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 7.
38 Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7.
39 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p 10.
40 Ausgrid, *Submission to DMO 4 Options Paper*, 18 November 2021, p. 1; Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.

5.3 Our response to stakeholder submissions

TOU network costs

Our preferred approach is not to include TOU network costs in DMO prices. Key reasons for this preference are:

- TOU network costs are similar to flat rate network costs, meaning there would be only a small impact on the resulting network component
- basing costs on flat rate customers only is simpler and involves fewer assumptions about the electricity usage behaviour of a typical customer
- most DMO customers are on flat rate tariffs, so our current approach is reasonable.

We will continue to monitor cost differences between tariff types, and the number of customers on different tariff types, to ensure our methodology continues to be appropriate.

True up network costs in future determinations

It is more likely approved network costs will be available for inclusion in DMO final determinations in future, so we do not consider true-ups necessary.

5.4 Draft determination

In assessing network costs, we will continue with the approach used in previous DMO determinations. The network tariffs that will be used to assess the change in network costs, are set out in Table 5.1 and network cost estimates resulting from this are included in the DMO charts in appendix E.

These draft network costs are based on indicative network tariffs for 2022–23 submitted by distributors as part of their 2021–22 annual pricing proposals. This is currently the best available information.

For our DMO 4 final determination we intend to use approved network tariffs for 2022–23 if available. Otherwise we will use submitted network prices included in 2022–23 annual pricing proposals.

Table 5.1 Network tariffs (with network codes) to assess the change in network costs

Distribution region	Residential flat rate	Residential controlled load	Small business flat rate
Ausgrid	Residential Non TOU - EA010	EA030 – Controlled load 1 EA040 – Controlled load 2	EA050 Small business non-TOU
Endeavour	Residential Energy (anytime) N70	Controlled load 1 N50 Controlled load 2 N54	General Supply N90
Energex	Residential Flat NTC8400	Super Economy NTC9000 Economy NTC9100	Business Flat NTC8500
Essential	Residential Anytime BLNN2AU	Energy Saver 1 BLNC1AU Energy Saver 2 BLNC2AU	Small Business Anytime BLNN1AU
SAPN	Residential Single Rate RSR (SR)	Residential Single Rate RSR (controlled load)	Business Single Rate BSR

6 Wholesale energy costs

6.1 Options paper

As discussed in the options paper, we prefer to retain a market-based approach to forecasting wholesale costs. However, acknowledging market conditions change over time, we determined to reconsider the settings and parameters adopted by our approach in this review, to ensure they continue to be appropriate and produce broadly representative cost forecasts incurred by retailers.

For DMO 2 and DMO 3 the settings for wholesale cost forecasting were established for a 'risk-averse' retailer. This reduces the wholesale energy cost variability by applying a hedging strategy to minimise the hypothetical retailer's exposure to the spot market. The strategy includes a mix of base, peak and cap contract products that result in a small proportion of the total retail load being exposed to the spot market.

Hedge book build period

The cost of base, peak and cap contract products used in the hedging strategy is calculated as the trade-weighted average of ASX energy daily settlement prices from the time the contracts are first listed. A retailer can accumulate these contracts from 36 months before the start of the relevant period. This is referred to as the 'hedge book build period'. We consider a risk-averse retailer would progressively accumulate contracts over time to develop a portfolio of hedging contracts.

While our hedge book build includes contract prices from when a contract was first traded on ASX Energy, we note 98% of trades typically occur in the 24 months before the start of the period. Contract trades closer to the start of the period are also more reflective of actual wholesale energy costs that will occur in the period.

In our options paper we asked if our book build should include a shorter time frame. We noted that, while this would mean our forecast reflected more current spot market price trends, this might result in greater variation in forecast from year to year since a longer hedge book build would smooth out some the impact of high or low prices.

Hedging strategy

Considering Tier 2 retailers may be less risk averse and have greater exposure to the spot market, in our options paper we asked if our hedging strategy should allow for a higher level of spot market exposure and, if so, what level.

Margin for forecast error

Our market-based approach assumes that retailers will adopt a conservative approach in which almost all exposure to the wholesale market is hedged. This hedging strategy is the same for all scenarios.

We then consider a wide range of possible price outcomes in the wholesale energy market based on ACIL Allen's modelling of hourly spot market prices based on a range of factors, such as weather and thermal generator availability.

Then we calculate the cost of implementing the hedging strategy in each scenario.

In the past we have taken the 95th percentile of outcomes to represent the cost of wholesale market purchases. This in effect assumes that something close to the worst case scenario will eventuate.

In our options paper we asked whether using the 95th percentile approach remains appropriate or whether a less conservative approach was warranted going forward.

AEMO energy directions

Under the National Electricity Rules (NER), AEMO can take action to maintain the security and reliability of the power system by directing a participant to undertake an action, such as directing a generator to operate, even though the spot price in the NEM may be less than the generator's operating costs. We refer to this as a directions cost.

In such instances, compensation may be payable to the generator. This compensation needs to be recovered from other market participants.

In the options paper we noted our preliminary view that it would be reasonable to take directions costs into account in DMO 4 and future forecasts.

6.2 Stakeholder views

Retailer submissions generally supported retaining the same approach to forecasting wholesale costs, noting the importance of consistency. AGL noted if we adopt a cost build-up methodology for the DMO some assumptions may need to change. [41] The South Australian Council of Social Service (SACOSS) considered that customers are not currently benefitting from lower wholesale spot pricing. SACOSS said that the hedge book build period should be reduced to below 24 months to better reflect currently lower wholesale prices. They also said that the overall settings for determining wholesale prices should reflect a less risk averse strategy for retailers so that consumers receive lower retail costs, reflecting lower wholesale market prices in South Australia.[42]

Hedging strategy

Retailer submissions generally supported the current hedging strategy.

EnergyAustralia and Simply Energy commented on the contract mix, stating the approach should be appropriate for a rising and falling market.[43] The benefits and risks to being exposed to the spot market are asymmetric, where risks are higher in a rising market as evidenced by retailers failing in the United Kingdom. EnergyAustralia noted that a risk-averse approach can accommodate retailers that choose to adopt a less risk-averse approach, but the reverse does not apply. Simply Energy was concerned that adopting less risk-averse settings may encourage retailers to take on additional spot market exposure. Similarly, Enova Energy commented that a risk-averse retailer is the correct assumption.[44]

41 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5.
42 SACOSS, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 8.
43 EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 10; Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 5.
44 Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 2

Powershop was concerned with the contract mix because it considered that ACIL Allen's modelling does not take account of price peaks.[45]

Red Energy/Lumo Energy noted that greater spot exposure could lead to more volatile DMO prices and suggested consumers prefer less volatility.[46] ECA similarly suggested we seek to avoid price volatility for standing offer customers. [47]

Hedge book build period

Most submissions agreed with the current hedge book build period, commenting that a longer book build will smooth prices and reduce bill volatility, which is desirable for a regulated price.[48]

Origin Energy supported a shorter book build period to reflect that retailers generally acquire hedge contracts in the 24 months before the start of the period.[49]

SACOSS suggested a book build of 24 to 36 months is not appropriate in South Australia because wholesale prices continue to fall and are often negative.[50]

Margin for forecast error

Retailer submissions generally supported retaining the 95th percentile. However, Enova Energy commented that, subject to the hedging strategy remaining risk averse, the 75th percentile may be appropriate because 'from the consumers' perspective it doesn't sound reasonable that the retailer can account for nearly the worst-case costs year after year.' [51] ECA supported the use of the 50th percentile.[52] EnergyAustralia stated that a lower error margin may be appropriate in a stable wholesale market. However, they expect that the market will remain in flux and, therefore, that the 95th percentile should be retained.[53]

Origin Energy considered that moving away from the 95th percentile will require the AER to consider a volatility allowance to compensate retailers for the residual risk to which they are exposed, even when they contract at the conservative point.[54]

AEMO energy directions

AGL supported including directions costs in the DMO but was concerned about how this would be achieved in an indexation model.[55]

45 Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 2.
46 Red Energy – Lumo Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 4
47 ECA, Submission to DMO 4 Options Paper, 23 November 2021, p. 7
48 EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p. 10; Origin Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. ; Red Energy – Lumo Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 4; Department for Energy and Mining, Submission to DMO 4 Options Paper, 22 November 2021, p. 2; Simply Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 6.
49 Origin Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 7.
50 SACOSS, Submission to DMO 4 Options Paper, 23 November 2021, p. 8.
51 Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 2
52 ECA, Submission to DMO 4 Options Paper, 23 November 2021, p. 7
53 EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p. 11.
54 Origin Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 7.
55 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 9.

Negative wholesale pricing and South Australian contract market liquidity

AGL encouraged us to explore whether full reliance on ASX data is relevant for estimating wholesale electricity costs in South Australia.[56] It noted that the following factors have resulted in an illiquid futures market for South Australia:

- rapid residential rooftop PV expansion, resulting in increased export of electricity by consumers
- a large increase in negative price intervals as a result of rooftop solar exports, low consumer demand and high wind generation
- substantial increases in AEMO directions to maintain system security, often at below cost given the default compensation method.

SACOSS considered that South Australian customers are not benefitting from lower wholesale pricing because of the assumptions in our wholesale cost calculation methodology.[57] Enova Energy commented that consideration should be given to negative prices in our methodology for DMO 4 because they are becoming more frequent.[58]

Net system load profiles

Powershop suggested that while DMO jurisdictions continue to have proportionally more accumulation meters, it is appropriate to retain usage of the net system load profile, which does not distinguish between customer types.[59] It noted that the Victorian data shows that a higher proportion of advanced meters demonstrates the load shape of different customer types is distinct. Therefore, as DMO jurisdictions continue to roll out advanced meters, the different load profiles of the different customer types should be considered in the DMO.

6.3 Our response to stakeholder submissions

Hedging strategy

Having considered the submissions, we agree with most stakeholders that our current risk averse settings remain appropriate to set the hedging strategy when estimating wholesale costs. Our draft decision is not to change the wholesale forecast settings relating to hedging strategy.

We have reviewed Powershop's concern about incorporating peak costs. ACIL Allen has confirmed that the model takes this into account. Further detail is included in their report.[60]

Hedge book build period

ACIL Allen in their report identify that choosing a shorter hedge build period would result in bigger changes to the wholesale electricity cost in any year. This would also be the case if a shorter book build was used when prices are rising. Only doing so in a declining market in one region would be cherry picking. By using a trade weighted approach to the book build,

56 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5.
57 SACOSS, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 8.
58 Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2.
59 Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 3.
60 ACIL Allen, Default market offer 2022-23 Wholesale energy and environment cost estimates for DMO 4 draft determination, 2022.

ACIL Allen reflects how retailers contract in reality and reflects that larger volumes of contracts are purchased in the year leading up to the contracted period.

We consider that a trade weighted approach to the book build based on actual observed trades remains appropriate. Because a longer book build period means that wholesale price changes from year to year are averaged over time, resulting in more constrained DMO price movements, which we consider is appropriate given the purpose of the DMO to provide a fallback price protection for consumers.

Therefore, our draft decision is to not change the wholesale forecast settings relating to the hedge book build period.

Margin for forecast error

We agree with the majority of submissions that consistency in the overall methodology for estimating wholesale costs is important. We note the inherent uncertainty in wholesale cost estimation, and agree that it is appropriate that the wholesale forecasts should address the risk of underestimating retailers' wholesale costs.

We consider that several aspects of the DMO hedging assumptions are inherently cautious.

Having considered stakeholder feedback and the available information, our view is that adopting the 95th percentile estimate is overly risk averse given that other settings assume that retailers are almost entirely hedged.

We consider that a shift to the 75th percentile estimate manages wholesale forecasting risks appropriately, is consistent with the DMO policy objectives and provides a more balanced outcome.

AEMO energy directions

We will include AEMO directions costs on the basis that:

- it is a cost that a prudent retailer would incur and is not substantively different to other non-energy costs we include, such as reliability and emergency reserve trader (RERT)
- the latest information from AEMO indicates it will issue directions in South Australia in the DMO 4 year, despite the introduction of the synchronous condensers.

ACIL Allen has provided an indicative estimate of the impact on the DMO 4 price of $5.02 per MWh in South Australia. This translates to DMO price elements of approximately:

- $20 per year for residential customers without controlled load
- $29 per year for residential customers with controlled load
- $50 per year for small business customers.

This will be updated in the final determination, to ensure the estimate continues to reflect costs over the previous 12 months.

Negative wholesale pricing and contract market liquidity

We considered AGL's submission about South Australian contract market liquidity and do not propose making any change to our market-based approach to wholesale cost forecasting.

There is no alternative, readily available data source and market observers suggest that over the counter trade prices are similar to ASX prices.

Should additional data sources emerge or should future reforms enable us to collect this data, we will reconsider this issue.

Regarding SACOSS's submission, we note the wholesale energy cost is not exclusively dependent on spot prices and that hedging costs also reflect other matters, such as future expectations of both price movements and volatility. For example, if future costs are expected to increase, hedging costs faced by retailers may be higher than spot prices. This could result in higher wholesale cost estimates in the DMO price. We also note that while a shorter book build period may reflect lower prices in a falling market, it would also reflect higher prices in a rising market, giving rise to greater price volatility.

We acknowledge Enova Energy's comment that negative prices can influence retailer costs and that this is likely to become more prevalent. ACIL Allen's methodology forecasts spot market prices taking into account uptake of rooftop PV and new utility scale PV.[61]

Our wholesale forecasting approach assumes a highly contracted retailer who builds their contract book over time at the same rate as trades are observed to occur in the market using publicly available products. The nature of contract products currently traded mean that retailers are using a combination of base, peak and cap products to manage the risk of very high price spikes and high demand, particularly in the evening, while also facting very low prices during the middle of the day. This leads to a risk that some retailers may be overhedged e.g. hold contracts at levels above that which would enable them to fully benefit from negative prices because of the risk from high evening prices were they to reduce their contracting position.

