7th December 2018

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

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

Dear Mark

Re: Active Utilities Pty Ltd (AU) Submission to AER Position Paper Default Market Offer Price – November 2018

Thank you for the opportunity to comment on the AER's position paper in relation to the introduction of a Default Market Offer (DMO). This position paper proposes the following:

1. Recommendations relating to the DMO and reference bill

Active Utilities Pty Ltd (**Active Utilities**) has provided comments on the recommendations/ proposals that would impact Embedded Network businesses.

For background, Active Utilities is an Embedded Network service provider operating mainly with customers located on the east coast of Australia. Our Embedded Network business comprises of consulting to Developers, Strata Managers and owners/managers of buildings for the setup and ongoing management of Embedded Networks. As part of this service we sometimes provide a billing management agency service to these entities to ensure that their end customers receive a similar service offering to normal network conditions and meet relevant legislative requirements of operating these networks.

Active Utilities both agree and welcomes the intent of the DMO but considers the application of some aspects of the DMO would be simpler to implement if Embedded Networks were excluded. This is partially due to the differences with the term 'generally available offers' that are not generally available within Embedded Networks.

However, Active Utilities fully support 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 that we believe the AER needs to consider in relation to a DMO Price differentiating between the general retail market and Embedded Networks and responses to the questions the AER have asked.

Kind Regards,

Mick Dovile
General Manager

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

Attachment 1

Active Utilities Pty Ltd (AU) further discussion points and queries for AER's consideration.

1. Active Utilities believe it is not clear if retailers and Embedded Network service providers are to use their own usage profiles or if the AER will publish a 'usage profile' for the purpose of bench marking discounts. The usage profiles will become inherently important when determining discounts for Time of Use (ToU) SME tariffs, as demonstrated on page 5. In the event an industry average is used for all retailers, then retailers who structure offers for specific industry types may be forced to advertise misleading discounts. Does the AER have current positioning on usage profiles and their application?

2. Active Utilities seek further clarification around the definition of 'advertising' pertaining to ACCC Recommendation No. 32 which states: "Headline discounts in advertising must only include guaranteed (unconditional) discounts. Furthermore, does the AER have current positioning on guaranteed discounts for discounts that are not 'advertised'?

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

Attachment 2

Active Utilities Pty Ltd (AU) response to AER Position Paper Default Market Offer Price – November 2018 – Questions for submissions.

Question 1: To what extent and how should we take into account the QCA analysis for maximum prices for South-East Queensland standing offers in determining a DMO price in Energex's distribution zone?

Active Utilities' response:

As the QCA determine the regulated prices for residential and small business customers on the cost of supplying energy in South-East Queensland (Energex), AER should regard this as the starting point for any DMO in South-East Queensland.

However, the AER should also calculate all passthrough allowances in implementing a DMO due to additional costs that Embedded Network service providers and general market retailers incur. Currently QCA do not factor metering costs.

Active Utilities would also like to note that if the DMO is to be applied to ToU tariffs, then adjustments made to convert Energex network costs into Ergon network tariff structures will need to be reversed.

Active Utilities believe that overall, the QCA analysis for regulated prices is a good starting point in determining a DMO price, if passthrough allowances are also calculated into the DMO. Active Utilities believe that by utilising the QCA analysis, this would also align with the Queensland government's Uniform Tariff Policy.

Question 2: For residential customers, what type of tariff structures should be subject to a DMO price? Should there be different types of tariff structures subject to a DMO price in different distribution zones? Please provide reasons for your preferred approach.

Active Utilities' response:

Active Utilities believe both a Flat Tariff and ToU tariff structure should be subject to a DMO price per each distribution zones.

AU believes the above tariffs should be applicable to a DMO price as customers currently can vary their usage on ToU Tariffs. If the discounts on a ToU tariff are only measured against a flat rate DMO tariff, the consequences could result in the misrepresentation of discounts and both Embedded Network service providers and retailers withdrawing ToU tariffs leading to a likely reduction of customer choice or ability to vary energy usage.

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

Market Participants and Embedded Network Managers also incur varying costs based on the tariff structures offered. For example, two of the major costs associated with efficient energy supply, consist of Network and Wholesale energy costs. Both costs can rapidly increase dependent on the time at which energy is used. Active Utilities build offerings, so customers can take advantage of low-price periods.

Therefore, based on the above, Active Utilities recommends an alternative method for calculating a DMO. The alternative method requires the AER to set an average price and usage for each ½ hour period interval per distribution zone. This method ensures that tariff structures would not prevent average pricing and any discounts offered by market can be measured on the same basis.

