



Default Market Offer 2022-23 Draft Determination

Presentation to AER stakeholder forum
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9 March 2022

To submit questions:

<https://www.sli.do>

Code: DMO4DD

aer.gov.au

Outline of presentation



Policy objectives



Methodology review – main changes



Retail allowances



Wholesale forecasts



Residential outcomes



Small business outcomes

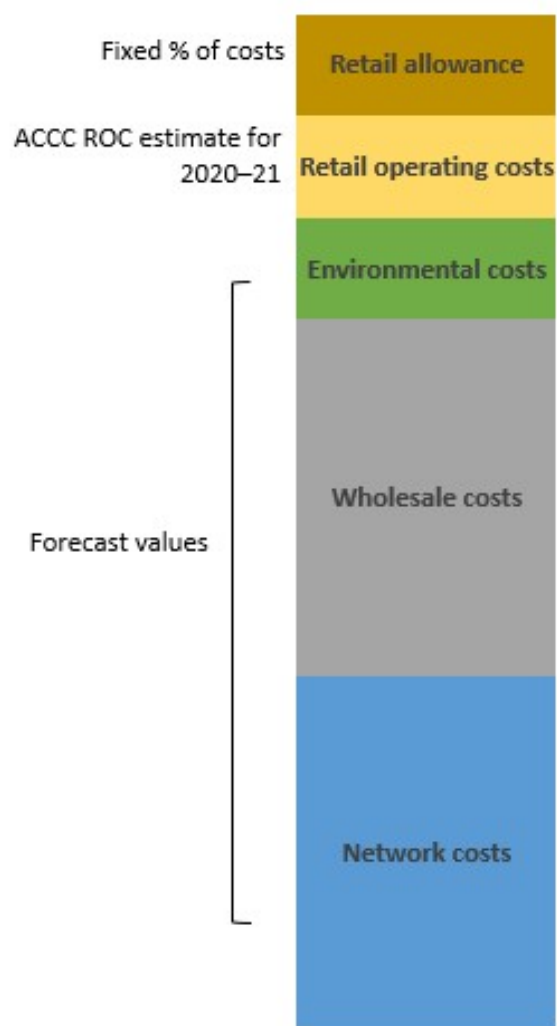


Next steps

Policy objectives

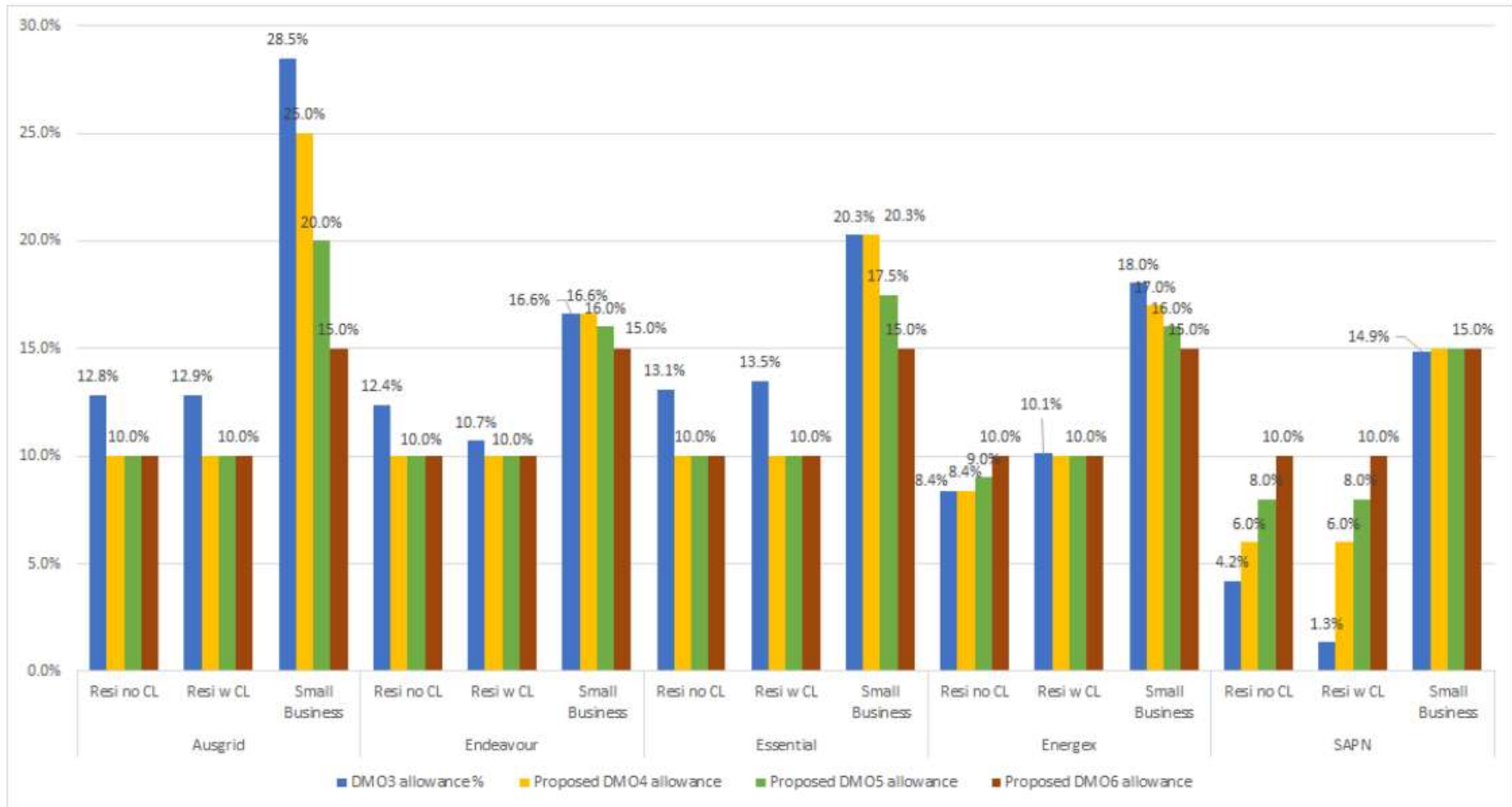
Reduce	Reduce unjustifiably high standing offer prices and continue to protect consumers from unreasonable prices
Allow	Allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention
Maintain	Maintain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

DMO methodology review – main changes



- Retail allowance with transition path
 - 10% residential
 - 15% small business
- Retail operating costs
 - ACCC ROC
 - Advanced meters
 - Bad and doubtful debt
- Wholesale
 - 75th percentile instead of 95th
 - AEMO energy directions costs included for SA
- Small business usage changed from 20,000 to 10,000 kWh
- No step change mechanism

Retail allowance and transitional path



- Converging to 10% residential and 15% small business in DMO 6
- Increases for Energex and SAPN residential customers
- Decreases for NSW residential and all small business except SAPN

Wholesale forecast settings

- Two changes to assumptions within market based approach:
 - 75th percentile of modelled price outcomes
 - AEMO energy directions costs in SA
- Seeking peer review of forecasting method and its ability to deal with:
 - Changing market e.g. negative prices, changing load profiles
 - How methodology can reflect retail risk mgmt. practices and residual risk
 - Movement of wholesale prices over time

