

17 March 2022

Ms Stephanie Jolly
General Manager, Market Performance
Australian Energy Regulator
GPO Box 3131 Canberra ACT 260

Submitted online via: DMO@aer.gov.au

Dear Ms. Jolly

Australian Energy Regulator (AER) Default Market Offer (DMO) Prices 2022 Draft Determination

Thank-you for the opportunity to provide a submission in response to the consultation paper titled “Default Market Offer Prices 2022 -23 Draft Determination” (the Draft Determination).

Momentum Energy Pty Ltd (Momentum) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest producer of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We also retail natural gas to Victorian customers. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services.

1. Overview of the DMO Draft Determination

Momentum notes that the original purpose of the Default Market Offer (DMO) was to deliver a benchmark price and a cap for standing offer contracts, however it appears that this Draft Determination is aimed at establishing an efficient retail price. We believe that previous determinations have delivered on DMO objectives by achieving a reduction in standing offer contract prices and a formalised reference price for consumers to compare electricity prices and therefore we are not sure why there has been a change in focus.

The AER has not provided any justification or detailed analysis to support the move from the former indexation approach (adopted for DMO 2 and 3), to a bottom up costing approach for DMO 4 and for subsequent DMO 5 and 6 determinations. We are concerned that the use of existing retailer cost inputs via the ACCC Inquiry into the National Electricity Market

Reports, are not suitable inputs for a bottom up costing approach as they do not accurately reflect all retailer costs and were never intended for this purpose. For example, the data provided for these reports covers a period of up to two years prior to the DMO period. In addition, the data does not include a depreciation component which would allow retailers to progressively recover large capital expenses over an extended period of time. Often significant capital expenses are required to amend retailer systems and processes in order to comply with mandated regulatory changes. For example, the Consumer Data Right, Better Bills and NEM Customer Switching have, or will, require significant changes to Momentum's systems at significant cost. The AER Board has been provided with an estimate of retailer costs for the implementation of Better Bills¹ and we estimate that the implementation costs associated with compliance with the Consumer Data Right for energy will be well in excess of those costs.

We are not aware of any robust cost benefit assessments for these regulatory changes. They have been introduced with little or no consideration of their implementation costs or with any reasonable method to assess benefits flowing from their introduction. It has already been acknowledged by the AER (as mentioned in a recent forum with the AER and the Australian Energy Council) that the Better Bills Guideline will need to change regularly. This is concerning and justifies why regulatory change costs should be included in the retailer cost stack of the DMO.

2. Wholesale Energy Costs

We refer to the previous approach taken to determine the wholesale cost component of the DMO under section 6.1 of the Paper.

For DMO 2 and DMO 3 the settings for wholesale cost forecasting were established for a 'risk-averse' retailer. This reduces the wholesale energy cost variability by applying a hedging strategy to minimise the hypothetical retailer's exposure to the spot market. The strategy includes a mix of base, peak and cap contract products that result in a small proportion of the total retail load being exposed to the spot market.

This approach included taking the 95th percentile of outcomes to represent the cost of wholesale market purchases. We believe this is appropriate considering the objectives of the DMO. However, under the Draft Determination the AER has proposed taking the 75th percentile largely based on the argument that respondents to the consultation suggested a less conservative approach could be more appropriate. Momentum is concerned that the AER has not undertaken any analysis to validate this change or to assess it under the objectives of the DMO. Retailers raised concerns about the risks of a less conservative approach and that a volatility allowance may be required to manage these risks. These issues appear to have been ignored, to reduce cost inputs for future DMOs regardless of their impact.

¹ Australian Energy Council independent consultancy report covering estimated average costs to implement Better Bills changes presented to the AER Board in February 2022.

3. Smart Meter Costs

Momentum appreciates and thanks the AER for the inclusion of smart meter costs in the Draft Determination. As we have previously submitted, this will support the ongoing recovery of smart meter costs as they are progressively installed.

4. Summary

We are concerned with the AER's justification for reducing DMO costs based on their observation that retailers are continuing to offer market prices below the DMO. Retailers often offer market prices below the DMO price for various reasons such as to gain market share, as a loss leader to gain acceptance of a new product or to improve their branding image. These prices are not often reflective of the prices that a large portion of a retailer's customers may be on.

Momentum does not support the bottom up costing approach and believes the indexing method is better suited for the DMO based on its objective and the inputs used in the DMO assessment.

Should you require any further information regarding this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager