



Natalie Elkins
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Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

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Dear Ms Elkins,

Default Market Offer prices 2025-26 – draft determination

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Australian Energy Regulator (AER) regarding the draft determination for the Default Market Offer for 2025-26 (DMO 7).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet that includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE recognises the challenging environment in which the AER must balance the competing policy objectives of the DMO, which encompass:

- protecting customers from unreasonable retail electricity prices,
- allowing retailers to recover their efficient costs and earn a reasonable retail margin; and
- maintaining incentives for competition and innovation.

While ENGIE supports certain aspects of the DMO 7 draft determination, such as the blending of interval meter data with the NSLP and the inclusion of forecast smart meter installations in retail cost calculations, ENGIE remains concerned that the draft determination does not appropriately balance the DMO's policy objectives.

In particular, ENGIE contends that insufficient weight has been allocated to the policy objectives to ensure retailers can recover efficient costs, earn a reasonable retail margin, and compete and innovate. Short-term measures that restrict a retailer's ability to provide a competitive product to consumers, such as the

removal of competition allowance, may ultimately undermine stable pricing and limit consumer choice in the retail electricity market, which may result in long-term adverse outcomes for consumers.

ENGIE's response to the draft determination provides commentary on the key elements of the overall cost stack and its methodology. ENGIE also considers the extent to which these elements accurately reflect the practices of a prudent retailer and whether they fairly balance the DMO policy objectives.

Wholesale costs

Interval meter data blended with the Net System Load Profile (NSLP) is the most appropriate method for simulating load profiles in DMO 7

On balance, ENGIE supports the AER's decision to adopt Option 2, which blends one year of NSLP data with interval meter data to simulate load profiles. As outlined in ENGIE's submission to the DMO 7 issues paper, this approach best captures the different usage profiles of both accumulation and interval meter customers and more accurately reflects a prudent retailer's hedging practices.

While Option 2 is the most appropriate approach for now, future DMO consultations should continue to assess whether using only interval meter data may be more suitable as smart meter penetration increases. This is particularly relevant given the commencement of the 'accelerating smart meter deployment' rule change in December 2025.¹

ENGIE had previously encouraged the AER to address the confidentiality constraints that limit retailers' access to interval meter data and make this data publicly available. ENGIE therefore commends the AER for working with AEMO to publish this interval meter data for the first time, given it is an important input to wholesale energy cost modelling.

Efforts should be made to separate load profiles for residential and small business customers in future DMO determinations

ENGIE accepts the AER's decision to maintain a single load profile for residential and small business customers in DMO 7 due to current data constraints that impair the separation of customer profiles from the NSLP. ENGIE, however, proposes that separate load profiles may be a more appropriate methodology augmentation for future DMO determinations, as this would allow for more accurate forecasting of wholesale costs. ENGIE considers this an important next step in the evolution of the DMO as smart meter penetration increases.

The NSW-controlled load profile should more closely reflect the basis for settlement

ENGIE continues to advocate that Option 2, which blends historical controlled load data with the NSLP, is the most appropriate method to estimate the NSW-controlled load profile. This is because Option 2 best

¹ Australian Energy Market Commission, *Accelerating Smart Meter Deployment*, 2024. [Link](#).

reflects the basis for settlement and aligns more closely with a prudent retailer's hedging strategy that considers a combination of historical datasets relevant to their customer base. While Option 2 has challenges, such as accurately estimating controlled load volume, ENGIE contends that this option provides a profile that realistically combines controlled load and the NSLP and has the added benefit of aligning with the AER's preferred blended approach for the general use load profile.

For these reasons, ENGIE does not agree with the AER's decision to adopt Option 1, which uses AEMO's historical controlled load profile.

The exclusion of solar exports from interval meter data does not reflect the practical realities retailers encounter when managing wholesale market exposure

ENGIE does not support the AER's decision to exclude small customer solar exports from the interval meter data to simulate load profiles. This exclusion fails to fully reflect the operational realities retailers face in managing wholesale market exposure as it underestimates the costs of contracts that retailers need to purchase to hedge their net load effectively, as well as artificially flattening the load profile.

ENGIE notes that the AER proposes alternative strategies for retailers to manage their respective loads outside the wholesale cost methodology; however, ENGIE questions the extent to which these strategies can effectively compensate for the exclusion of solar exports from the wholesale costs. Of particular note, ENGIE disagrees with the AER's conclusion that feed-in tariffs are sufficient in managing the additional hedging costs associated with a peakier load. This is because current jurisdictional feed-in tariffs do not adequately account for the challenges retailers face, especially when solar exports push net demand into negative spot prices.

Over-the-counter (OTC) and the long-run marginal cost (LRMC) analysis are beneficial to validate wholesale energy costs in South Australia

ENGIE continues to support the AER's use of OTC contract market data for South Australia to ensure the ASX data accurately reflects a prudent retailer's hedging costs. ENGIE contends that this analysis should continue as long as it provides meaningful net value in the accuracy of the DMO while balancing retailer reporting obligations.