Question 3: For small business customers, what type of tariff structures should be subject to a DMO price? Should there be different types of tariff structures subject to a DMO price in different distribution zones? Please provide reasons for your preferred approach.

Active Utilities' response:

Active Utilities believe the same process should be applied to both residential customers (question 2 above) as well as small business customers, considering the below commentary.

Active Utilities believe small business customers add an additional layer of complexity to DMO's due to load profiles having more of an impact on their total bill. *Please see a provided example on Page 5 of this document*.

Active Utilities believe the example on the next page indicates that if a ToU discount is to be advertised based on a reference bill for a flat DMO tariff, then the actual discount received by a customer can vary significantly based on the advertised discount.

Due to these indicating factors, Active Utilities believe that retailers and Embedded Network service providers should be allowed to use their own average load profiles (in the case of SME) for the basis of deterring a discount.

DMO load profile example in relation to AER's question 3.

Active Utilities Pty Ltd
ABN 43 818 767 917
Telephone: 1300 587 623
info@activeutilities.com.au
www.activeutilities.com.au

DIFFERENTIAL DISCOUNTS: BASED ON A REFERENCE BILL FOR A FLAT DMO TARIFF

TARIFF TYPE: ToU **USAGE (kWh):** 20,000

BAKERY – High ***off-peak*** usage

	Units	Rate	Usage kWh/days	Total ($)	Discount
Peak	c/kWh	37.56[1]	7,000	$ 2,629	
Off-peak	c/kWh	18.93[1]	13,000	$ 2,461	
Supply	c/day	157.65[1]	365	$ 575	
Total Bill				**$ 5,666**	**21.63%**

SUPERMARKET – High ***peak*** usage

	Units	Rate	Usage kWh/days	Total ($)	Discount
Peak	c/kWh	37.56[1]	13,000	$ 4,833	
Off-peak	c/kWh	18.93[1]	7,000	$ 1,325	
Supply	c/day	157.65[1]	365	$ 575	
Total Bill				**$ 6,783**	**6.17%**

FLAT TARIFF DMO DETAILS	
Tariff	Peak Anytime
Peak (c/kWh)	33.27[1]
Supply (c/day)	157.65[1]

EXAMPLE DMO PRICE FOR A FLAT TARIFF

	Units	Rate	Usage kWh/days	Total ($)
Peak	c/kWh	33.27[1]	20,000	$ 6,654
Supply	c/day	157.65[1]	365	$ 575
DMO ($)				**$ 7,229**

[1] Rates obtained from VIC SMALL BUSINESS Energy Price Fact Sheet (Effective 1 October 2018) – Origin Supply (Market Offer) – POWERCOR Distribution Zone: https://www.originenergy.com.au/content/dam/origin/business/Documents/energy-price-fact-sheets/vic/1Jan2018/VIC_Electricity_Small%20Business_Powercor_Origin%20Supply.PDF

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

Question 4: What factors should we take in account in determining DMO prices?

Active Utilities' response:

Active Utilities believe the AER should take the following factors into account when determining a DMO price:

- ***Demographic segmentation***: People who reside in inner-city suburbs such as the Citipower distribution zone (Victoria), are more likely to live-in high-density, smaller apartments that incorporate new energy efficient systems (including heating and cooling). Therefore, this demographic is likely to have a lower energy usage compared with other segmentations, in outer suburbs, that may have a higher energy usage due to larger footprints (pools and bigger floor space).

- ***Distribution costs***: Each distribution zone carries different distribution costs. As such the cost of supplying two customers who use the same amount of energy in two different distribution zones will vary.

- ***Wholesale Energy costs:***
    - *Distribution and transmission loss factors:* The cost of wholesale energy has the same base price in each state. However, as this energy is transported within the energy network there are efficiency losses (known as distribution and transmission loss factors) which occur. These losses vary by distribution zone and are a real cost of supply.
    - *Time of usage:* Different demographic segmentations have different usage profiles based on their energy consumption needs. This leads to different energy costs as the price of electricity changes based on time of usage.

- ***Other factors that need to be considered include:***
    - Customer Onboarding costs including:
        - Acquisition costs
        - connection costs
    - ongoing OPEX costs
    - Any appropriate retail margin in the DMO will:
        - cover the cost of capital for existing business
        - incentivise new entrances into the market
    - Metering costs
    - State and federal government schemes (LRET, SRES, VEET & ESC etc.)
    - AEMO Fees

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

- *Churn:* Customer churn is very high in the market and customers who typically churn under a 12-month period will tend to be loss making for a retailer.

