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Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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By e-mail – DMO@aer.gov.au

Dear Mark

Draft Determination – Default Market Offer Prices 2020-21

Alinta Energy welcomes the opportunity to respond to the AER's draft determination on the Default Market Offer prices to apply over the 2020-21 period (DMO 2).

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and in excess of 1.2 million electricity and gas customers.

Alinta Energy believes that the DMO is having a detrimental impact on competition in the retail market which is yet to be captured in broad market indicators. We note the AER's comment that it is too early to reach a definitive conclusion on its impact and encourage its continued close monitoring of the market.

Nevertheless, Alinta Energy is generally supportive of the AER's approach to determining DMO 2 annual prices for 2020-21 through the application of expected wholesale, network and environmental costs and the adjustment of remaining costs by CPI.

The draft determination supports certainty for customers and retailers during a period of adjustment and transition to changes the DMO has brought to the retail energy market. It strikes a balance between flexibility and accuracy while meeting the policy objectives the DMO seeks to address.

We discuss specific elements of the AER's draft determination below.

<u>Network costs</u>

To manage the uncertainty of actual network cost impacts, indexation or an approach that includes a small contingency to account for network price outturns would be preferred as a component of the DMO annual price. This would limit the risk of under (or over) recovery of network costs, often the most significant component of a small customer's annual bill.

Queensland Solar Bonus Scheme

Alinta Energy supports the AER's position that, should the Queensland government subsidy which funds the Solar Bonus Scheme end in 2020, it will consider cost recovery via network tariffs in the DMO. Given the scheme will be in force until 2028, consideration of this matter will remain ongoing in Queensland until its expiry.

Time of use and the DMO

Alinta Energy supports the alternative approach that the AER has adopted in its draft decision, which allows retailers to allocate daily usage across time of use periods. While we agree this approach will require additional steps by retailers to calculate annual usage across time of use periods, the limited number of time of use customers on standing offers (at present) and the flexibility this approach offers is more likely to meet the objectives of the DMO than fixed peak, off peak and shoulder amounts.

The increasing introduction of cost-reflective network tariffs (for example demand tariffs) will pose further challenges to the relevance of the DMO as a reference price over time. Alinta Energy supports consumer and industry stakeholders working closely with the AER to assess the impact of tariff reform on the DMO and adjustments that could be made over time to determining DMO annual prices.

Residual costs

Alinta Energy notes the cumulative effect of regulatory changes on retailer operating costs (personnel, information technology investment, compliance measures and so on) need to be considered over the medium term in calculating the DMO. The NEM is facing unprecedented reform as it transitions to a low-carbon model and the resources required by retail market participants to implement significant future reforms need to be captured in some way (for example, the Coordination of Generation and Transmission Investment, two-sided markets and the post 2025 market design issues under consideration by the Energy Security Board).

Whilst the AER has requested retailers substantiate these costs, it must be recognised that doing so itself imposes additional costs on retailers and the diversion of resources that are currently working on the unprecedented level of regulatory change currently underway. We therefore encourage the AER to consider a benchmarking approach, utilising available information sources, to provide an appropriate regulatory cost allowance.

We encourage ongoing engagement between industry and the AER on the impact of the DMO on retail competition and would welcome further discussion on the issues set out above.

Yours sincerely,

David Calder
Manager Regulatory Strategy