Wholesale methodology review

The electricity market is changing rapidly. Trends such as the increased uptake of rooftop and grid-scale solar are changing demand profiles and having a dramatic impact on spot prices. They are also challenging the extent to which standard contracting products enable retailers to manage risk, particularly during daylight hours but also moving into the evening peak when maximum demand is not affected by solar and prices can be high and volatile.

We intend to seek a peer review of the wholesale forecasting modelling to ensure it remains able to capture these types of changes in wholesale market outcomes. This will ensure going into future DMO determinations that the methodology accurately reflects the ability of retailers to manage risks in a changing market.

Net system load profiles

In DMO 3 we considered splitting residential and small business usage to produce usage profiles for each customer type. For the purpose of comparison, we developed separate usage profiles for residential and small business customers using the following data from AEMO:

[61] ACIL Allen, Default market offer 2022-23 Wholesale energy and environment cost estimates for DMO 4 draft determination, 2022.

- interval meter usage data
- accumulation meter usage data, which forms the current net system load profile
- controlled load data.

We found only a marginal difference between the profiles, and decided to retain a single profile based on the net system load profile. Over time, as more meters are changed from accumulation to advanced interval meters, the net system load profile may become a less-reliable benchmark. There has not been a significant uptake in advanced meter installations since DMO 3, and we consider that contining to use the net system load profile to produce a combined profile is appropriate. We will continue to monitor advanced meter uptake and review our approach going forward.

6.4 Draft determination

Wholesale cost inputs

Wholesale energy costs are forecast to increase across all DMO regions and consumer types following declines in the past 2 years. Base future prices increase in Queensland and NSW but decline in South Australia and cap prices increase in all 3 regions. ACIL Allen has identified the slowing of large-scale renewables coming online, a reduction in thermal generation (e.g. anticipated closure of Liddell and Torrens Island A and outage of Callide C4 now extended to April 2023) and higher fuel costs as key factors in this.

The net system load profile has an increasingly peaky shape (extremes of high and low demand) and this has become relatively more expensive to hedge. This has been exacerbated by the continued uptake of rooftop PV, which reduces demand during daylight hours. During daylight, spot prices are often less than base contract prices while the cap contracts required to cover high demand peak periods are much more expensive.

In Queensland, increased frequency control ancillary services costs have also contributed to price rises.

Directions costs of $5.02/MWh contribute to price rises in South Australia.

The draft wholesale costs for the 2022–23 DMO 4 are set out in Table 6.1, together with the costs used for the 2021–22 DMO 3 for comparison.

Table 6.1 Wholesale costs for 2021–22 and 2022–23, $/MWh (excl. GST, nominal)

Distribution region	Tariff	2021–22	2022–23	Change year-on-year
Ausgrid	Flat rate	87.94	97.94	11.37%
	CL1*	60.44	64.04	5.96%
	CL2	57.47	63.66	10.77%
Endeavour	Flat rate	88.27	98.94	12.09%
	CL1	83.29	91.11	9.39%
	CL2	83.29	91.11	9.39%
Essential	Flat rate	80.34	91.53	13.93%
	CL1	67.3	67.63	0.49%

Distribution region	Tariff	2021–22	2022–23	Change year-on-year
	CL2	67.3	67.63	0.49%
Energex	Flat rate	74.03	92.47	24.91%
	CL1	58.84	72.74	23.62%
	CL2	61.18	70.01	14.43%
SAPN	Flat rate	119.47	128.26	7.36%
	CL1	72.82	67.78	-6.92%

Note: *CL refers to controlled load
Source: Default market offer 2022–23 draft determination technical report

7 Environmental costs

7.1 Options paper

In our options paper we indicated a preference to continue using our market-based approach from DMO 2 and DMO 3, to forecast environmental costs. The approach provides consistency between environmental and wholesale cost forecasting.

7.2 Stakeholder views

Submissions that commented on environmental cost forecasting generally supported retaining the existing methodology for future DMO determinations. However, AGL commented that under cost build-up approach it would need to revise some cost elements including those for its Retailer Energy Efficiency Scheme (REES) in South Australia.[62]

Enova Energy commented that it may be appropriate for ACIL Allen to use more than one broker to determine prices, especially in the less liquid jurisdictions.[63]

Enova Energy also suggested that 'excluding the large volumes contracted through PPAs can also be questioned, as the price information could be obtained from brokers who are specialised in the field similarly to those who operate on spot and forward markets.' [64]

Simply Energy noted the South Australian energy efficiency scheme REES will shortly be replaced by the Retailer Energy Productivity Scheme (REPS), which has different activity specifications. It suggested retailers will incur additional costs that should be included in the DMO price.[65] Similarly, EnergyAustralia noted retailers will incur costs for the Demand Peak Reducation Scheme in NSW promoting demand management activities.[66]

Small-scale technology percentage and renewable power percentage

Origin Energy generally supported our approach but noted that if the Clean Energy Regulator does not release its final decision on these elements of the RET for 2022–23 in time for our final determination, we should apply a true-up of the historic differences. Origin Energy also supported applying judgement where small-scale technology percentage values are non-binding.[67]

7.3 Our response to stakeholder submissions

We have considered Enova Energy's comment about brokerage prices. ACIL Allen has compared broker TFS Green Australia's data with publicly available price data, showing there is little difference between prices. It is unlikely that another broker's data will have different estimates.

62 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 9; Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 6.
63 Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.
64 Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.
65 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 6.
66 EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 9.
67 Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7.

We also considered the matter raised by Enova Energy about not including PPA data in environmental cost forecasting. We have considered this issue in detail for previous DMO determinations and retain the view that our current methodology is appropriate because it is transparent, uses publicly available data and is a function of market conditions. We consider market-traded LGCs provide the best available evidence of the cost of acquiring LGCs.

We agree with Simply Energy's comment on REPS and EnergyAustralia's comment about the Demand Peak Reduction Scheme and have included these costs in our draft DMO prices. We note AGL's comment about REES (which is to be replaced by REPS); however, we believe that these elements whether as a part of an index or cost stack are forecast in the most accurate manner based on data available.

Noting Origin Energy's submission, we intend to maintain consistency with our approach in previous determinations by using ACIL Allen's estimates for RET elements. We note that the Clean Energy Regulator's decisions for 2022 were released in time for inclusion in our final determination. However, if they are not available in time for future final determinations, we do not intend to subsequently true up estimates because the DMO is a forward looking price and should be relevant to costs in the coming period.

7.4 Draft determination

Having considered stakeholder submissions, we propose to retain our current approach to environmental cost forecasting with updates for new and amended schemes.

Environmental cost inputs

The environmental cost inputs for the 2022–23 period are given in Table 7.1, together with inputs used for the 2021–22 period for comparison.

Table 7.1 Environmental costs for 2021–22 and 2022–23, $/MWh (excl. GST, nominal)

Distribution region	Tariff	2021–22	2022–23	Change year-on-year
Ausgrid	Flat rate	19.17	17.73	-7.51%
	CL1*	19.22	17.78	-7.49%
	CL2	19.22	17.78	-7.49%
Endeavour	Flat rate	19.31	17.86	-7.51%
	CL1	19.31	17.86	-7.51%
	CL2	19.31	17.86	-7.51%
Essential	Flat rate	19.04	17.61	-7.51%
	CL1	19.04	17.61	-7.51%
	CL2	19.04	17.61	-7.51%
Energex	Flat rate	16.75	14.09	-15.88%
	CL1	16.75	14.09	-15.88%
	CL2	16.75	14.09	-15.88%
SAPN	Flat rate	20.39	17.6	-13.68%
	CL1	20.39	17.6	-13.68%

Note: *CL refers to controlled load
Source: Default market offer 2022-23 draft determination technical report

8 Retail costs

8.1 Overall retail cost setting approach

Our options paper presented 3 options for setting the residual component, retail costs and margins/allowance in DMO 4 and subsequent decisions:

- Option 1 – a cost build-up approach, where we separately determine retail costs and margin/allowance
- Option 2 – retaining our approach in DMO 2 and 3 of adjusting the residual with forecast CPI
- Option 3 – adjusting the residual each year to reflect movements in retail costs.

Stakeholder views

Two consumer representative submissions (PIAC and ECA) supported option 1.[68]

ECA noted positive and negative implications with each of the 3 options, but considered that a cost build-up approach is more likely to achieve the desired outcomes for consumers, noting it would provide transparency of retail costs and margins.[69]

PIAC considered the DMO price should be more strongly focused on an efficient cost to serve with a benchmarked margin that is sustainable for retailers that are efficient in their operations and provide good services and supports for their customers. A cost build-up approach was most likely to achieve this.[70]

Powershop and Enova Energy also favoured a cost build-up approach, provided it accurately captured all the costs retailers face and did not result in a lower DMO price.[71] Other retailers considered the current DMO price is meeting the objectives and there would need to be a strong justification for changing the approach, which they claimed the AER has not established.[72]

Many retailers viewed options 2 and 3 (adjusting the residual according to forecast CPI or changes in retail costs) as similar, but preferred option 2 (forecast CPI adjustment of the residual) on the basis that it has fewer risks than options 1 (cost build-up) and option 3 (adjusting the residual according to changes in retail costs). For example, AEC considered there is a risk of a perverse incentive for retailers to not achieve productivity improvements if these cost savings are passed on to consumers through a reduction in the DMO.[73] Simply

68 ECA, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 1, 3.

69 ECA, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 1,3.

70 PIAC, Submission to DMO 4 Options Paper, 22 November 2021, p. 8.

71 Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2; Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2;

72 Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2; AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 1-2; EnergyAustralia, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4; Momentum Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2; Origin Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p.2; Red Energy -Lumo Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p.3. Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 2; Tango Energy, *Submission to DMO 4 Options Paper,* 17 November 2021, p.2

73 AEC, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4.

Energy supported option 3.[74] Other retailer stakeholders considered option 3 (annual adjustment of the residual) was workable but highlighted concerns about the representativeness of the ACCC data, as discussed in section 8.2.

ECA considered option 3 (annual adjustment of the residual to reflect changes in retail costs) preferable to option 2 (adjusting the residual according to forecast CPI) because, similarly to option 1 (cost build-up), it would address the information asymmetry issues that arise under the step-change framework.[75]

Draft determination on overall retail cost setting approach

We have considered stakeholder feedback on these options and our draft decision is to adopt a cost build-up approach for the DMO 4 determination. We propose to continue using this approach in DMO 5 (2023–24) and DMO 6 (2024–25). Our view is that a cost build-up approach, incorporating a consistent retail allowance above costs regardless of region, best achieves the policy objectives.

This method also provides greater transparency on the cost drivers in a market in which the pace of change continues to accelerate. Consumer stakeholders, and some retailers, considered it was preferable to understand the AER's assumptions about retailers costs, as well as the amount of profit margin available to retailers. These were not specified under the previous DMO residual component. We discuss the DMO retail allowance in section 8.4.

Under this option we will update the retail operating costs on a yearly basis as new annual retailer cost information becomes available.

This approach addresses retailer concerns with the step-change framework because actual changes in retail costs will be included in future DMO determinations.

We do not agree with AEC's concerns that linking the DMO price to retailers' operating costs will introduce a perverse incentive for retailers to avoid achieving efficiencies and reduce their costs to prevent a downward adjustment of the DMO price. Most customers are on market offers – only 8% to 22% of customers in DMO regions are on standing offers, depending on customer type and region.[76] We consider that the incentive for retailers to become more efficient to reduce costs and offer more competitive market offer prices to retain or grow market share will be a stronger driver of their behaviour than the potential to increase revenue among the smaller group of customers on standing offers.

8.2 Consideration of different retail costs

In our options paper, we proposed to use data from the ACCC Inquiry into the National Electricity Market reports to examine retail costs. We noted the ACCC estimates of retail costs do not include advanced meter costs and proposed to separately obtain information on advanced meter costs from retailers.

74 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 1,4.
75 ECA, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 3.
76 AER retail performance reports, Q4 2020-21.

Stakeholder views

Consumer groups and some retailers supported using the ACCC data, arguing that the ACCC report is the most reliable and transparent estimation of retail costs available and this would be an opportunity for the DMO to more accurately reflect costs.[77]

However, a number of retailer stakeholder submissions expressed concerns with using the ACCC data for the purposes of the DMO 3. They argued that:

- The ACCC reports average retail costs, which will be most influenced by Tier 1 retailers. Due to their size, Tier 1 retailers benefit from economies of scale (fixed costs are spread over a larger customer base) and may have lower per-customer retail costs than smaller retailers. There is a risk that the ACCC data underestimates retail costs for smaller retailers and if the AER bases DMO prices on this data it could negatively impact competition.[78]
- The ACCC data does not include the cost of writing off bad and doubtful debts.[79]
- There is lack of transparency in the ACCC's calculation of retail costs and it appears that a number of costs are excluded. Origin noted that retailers may allocate costs differently, which could lead to errors or biases in the calculation.[80] AGL noted that, as a large retailer, it would likely have lower per-customer costs than smaller retailers, yet its publicly reported costs to serve[81] are higher than average costs reported by the ACCC.[82]
- The ACCC may underestimate retail costs by not including corporate overheads and the centrally managed expenses of running a retail business.[83]
- Depreciation and amortisation expenses should be included in retail costs. The ACCC reports margin as EBITDA[84], which means depreciation and amortisation are not included in its estimation of retail operating costs.[85]

PIAC also submitted that the DMO should be a cap on default offers for an essential service, which does not include an additional retail allowance to acquire and retain customers.[86]

77 ECA, Submission to DMO 4 Options Paper, 23 November 2021, p. 1; PIAC, Submission to DMO 4 Options Paper, 22 November 2021, p. 8; Powershop Australia – Meridian Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 1; Simply Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 2.

78 Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2; AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 1-2; EnergyAustralia, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4; Momentum Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2; Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 2.

79 AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 1–2. Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2.

80 Origin Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2.

81 AGL, Annual Report FY2019, p. 47.

82 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 1–2.

83 AEC, Submission to DMO 4 Options Paper, 19 November 2021, p. 2; AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 1-2; Origin Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 5.

84 Earnings before interest, taxation, depreciation and amortisation, see ACCC, Inquiry into the National Electricity Market November 2021 Report, p.48.

85 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 1–2.