- Publish DMO's in line with network cost changes. Network costs are a major component of energy costs and as such DMO's need to be set in line with the change in Network costs. This means:
    - Victoria - 1 January
    - Other NEM states – 1 July

Changes in cost drivers need to be determined a month before the DMO rate is set (as based on the above dates) and passed through in line with the above schedule. If this does not occur, then customers in Victoria are likely to incur two prices changes a year, one in January when network costs change and one in July when DMO's are set. This will result in higher costs to retailers and ultimately higher rates.

Question 5: What if any other factors or risks should the AER consider in applying the proposed price-based top down approach for determining DMO prices?

Active Utilities' response:

Active Utilities believes the following factors or risks should be considered by the AER in relation to applying the proposed price-based top down approach for determining DMO prices:

- The impacts a DMO will have on Embedded Network service providers. Currently Embedded Network service providers are not allowed to charge more than a standing offer set by the RoLR in the relevant distribution zone. In such a case, Embedded Networks that currently provide a discount based RoLR standing offers will need adequate time allowances to change rates and systems for incentives and offers.

- In addition, Embedded Network service providers incur network costs generally based on LV or HV gate meters. As such, changes in these costs need to also be accounted for in the change in DMO costs.

In the event the AER doesn't calculate this into the DMO, this may lead to serious consequences where Embedded Network service providers are operating at a loss. Therefore, in keeping with Active Utilities stance, we believe Embedded Network service providers should be exempt from aspects of the DMO if all network costs that Embedded Network service providers incur are not calculated as part of a DMO. Active Utilities believe by exempting Embedded Networks from certain provisions of DMO legislation, that this will not impede Residential and Small Business customers from receiving the protections sought from applying a DMO. Currently Residential and Small Business customers within Embedded Networks can seek an on-market offer under the Power of Choice legislation.

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

Question 6: For residential customers, are the proposed upper and lower thresholds reasonable, given the policy intent? If a more targeted upper threshold was used, which retailers standing offers should be included? Are there any offers or categories of offers that we should not include as inputs into our proposed methodology? Should the range be the same in each distribution zone? Please provide reasons for your preferred approach.

Active Utilities' response:

Based on a large deviation between current distribution zone standing offer rates and the upper limit (based on figure 3, Example range analysis—Residential retail offers in Ausgrid's distribution zone, of the AER Position Paper), Active Utilities believe it is likely that such differences in pricing structure are likely to lead to a volatile transition for retailers and Embedded Network service providers.

Active Utilities proposes to allow for a smoother transition between the current standing offer rates and the upper limit, that the DMO should be set in such a way that the difference between the highest and the lowest standing offers can be initially minimised. As such, a straight average including all retailers, will provide a simpler and more equitable approach to setting the upper threshold.

For the lower threshold, using a simple average (mean) to start with, will keep a consistent approach. However, over time this should be recalculated annually as a weighted average.

The use of a simple average (mean) reduces the variability on implementation and will help retailers through the transition process. However, the move to a weighted average over time will provide better reflection of actual offers.

When selecting offers for the purpose of setting the market offer threshold, Active Utilities believe that only publicly available market offers should be included. Offers that provide alliance-based benefits or incentives that can't be directly credited to a power bill such e.g. gift cards, football jersey, movie tickets etc. should be excluded. The benefits associated with such offers are difficult to estimate and can be subject to interpretation.

Question 7: For small business customers, are the proposed upper and lower thresholds reasonable, given the policy intent? If a more targeted upper threshold was used, which retailers standing offers should be included? Are there any offers or categories of offers that we should not include as inputs into our proposed methodology? Should the range be the same in each distribution zone? Please provide reasons for your preferred approach.

Active Utilities' response:

Active Utilities believe the same process should be applied to both residential customers (question 6 above) as well as small business customers.

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

Question 8: For residential customers, on what basis should we set the consumption benchmark as part of our proposed methodology? Please provide reasons for your preferred approach.

Active Utilities' response:

The consumption benchmark should be set for all residential customers. The basis of consumption should be varied by demographic segmentation as highlighted by distribution zones for reasons as stated in Active Utilities response to question 4 above and averages should be calculated for residential customers within each distribution zone.

Active Utilities believe this consumption benchmark should be published at ½ hourly intervals and all retailers and Embedded Network service providers should use consumption benchmark when calculating discounts.

