Submission to AER re
Draft Determination of Default Market Offer prices 2020-2021[1]
from
Derek Bolton

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Time of Use - timing and pattern of supply

I note that the Position Paper defined periods of each week as peak, shoulder and off-peak, then specified a benchmark aggregate usage in each such range. Further, that the Draft Determination makes this more flexible (p55) by specifying the benchmark usage for each hour of the week. Thus, the retailer can elect to use different definitions of rate periods, potentially increasing beyond three, and still have a way of matching average charge rate to the flat rate DMO.

While this is a most reasonable approach, the way in which these hourly usage benchmarks are proposed to be determined (Appendix E) is to make them constant through each of the rate periods defined in the Position Paper. This is open to abuse. The retailers know what the actual average demand is in each hour and can set their definitions of peak etc. in such a way as to exploit this arrangement.

For example, the benchmarks now proposed are the same for each hour of what has traditionally been considered peak: 2pm to 8pm weekdays. Rooftop PV is pushing the peak later, more like 5pm to 9pm. This allows a retailer to increase revenue by raising the 5pm to 8pm rate while lowering the 2pm to 5pm rate such that the average rate over 2pm-8pm stays fixed.

As an experiment, I set the charging rate to zero except for 6pm-11pm. I then raised the 6pm-11pm rate so as to match the average daily charge for the benchmark usage pattern. The result for a user conforming to the true average pattern was a total charge 30% above the DMO.

It seems essential that the AER's hourly benchmark usages correspond reasonably well to reality.

PV

A PV household has a different demand pattern from a non-PV household. The Draft Determination does not appear to require retailers to apply the same ToU rates each hour to both PV and non-PV households. This creates another opportunity for exploitation.

Consider a simple model of two equal-sized household sets with the same overall usage. Households in set A use a steady 1kW during half the day, while households in B use 1kW for the other half. A benchmark based on the average customer would be flat usage throughout the day.
If the retailer has some way in which it is allowed to discriminate these two sets it can

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1   https://www.aer.gov.au/system/files/AER%20-%20Default%20Market%20Offer%20-%20Price%20determination%202020-21%20Draft%20Determination%20-%2010%20February%202020.pdf.pdf

arrange its charges accordingly and earn double the intended cap.

It follows that for any manner in which the retailer is permitted to discriminate between customers in the charging rates it applies, that same discrimination must be made in the benchmark usage patterns by which the AER measures conformance to the DMO.