86 PIAC, *Submission to DMO 4 Options Paper*, 22 November 2021, p. 8.

Draft determination on retail operating costs

We will estimate retail operating costs in DMO 4 by using the following data:

- ACCC 'retail and other costs' set out in Supplementary Table E8.1B of Appendix E to the ACCC's November 2021 Report[87]
- advanced meter installation and costs data provided by retailers selling to 94% of DMO customers[88]
- bad and doubtful debt costs reported in the 2020–21 financial reports of 3 publicly listed retailers (AGL, Origin and Red-Lumo).[89]

ACCC retail operating costs

We consider that ACCC data is transparent and a reliable estimation of retailer costs. Compared with alternative sources, it is:

- publicly available on a yearly basis
- comprehensive, covering retailers that sell to around 90% of small customers in DMO regions
- obtained under compulsory powers, with serious consequences for misleading the ACCC.

Retailers are required to fill out a standardised template when reporting costs to the ACCC. [90] Retailers are also provided with a list of detailed cost stack data definitions to assist with the information request.[91] While retailers' interpretations of the template may differ, we consider data gathered in this manner would be more consistent than reviewing individual financial reports from a small group of publicly listed retailers. This approach also results in less regulatory burden than the AER issuing separate mandatory information notices.

We consider that using the ACCC estimate of retail costs in the DMO price will continue to meet the DMO objective that retailers can recover their costs, make a reasonable profit and compete, innovate and invest.

Regarding retailer concerns about the influence of large retailers in the ACCC estimates, we note that other economic regulators, such as the Independent Competition and Regulatory Commission (ACT) and the Essential Services Commission (Victoria) use representative retail costs in their pricing determinations that are based on the retail costs of large

87 ACCC, Inquiry into the National Electricity Market November 2021 Report, Appendix E, Supplementary Table E8.1B.
88 We asked retailers to complete a voluntary information request outlining smart meter installation numbers and average costs as at 30 September 2021.
89 AGL, Annual Report FY2021, p.37; Origin, Annual Report FY2021, p. 30; Snowy Hydro, Annual Report FY2021, p.44.
90 ACCC, Inquiry into the National Electricity Market November 2021 Report, Appendix D
91 ACCC, Inquiry into the National Electricity Market November 2021 Report, Appendix C, p. 50–53.

retailers.[92] Smaller retailers continue to offer market offers in these markets at prices well below the regulatory pricing decisions.[93] This suggests that smaller retailers are not necessarily disadvantaged by pricing decisions that estimate retail costs based on larger retailers.

We also note that a number of smaller retailers have market offers in the DMO regions well below the DMO price, despite not having achieved the economies of scale of larger retailers.[94]

AGL's submission expressed concerns that the ACCC's estimate of total retail costs may not include centrally managed costs, such as corporate overheads. Our understanding is that the ACCC's 'retail and other costs' data does include some costs in addition to the costs to serve and costs to acquire and retain customers categories set out in the ACCC reporting template.[95] These include '…smaller amounts of unallocated or miscellaneous retail costs and some shared costs that could not otherwise be allocated across categories', estimated at around $20 per customer.[96]

We consider that including costs other than depreciation and amortisation is consistent with that adopted by other regulators and that the total DMO retail allowance discussed in section 8.4 will allow retailers to recover depreciation and amortisation expenses.

We note PIAC's objection to including costs to acquire and retain in its submission. However, the DMO regulations require us to consider the cost of acquiring and retaining small customers in the DMO price.[97] Including these costs is also consistent with the DMO role as a reference price for market offers. We consider a DMO price that includes these costs is not unjustifiably high and will continue to meet the DMO objectives.

Advanced meter costs

We will include advanced meter costs in our estimate of retailer costs in DMO 4 and we set this out in further detail below. Appendix B sets out a breakdown of our calculation of advanced meter costs.

92 ICRC use an estimate of retail costs originally calculated in IPART's 2010-13 pricing decision, which has been indexed with CPI, see ICRC, *Electricity Price Investigation 2020-24*, June 2020, p. 39; ICRC, *Final Report: Standing offer prices for the supply of electricity to small customers from 1 July 2017*, June 2017, p. 25. IPART estimated the retail costs of an incumbent retailer that has achieved economies of scale (i.e. has efficient costs), see IPART, *Review of regulated retail tariffs and charges for electricity 2010-2013*, March 2010, p. 112-113. ESCV adopt ICRC's estimate with some minor adjustments, ESC, *1 January 2022 Victorian Default Offer Final Decision*, November 2021, p. 29.

93 AER analysis of EME data; ESC, *Victorian Energy Market Report 2020-21*, November 2021 Figure 2 p. 9.

94 AER analysis of EME data.

95 ACCC, Inquiry into the National Electricity Market November 2021 Report, Appendix D, and footnote 53 on p.30 of the Report.

96 AER analysis of ACCC data. This is the difference between the sum of the cost to serve per NEM customer (E8.6) and cost to acquire and retain per NEM customer (E8.9) and the retail and other per NEM customer costs (E8.1B), ACCC November 2021 Report Appendix E.

97 *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*, s16(4)(c)(iv).

Bad and doubtful debt

We will include bad and doubtful debt costs in our estimation of retail costs in DMO 4. This is consistent with the approaches used by the ESCV, ICRC, OTTER and QCA.[98] This is also consistent with our previous approach that implicitly included retailers' expections of bad and doubtful debt at the time that DMO 1 prices were determined (October 2018).

We will estimate bad and doubtful debt using the weighted average cost of 3 publicly listed retailers that reported provisions for bad and doubtful debt expenses in their most recent annual reports covering the 2020–21 year.[99] For DMO 4 this results in bad and doubtful debt costs of $26 per small customer, set out in Table 8.1. This period partly includes the economic interruptions arising from the COVID-19 pandemic. It is possible that expenses due to bad and doubtful debts could increase in the 2021–22 year, which would be reflected in the DMO 5 allowance for bad and doubtful debt costs.

We consider this to be an appropriate estimate of bad and doubtful debt that is consistent with the DMO objectives. These 3 retailers represent the majority of DMO customers, selling electricity to 72% of residential and 66% of small business DMO customers. Analysis of the retailer performance reporting debt data shows that these 3 retailers have slightly higher instances of debt and debt per overall customer base than the overall average for DMO regions, suggesting that this approach should not underestimate typical costs incurred due to bad and doubtful debts.

Table 8.1 Estimated costs due to bad and doubtful debt in DMO regions

Retailer	Expenses related to bad and doubtful debts 2020–21 ($m)	Small customer numbers (000s)	Bad and doubtful debts per small customer ($) (ex GST)
AGL	127	4,121	31
Origin	88	4,266	21
Red-Lumo	30.5	1,160	26
Total	**245.5**	**9,547**	**26**

Source: AGL, Origin, Snowy Hydro Annual Financial Reports 2020–21.

These costs are based on 2020–21 data in 30 June 2021 dollars, so we will apply foreacast CPI using RBA forecast inflation for 2021–22 and 2022–23 to take into account forecast inflation across the DMO 4 period.[100]

98 ICRC and ESCV use an indexed IPART estimate of retail costs originally calculated in 2010, which include bad and doubtful debt costs of the then incumbent NSW retailers. QCA estimates retail costs and margins to include in its Ergon retail price determination by subtracting wholesale, environmental and network costs from a weighted average of SE QLD market offers, which would include recovery of bad and doubtful debts. Aurora provided its bad and doubtful debt costs to OTTER as part of its consideration of retail costs.

99 AGL, *Annual Report FY2021*, p. 37; Origin, Annual Report FY2021, p 30; Snowy Hydro, Annual Report FY2021, p. 44.

100 For the Draft Determination, we have used the RBA's estimates of inflation of 2.75% for 2021-22 and 2.25% for 2022-23 from its November 2021 Statement on Monetary Policy.

Advanced meter costs

Options paper

The DMO prices has historically captured advanced meter costs among other retail costs that have been escalated by forecast CPI.

In the options paper we sought stakeholder views on whether the DMO price should reflect the costs retailers incur in relation to advanced meters.

In particular, we noted that, while advanced meter uptake is currently low (accounting for around 20% of meters across the DMO regions), these costs are expected to increase as more advanced meters are installed. We suggested that it would be unfair to customers to include the full cost of advanced meters in the DMO price, but it may be reasonable to include costs on a proportional or weighted basis each year, consistent with the proportion of customers in DMO regions with advanced meters. This would ensure customers only experience incremental cost increases.

To assist our consideration of this issue, we requested further information from retailers to enable us to consider matters including:

- the average costs to install and service advanced meters
- the number of advanced meters in each region, the tariff types of these customers and whether they are on standing or market offers.

We proposed calculating a net advanced meter cost per customer (deducting network metering costs) to ensure costs are not double counted in the network component of the DMO.

Stakeholder views

Retailers supported the idea of including an additional retail allowance in the DMO price, as did the South Australian Department for Energy and Mining.[101]

Simply Energy and Origin Energy observed that the recent AEMC review of advanced meter rollout identified that advanced meters are not being rolled out fast enough. They suggested one way to incentivise retailers to increasingly install advanced meters is to provide them with an avenue for cost recovery by including an allowance in the DMO price.[102] Origin Energy emphasised that not doing so is an impediment to advanced meter rollout.[103]

The South Australian Department for Energy and Mining highlighted the need to support the rollout of advanced meters to mitigate risks related to low system demand. It similarly suggested that not including an allowance for advanced meter costs may disincentivise

101 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7; Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 11; Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 8; SA Department for Energy and Mining, *Submission to DMO 4 Options Paper*, 22 November 2021. p. 3.

102 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7-8; Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 8.

103 Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 8.

retailer rollout of meters.[104] It also suggested that if the DMO price is set at a low level, market offer prices may increase to enable retailers to recover this cost, which it considered would not be a good outcome.[105]

Alinta Energy and AGL agreed with the idea of including advanced meter costs in proportion to the number of customers with advanced meters.[106] EnergyAustralia and Enova Energy noted that advanced meters cost more than accumulation meters and provided confidential price estimates.[107]

PIAC did not support the provision of an advanced meter allowance in the DMO price because of a lack of transparency about how advanced meter costs are incurred. It noted there are various ways retailers can recover advanced meter costs from customers apart from energy prices (for example, in additional fees and charges), suggesting an advanced meter allowance may not be needed. It suggested the AER should not provide an allowance until this is better understood.[108]

PIAC also suggested we should wait to make a decision about whether to include an advanced meter allowance in the DMO price until the conclusion of the AEMC review.[109]

In relation to how to include an advanced meter cost allowance, Simply Energy noted that including the cost in the network component may give a marginally more accurate estimate of TOU costs, but did not express a preference.[110] Alinta Energy preferred to include an advanced meter allowance in the retail cost component.[111]

Our considerations

We requested data from the 10 largest retailers, who collectively sell electricity to 94% of all customers in DMO regions, on the number of advanced meter installations and associated costs. We found that:

- similar proportions of standing offer (18%) and market offer (21%) customers in DMO regions have advanced meters
- average annual costs range from $111 to $125 for residential customers and $121 to $145 for small business customers, depending on the region.

See Appendix B for further information about the number of customers on advanced meters and average advanced meter costs provided by retailers.

We acknowledge advanced meter installations are likely to increase over the next 3 years and beyond due to the Power of Choice reforms

104 SA Department for Energy and Mining, *Submission to DMO 4 Options Paper*, 22 November 2021. p. 3.
105 SA Department for Energy and Mining, *Submission to DMO 4 Options Paper*, 22 November 2021. p. 3.
106 Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7; AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 11.
107 EnergyAustralia, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 11; Enova Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5.
108 PIAC, *Submission to DMO 4 Options Paper*, 22 November 2021, p. 14.
109 PIAC, *Submission to DMO 4 Options Paper*, 22 November 2021, p. 14.
110 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 7.
111 Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 7.

Weighting these annual costs by the proportion of customers with advanced meters in each network region, we calculated the weighted costs for residential and small business customers in each region. The annual costs have been spread over the entire small customer base, not just those with smart meters. These costs are presented in Table 8.2 and Table 8.3.

Table 8.2 Average residential advanced meter cost, per distribution region

Retailer	Average annual cost per smart meter (inc GST)	Average annual cost per customer (inc GST)
Ausgrid	$116.69	$14.48
Endeavour	$115.52	$23.21
Essential	$117.12	$18.04
Energex	$110.73	$14.08
SAPN	$124.66	$24.68

Table 8.3 Average small business advanced meter cost, per distribution region

Retailer	Average annual cost per smart meter (inc GST)	Average annual cost per customer (inc GST)
Ausgrid	$123.67	$8.22
Endeavour	$128.93	$16.22
Essential	$144.54	$3.96
Energex	$121.05	$13.94
SAPN	$144.68	$6.15

Draft determination

Having considered stakeholder views and the information provided by retailers on customer numbers with advanced meters and associated costs, our draft determination is to include the average annual advanced meter cost per customer in the DMO price. Our key reasons include:

- the available information suggests that the cost to retailers is material and will increase
- there is a risk that retailers may be disincentivised from rolling out advanced meters if they believe the DMO price does not allow them to recover costs – this would not be consistent with the DMO's objective of maintaining incentives for innovation
- a sizeable proportion (1 in 5) standing offer customers already have advanced meters, and it is reasonable for the DMO price cap to reflect the costs to serve this group.

As these costs are not captured by the ACCC's retail costs, we intend to include the weighted annual costs set out in Table 8.2 and Table 8.3 in the retail operating cost component of the DMO price.

We intend to undertake a similar process to assess these costs for each annual DMO determination, to ensure we capture cost savings and efficiencies resulting from economies of scale.

We note that the AEMC has commenced a review of the regulatory framework for advanced meters.[112] As PIAC's submission highlights, this review may affect how retailers and distributors incur costs for advanced meters. However, we do not agree with PIAC's suggestion that we delay taking advanced meter costs into account until the review has concluded. As set out above, we consider these are material and reasonable to include as a retail cost in the DMO 4 determination.

We will monitor the progress of the AEMC review. As noted, we will consider new information on advanced meter costs annually to ensure the impact of any regulatory changes are reflected in our approach.