Additionally, ENGIE welcomes the AER's request for ACIL Allen to repeat the LRMC estimate for South Australia on the condition that it continues to provide a beneficial comparative data point to validate the outcomes of the current wholesale cost methodology.

Inputs into wholesale modelling

The 95th percentile estimate is the most appropriate margin for forecast error

ENGIE continues to advocate for the AER to return the margin for forecast error to the 95th percentile estimate. The AER's contention that the 75th percentile 'strikes the right balance between retailers

recovering efficient costs for providing their services and the allocation of risks to consumers' does not appropriately consider the DMO policy objective to allow retailers to recover their efficient costs of providing services.² This is because retailers take on significant financial risks when managing wholesale market volatility in order to provide customers with a level of price certainty associated with their energy bills.

ENGIE also notes that returning to the 95th percentile would also mitigate much of the ongoing discourse surrounding aspects of the AER's methodology that are not reflected in the DMO or have been refined to a level of false precision, such as AER's draft decision to exclude solar exports.

As outlined in previous submissions, ENGIE contends that the AER should conduct a backcast analysis of its previous wholesale cost forecasts against actual outcomes to determine whether the 75th percentile estimate provided an appropriate estimate of wholesale costs.

Retail costs

The continued use of customer-weighted averages to calculate retail costs understates the true cost to serve for smaller retailers

ENGIE commends the AER for undertaking a comparative analysis to understand how customer-weighted averages and median data points result in different retail cost outcomes. Figure 7.3 of the draft determination illustrates the competitive advantage that the Big 3 retailers hold in retail and other costs compared to smaller retailers.³ Despite these findings, ENGIE is concerned and ultimately disagrees with the AER's decision and rationale to persist with the use of customer-weighted averages instead of using the median value.

ENGIE notes that one of the reasons AER justifies its continued use of customer-weighted averages is that a median-based approach would be more sensitive to cost fluctuations, making yearly comparisons difficult. ENGIE contends that increased variability in yearly comparisons is not an appropriate reason to continue to use customer-weighted averages instead of the median value. Rather, comparisons that show increased variability in retail costs across each year using the median value would be a welcome augmentation to the DMO methodology as it would more accurately reflect the volatility that retailers face in costs to serve customers.

ENGIE is also concerned about the AER justifying methodological decisions based on similar regulatory instruments, such as the Victorian Default Offer, rather than on objective merit. While ENGIE values long-term regulatory consistency, maintaining the use of customer-weighted averages because the Essential Services Commission employs a similar approach may not be appropriate when robust evidence demonstrates that using the median value provides greater accuracy and enhances the DMO methodology.

² Australian Energy Regulator. *Draft Determination – Default Market Offer Prices 2025–26*. 2025. [Link](#).

³ Australian Energy Regulator. *Draft Determination – Default Market Offer Prices 2025–26*. 2025. [Link](#).

ENGIE contends that regulatory decisions should be guided by evidence-based improvements, where appropriate, rather than adherence to the status quo to ensure that sensible changes are not discounted.

For these reasons, ENGIE urges the AER to use the median value instead of customer-weighted averages to calculate retail costs.

The inclusion of forecasted meter installation estimates is a pragmatic methodological change

The AER is commended for adopting the proposed methodology change outlined in ENGIE's previous submissions to expand the smart meter allowance to include forecast installations. ENGIE considers this methodology change more accurately captures the true quantum of installations, which will likely continue in line with the mandated smart meter rollout.

Retail margins

The proposed retail margins are reasonable but sit at the lower end of an appropriate range

ENGIE supports the AER's proposal to maintain retail margins at six per cent for residential customers and eleven per cent for small business customers for DMO 7. While ENGIE has previously encouraged the AER to maintain these margins for a period of time to provide regulatory certainty, ENGIE notes that these margins remain at the lower end of a reasonable range and cautions that any future reduction would heighten risks to smaller retailers, given that actual margins are currently at historic lows.

As outlined in previous submissions, ENGIE supports the AER's decision to set margins as a percentage rather than a fixed dollar amount, as this approach reflects how risks scale with underlying costs.

Competition allowance

Excluding competition allowance is likely to have long-term adverse impacts on consumers

ENGIE does not support the AER's draft decision to exclude a competition allowance from DMO 7. As outlined in previous submissions, ENGIE contends that the removal of the competition allowance is likely to reduce smaller retailers' ability to innovate and compete against larger retailers, which, if competition is constrained, will ultimately reduce the number of options available to consumers and lead to higher energy bills in the long term. The exclusion of competition allowance also does not appropriately address the DMO objective to enable retailers to compete and innovate.

Subjectivity in the competition allowance decision framework undermines robust regulatory practice

As outlined in ENGIE's submission to the issues paper, ENGIE highlighted concerns about the overly subjective decision framework to determine whether to include the competition allowance in the DMO.⁴

⁴ ENGIE, *Submission to DMO 7 Issues Paper*, 2024. [Link](#).

