

3 April 2025

Natalie Elkins

General Manager, Market Performance Branch
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

By email: DMO@aer.gov.au

Default Market Offer prices 2025-26 Draft Determination

Dear Ms Elkins and the DMO team

Energy Locals Pty Ltd (ACN 606 408 879) (**Energy Locals**) would like to provide written feedback to the Australian Energy Regulator (**AER**) in relation to the Default Market Offer (**DMO**) prices 2025-26 Draft Determination (**Draft Determination**).

We are disappointed by the AER's decision to continue to exclude solar exports from the interval data used to create the load profiles. We reiterate our position, as previously raised in response to the DMO 6 and DMO 7 Issues Papers, that the specific shape of solar exports plays a critical role in determining the overall net load that retailers are required to hedge.

While we were appreciative of the opportunity to raise our concerns directly to the AER in the retailer workshop last week, we were disappointed that the AER appears to be set in its decision. Although we value the consultation process, it increasingly feels as though the outcome has already been predetermined, leaving limited room for meaningful stakeholder input. We hope that the AER will reconsider our feedback for DMO 8 and future consultations.

To reiterate, we strongly disagree with the AER's position that *"retailers continue to have alternative strategies available to flatten or manage their respective loads that cannot be accounted for within the wholesale cost methodology."*¹ This oversimplification fails to account for the realities faced by small retailers, who are unlikely to have sufficient storage capacity (e.g., battery storage) or significant C&I load (which is sometimes restricted by hedging arrangements) to implement these strategies effectively. As noted by the AER, *"small to medium-sized retailers generally disagreed with the position to exclude solar exports from the interval meter dataset used to simulate the load profiles."*² From our review of submissions made to the Issues Paper, the Draft Determination and our attendance at industry forums, only consumer advocacy groups are supportive of the decision to exclude solar.

While we acknowledge the AER has proposed to include a hedging adjustment, we are disappointed by its minimal effect and that the hedging adjustment has actually resulted in very minor decreases in the wholesale energy costs for all regions except for Energex. Our firm position is that this reduction is not indicative of the true costs a retailer would incur.

We also disagree with the decision to exclude the competition allowance from the DMO. As raised previously, the competition allowance should always be factored into the DMO, as one of its core objectives is to *"maintain incentives for competition, innovation and investment by retailers."*³ We acknowledge the pressures the AER faces in its efforts to reduce energy prices, however, we respectfully disagree with the AER's decision to tie the applicability of a competition allowance to economic conditions and cost-of-living pressures. Cost-of-living concerns are a distinct issue, requiring broader economic measures and interventions that fall outside the scope of the DMO.

¹ AER, Default Market Offer prices 2025-26: Draft Determination, p.37.

² Ibid, p.28.

³ Ibid, p.11.

We reiterate the importance of the competition allowance and disagree with the AER's assertion that excluding it is consistent with the requirement to ensure retailers can make a reasonable profit.⁴ We also reject the AER's observation that *'although the competition allowance was excluded in DMO 6, retailers continue to compete and offer significant discounts in their market offers.'*⁵ Market offers available on Energy Made Easy that show prices well below the DMO do not accurately reflect a retailer's profit margins. Retailers may operate at a loss to attract new customers, which highlights the necessity of the competition allowance.

In summary, Energy Locals reiterates its concerns raised in response to the DMO 6 and DMO 7 Issues Papers and in the retailer workshop in respect of solar exports and the competition allowance. While we do recognise the need for consistency, we urge the AER to reconsider its methodology for wholesale energy costs to ensure that solar is represented in the load profile assumptions for DMO 8 and beyond.

Energy Locals thanks the AER for the opportunity to provide our feedback in this submission, and during the recent retailer workshop. We remain hopeful that our feedback will be considered in the final determination.

Yours faithfully,

Adrian Merrick
Chief Executive Officer
Energy Locals Pty Ltd

⁴ Ibid, p.89

⁵ Ibid, 89.