Treatment of annual changes to retail costs

Generally speaking, retail costs are relatively consistent over time compared with the other wholesale, environmental and network cost components that make up the DMO. For DMO 2 and 3 we have indexed the residual retail costs in DMO 1 by forecast CPI to take into account inflation across the DMO 2 and 3 periods.

The methodology to date also provided a step-change framework to make one-off adjustments if retail costs were forecast to change significantly in the upcoming DMO period. This framework has not yet been used.

Under option 1 (cost build-up approach) and option 3 (annual adjustment of the residual), which rely on actual retailer cost data, any significant variances would be reflected. There would be a lag in this due to ACCC data collection and reporting deadlines but it would arguably render the step-change framework redundant.

For example, if retailers' costs increase in the DMO 4 period (2022–23), this will be reflected in adjustments to the retail costs in the DMO 6 period (2024–25) based on:

- ACCC data in its November 2023 report on the costs incurred by retailers in 2022–23
- advanced metering count and cost data as at 30 September 2023
- 2022–23 financial reports of the 3 publicly listed retailers AGL, Origin and Red-Lumo setting out bad and doubtful debt expenses.

Our options paper sought stakeholder views on the step-change framework and the suitability of a lagged cost recovery approach under options 1 and 3.

Stakeholder views

ECA supported option 1 (cost build-up approach) on the basis that it removed the information asymmetry associated with the step-change framework that makes it more likely that a price increase would be considered than a decrease.[113]

112 AEMC, *Review of the regulatory framework for metering services*, commenced 18 November 2021
113 ECA, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 1, 5.

Most retailers preferred option 2 (forecast CPI adjustment of the residual) and consequently supported retaining and improving the step-change framework to make it more workable.[114]

Retailers advocated for transparent and objective criteria and thresholds for applying step changes,[115] and recommended the AER develop guidance on the type and quality of data required to implement a step change.[116]

AGL considered that cost recovery under options 1 or 3 (annual adjustment of the residual) would over time take a better account of step changes in costs. However, the lag in retail costs would mean there is a risk not all costs would be recovered if customers have switched retailer in the intervening period.[117]

AEC accepted that the lagged recovery of actual costs under options 1 and 3 is unavoidable and considered it acceptable if all changes in retail costs are passed through in the DMO price.[118]

Simply Energy considered the lag is unlikely to be a significant issue and supported retaining either a step-change framework or a re-opener mechanism.[119]

Draft determination

Our preferred option for estimating retail prices (option 1) allows a lagged recovery of changes to retailer costs. Therefore, we do not consider it necessary to retain the step-change framework to assess forecast increase in retail costs under this approach.

If forecast increases in retailer costs eventuate, these will be recovered in future DMO periods. This provides greater clarity, certainty and transparency for stakeholders in the assessment and treatment of retail costs changes compared with the step-change framework. It also ensures that cost reductions are captured automatically.

If retailer costs increase in a particular DMO period, we consider the retail allowance set above an efficient margin will allow retailers to continue to remain viable and achieve a reasonable profit during the intervening period until these change in costs are reflected in DMO prices.

We note AGL's concerns that a retailer could lose customers to churn before a later DMO includes the lagged recovery of any increased costs, resulting in an under-recovery of retail costs. We consider this would be unlikely to make a material difference in costs recovered.

114 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 4; Alinta Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 5; EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p. 4; Momentum Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 3-4; Origin Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 5; Red Energy – Lumo Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 2; Simply Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 4; Tango Energy, Submission to DMO 4 Options Paper, 17 November 2021, p. 2.
115 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 4; Alinta Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5; Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 4.
116 Origin Energy, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 5.
117 AGL, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 2.
118 AEC, *Submission to DMO 4 Options Paper*, 19 November 2021, p. 3.
119 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 2.

8.3 Summary of determinations for retail costs

We have decided to adopt a cost build-up approach to setting the DMO price for DMO 4 and subsequent periods. Table 8.4, Table 8.5 and Table 8.6 set out these components.

Table 8.4 Residential without controlled load retail costs

Region	Retail and other costs sourced from ACCC Inquiry	Advanced meter costs	Bad and doubtful debt costs	Forecast CPI adjustment
Ausgrid	$132	$13.21	$25.71	$8.65
Endeavour	$132	$21.25	$25.71	$9.06
Essential	$132	$16.87	$25.71	$8.84
Energex	$132	$12.87	$25.71	$8.63
SAPN	$133	$22.57	$25.71	$9.18

Table 8.5 Residential with controlled load retail costs

Region	Retail and other costs sourced from ACCC Inquiry	Advanced meter costs	Bad and doubtful debt costs	Forecast CPI adjustment
Ausgrid	$132	$13.21	$25.71	$8.65
Endeavour	$132	$21.25	$25.71	$9.06
Essential	$132	$16.87	$25.71	$8.84
Energex	$132	$12.87	$25.71	$8.63
SAPN	$133	$22.57	$25.71	$9.18

Table 8.6 Small business retail costs

Region	Retail and other costs sourced from ACCC Inquiry	Advanced meter costs	Bad and doubtful debt costs	Forecast CPI adjustment
Ausgrid	$204	$7.50	$25.71	$12.01
Endeavour	$204	$14.89	$25.71	$12.38
Essential	$204	$3.68	$25.71	$11.81
Energex	$153	$12.73	$25.71	$9.69
SAPN	$153	$5.62	$25.71	$9.33

8.4 DMO retail allowance

To meet the DMO policy objectives under the cost build-up methodology, our options paper proposed the DMO price include a retail allowance above the point where retailers could recover the costs to supply electricity. It could be determined separately to, or including, the efficient retail margin.

Options paper

In our options paper we estimated the implied retail profit margin in each region's DMO 3 price.[120] We found that nominal allowances varied significantly by region and by customer type.

We have updated this analysis for this draft determination, considering the additional debt and metering costs we intend to include in the DMO price and using updated information provided by retailers.

Figure 8.1 and Table 8.7 set out the estimated retail allowance in the 15 DMO 3 prices.

Figure 8.1 Estimated retail allowance in DMO 3

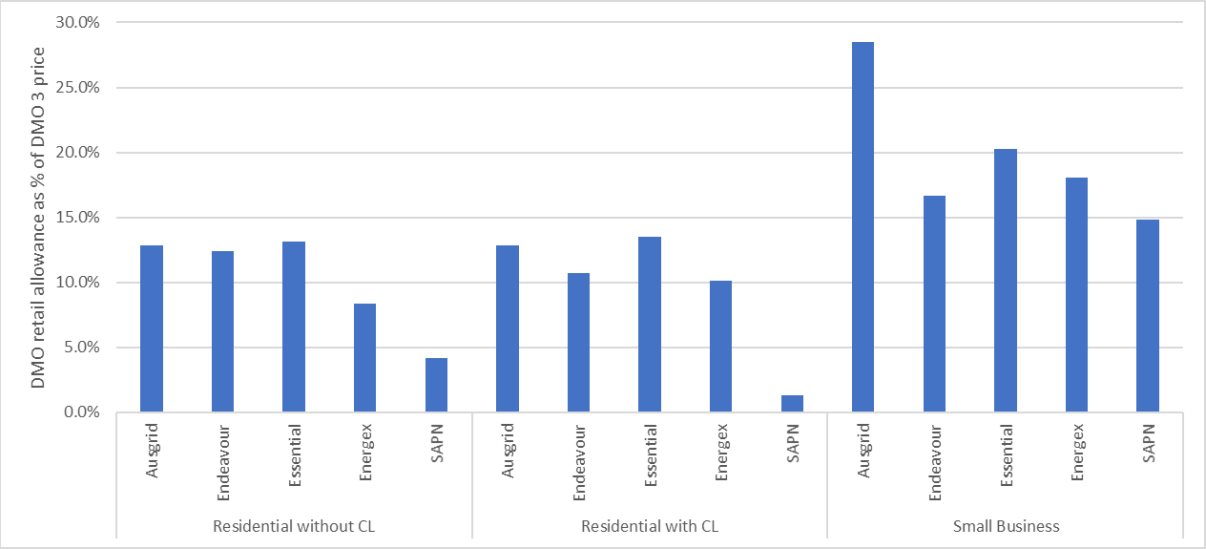


Table 8.7 Estimated retail allowance in DMO 3

Retailer	Residential without controlled load	Residential with controlled load	Small business
Ausgrid	12.8%	12.9%	28.5%
Endeavour	12.4%	10.7%	16.6%
Essential	13.1%	13.5%	20.3%
Energex	8.4%	10.1%	18.0%
SAPN	4.2%	1.3%	14.9%

Source: AER analysis of DMO 3 prices, ACCC November 2021 report retail cost data for 2020–21, November 2021 Meter Data Request, AGL, Origin, Snowy Hydro 2020–21 financial reports.

It can be seen that there was a significant variance in retail allowances in DMO 3, ranging from 1.3% (SAPN, residential without controlled load) to 28.5% (Ausgrid, small business).

The ACCC made similar observations in its Inquiry into the National Electricity Market November 2021 report, finding EBITDA margins in 2019–20 and 2020–21 were lower in

120 See AER, Options Paper on the methodology to be adopted for the 2022-23 determination (and subsequent years), October 2021 p. 30.

south-east Queensland and South Australia than in NSW. They were also lower for residential customers than for small business customers.[121]

Stakeholder views

PIAC and SACOSS considered that the DMO should offer stronger protection for vulnerable consumers. PIAC argued a DMO price that enabled retailers to recover their efficient costs, plus a reasonable profit margin of 5.7%, would still meet the DMO objectives by allowing retailers to compete with market offers that represent innovative products above serving the base need for electricity.[122] Similarly, SACOSS considered the price should be efficient and fair.[123]

Two stakeholders specified an appropriate total allowance that includes profit margin and additional allowance to meet the DMO objectives:

- PIAC considered the DMO price should be no higher than 5.7% above the level of efficient costs, similar to the Victorian Default Offer. Anything above this level is excessive in its view.[124]
- AGL recommended an retail allowance of 11% above costs, noting this was the effective retail allowance in current DMO prices in NSW and south-east Queensland based on AGL's estimation of retail costs (including depreciation and amortisation, corporate overhead/centrally managed costs, and bad debts).[125]

Simply Energy noted that the appropriate retail allowance would depend on the other cost components. If the assumptions were generous, a lower retail allowance could be justified.[126]

A number of retailers supported a consistent retail allowance across DMO customer types and regions if we were to adopt the cost build-up methodology.[127] Similarly, Simply Energy suggested the DMO price should be maintained at a consistent level above competitive retail electricity offers over time.[128]

ECA supported the DMO price reflecting a consistent total retail allowance across regions and customer types, acknowledging that this approach would increase the current implied retail allowance in some regions.[129]

Momentum and AGL noted that the current approach has preserved the margins available in the market in October 2018 and this may not be an appropriate reflection of current circumstances.[130]

121 ACCC, November 2021 Report, Appendix E, Supplementary tables E.4.4–E4.6, E4.10–E4.12.
122 PIAC, *Submission to DMO 4 Options Paper,* 22 November 2021, p. 8–9.
123 SACOSS, *Submission to DMO 4 Options Paper,* 23 November 2021, p. 2.
124 PIAC, *Submission to DMO 4 Options Paper,* 22 November 2021, p. 10.
125 AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 3.
126 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 3.
127 AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 3; Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 3; Powershop Australia – Meridian Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 2.
128 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 3.
129 ECA, *Submission to DMO 4 Options Paper,* 23 November 2021, p. 1.
130 AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4; Momentum Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 3–4.

In contrast, Origin cautioned against setting consistent margins across all customers and regions. It argued margins can vary for many reasons such as different levels of risk, strategy and customer longevity, and attempting to set a consistent margin could have adverse consequences.[131] Alinta argued that the DMO margins should reflect the variations in the margins that have resulted from the competitive markets in NSW, south-east Queensland and South Australia.[132]

8.5 Our response to stakeholder submissions

Applying a consistent retail allowance

Our view is that it is appropriate for the DMO prices to include the same retail allowance for each customer type, regardless of region.

The DMO objectives are the same for each customer type and region. This approach should similarly position the DMO price above typical market offers for each of the 15 customer types, providing a consistent balance of the DMO objectives and more equitable outcomes. We also note the retail allowance is set as a proportion of the overall bill in each region, rather than a fixed dollar figure, which is consistent with the approach adopted by ICRC, OTTER and ESCV. This should ensure it moves in step with, and reflects, any different cost structures for a particular region.

Setting a consistent retail allowance across regions means retailers will be able to achieve a reasonable margin overall without support from higher margin customers in other regions. Similarly, it reduces the incentive for lower discounts off the reference price in some regions to achieve the same margins as another region.

Importantly, with retail allowances as low as 1.4% in South Austraila we could not be confident that DMO would continue to maintain incentives for competition, innovation and investment. Similarly, with effective allowances at nearly 30% for small business customers in NSW, we could not be confident the DMO was protecting consumers from unjustifiably high prices.

A number of stakeholders supported an approach that sets consistent margins in DMO prices, which is an outcome of applying a uniform retail allowance in all DMO prices. These stakeholders included retailers AGL, Enova and Powershop and consumer groups PIAC and ECA.

We note this approach has a similar outcome to the alternative approach suggested by Simply Energy, which supported placing the DMO at a fixed percentage above the median market offer. However, we consider this approach could be subject to gaming, because retailers could introduce multiple higher priced market offers to increase the median market offer.

We note that while the DMO objectives, and therefore DMO retail allowances, should be the same regardless of region, we expect different competitive dynamics could still result in retailers achieving a range of margins for their market offer customers across regions.

131 Origin Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 4–5.
132 Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 5.

DMO retail allowance amount

We have considered a range of information to determine DMO retail allowances that are broadly consistent with previous determinations in aggregate terms.

These included considering the average retail allowances under previous determinations, including estimating averages weighted by customer numbers, volume of electricity sold and estimated revenue.

Overall, these approaches suggested that residential retail allowances across regions in our DMO 1 to 3 prices were on average between 8.7% and 10.7%. Based on this analysis, our view is that a residential DMO retail allowance of 10% provides total allowances for retailers that are broadly consistent with previous DMO outcomes.

