

19 November 2021

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

Dear Ms Stephanie Jolly,

Thank you for the opportunity to comment on the Options Paper on the 2022-23 Default Market Offer (DMO) price determination.

Background

Enova is a small retailer with just under 11,000 customers, largely residential, in NSW and South-East Queensland. As a community owned retailer, Enova has always been a voice for the consumers in the energy industry.

Enova's preferred Option

In this consultation Enova supports the **Option 1 – Estimating retail costs and a DMO allowance**. We believe that this is the most cost reflective method and simplifies the assessment in the long run. It is flexible and reactive to various changes that may take place over the coming years. For transparency, Enova proposes to detail as many components as possible, including a separate retail profit and DMO allowance, so that the figure, in which retailers are meant to include the effects of any "under-estimations", is clear.

Timing of the DMO final decision

Enova supports keeping the current schedule for publishing the final DMO. Retailers need time for the implementation and particularly small organisations will appreciate enough time to schedule such projects around the staff availabilities.

Responses to consultation questions

• Question 2: What information should we have regard to in estimating retail costs? (23)

Enova would like to emphasize the inclusion of bad debt in the retail costs, particularly with the impact of the COVID pandemic and the subsequent restrictions in de-energisation for non-payment. This is a component that needs to be reassessed annually.

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• Question 7: Should the margin above efficient costs in the DMO price be consistent across all DMO regions and customer types? (31)

Yes, Enova believes that there is no need to add complexity in this matter.

• Question 13: How long should we retain the methodology we adopt in this review? (36)

Enova believes that 3 years is an appropriate period, given the rapid transition in the market and the consequent uncertainty in the way the energy industry operates.

• Question 14: Is our existing wholesale cost forecasting methodology, in terms of its approach and considerations (modelling of demand and supply, spot price, hedging etc.) complete, appropriate and representative of costs to supply energy? (39)

Yes, the overall approach is appropriate.

Enova would like to propose a longer averaging period for the RERT and Ancillary Charges to create more stability to DMO price. These costs vary from year to year and the previous year is not likely to be a good indicator of the next. 24 or 36 months would be preferred over 12 months.

• Question 15: Should our existing assumed hedging strategy be adjusted to allow for a higher level of spot market exposure? And if so, what is the appropriate level of exposure? (please also consider this question in conjunction with Margin for forecast error discussion) (43)

The currently adopted 'risk averse' hedging strategy is the right choice for all the reasons listed in the Options Paper.

The Options Paper does not discuss the contract mix in detail. It would be appropriate to review the questions like how large portion is hedged with various instruments, like caps versus swaps or annual versus quarterly products. Also, the seasonality of the load should be considered, as the risk profiles of the quarters are very different.

It needs to be noted, that the peak product does not reflect the load or price risk profile of the changing energy market. There are some alternatives being developed, like super-peak and solar shape, but these are not yet generally available to all retailers, unfortunately.

Some thought should also be given on the negative prices as these are becoming more frequent during the next DMO methodology period.

• Question 16: Does our assumption of a retailer building their hedge book from the time of the first trade recorded by ASX Energy, remain appropriate, or is a shorter period justified? What is an appropriate period and why? (44) 71

Yes, the current assumption is appropriate. The stability in DMO is very important.

• Question 17: Does the 95th percentile hedged WEC estimate remain appropriate, in context of the hedging strategy? What alternative percentile could be applied and what would the justification be? (46)

Subject to the hedging strategy remaining 'risk averse', i.e., minimising the spot cost, the WEC estimate could well be 75th percentile. From the consumers' perspective it doesn't sound reasonable that the retailer can account nearly the worst-case costs year after year.

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• Question 18: Do you agree with the appropriateness of our environmental cost forecasting methodology for DMO 4? (49)

Enova largely supports the methodology, though notes that it might be appropriate to use more than one broker to determine the prices, particularly for the less liquid jurisdictional schemes. Excluding the large volumes contracted through PPA's can also be questioned, as the price information could be obtained from brokers who are specialised in the field similarly to those who operate on spot and forward markets.

