

16 November 2021

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

Dear Ms Jolly



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Submission to 2022-23 Default Market Offer consultation

Thank you for the opportunity to provide comments on the AER's Default Market Offer Options Paper on the 2022-23 determination. Ausgrid owns and operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that stretches from the Sydney CBD to the Upper Hunter.

This submission focuses on the network pricing elements of the consultation paper. We support the inclusion of time of use (TOU) tariffs in the preparations of the DMO and in the assessment of network costs. Ausgrid currently has approximately 500,000 residential customers assigned to cost reflective network tariffs. This is expected to increase to more than 900,000 customers by the end of the 2024-29 regulatory period assuming the current trend in smart meter uptake continues, which represents 55% of total residential customers. This ratio could reach 90% if smart meter roll-out accelerates in line with AEMC's Directions Paper on Review of the Regulatory Framework for Metering Services.

It is important that the cost of network tariffs are accurately represented in preparations of the DMO. We believe that a separate weighting of customer numbers for each network area will reflect the cost of these tariffs. It will ensure that the future increase in customers assigned to cost reflective tariffs will be adequately captured for each network area. It will also enable different costs across the distribution businesses to be included in the DMO.

Ausgrid does not believe that the DMO daily load profile used for comparing market offers is suitable for assessing changes in costs that make up the DMO price. This is particularly the case if TOU tariffs are used in the preparation of the DMO network cost component. Both the customer consumption patterns and the time period/seasonality definitions can change over time. Ausgrid has provided the AER with annual customer consumption data to support the DMO calculations and will continue to do so to support this process.

Ausgrid agrees that there should not be a true up of network costs when calculating the DMO price. The DMO price is a forward-looking instrument and adjustments for prior year changes in network costs will reduce its value to energy consumers. Evidence also suggests that retailer market offers are positioned with sufficient headroom to allow for movements in network costs¹. Furthermore, the introduction of a streamlined network pricing process will ensure that approved prices can be more easily included in the DMO.

¹ AER Default Market Offer prices Options Paper, 25 October 2021, p54

If you have any further questions regarding this submission, please contact Bill Nixey, Network Pricing Manager on 02 9037 7556 or bill.nixey@ausgrid.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alex McPherson', written in a cursive style.

Alex McPherson
Head of Regulation