The average implied retail allowance for small business customers was higher across the 3 DMO deteriminations, ranging from 17.1% to 20.3%, depending on the weighting approach used. Having considered the available information, our view is that a 15% retail allowance for small business customers is reasonable because it is broadly consistent with the lower range of historic average outcomes.

We consider that these retail allowances appropriately balance the DMO policy objectives.

- They meet the requirement under 16(4) of the Regulations that we have regard to the principle that retailers should be able to make a reasonable profit, being well above 5.3% to 5.7% range for a reasonable profit margin allowed by other regulators who are required to determine an efficient price for electricity.

  In South Australia, where the nominal retail allowance for residential customers has been around 1% to 4%, a 10% retail allowance should mean that retailers can make this level of profit from a customer in South Australia, without support from higher margin customers in other regions.

- While a 10% retail allowance is higher than that currently reflected in the residential DMO price in south-east Queensland and South Australia, we consider it does not prevent the DMO from providing fallback protection against unjustifiably high prices. Nominal retail allowances have been higher than 10% for small business customers, and residential customers in the NSW regions under our previous determinations.

  Our intention to transition to this target over 3 years will minimise the potential for sudden price changes for residential standing offer customers.

  For small business customers, we observe that profit margins have typically been higher than for residential customers and that there may be some increased risks to retailers in serving these customers.

  A 15% small business retail allowance will see the nominal retail allowance remain at similar levels in the Endeavour, Energex and SAPN distribution regions, but will be significantly lower (5% to 13%) in NSW's Ausgrid and Essential regions. Similar to residential customers, the transition to a 15% retail allowance over 3 years will reduce the likelihood of retailers needing support from customers in other regions to make a reasonable profit.

- Our analysis of potential savings indicates that the rebalanced retail allowances should enable retailers to compete and provide incentives for customers on the DMO to switch to a market offer.[133] Table 8.8 and Table 8.9 set out these savings.

Table 8.8 Savings when switching from DMO 4 to February 2022 median market offer (MMO) and lowest market offer (LMO), residential without controlled load

Region	DMO 4	Saving switching to MMO (%)	Saving switching to LMO (%)
Ausgrid	$1,372	14.8%	26.2%
Endeavour	$1,599	13.5%	24.7%
Essential	$1,869	13.3%	25.7%
Energex	$1,540	18.8%	26.3%
SAPN	$1,769	14.7%	27.3%

Table 8.9 Savings when switching from DMO 4 to February 2022 median market offer (MMO) and lowest market offer (LMO), small business

Region	DMO 4	Saving switching to MMO (%)	Saving switching to LMO
Ausgrid	$3,901	24.4%	32.3%
Endeavour	$3,306	19.5%	24.2%
Essential	$4,365	18.9%	23.4%
Energex	$3,250	17.6%	21.4%
SAPN	$4,369	16.8%	20.2%

We have also considered the PIAC proposal of a 5.7% retail allowance. This approach goes beyond the DMO objective of protecting customers from unreasonable prices towards a different objective of capping prices at an efficient cost to serve, being comparable to the margin provided by other regulators who have such an objective.

The savings from switching from a DMO with a 5.7% retail allowance to the median market offer are approximately 20% to 40% smaller for residential customers and 30% to 60% smaller for small business customers than the savings available with a 10% retail allowance. This reduces incentive for competition and for customers to engage in the market.

8.6 Draft determination on retail allowance

Having considered stakeholder submissions and available information, we consider a 10% retail allowance appropriately meets the DMO objectives for residential customers regardless of their region, and that a 15% retail allowance meets the objectives for small business customers.

We intend to transition to these target allowances over the DMO 4, 5 and 6 determinations, so that they are fully implemented in all regions for DMO 6.

[133] This analysis is indicative because it compares the draft DMO 4 price against market offers available in February 2022 and retailers will need to determine how they respond to underlying cost shifts such as forecast wholesale cost increases in their market offers.

Table 8.10 sets our our draft determination for DMO retail allowances for each region and customer type in DMO 4.

Table 8.10 DMO 4 Draft determination, DMO retail allowances by region and customer type

Region	Customer type	Draft DMO 4 retail allowance (% of DMO bill)
Ausgrid	Residential without controlled load	10.0%
	Residential with controlled load	10.0%
	Small Business	25.0%
Endeavour	Residential without controlled load	10.0%
	Residential with controlled load	10.0%
	Small Business	16.6%
Essential	Residential without controlled load	10.0%
	Residential with controlled load	10.0%
	Small Business	20.3%
Energex	Residential without controlled load	8.4%
	Residential with controlled load	10.0%
	Small Business	17.0%
SAPN	Residential without controlled load	6.0%
	Residential with controlled load	6.0%
	Small Business	15.0%

Transition path for retail allowances

The 10% and 15% retail allowances are higher than what has previously been available under the DMO price cap in some regions and lower than in others.

Were we to apply these retail allowances in DMO 4, roughly 66,000 residential standing offer customers in South Australia would see the retail allowance component of their price increase from an effective 1% (customers with controlled load) or 4% (customers without controlled load) to 10%. This would contribute to sudden price increases and potential price shocks for this group, given that wholesale prices are also increasing.

Conversely, retailers in the Ausgrid and Essential regions would see the retail allowances decrease from 28% and 20% to 15%.

To minimise any potential negative impacts of a sudden large change in retail allowance, we intend to transition to these targets over the next 3 DMO determinations so that they are fully in place in all regions for DMO 6 (in 2024–25).

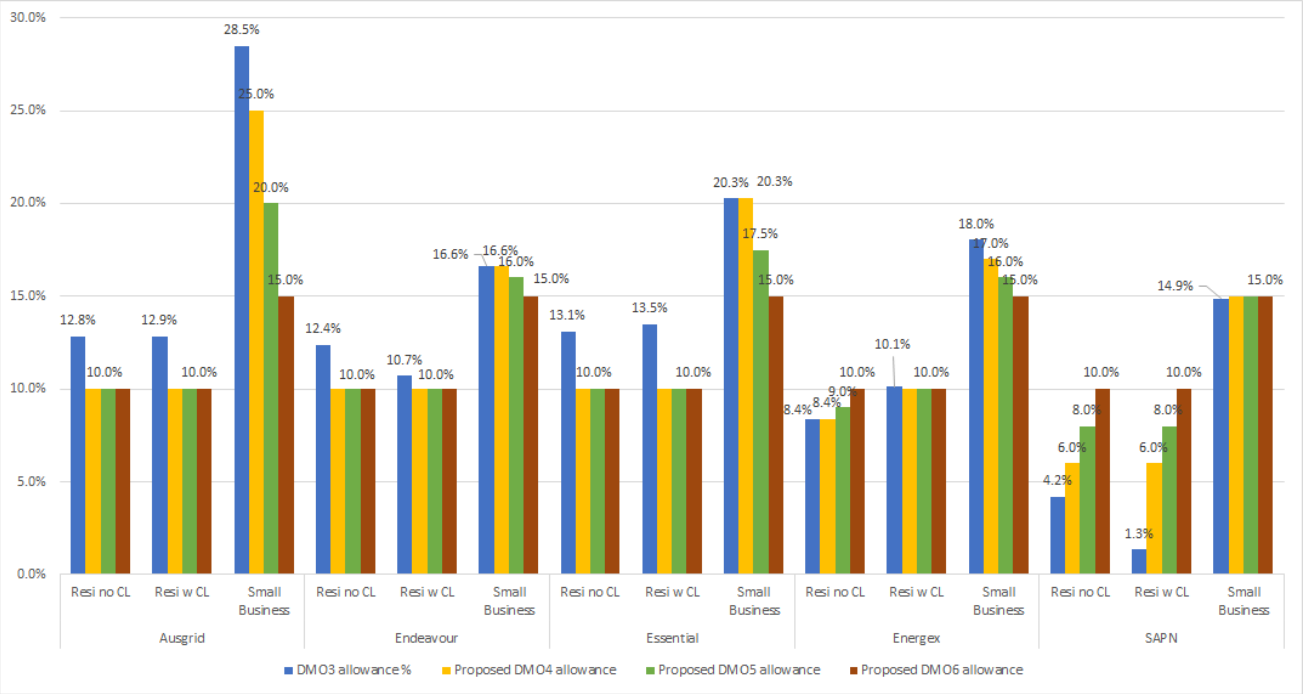
Figure 8.2 shows the transition path from the nominal DMO retail allowance available under DMO 3 prices to the target DMO retail allowance.

For residential customers in NSW, where residential retail allowances are decreasing by between 0.7% and 3.5%, we have applied the entire change in DMO 4 so that residential standing offer customers see the benefits of the lower retail allowances immediately, but have transitioned the increases in south-east Queensland and South Australia in roughly

equal increments over DMO 4, 5 and 6. This will reduce the potential for price shocks for these customers.

For small business customers, where the target 15% is a significant reduction in some regions, we have applied the change increments over the DMO 4, 5 and 6 determinations.

Figure 8.2 Allowance transition pathways in DMO 4, 5 and 6



9 Annual usage amounts, and timing and pattern of supply

9.1 Annual usage amounts

Options paper

In the options paper we indicated we would consider a range of information to check if the annual usage amounts remain broadly representative and, if necessary, update them. These included:

- usage information from distributors
- ACCC Inquiry into the National Electricity Market reports for September 2020 and May 2021[134]
- AER usage data obtained for the purpose of updating annual bill benchmarks.[135]

Also, recognising that the number of customers on TOU tariffs is likely to increase over time, we sought stakeholder views on whether the annual usage amounts should reflect the usage of TOU customers, in addition to flat rate tariff customers.

For small business customers we noted ACCC data that suggested median small business usage is lower than our adopted annual usage amount of 20,000 kWh.[136]

We considered amending small business usage by adopting either an annual usage benchmark of 10,000 kWh for all regions or the jurisdictional medians reported by the ACCC.

Stakeholder submissions

Stakeholders who commented on residential annual usage generally supported us cross-checking the annual usage benchmarks with distributor usage data.[137] AGL recommended we only change the amounts if the difference is material.[138]

Simply Energy, EnergyAustralia and PIAC preferred the simplicity of basing annual usage on flat rate customers alone[139], and PIAC noted that incorporating TOU usage may only marginally improve accuracy.[140] Alinta Energy suggested we should only incorporate TOU usage if it is shown to be materially different from flat rate usage.[141] AGL noted the difficulty in sourcing information on TOU customer usage and supported the use of AEMO data

We note the most recent ACCC *Inquiry into the national electricity market* report published November 2021 does not provide more recent updates on customer usage but refers to the previous report of April 2021.

135 The bill benchmarks are referenced in customer bills and used by the Energy Made Easy price comparison website to generate annual energy price estimates.

136 ACCC, *Inquiry into the National Electricity Market,* September 2020, p. 42.

137 Simply Energy, *Submission to 4 Options Paper,* 12 November 2021, p. 8; Alinta Energy, *Submission to 4 Options Paper,* 19 November 2021, p. 7; Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 5; PIAC, *Submission to DMO 4 Options Paper,* 22 November 2021, p. 14–15.

138 AGL, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 11.

139 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 8; EnergyAustralia, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 13; PIAC, *Submission to DMO 4 Options Paper,* 22 November 2021, p. 15.

140 PIAC, *Submission to DMO 4 Options Paper,* 22 November 2021, p. 15.

141 Alinta Energy, *Submission to 4 Options Paper,* 19 November 2021, p. 7.

combining flat rate and TOU usage.[142] Enova Energy suggested we establish a single amount for all residential users.[143]

Retailers also supported averaging across 3 years of data, and incorporating a more recent time period to reflect COVID-19 related changes in usage.[144]

Stakeholders had different views about changing the small business annual usage benchmark, although most acknowledged the challenges in setting a representative figure and generally agreed a single figure across all regions was preferable.[145]

AGL supported moving to 10,000 kWh because it is more representative of customer usage.[146] Enova Energy suggested 8,000 kWh was more representative of small business usage.[147]

Some retailers also highlighted that lowering the benchmark may increase administrative costs and change pricing structures.[148]

For example, EnergyAustralia and Enova Energy suggested reduced usage and a lowering of the price cap would influence retailer pricing behaviour, resulting in an increase in usage charges compared with supply charges.[149] Enova Energy suggested we could transition to the lower usage benchmark by reducing it in 4,000 kWh steps in the following 3 price determinations.[150] AGL suggested lowering usage would reduce retailer revenue, reducing the size of the DMO residual cost.[151] None of the retailers that raised this issue provided any detailed information about how they would update their prices in response to lower annual usage amounts for small business.

Our considerations

Residential customers

Our analysis of the distributor data indicates average residential usage has not changed much since the first DMO determination.

- For residential customers without controlled load, average usage was 3% to 8% higher.
- For residential customers with controlled load, the results were similar, except for Energex and SAPN, where average residential usage was 14% higher.

142 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 12.
143 Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 4.
144 Simply Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 8; Alinta Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 7; Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p.4; EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p. 12.
145 Simply Energy, Submission to DMO 4 Options Paper, 12 November 2021, p. 8; Alinta Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 7; and EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p.12–13.
146 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 12.
147 Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 4–5.
148 EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p. 11–12; AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 11–12; Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 6.
149 Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 6; EnergyAustralia, Submission to DMO 4 Options Paper, 19 November 2021, p.11-12.
150 Enova Energy, Submission to DMO 4 Options Paper, 19 November 2021, p. 4.
151 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 12.

- Controlled load usage as a proportion of total usage ranged between 8% lower to 14% higher.

Table C.1 in Appendix C illustrates the percentage difference between the usage amounts used for DMO 1 and average usage in the 2020–21 financial year.