ACIL Allen report for DMO4 draft determination, QLD base futures Q1 2022



Source: ACIL Allen analysis of ASX Energy data

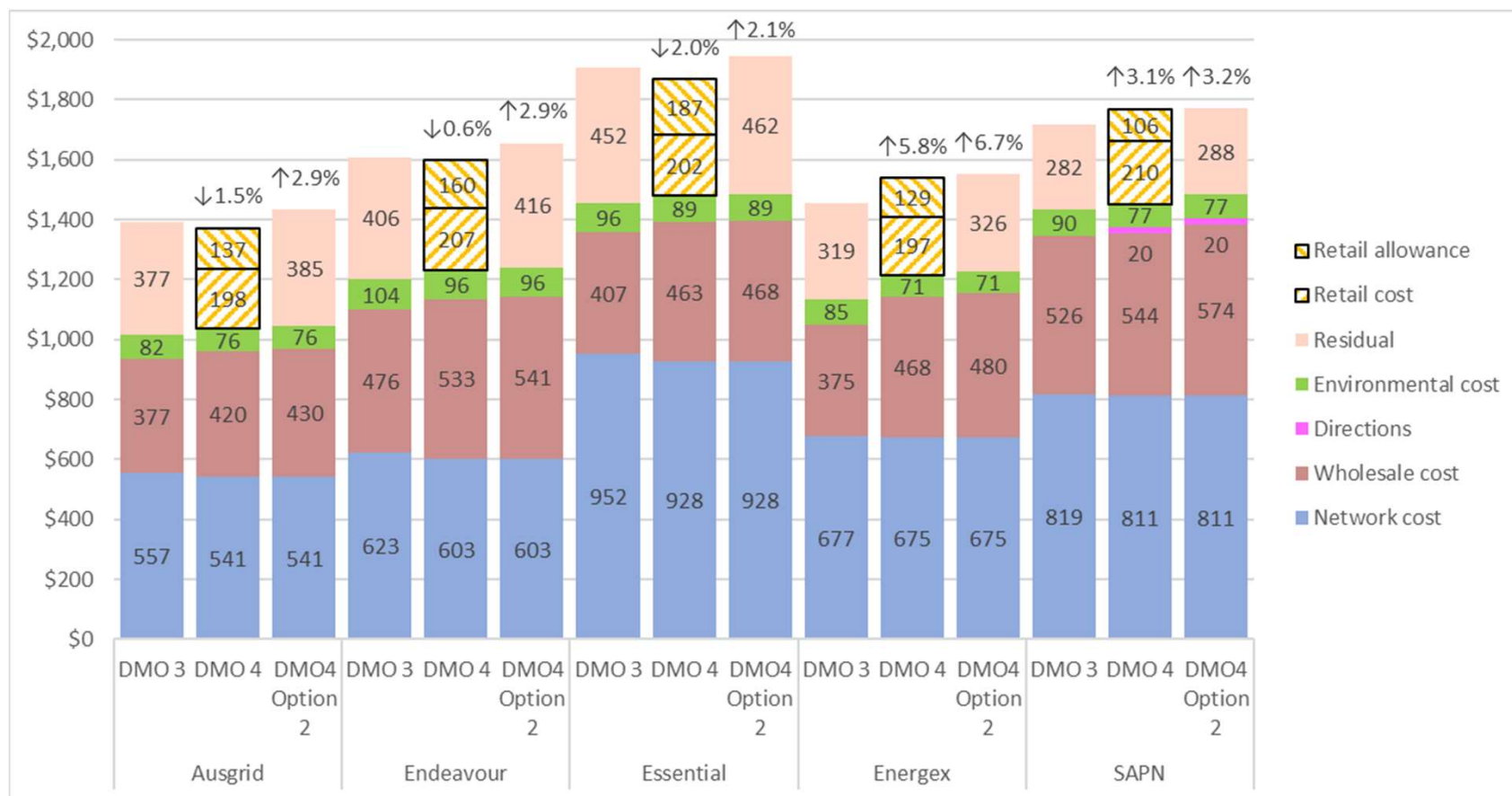
Wholesale costs for 2021-22 and 2022-23

Table 6.1 Wholesale costs, \$/MWh (excl GST, nominal)

