

20<sup>th</sup> March 2019



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

Active Utilities Pty Ltd  
ABN 43 818 767 917

40 English Street, Essendon Fields  
Victoria, Australia 3041  
Telephone: 1300 587 623  
info@activeutilities.com.au  
[www.activeutilities.com.au](http://www.activeutilities.com.au)

Dear Mark

**Re: Active Utilities Pty Ltd (AU) Submission to AER's draft determination of default market offer prices – February 2019**

Thank you for the opportunity to comment on the AER's draft determination of default market offer prices. This draft determination was formulated with regard to received submissions, as well as feedback from the December 2018 DMO public forum.

Active Utilities still agree and welcomes the intent of the DMO, though remain steadfast in our consideration that the application of some aspects of the DMO would be simpler to implement if embedded networks were excluded.

Active Utilities also reiterates our preference of a 'bottom-up' cost-based approach. We understand the reasons for the AER's alternative approach, given the limitations, though commend the AER stating that they would explore the benefits of introducing additional 'bottom-up' analysis of retailers underlying costs into the approach.

However, Active Utilities fully supports that the DMO should be applied to Embedded Networks as the replacement to Standing Offers. This will ensure all consumers are getting the best energy value available whilst adding further protections.

Below we have provided some further discussion points and queries stemming from the draft determination.

If you require any further information in relation to this submission, please feel free to contact me.

Kind Regards,

A handwritten signature in black ink, appearing to read "Mick Dovile", enclosed in a white rectangular box.

Mick Dovile  
General Manager

## Setting a DMO

Active Utilities believes there should be a clearly stated process and methodology for changing a DMO price for future years. Changes in the below, as recommended in the draft determination, should be published annually and applied stringently when determining future DMO's:

- *Networks*: The changes in approved network costs should be based on the published network costs for the forecast reference period. (published on the AER website)
- *Wholesale costs*: The change in load weighted wholesale costs based on AER's approach relating to the three key underlying components: the hedging cost, the residual exposure to the wholesale electricity spot market and other fees arising from the provision of electricity.
- *Load profiles*: The change in network and wholesale costs need to be load weighted.
- *RET RRP's*: Change in government published RET percentages as published on the clean energy regulator (<http://www.cleanenergyregulator.gov.au>).
- *State based energy efficiency scheme RRP's (equivalents)*: Changes in state based energy efficiency percentages should be obtained from the relevant government authority for example for NSW [https://www.ess.nsw.gov.au/Scheme\\_Participants/Targets\\_and\\_penalties](https://www.ess.nsw.gov.au/Scheme_Participants/Targets_and_penalties)
- *Renewable energy / efficiency certificate prices*: A reputable source should be used to obtain **spot**, not future certificate prices.
- *Loss factors*: All changes in loss factors should be obtained from the AEMO website. (<https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Loss-factor-and-regional-boundaries>)
- All other costs can be assumed to increase at CPI.

## Application of discounts based off the reference bill

If discounts are to be based off the 'Reference Bill' (DMO), Active Utilities seeks further clarification on how a discount should be advertised and applied to a customer's invoice. Without a clear methodology Active Utilities sees there is a disconnect between the actual discount a customer receives and the advertised discount.

For clarification, we have provided 2 Market offer examples below, highlighting Active Utilities concerns:

### Assumptions:

- Reference Bill \$1,500
- Usage 4000kWh

### Example 1

A retailer advertises a 10% discount on the market offer where the consumption rate is 25c/kWh, and supply charge is \$1 /day.

- The estimated bill prior to the incentive will be  $25\text{c/kWh} \times 4000 \text{ kWh (usage)} = 1000 + \text{Supply Charge} = \$1365 \text{ pa.}$
- The 10% discount must be based on the DMO = \$150
- $150/1365 = 11\%$ . *The retailer must provide the customer a 11% discount yet only advertise 10%.*

### Example 2

The retailer offers the customer a 25% guaranteed discount where the consumption rate is 31 c/kWh, and supply charge is \$1 /day.

- The estimated bill prior to the incentive will be  $31\text{c/kWh} \times 4000\text{kWh (usage)} = \$1240 \text{ pa.} + \text{Supply} = \$1,605 \text{ pa.}$
- The above bill which is greater than the DMO but still not in breach of the DMO, provided the customer does not pay more than the DMO.
- The 25% discount must be based on the DMO = \$375 pa.
- $375/1605 = 23.4\%$  Therefore a retailer can advertise a 25% and the customer will receive a 23.4% discount.

Please see the table on the next page, which reflects the discounts based off the reference bills examples provided above.



Discounts based off Reference Bills

Active Utilities Pty Ltd

Description	Usage c/kWh	Supply \$/Day	Usage kWh	Total bill Pre-Incentive (\$)	Advertised Discount off DMO (%)	Advertised Discount Value (%)	Customer Discount (%)
<b>Market offer 1</b>	25	1	4000	1,365	10%	150	11% <sup>1</sup>
<b>Market offer 2</b>	31	1	4000	1,605	25%	375	23% <sup>2</sup>
<b>DMO</b>			4000	1,500			

The above examples raise three major concerns:

1. Retailers who participate in predatory practices can game the system (as per example 2 above);
2. Retailers who act in the customers best interest will be disincentivised to do so (as per example 1 above); and
3. Without major changes, current billing systems are unable to apply a discount to a client rate which is referenced to a 'Reference Bill'.

In addition, all discount benchmarking (presumptions based on the concerns highlighted above) should be relevant to future offers only. This is to ensure that legacy offers can maintain their discounts and not become commercially unviable.

Active Utilities also have concerns on the interpretation of wording for applying discounts to offers based on a reference bill. The interpretation seems ambiguous on whether the discount is to be applied to a product specific level or a customer level. Active Utilities proposes a tightening of the wording to reflect the desired application for applying discounts to offers based on a reference bill to a product specific level.

<sup>1</sup> Note that the advertised discount is 10% but the customer will actually receive a 11% discount in total. Hence retailers will under sell their offer and there will be major billing system issues.

<sup>2</sup> Note that the advertised discount is 25% but the customer will actually receive a 23% discount in total. Hence retailers will over sell their offer and there will be major billing system issues

### ***Demand profile and treatment***

Active Utilities still believe that demand should be excluded from the DMO and discounts should be based on the usage only or total bill excluding that demand.

However, as demand is deemed to not be excluded, Active Utilities require a demand profile and an assumed demand value. This will ensure that an estimated bill can be accurately generated by a retailer for the purpose of comparing to a 'Reference Bill'

Alternatively, Active Utilities proposes a separate DMO for demand tariffs due to the differences.

### **Timings of Profiles**

Active Utilities would like to advise the AER that embedded networks don't have access to Energy Made Easy (EME) including EME's algorithm. Therefore, Active Utilities will not be able to use this approach to calculate annual prices for TOU offers for comparison to the reference bill.

Lastly, Active Utilities request timing profiles for Appendix 6 – Time of Use assumptions. This will assist in generating an appropriate average bill for the purpose of comparing to a reference bill.