• Question 19: Should the calculation of network costs for residential customers continue to be based on flat rate tariffs only? If yes, as what level of TOU tariff penetration should this approach be reassessed? (53)

No, tariffs with TOU and demand components are increasing rapidly and are already at the level that can't be called immaterial. Though the DMO may be developed to protect a specific customer group, it has much wider implications on pricing, and it should represent average customer cost as accurately as possible.

• Question 20: If TOU network tariffs are included in our assessment, should we use a simple weighting of customers on each tariff type across all jurisdictions, or a separate weighting for each network area? (53)

Separate weighting for each network. The tariff mix varies significantly from network to another and so do the price structures of TOU tariffs.

• Question 21: Is the DMO daily load profile (provided to retailers to calculate annual market offer costs for TOU offers) sufficient for calculating annual TOU network costs? (53)

No, these profiles do not include any indication on the quantities applicable for demand charges. Many TOU tariffs include the demand components, which can be quite significant and are based on maximum usage rather than average usage presented in the daily profile.

• Question 22: Should we assess metering costs separately from network costs? (53)

It would be preferable to include metering costs in the network cost calculation, particularly if the TOU costs are calculated separately. Many TOU tariffs are only available for interval meters and therefore it's beneficial to allocate these costs for each tariff group separately. Averaging inputs too early in the calculation process may lead to skewed results.

Even if the current and perhaps the next DMO methodology averages everything based on the overall customer mix, the future may well hold a separate DMO prices for flat and TOU customers. At that point the discussion will be more transparent if the calculation is already available, and the materiality can be assessed.

• Question 23: Do you agree with our preferred position to not true up network costs in calculating the DMO price? (55)

Yes, Enova agrees to the reasoning in the Options Paper.

• Question 24: Should the DMO 4 methodology include an allowance for advanced meter costs? And if so, is the proposed approach above viable to calculate and account for its cost? (60)

Yes. The methodology outlined in the Options Paper is appropriate. However, it must be noted, that the network metering costs are typically divided into capital cost and maintenance cost. The capital cost is charged in relation to customers with advanced meters. It was not clear from the Options Paper whether this was considered.

• Question 25: Do you support our use of DNSP data, cross-checked with other sources, to determine residential annual usage? (62)

Yes, Enova supports the method in the current framework.

However, similarly to the discussion on small businesses, the industry and customers would benefit from one usage figure across residential users. This figure also works as a benchmark for people when they think of their own usage and if it's set slightly below the median, it would also encourage energy savings. The variances from network to another are reasonably small and not significant enough to justify the complexity in calculations and marketing communications that result from it.

• Question 26: Do you support applying a single figure of 10,000 kWh for small business usage across all DMO regions? (64)

Enova supports applying a single figure across the regions.

Enova proposes to reduce the benchmark gradually, for example by 4,000 kWh p.a. for three times, eventually landing to 8,000 kWh, which is the closest benchmark for most small businesses.

• Question 27: Do you support applying individual ACCC reported median usage figures in NSW, SA and south-east Queensland? If so, please outline the advantages of this approach. (64)

No. Enova supports the reasoning in the Options Paper.

• Question 28: Do you support averaging across 3 years of data to calculate annual usage? (65)

Yes, 3 years is a reasonable period given the changes caused by COVID and the uncertainty of their permanence.

• Question 29: Would you prefer we reflect TOU usage in annual usage estimates, or calculate annual usage based on flat rate usage, given most customers are flat rate customers? (66)

As mentioned in earlier responses, Enova proposes to calculate these tariffs separately, using the relevant data for each customer group – this includes the prevalence of the tariff, usage, smart meter penetration and network costs. This gives the most reflective outcome overall and as the DMO has an impact to far wider group of customers than standing offer customers alone, this is preferred.

• Question 30: Do you support updating the usage profiles by averaging across 3 years of usage data? (68)

Enova considers 3 years as a reasonable period currently, given the changes caused by COVID and the uncertainty of their permanence. However, moving forward the energy transition is likely to keep changing the profile rapidly and a 3-year averaging period will make the profile lag.

• Question 31: Do you support maintaining the profiles based on a mix of TOU and flat rate offers? (68)

Yes, this is preferred by Enova, as per previous responses.

Kind regards,

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