We have also considered the ACCC analysis of billing data in its May 2021 report, which reports median residential usage in each region. Residential customer usage with and without controlled load is combined in the ACCC analysis. However, the ACCC analysis is still a useful comparison point because it provides annual movements in electricity usage. The ACCC observed a slight increase in median usage since the DMO was introduced (1.9% to 5.1%).[152] We do not consider this observed increase suggests our residential consumption amounts are not broadly representative.[153]

We found the AER usage data obtained for the purpose of updating bill benchmarks in Energy Made Easy is not directly comparable to the distributor or ACCC data because usage is specified for households with specific characteristics like household size, households with swimming pools and climate zones. Therefore, it is less useful as an indicator for typical household use.

In the options paper we suggested we could incorporate TOU customer annual usage by weighting according to the proportion of customers with TOU tariffs. Comparing TOU and flat rate usage, our analysis of distributor data for customers on TOU network tariffs confirms that TOU customers generally use more electricity than those on flat rate tariffs.[154]

For example, TOU usage for residential customers without controlled load was between 20% and 49% higher than flat rate usage. For residential customers with controlled load it was 9% to 54% higher, depending on the distribution region.[155]

However, as customers with ToU tariffs account for around 12% of residential customers without controlled load (11% of residential customer with controlled load), we found the weighted annual usage amounts were unchanged for the Endeavour, Energex and SAPN distribution regions, marginally higher for Essential Energy region[156], and somewhat higher for the Ausgrid region.[157]

152 ACCC, Inquiry ito the National Electricity Market, May 2021, Supplementary Table A3.

153 Also, while we considered the AER usage data obtained for the purpose of updating bill bencharks in Energy Made Easy, we found it is not directly comparable to the distributor or ACCC data because usage is specified for households with particular characteristics like, household size, households with swimming pools and climate zones, and it is therefore less useful as an indicator for typical household use.

154 This analysis was based on TOU network tariffs. We note not all customers with TOU network tariffs are on TOU retail tariffs. Similarly, customers on TOU retail tariffs may be on flat rate network tariffs. However, we consider TOU network tariffs a reasonable proxy for customers on TOU retail tariffs.

155 These figures are based on annual consumption data obtained from distributors for the 2020-21 financial year.

156 Annual usage incorporating TOU usage in the Essential Energy region was 1.5% higher than usage based only on flat rate customers with controlled load, and 4.4% higher for customers without controlled load.

157 Annual usage incorporating TOU usage in the Ausgrid region was 10.3% higher than usage based only on flat rate customers with controlled load, and 10.6% higher for customers without controlled load.

We note that the weighted usage figures incorporating TOU and flat rate usage would be less representative for the roughly 80% of customers on flat rate tariffs. Also, changing to weighted usage figures would involve some administrative costs for retailers.

Small business customers

Available information suggests a lower usage amount is more representative of small business usage.

- Distributor data showed average usage was 5,896 kWh to 8,777 kWh, depending on the distribution region, which is between 56% and 71% lower than the current benchmark.
- In our options paper we said that the ACCC *Inquiry into the national electricity market 2020* report found that while 20,000 kWh was representative of a reasonable proportion of users, median usage was actually around 8,000 kWh.

To understand the effect of lowering the usage amount we tested how accurately the reference price identified the cheapest offers in Energy Made Easy for businesses with higher/lower usage.

Key findings of this analysis were:

- the lowest offer based on a 10,000 kWh benchmark was almost always the lowest for business customers using 8,000 kWh or 20,000 kWh
- the reverse was not always true – the lowest offer based on 20,000 kWh was not always the lowest for a user on 8,000 kWh or 10,000 kWh. Similarly, the lowest offer based on 8,000 kWh was not always the lowest for a business with 10,000 kWh or 20,000 kWh annual usage.

This analysis suggested that a reference price based on 10,000 kWh would do a better job of identifying the cheapest offers for most users than either of the other options.

In regard to the issues raised by EnergyAustralia and Enova Energy, we expect different retailers may be impacted by the change in annual usage in different ways. For example, we expect retailers will set the fixed and usage components of their tariffs in a way that optimises the profitability of their small business customer base, while remaining competitive to attract and retain customers. Changing the benchmark may prompt some retailers to rebalance their tariffs to retain the same level of profitiability, or maintain the level of discount off the reference price. However, we do not expect this would disadvantage retailers because repricing is a normal and regular feature of the retail energy market.

With the move to a cost build-up methodology, including the transition to a 15% retail allowance over the next 3 determinations, we are confident that retailers will be able to recover their costs to supply, make a reasonable profit and have incentives to compete, innovate and invest, in relation to their small business customers. We are also confident that the overall price cap set by the DMO protects customers from unreasonably high prices because any rebalancing of tariffs occurs over the 3 years.

To the extent there are administrative changes above what would normally occur from year to year, we consider the time between our draft and the commencement of the new prices on 1 July 2022 provides sufficient time for retailers to implement these changes. We will consider any further information stakeholders provide on this issue.

Draft determination

Having considered stakeholder submissions and the available information on residential annual usage, we consider the amounts are still broadly representative of residential customer usage as required by the DMO regulations. Our draft determination is to retain the current annual usage benchmarks for residential customers, including the current controlled load amounts, for DMO 4. We intend to use the same benchmarks for the DMO 5 and 6 determinations.

Our draft determination position is to set small business annual usage at 10,000 kWh because:

- we consider it is broadly representative of the small business customer usage based on the spread of usage observed in the ACCC and distributor data
- it provides a more useful reference price for all consumers using less than 20,000 kWh
- given the variability in small business usage, adopting a rounded figure is appropriate. Using a rounded figure of 10,000 kWh rather than the medians avoids creating an expectation that annual usage amounts will change according to updated medians.

9.2 Timing and pattern of supply

Options paper

In the options paper we proposed to continue determining timing and pattern of supply by:

- assuming usage for customers on flat tariffs is the same on each day of the year, with no variation for seasonality or weekends
- considering usage at half-hourly intervals for TOU tariff customers
- considering usage at half-hourly intervals for the SAPN TOU controlled load tariff.

While we acknowledged this is a simplified approach, stakeholders have previously supported it as balancing accuracy and ease of implementation.

We noted our intention to update the TOU daily usage profile using current AEMO interval meter data. We asked whether stakeholders support updating the usage profiles by averaging across 3 years of usage data, and indicated we had requested consumption data from distributors for the 3 years since 2018–19.

Our TOU daily usage profile was created with usage data that includes customers on flat rate and TOU tariffs. In the options paper we asked whether we should exclude flat rate offers from the dataset to enable the daily usage profile to more accurately reflect the usage patterns of customers on TOU tariffs.

Stakeholder submissions

Stakeholders supported the proposal to update TOU profiles using current usage data averaged across 3 years, noting it will better reflect household usage changes resulting from

COVID-19 impacts.[158] Alinta Energy also considered this would reduce price volatility and provide consistency for DMO 4 and 5.[159]

Enova Energy considered averaging across 3 years is currently appropriate but suggested it may be less useful in future years because changes occur more quickly and 3-year averaging could introduce a lag into the data.[160]

Retailers generally supported our proposal to continue basing the TOU profiles on flat rate and TOU usage data.[161] They suggested there would be marginal benefit in basing TOU profiles solely on TOU usage. Simply Energy suggested this may be something the AER could consider in future.[162] AGL pointed out the profiles are only indicative and that it is more beneficial to maintain consistency in approach from year to year.[163]

Ausgrid observed that usage patterns, time periods and seasonality definitions change over time, and suggested we need to update TOU usage profiles regularly.[164]

SACOSS observed that the South Australian Government requires South Australian customers with advanced meters to be transferred to TOU or demand tariffs by 1 January 2022.[165] SACOSS considered this may cause financial harm to vulnerable standing offer customers who:

- are often disengaged from the market and are less likely to actively switch to a more suitable market offer
- may not be aware of the change to high peak prices, or may not have the flexibility to shift their usage from expensive peak periods to cheaper off-peak periods. [166]

SACOSS requested the AER consider the usage patterns of standing offer TOU customers in South Australia and the applicable prices.[167]

Our considerations

We reviewed updated usage data from AEMO for flat rate and TOU customers, as well as ACCC data and AER bill benchmark sample data. We found that usage patterns have varied marginally. The proportion of controlled load usage for residential customers with controlled load is still approximately 30% of total usage.

We consider the simplified usage pattern for flat rate customers is still appropriate. In relation to TOU daily usage profiles, we agree that averaging across 3 years of data would reduce

158 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 8; Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p.2, 6; Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p.7; Origin Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 8.
159 Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 7.
160 Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 6.
161 Simply Energy, *Submission to DMO 4 Options Paper,* 12 November 2021, p. 9; Alinta Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 7; Enova Energy, *Submission to DMO 4 Options Paper,* 19 November 2021, p. 6.
162 Simply Energy, *Submission to DMO 4 Options Paper*, 12 November 2021, p. 9.
163 AGL, Submission to DMO 4 Options Paper, 19 November 2021, p. 12.
164 Ausgrid, *Submission to DMO 4 Options Paper*, 18 November 2021, p. 1.
165 SACOSS, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 3–4.
166 SACOSS, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 5.
167 SACOSS, *Submission to DMO 4 Options Paper*, 23 November 2021, p. 5–6.

the influence of short-term changes in usage patterns due to COVID-19 on the profiles, which is preferable because these impacts may be more limited in future.

Comparing daily usage profiles that include TOU and flat rate usage, and TOU usage alone, we noted some differences. However, we agree there would be marginal benefit in basing profiles solely on TOU usage data because the profiles are averaged across a wide range of customers and are broadly representative of their usage.

We propose to continue to update the profiles with new data each year, to ensure they are reasonably representative of current usage patterns.

We acknowledge SACOSS's concerns about the potential risks of financial harm to vulnerable customers by assigning them to TOU tariffs. We note that some customers will be able to shift usage in response to TOU tariffs but that there may be a need to assist those unable to change usage patterns. We do not set tariffs or specify peak time periods directly under the DMO, and therefore cannot cap peak prices as suggested by SACOSS. In setting TOU daily usage profiles, the Regulations require us to have regard to all TOU customers rather than a particular subgroup. We also consider that any adjustments to our TOU daily usage profile would only influence these outcomes in a limited way. In addition, where it did have an impact, those who can switch usage to off-peak periods would likely be disadvantaged.

We encourage retailers and policymakers to consider how best to address this matter in a targeted manner.

Draft determination

Our draft determination for timing and pattern of supply is that we will update the usage profiles using new AEMO interval meter data but retain our key assumptions from DMO 3. That is, we:

- assume the same usage amount every day (with no variation for weekday, weekend or season), as in previous determinations
- use the same proportional allocations of annual controlled load usage across multiple controlled loads
- retain a single 24-hour usage profile
  - update these using the AEMO interval meter data for each region, averaged over 3 years
  - specify usage at 30-minute intervals.

We have updated the single day usage profile and specified usage for each 30-minute interval over a 24-hour period (see Appendix D).

Appendices

Appendix A – List of submissions to the DMO 4 options paper

Appendix B – Advanced meter costs

Appendix C – Comparing DMO 1 and 2020–21 annual usage

Appendix D – Draft legislative instrument

Appendix E – DMO 3 to DMO 4 price movements

A List of submissions to the DMO 4 options paper

1. Australian Energy Council (AEC)
2. AGL
3. Alinta Energy
4. Ausgrid
5. Energy Consumers Australia (ECA)
6. EnergyAustralia
7. Enova Energy
8. Momentum Energy
9. Origin Energy
10. Public Interest Advocacy Centre (PIAC)
11. Powershop Australia / Meridian Energy
12. Red Energy / Lumo Energy
13. South Australian Department for Energy and Mining
14. South Australian Council of Social Services (SACOSS)
15. Simply Energy
16. Tango Energy

B Advanced meter costs

We requested retailers selling to approximately 94% of customers in DMO regions to provide the number of customers on advanced meters and accumulation meters for each DMO region and customer type as at 30 September 2021. We also asked retailers to provide average per advanced meter costs. Tables B.1 and B.2 set out our calculations for estimating advanced meter costs per residential and small business customer.

Table B.1 Residential advanced meter counts and per customer costs

Region	Total Advanced Meters	Total Advanced Meter Costs	Average per Advanced Meter Cost (ex GST)	ACS Metering allowance Included in Network Component (ex GST)	Average per Advanced Meter Cost net of ACS Metering Allowance (ex GST)	Total Customers 30 September 2021	% of Customers with Advanced Meters	Advanced Meter Cost per Customer net of ACS Metering Allowance in Network Component (ex GST)	Advanced Meter Allowance (inc GST)
Ausgrid	279,093	$29,606,278	$106.08	$26.46	$79.62	1,681,650	17%	$13.21	$14.54
Endeavour	246,015	$25,836,718	$105.02	$21.01	$84.01	972,617	25%	$21.25	$23.37
Essential	176,851	$18,830,123	$106.47	$34.04	$72.43	759,463	23%	$16.87	$18.55
Energex	276,837	$27,868,108	$100.67	$38.09	$62.57	1,346,204	21%	$12.87	$14.15
SAPN	196,995	$22,324,163	$113.32	$23.16	$90.16	787,069	25%	$22.57	$24.82
DMO	**1,175,791**	**$124,465,391**	**$105.86**	**$28.90**	**$76.96**	**5,547,003**	**21%**	**$16.31**	**$17.94**

Table B.2 Small Business advanced meter counts and per customer costs

Region	Total Advanced Meters	Total Advanced Meter Costs	Average per advanced meter cost (ex GST)	ACS Metering Allowance Included in Network component (ex GST)	Average per Advanced Meter Cost net of ACS Metering Allowance (ex GST)	Total Customers 30 September 2021	% of Customers with Advanced Meters	Advanced Meter Cost per Customer net of ACS Metering Allowance in Network Component (ex GST)	Advanced Meter Allowance (inc GST)
Ausgrid	5,905	$663,868	$112.42	$34.80	$77.62	61,149	10%	$7.50	$8.25
Endeavour	11,179	$1,310,252	$117.21	$30.79	$86.42	64,870	17%	$14.89	$16.38
Essential	2,250	$295,641	$131.40	$34.04	$97.36	59,533	4%	$3.68	$4.05
Energex	13,227	$1,455,526	$110.04	$38.09	$71.95	74,776	18%	$12.73	$14.00
SAPN	2,347	$308,705	$131.53	$23.16	$108.37	45,255	5%	$5.62	$6.18
DMO	**34,908**	**$4,033,992**	**$115.56**	**$32.88**	**$82.68**	**305,583**	**11%**	**$9.44**	**$10.39**

C Comparing DMO 1 and 2020–21 annual usage

Tables C.1 to C.5 compare average usage from our DMO 1 level based on 2018–19 data, and 2020–21.