The consumption benchmarks should be based on the average demographic of households within the relevant distribution zone and not a medium household of 2-3 people as proposed by the ACCC, noted on page 4 of the AER discussion paper. Active Utilities are recommending that the consumption benchmarks are based on ½ hourly interval averages due to differing energy consumption based on the demographic segmentation that occurs between distribution zones.

Please note: Active Utilities believe the relevant consumption benchmark being proposed by the AER, when determining discounts, is currently not clearly stated.

Question 9: For small business customers, on what basis should we set the consumption benchmark as part of our proposed methodology? Please provide reasons for your preferred approach.

Active Utilities' response:

Active Utilities believe that the DMO rate should also be published at ½ hourly intervals for small business customers as well as residential customers (as discussed in question 8 above).

However, a point of profile difference between residential customers and small business customers is the usage Retailers should be able to set their own usage profiles (not volume) for business customers.

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

Question 10: Given defined upper and lower bounds, at what point within the range should the DMO price be set? What factors should we take into account in determining this point?

Active Utilities' response:

Active Utilities believes in order to have a smooth transition without major disruptions, the DMO should be set at the upper bound on implementation. This will allow retailers and Embedded Network service providers time to adjust from the current standing offer pricing to a DMO pricing whist still implementing a DMO framework in its entirety. The second phase of the DMO implementation should be intended at moving the DMO pricing gradually to a point between an upper bound and lower bound.

Question 11: What type (and sources) of information should the AER have regard to in considering the likely direction and magnitude of any forecast changes in the main input cost for 2019-20 in setting a DMO price? How should we incorporate forecast changes in efficient input costs as part of our proposed pricing approach for determining DMO prices?

Active Utilities' response:

Active Utilities suggests the AER should use the following sources for changes in costs:

- *Networks:* The approved network determinations for the reference period. (published on the AER website)

- Wholesale costs: The change in load weighted wholesale costs based on the ASX energy futures market. This is a market all market participants have access to and unlike complex over the counter swap's markets where privately negotiated ISDA's are required. (https://www.asxenergy.com.au/)

- Load profiles: The change in wholesale costs need to be load weighed. The Net System Load profiles can be used for this purpose. (https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Data/Metering/Load-Profiles)

  RET RRP's: Government published RET percentages as published on the clean energy regulator (http://www.cleanenergyregulator.gov.au).

- State based energy efficiency scheme RRPs (equivalents): 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

- Renewable energy / efficiency certificate prices: A reputable source should be used to obtain **spot**, not future certificate prices. One such source is http://greenmarkets.com.au/

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

- Loss factors: All loss factor are published by AEMO's. (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.

The change in all these costs need to be factored before the reference period. The simplest method to do so is allocated each component in the above a weighing then apply the weighted change in each component of the DMO price. Once the change is applied, then the new percentage needs to be recalculated. For example:

- If the DMO price for Powercor flat residential was set to 40 c/kWh
- if the 40 c/kWh wholesale costs consisted of 20 c/kWh i.e. 50%
- the load weighted wholesale costs change by 20% why?

Then the final energy rate will be:

- Old Rate + Δ in costs = New Rate
- 40 x 50% = 20 x (1+20%) = 24 + 20 = 44
- The new wholesale % is 24/44 = 54.55%

Question 12: How should the DMO price be specified? Please provide reasons for your preferred approach?

Active Utilities' response:

Active Utilities believes the DMO should be specified in the following manner:

- Set an average price per ½ hour interval and a usage per ½ hour interval (not daylight savings adjusted i.e. NEM time) with retailers allowed to set their own usage profile for small business customers. That way one set of rates can be created and to and the actual tariff does not matter.

- Retailers should compare each offer based on the average usage specified by the DMO for residential and their own profile for small businesses.

- Demand should be excluded from the DMO. Discounts should be based on the usage only or total bill excluding demand.

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

Question 13: What should be the duration of the AER's DMO price determination? Please provide reasons for your preferred approach. To what extent and under what circumstances should there be scope to reopen the AER's determination?

Active Utilities' response:

Active Utilities believe the duration of the DMO should be one year. However as specified in our response to question 4, this should be set in line with the change in network price.

Changes in network prices has previously triggered changes in energy rates. This has traditionally occurred as the change in network costs are a major cost driver to retailers.

If a DMO is made effective for Victoria on 1 July this is likely to initiate two price changes in Victoria. The first occurring in January when network costs change and the second price change occurring in July once a DMO is set.

Having multiple price changes in a year is likely to double price change costs (for example changes in billing systems, letters, customer enquires etc.) and over time will lead to higher prices.