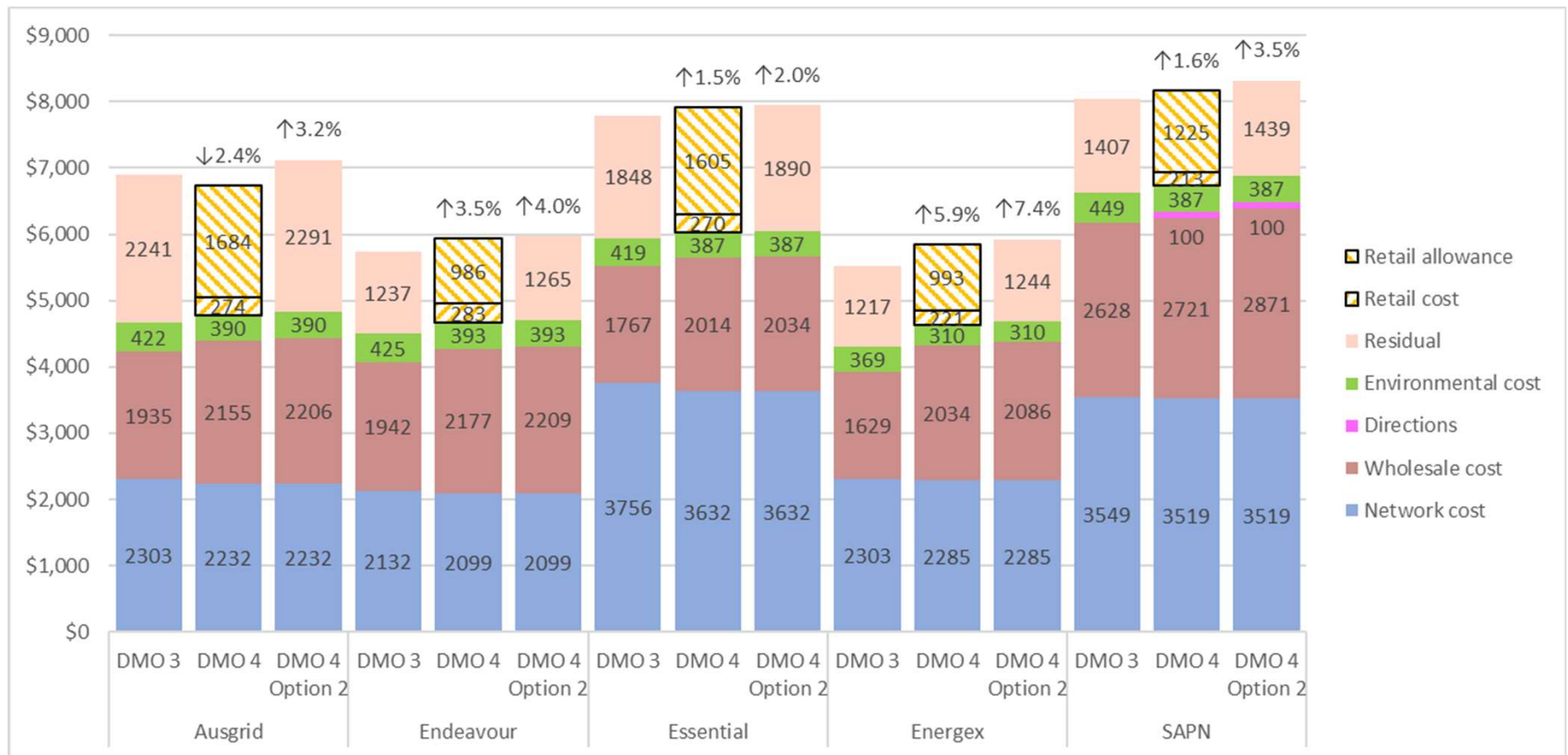
- Wholesale energy costs are forecast to increase, driven by:
 - slowing of large-scale renewables coming online
 - a reduction in thermal generation
 - higher fuel costs
 - the increasingly peaky NSLP has become relatively more expensive to hedge + continued uptake of rooftop PV
 - in QLD, higher FCAS costs
 - directions costs in SA

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%
	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%

Counterfactual – Residential no CL (nominal comparison)



Counterfactual – Small Business (20000 kWh, nominal comparison)



Small Business 20,000 to 10,000 kWh

- We consider 10,000 kWh is broadly representative of small business usage based on
 - spread of usage observed in ACCC and DNSP data request
 - provides a more useful reference price for all consumers using less than 20,000 kWh

Offer identified as cheapest relative to actual cheapest at varying consumption levels, Ausgrid

		Actual consumption			
		ACCC median	DNSP average	10000	20000
Assumed consumption for comparison	ACCC median	1	1	2	12
	DNSP average	1	1	2	13
	10000	2	2	1	3
	20000	9	9	7	1

Next steps