Table C.1 Comparison of average usage in DMO 1 (2018–19) to 2020–21, Ausgrid

Region tariff type	Avg usage 2020–21 (kWh)	DMO 1 usage (kWh)	Percentage difference
Ausgrid - Resi	4,190	3,900	7%
Ausgrid - Resi w/ CL*	4,702	4,800	-2%
Ausgrid - CL1	1,905	2,000	-5%
Ausgrid - CL2	1,997	2,000	0%
Ausgrid – Small business	7,516	20,000	-62%

Note: *CL refers to controlled load.

Source: information provided to AER by DNSPs, October 2021.

Table C.2 Comparison of average usage in DMO 1 (2018–19) to 2020–21, Endeavour

Region tariff type	Avg usage 2020–21 (kWh)	DMO 1 usage (kWh)	Percentage difference
Endeavour - Resi	5,087	4,900	4%
Endeavour - Resi w/CL	5,462	5,200	5%
Endeavour - CL1	2,273	2,200	3%
Endeavour - CL2	2,570	2,200	17%
Endeavour – Small business	8,612	20,000	-57%

Note: *CL refers to controlled load.

Source: information provided to AER by DNSPs, October 2021.

Table C.3 Comparison of average usage in DMO 1 (2018–19) to 2020–21, Essential

Region tariff type	Avg usage 2020–21 (kWh)	DMO 1 usage (kWh)	Percentage difference
Essential - Resi	4,737	4,600	3%
Essential - Resi w/ CL	4,557	4,600	-1%
Essential - CL1	2,029	2,000	1%
Essential - CL2	1,851	2,000	-7%
Essential – Small business	7,365	20,000	-63%

Note: *CL refers to controlled load.

Source: information provided to AER by DNSPs, October 2021.

Table C.4 Comparison of average usage in DMO 1 (2018–19) to 2020–21, Energex

Region tariff type	Avg usage 2020–21 (kWh)	DMO 1 usage (kWh)	Percentage difference
Energex - Resi	5,002	4,600	9%
Energex - Resi w/CL	4,570	4,400	4%
Energex - CL1	2,000	1,900	5%
Energex - CL2	2,013	1,900	6%
Energex – Small business	8,777	20,000	-56%

Note: *CL refers to controlled load.

Source: information provided to AER by DNSPs, October 2021.

Table C.5 Comparison of average usage in DMO 1 (2018–19) to 2020–21, SAPN

Region tariff type	Avg usage 2020–21 (kWh)	DMO 1 usage (kWh)	Percentage difference
SAPN - Resi	4,192	4,000	5%
SAPN - Resi w/CL	4,148	4,200	-1%
SAPN - CL	2,092	1,800	16%
SAPN – Small business	5,896	20,000	-71%

Note: *CL refers to controlled load.

Source: information provided to AER by DNSPs, October 2021.

D Draft legislative instrument

Draft legislative instrument

Draft Default Market Offer prices 2022-23

1. Name

This instrument is the *Competition and Consumer (Industry Code – Electricity Retail) (Model Annual Usage and Total Annual Prices) Determination 2022.*

2. Commencement

This instrument commences on 1 July 2022.

3. Authority

This instrument is made under section 16(1) of the *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019* (the Regulations).

4. Definitions

In this Determination:

a) ***Regulations*** means the *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*; and

b) ***Residential Annual Usage without Controlled Load*** applies to the type of small customer considered in s 6(2)(b) of the Regulations; and

c) ***Residential Annual Price without Controlled Load*** applies to the type of small customer considered in s 6(2)(b) of the Regulations; and

d) ***Residential Annual Usage with Controlled Load*** applies to the type of small customer considered in s 6(2)(a) of the Regulations; and

e) ***Residential Annual Price with Controlled Load*** applies to the type of small customer considered in s 6(2)(a) of the Regulations; and

f) ***Small Business Annual Usage*** applies to the type of small customer considered in s 6(2)(c) of the Regulations; and

g) ***Small Business Annual Price*** applies to the type of small customer considered in s 6(2)(c) of the Regulations; and

h) ***General Usage*** means the non-controlled load usage of a small customer under s 6(2)(a) of the Regulations; and

i) ***Controlled Load Usage*** means the controlled load usage of a small customer under s 6(2)(a) of the Regulations.

j) Terms defined in the Regulations have the same meaning in this instrument.

5. Per-customer usage determination

In accordance with s 16(1)(a)(i) of the Regulations, the AER determines the per-customer amount of electricity supplied in specified distribution regions to small customers of the following types:

Per-customer annual usage determination				
Distribution region	**Residential Annual Usage without Controlled Load**	**Residential Annual Usage with Controlled Load**		**Small Business Annual Usage**
		General Usage	***Controlled Load Usage***	
Ausgrid	3,900 kWh	4,800 kWh	2,000 kWh	10,000 kWh
Endeavour Energy	4,900 kWh	5,200 kWh	2,200 kWh	10,000 kWh
Energex	4,600 kWh	4,400 kWh	1,900 kWh	10,000 kWh
Essential Energy	4,600 kWh	4,600 kWh	2,000 kWh	10,000 kWh
SA Power Networks	4,000 kWh	4,200 kWh	1,800 kWh	10,000 kWh

6. Timing or pattern of supply determination

In accordance with s 16(1)(a)(ii) of the Regulations, the AER determines the timing or pattern of the supply of electricity in specified distribution regions to small customers:

a) Seasonality assumptions, all tariff and customer types

For all tariff and customer types, consumption has no seasonal weighting. That is, kilowatt hours consumed are assumed to be the same on each day of the year.

b) Daily usage profile for Flexible Tariffs (Time of Use tariffs, including the South Australian TOU controlled load tariff) – Residential Usage without Controlled Load and General Usage / Residential Usage with Controlled Load

i. Ausgrid distribution region

Flexible Tariff (Time of Use tariff) daily usage profile – Daily Residential Usage without Controlled Load (3,900 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2318**	**0.2228**	**0.2124**	**0.1887**	**0.1717**	**0.1555**	**0.1444**	**0.1375**	**0.1347**	**0.1351**	**0.1406**	**0.1500**	**0.1680**	**0.1908**	**0.2055**	**0.2194**	**0.2205**	**0.2184**	**0.2163**	**0.2137**	**0.2110**	**0.2089**	**0.2073**	**0.2077**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2091**	**0.2095**	**0.2087**	**0.2078**	**0.2073**	**0.2082**	**0.2118**	**0.2207**	**0.2336**	**0.2509**	**0.2738**	**0.3018**	**0.3185**	**0.3229**	**0.3178**	**0.3105**	**0.3041**	**0.2962**	**0.2837**	**0.2722**	**0.2636**	**0.2553**	**0.2465**	**0.2376**

Flexible Tariff (Time of Use tariff) daily usage profile – Daily General usage – Daily Residential Usage with Controlled Load (4,800 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2853**	**0.2742**	**0.2614**	**0.2323**	**0.2114**	**0.1914**	**0.1777**	**0.1693**	**0.11658**	**0.1663**	**0.1731**	**0.1846**	**0.2067**	**0.2348**	**0.2530**	**0.2194**	**0.2714**	**0.2688**	**0.2662**	**0.22630**	**0.2597**	**0.2571**	**0.2552**	**0.2556**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2574**	**0.2579**	**0.2569**	**0.2557**	**0.2552**	**0.2562**	**0.2607**	**0.2716**	**0.2875**	**0.3088**	**0.3370**	**0.3715**	**0.3920**	**0.3974**	**0.3911**	**0.3821**	**0.3743**	**0.3646**	**0.3491**	**0.3350**	**0.3245**	**0.3143**	**0.3034**	**0.2925**

ii. Endeavour Energy distribution region

Flexible Tariff (Time of Use tariff) daily usage profile - Daily Residential Usage without Controlled Load (4,900 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2938**	**0.2814**	**0.2557**	**0.2270**	**0.2018**	**0.1839**	**0.1732**	**0.1675**	**0.1671**	**0.1707**	**0.1812**	**0.1952**	**0.2190**	**0.2456**	**0.2584**	**0.2695**	**0.2661**	**0.2554**	**0.2502**	**0.2443**	**0.2386**	**0.2337**	**0.2296**	**0.2303**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2319**	**0.2332**	**0.2348**	**0.2395**	**0.2469**	**0.2562**	**0.2711**	**0.2946**	**0.3208**	**0.3504**	**0.3802**	**0.4159**	**0.4344**	**0.4357**	**0.4256**	**0.4145**	**0.4023**	**0.3882**	**0.3706**	**0.3458**	**0.3355**	**0.3278**	**0.3206**	**0.3090**

Flexible Tariff (Time of Use tariff) daily usage profile - Daily General Usage – Daily Residential Usage with Controlled Load (5,200 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.3118**	**0.2986**	**0.2713**	**0.2409**	**0.2141**	**0.1951**	**0.1838**	**0.1778**	**0.1773**	**0.1812**	**0.1923**	**0.2071**	**0.2324**	**0.2606**	**0.2743**	**0.2860**	**0.2824**	**0.2710**	**0.2655**	**0.2592**	**0.2531**	**0.2480**	**0.2436**	**0.2444**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2461**	**0.2475**	**0.2492**	**0.2541**	**0.2620**	**0.2718**	**0.2877**	**0.3127**	**0.3404**	**0.3719**	**0.4035**	**0.4414**	**0.4610**	**0.4624**	**0.4517**	**0.4399**	**0.4269**	**0.4120**	**0.3933**	**0.3760**	**0.3560**	**0.3479**	**0.3402**	**0.3279**

iii. Energex distribution region

Flexible Tariff (Time of Use tariff) daily usage profile - Daily Residential Usage without Controlled Load (4,600 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.1978**	**0.1801**	**0.1683**	**0.1587**	**0.1519**	**0.1474**	**0.1449**	**0.1439**	**0.1463**	**0.1520**	**0.1643**	**0.1805**	**0.2052**	**0.2342**	**0.2591**	**0.2668**	**0.2667**	**0.2631**	**0.2626**	**0.1613**	**0.2593**	**0.2583**	**0.2598**	**0.2701**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2624**	**0.2647**	**0.2679**	**0.2701**	**0.2745**	**0.2771**	**0.2847**	**0.2972**	**0.3120**	**0.3329**	**0.3552**	**0.3803**	**0.3983**	**0.4075**	**0.3967**	**0.3866**	**0.3877**	**0.3551**	**0.3322**	**0.3132**	**0.3011**	**0.2854**	**0.2555**	**0.2236**

Flexible Tariff (Time of Use tariff) daily usage profile - Daily General Usage – Daily Residential Usage with Controlled Load (4,400kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.1892**	**0.1723**	**0.1610**	**0.1518**	**0.1453**	**0.1410**	**0.1386**	**0.1439**	**0.1463**	**0.1520**	**0.1572**	**0.1727**	**0.1963**	**0.2240**	**0.2479**	**0.2552**	**0.2551**	**0.2517**	**0.2512**	**0.2500**	**0.2480**	**0.2470**	**0.2462**	**0.2485**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2510**	**0.2532**	**0.2562**	**0.2583**	**0.2626**	**0.2651**	**0.2723**	**0.2843**	**0.2984**	**0.3184**	**0.3397**	**0.3638**	**0.3810**	**0.3898**	**0.3795**	**0.3698**	**0.3623**	**0.3396**	**0.3177**	**0.2996**	**0.2880**	**0.2730**	**0.2444**	**0.2139**

iv. Essential Energy distribution region

Flexible Tariff (Time of Use tariff) daily usage profile - Daily Residential Usage without Controlled Load (4,600 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2701**	**0.2695**	**0.2614**	**0.2478**	**0.2254**	**0.2022**	**0.1845**	**0.1733**	**0.1689**	**0.1692**	**0.1778**	**0.1909**	**0.2135**	**0.2364**	**0.2465**	**0.2588**	**0.2597**	**0.2525**	**0.2521**	**0.2498**	**0.2466**	**0.2443**	**0.2412**	**0.2380**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2400**	**0.2404**	**0.2400**	**0.2380**	**0.2385**	**0.2404**	**0.2459**	**0.2570**	**0.2706**	**0.2883**	**0.3187**	**0.3561**	**0.3783**	**0.3794**	**0.3669**	**0.3533**	**0.3416**	**0.3283**	**0.3188**	**0.3111**	**0.3113**	**0.2974**	**0.2843**	**0.2777**

Flexible Tariff (Time of Use tariff) daily usage profile - Daily General Usage – Daily Residential Usage with Controlled Load (4,600 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2701**	**0.2695**	**0.2614**	**0.2478**	**0.2254**	**0.2022**	**0.1845**	**0.1733**	**0.1689**	**0.1692**	**0.1778**	**0.1909**	**0.2135**	**0.2364**	**0.2465**	**0.2588**	**0.2597**	**0.2525**	**0.2521**	**0.2498**	**0.2466**	**0.2443**	**0.2412**	**0.2380**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2400**	**0.2404**	**0.2400**	**0.2380**	**0.2385**	**0.2404**	**0.2459**	**0.2570**	**0.2706**	**0.2883**	**0.3187**	**0.3561**	**0.3783**	**0.3794**	**0.3669**	**0.3533**	**0.3416**	**0.3283**	**0.3188**	**0.3111**	**0.3113**	**0.2974**	**0.2843**	**0.2777**

v. South Australian Power Networks distribution region

Flexible Tariff (Time of Use tariff) daily usage profile - Daily Residential Usage without Controlled Load (4,000 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2718**	**0.3137**	**0.2982**	**0.2416**	**0.2060**	**0.1826**	**0.1711**	**0.1551**	**0.1443**	**0.1400**	**0.1432**	**0.1521**	**0.1699**	**0.1851**	**0.2040**	**0.2109**	**0.2022**	**0.1954**	**0.1935**	**0.1923**	**0.1925**	**0.1924**	**0.1927**	**0.1939**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.1956**	**0.1956**	**0.1964**	**0.1964**	**0.2000**	**0.2026**	**0.2095**	**0.2209**	**0.2392**	**0.2630**	**0.2959**	**0.3290**	**0.3472**	**0.3486**	**0.3395**	**0.3297**	**0.3193**	**0.3077**	**0.2916**	**0.2699**	**0.2440**	**0.2192**	**0.2076**	**0.2463**