These concerns have materialised in the draft determination. For example, in the issues paper, the AER indicated that its primary factor for assessing the competition allowance would be whether the Consumer Price Index (CPI) is ‘materially’ above the RBA’s target band of 2% to 3% for a ‘sustained’ period, as measured by 12-month movements in the CPI.⁵

ENGIE notes the draft determination has instead altered its language towards ‘core’ or ‘underlying’ to facilitate the use of trimmed mean CPI to determine the exclusion of competition allowance, which was not specifically mentioned as the proposed metric in the issues paper.⁶ This change in approach raises concerns about regulatory consistency and transparency.

At the time of writing, both CPI and trimmed-mean CPI have been declining quarter-on-quarter since December 2022, with CPI now at 2.4%, which is well within the Reserve Bank of Australia’s (RBA) target range of 2-3%.⁷ Given this downward trend in inflationary pressures, ENGIE does not agree with the rationale and decision to exclude the competition allowance.

More generally, CPI is not an appropriate method to measure cost-of-living pressure

From a methodological point of view, ENGIE continues to question whether CPI is the most accurate measure to use within the retail competition decision framework, given that the RBA highlights that CPI is a suboptimal measure to assess changes in the cost of living.⁸ ENGIE notes that CPI is a lagging indicator, and past inflation data is unlikely to reflect future outcomes in the upcoming financial year. If the AER were to continue to rely on CPI, which is not ENGIE’s preference, the AER should consider assessing the RBA’s inflation forecasts rather than historical values.

ENGIE continues to advocate that an appropriate competition allowance should include a component that represents the headroom of the DMO and provides incentives for innovation and consumer engagement in the market and an uplift to cover the risk of forecast errors that are not included elsewhere in the cost stack.

Further clarification is required to explain the variance in the calculation of competition allowance for DMO 7

ENGIE is concerned that the calculated competition allowance of \$20.71 for residential customers and \$23.08 for small business customers represents a significant departure from the \$60 for residential customers and \$265 for small business customers calculated in DMO 6. As such, ENGIE seeks further clarification from the AER on how the updated dataset has contributed to such a material difference in the calculated competition allowance.

⁵ Australian Energy Regulator, *Issues Paper - Default Market Offer Prices 2025–26*. 2024. [Link](#).

⁶ Australian Energy Regulator. *Draft Determination – Default Market Offer Prices 2025–26*. 2025. [Link](#).

⁷ Australian Bureau of Statistics. *Consumer Price Index, Australia*, 2025. [Link](#).

⁸ Reserve Bank of Australia, *Inflation and Its Measurement*, 2025. [Link](#).

Retail competition has not been appropriately assessed

In ENGIE's submission to the DMO 7 issues paper, ENGIE highlighted the lack of clarity on how the AER intends to assess the state of retail market competition when determining whether to reinstate the competition allowance. This concern has also materialised in the draft determination, as the paper only offers a general observation that retailers continue to compete and advertise significant discounts in their market offers.⁹ ENGIE considers this to be insufficient evidence to assess the retail competition and urges the AER to undertake a more robust, evidence-based analysis of retail market conditions.

Government policy is likely a more effective lever to provide customers with bill relief

ENGIE continues to contend that bill relief measures are most appropriately addressed using other levers, such as government policy. ENGIE notes that governments are currently providing financial relief to consumers, such as through the Energy Bill Relief program, which has received bipartisan support for its extension beyond the end of FY25.¹⁰

Governments also have access to other tools to directly address the cost of living pressures faced by vulnerable consumers, such as through adjustments to the rates and eligibility of concessions and rebates or policy mechanisms such as the Power Savings Bonus Program, which has been described in more detail in ENGIE's submission to the DMO 7 issues paper.¹¹

Network costs

Network costs should be based on a blend of flat rate, time of use (ToU), and other network tariffs

ENGIE continues to contend that a blended approach to network costs better reflects the costs that retailers incur, particularly as a growing number of customers are reassigned to ToU network tariff structures when smart meters are installed. Noting the AER's concern that there are challenges in obtaining timely and accurate additional network tariff, ENGIE notes that the AER's new retail performance reporting guidelines implemented from Q1 2025–26 is likely to provide more detail on network and retail tariffs, which should facilitate development of a blended network tariff in DMO 8 and beyond.

⁹ Australian Energy Regulator. *Draft Determination – Default Market Offer Prices 2025–26*. 2025. [Link](#).

¹⁰ The Guardian, *Households guaranteed \$150 energy bill rebate as Coalition matches Labor budget pledge*, 2025. [Link](#).

¹¹ ENGIE, *Submission to DMO 7 Issues Paper*, 2024. [Link](#).

Concluding remarks

ENGIE looks forward to working actively with the AER to ensure that the DMO 7 policy objectives are appropriately balanced to protect consumers from unreasonable electricity prices while ensuring retailers can recover efficient costs, earn a reasonable margin, and maintain incentives for competition and innovation.

Should you have any queries in relation to this submission, please do not hesitate to contact me by telephone at 0400 731 274.

Yours sincerely,

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