Flexible Tariff (Time of Use tariff) daily usage profile - Daily General Usage – Daily Residential Usage with Controlled Load (4,200 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.2854**	**0.3294**	**0.3131**	**0.2536**	**0.2163**	**0.1917**	**0.1796**	**0.1628**	**0.1515**	**0.1470**	**0.1504**	**0.1597**	**0.1784**	**0.1943**	**0.2142**	**0.2215**	**0.2123**	**0.2052**	**0.2031**	**0.2019**	**0.2022**	**0.2020**	**0.2023**	**0.2036**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2053**	**0.2054**	**0.2062**	**0.2062**	**0.2100**	**0.2127**	**0.2200**	**0.2319**	**0.2511**	**0.2762**	**0.3107**	**0.3454**	**0.3645**	**0.3661**	**0.3565**	**0.3462**	**0.3353**	**0.3231**	**0.3061**	**0.2834**	**0.2562**	**0.2301**	**0.2180**	**0.2586**

Flexible Tariff (Time of Use tariff) daily usage profile - Daily Controlled Load usage – (1,800 kWh/yr)

Time	00:00 - 00:30	00:30 - 01:00	01:00 - 01:30	01:30 - 02:00	02:00 - 02:30	02:30 - 03:00	03:00 - 03:30	03:30 - 04:00	04:00 - 04:30	04:30 - 05:00	05:00 - 05:30	05:30 - 06:00	06:00 - 06:30	06:30 - 07:00	07:00 - 07:30	07:30 - 08:00	08:00 - 08:30	08:30 - 09:00	09:00 - 09:30	09:30 - 10:00	10:00 - 10:30	10:30 - 11:00	11:00 - 11:30	11:30 - 12:00
Usage (kWh)	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0.1761**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.2466**	**0.2466**	**0.2466**	**0.2466**
Time	12:00 - 12:30	12:30 - 13:00	13:00 - 02:00	13:30 - 03:00	14:00 - 14:30	14:30 - 15:00	15:00 - 15:30	15:30 - 16:00	16:00 - 16:30	16:30 - 17:00	17:00 - 17:30	17:30 - 18:00	18:00 - 18:30	18:30 - 13:00	19:00 - 19:30	19:30 - 20:00	20:00 - 20:30	20:30 - 21:00	21:00 - 21:30	21:30 - 22:00	22:00 - 22:30	22:30 - 23:00	23:00 - 23:30	23:30 - 24:00
Usage (kWh/	**0.2466**	**0.2466**	**0.2466**	**0.2466**	**0.2466**	**0.2466**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.1761**

c) Controlled Load (CL) annual usage allocations

i. Ausgrid distribution region (kWh/year)

CL1 only	CL2 only	CL 1 and 2 (% of total)	
2,000	2,000	CL1 (67%) 1,340	CL2 (33%) 660

ii. Endeavour Energy distribution region (kWh/year)

CL 1 only	CL 2 only	CL 1 and 2 (% of total)	
2,200	2,200	CL 1 (67%) 1,474	CL 2 (33%) 726

iii. Energex distribution region (kWh/year)

CL 1 only	CL 2 only	CL 1 and 2 (% of total)	
1,900	1,900	CL 1 (29%) 551	CL 2 (71%) 1,349

iv. Essential Energy distribution region (kWh/year)

CL 1 only	CL 2 only	CL 1 and 2 (% of total)	
2,000	2,000	CL 1 (77%) 1,540	CL 2 (23%) 460

v. South Australian Power Networks distribution region (kWh/year)[168]

168 Refer to section 6.b)v. for the daily usage profile for the TOU controlled load tariff.

CL 1 only	CL 2 only	CL 1 and 2
1,800	NA	NA

7. Per-customer annual price determination

In accordance with s 16(1)(b) of the Regulations, the AER determines what it considers the reasonable per-customer annual price for supplying electricity in specified distribution regions to small customers of the types set out below.

Per-customer draft annual price determination (all prices GST-inclusive)

Distribution region	Annual Residential Price without Controlled Load	Annual Residential Price with Controlled Load	Small Business Annual Price
Ausgrid	$1,372	$1,887	$3,901
Endeavour Energy	$1,599	$2,055	$3,306
Energex	$1,540	$1839	$3,250
Essential Energy	$1,869	$2,204	$4,365
SA Power Networks	$1,769	$2,178	$4,369

DATED THIS XX DAY OF
XX 2022

Australian Energy Regulator

E DMO 3 to DMO 4 price movements

The charts in this appendix show the movement in the DMO cost components between DMO 3 and DMO 4, with the overall height indicating the total DMO price.

We note that:

- Network and environment cost components in DMO 4 are calculated using the same methodology as DMO 3, so the changes directly reflect year-on-year movement.
- Changes to the wholesale cost component incorporate the impact of methodological adjustments, including the use of the 75th percentile estimate and the inclusion of AEMO direction costs in South Australia.
- The move to a cost build-up approach means DMO 4 has no residual component. This has been replaced by a retail cost component and a separate retail allowance.
- Due to our use of the new 10,000 kWh per year small business usage benchmark, direct comparisons between DMO 3 and DMO 4 small business prices are not possible. For illustrative purposes, Figure E.3 compares the DMO 3 price with an indicative DMO 4 price based on the previous 20,000 kWh/year benchmark.

Figure E.1 Residential without CL, % change from DMO 3 (nominal)

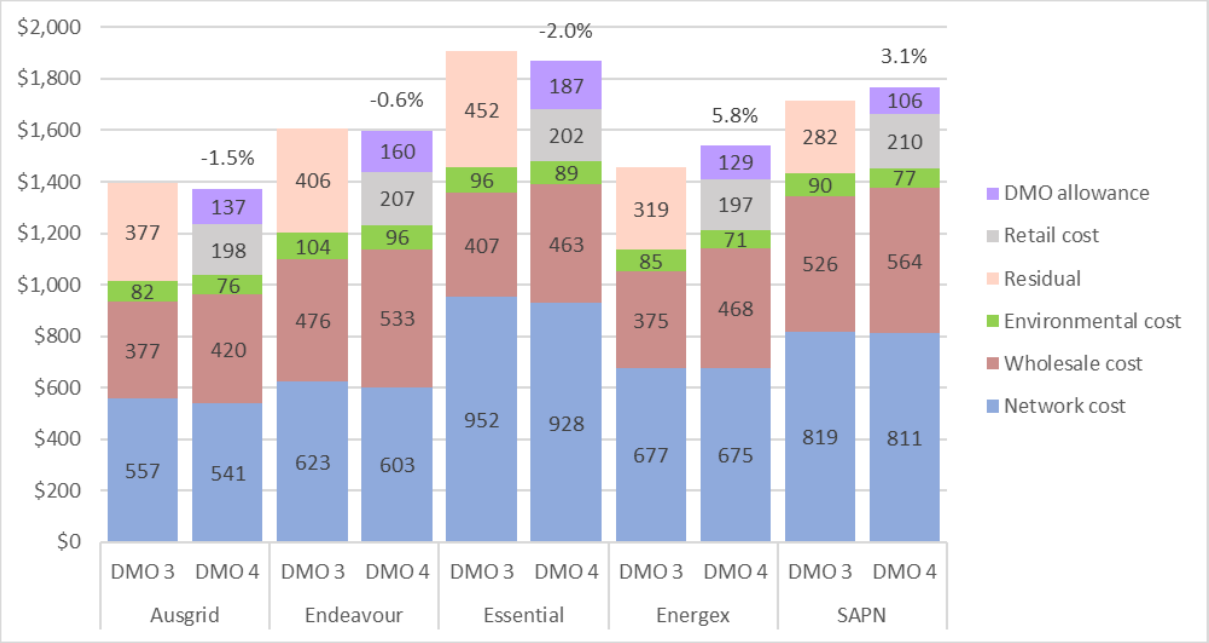


Figure E.2 Residential with CL, % change from DMO 3 (nominal)

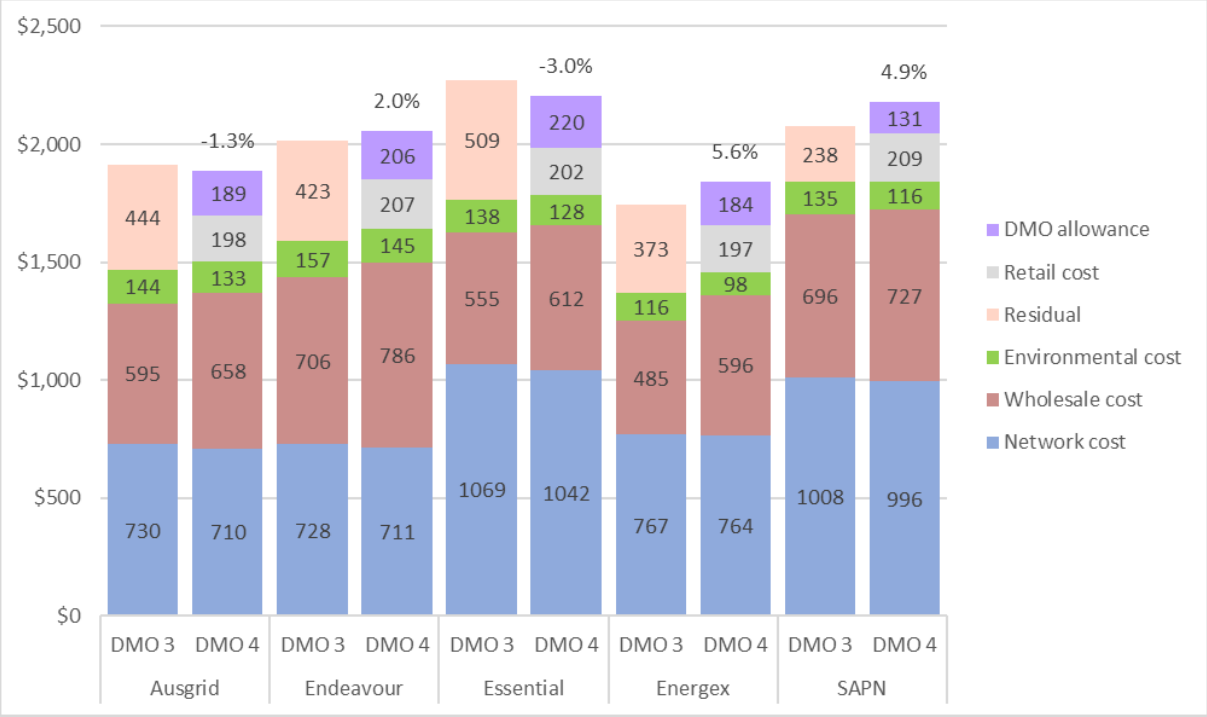
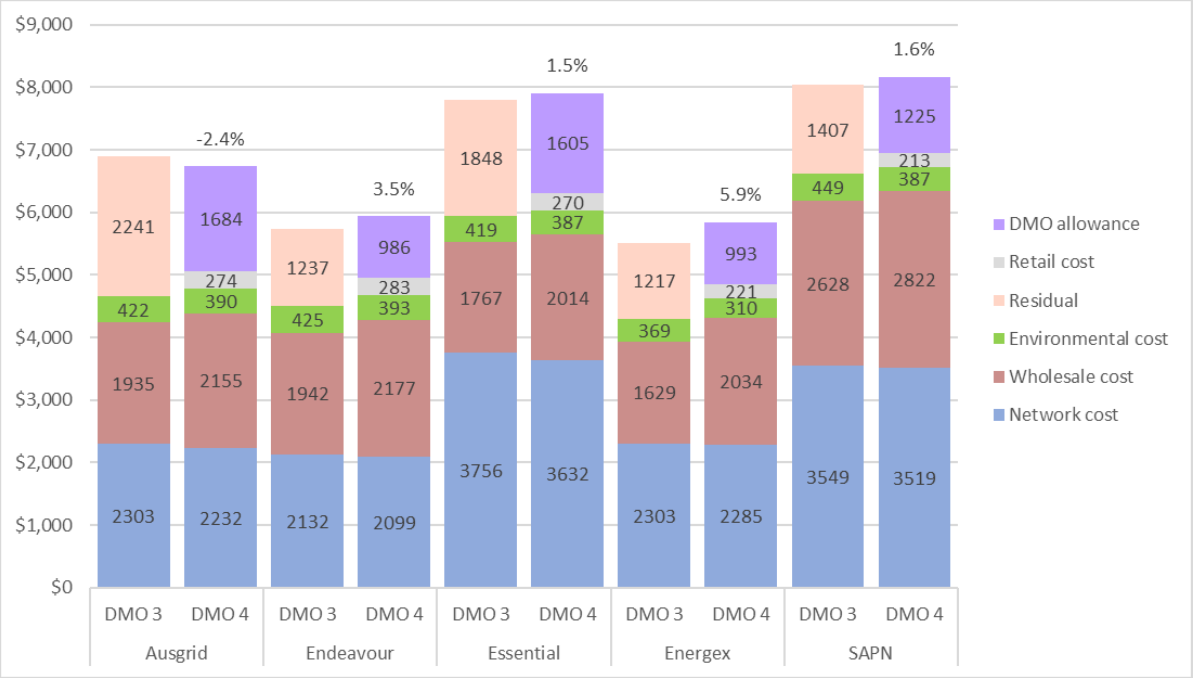


Figure E.3 Small business, % change from DMO 3 (nominal)



Note: Small business DMO 4 prices in this figure are based on 20,000 kWh of usage for comparison purposes.