



EnergyAustralia
LIGHT THE WAY

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AER Default Market Offer 2025-26 – Draft determination

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia, of which around 59k customers are supported under our hardship program (EnergyAssist). EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to make this submission to the AER's Draft Determination for the 2025-26 Default Market Offer (DMO7). We appreciate the challenges the AER faces in setting the DMO7 in the context of cost-of-living pressures, high energy costs, and the impacts of electricity affordability for customers.

We recognise the financial strain that cost-of-living pressures have placed on many households and businesses, with more customers now accessing hardship programs. It is important that customers experiencing hardship have the support they need to navigate these pressures. As part of our Customer Hardship Policy, and in line with regulatory requirements, we proactively identify customers showing signs of hardship to ensure that they are aware of the assistance available to them.

Consistency and predictability in regulatory decisions, including the DMO methodology, are essential to help support a competitive environment that drives lower prices and delivers better outcomes for all customers – including those facing financial strain. Overall, we support the AER’s commitment to maintaining a largely consistent DMO methodology. We have long supported consistency as a principle, as it provides predictability that is necessary for effective business planning. This is especially important in a market experiencing ongoing cost increases driven by the energy transition, rising network costs, and evolving regulatory pressures.

A concern with the approach in previous DMO determinations was that retailers bear the risk of rising network costs, a trend likely to continue with the energy transition, and we questioned whether retailers could absorb all this risk and continue to compete. As we move into DMO7, the AER’s approach in maintaining stable retail margins, along with the continued application of the same methodology across cost components, and use of more accurate retail cost inputs, demonstrates in our view, a commitment to a balanced approach - ensuring that retailers can recover their efficient costs while also preserving competition in a high-cost environment. It will be important that the final decision continues to reflect this balance and consistency, and we encourage the AER to maintain this approach.

Additionally, we have long supported the use of data to inform decisions, and we fully support the AER’s expansion of the retailer cost dataset, which we believe will improve the overall accuracy and robustness of the DMO methodology. The adoption of a much larger sample of retailers that supply 99% of residential customers and small businesses, allows for a greater representation of actual costs and provides a more reliable basis for determining the DMO. More broadly, greater data-insight into the spread of actual costs faced by retailers will also help support the AER to make more informed decisions.

Further comments on the draft DMO7 relate to the:

- **Wholesale load profile.** We are generally comfortable with the AER’s decision to blend one year of interval meter data with the NSLP in simulating the load profile for the DMO.
- **Solar PV exports and hedging costs.** We support the AER's efforts to account for solar exports in the hedging strategy. We believe there is an opportunity to improve the accuracy of the approach through further modelling and encourage the AER to factor this into the solar adjustment of the DMO methodology.

We discuss these issues in turn in our full submission set out in the **Attachment**.

In the absence of any additional new issues or significant changes, we have not re-raised points already discussed in previous submissions. We support and continue to encourage the AER to remain open to changes if new evidence arises that may warrant consideration and revision.

If you have any questions in relation to this submission, please contact me (maria.ducusin@energyaustralia.com.au or 03 9060 0934).

Yours sincerely,
Maria Ducusin
Regulatory Affairs Lead

We support consistency and stability in the overall wholesale cost methodology

We appreciate the AER's commitment to maintaining consistency and stability in the wholesale cost methodology. Had there not been concerns regarding the NSLP dataset following AEMO's adjustment, discussed in the DMO7 Issues paper, we understand that the AER would have continued with the intended approach of blending both interval and accumulation meter data.

Noting that the initial concerns regarding the NSLP dataset have not materialised, we are generally comfortable with the AER's decision to blend one year of interval meter data with the NSLP. A trade-off in adopting this option is the potential muting impact of blending these datasets, which dampens the effects of actual changes in the load profile as more customers transition to interval meters. This could result in a load profile that does not fully reflect the evolving usage patterns in the short-term leading to a hedging strategy that may not accurately capture the real-world dynamics.

In contrast, the alternative option to include 2 years' worth of interval meter data better aligns with future trajectory of usage patterns (100% interval meters by 2030) and could eliminate the need for further revisions to the load profile methodology. On balance however, we recognise the AER's rationale for continuing to incorporate both NSLP and interval meter data, given accumulation meter customers still represent a large proportion of all small customers.

There is an opportunity to improve how Solar PV is reflected in hedging costs

We support the AER's efforts to account for solar exports in the hedging strategy. With that in mind, we believe the way the AER has reflected the impact of solar exports in the current wholesale cost methodology could be improved.

From the AER's Draft decision it appears the AER has compared '2 modelled hedging strategies – one for a profile including solar exports and another excluding'¹ —using a single consumption-only load profile for both model outcomes. We believe this does not fully capture the true impact of solar exports on hedging costs as the 1% difference in Wholesale Energy Cost (WEC) between these two strategies appears due to a small change in overall hedge volumes, not the actual impact of solar exports themselves.

¹ AER, *Default Market Offer Prices Draft Determination*, 13 March 2025, p 24.

In our view, a more accurate approach would be to use two different load profiles for the WEC calculation: one based on consumption-only (as the AER currently uses) and the other based on net consumption (i.e., consumption minus solar exports). By comparing these two distinct load profiles, the AER would likely see a much larger and more meaningful difference in the WEC, reflecting a more accurate cost impact of solar exports on retailers' hedging strategies. This approach could better capture the financial challenge that retailers face, particularly in times of high solar generation, when solar exports can lead to negative prices and increased volatility in the market. We encourage the AER to factor this differential into the solar adjustment of the DMO methodology to more accurately reflect the cost impact of solar exports on hedging. It is important that the DMO includes sufficient provision to help retailers manage the growing volatility in solar export pricing, which is driven by the increasing rate of rooftop solar installations.

Regulators and Governments have an important role in raising awareness of solar export pricing

As the economy transitions away from fossil fuel, the number of rooftop solar installations has reached unprecedented levels. While this shift is critical for achieving our climate targets and a sustainable energy future, it has also led to a decrease in the market value of solar exports. With an oversupply of solar generation, negative pricing is becoming more common as the energy grid cannot absorb the surplus power, leading to situations where the price of electricity falls below zero.

We believe regulators and governments have an important role in educating customers about these changes. As the value of solar exports continues to decline due to the increasing number of solar installations, retailers must reassess the Feed-in Tariff (FiT) to ensure they can recover their costs and maintain competitive pricing. This may involve reducing the FiT – including to below zero – to better reflect the true market value of solar exports in this evolving landscape. Without such adjustments, retailers could struggle to recover costs, which ultimately impacts their ability to offer fair pricing to all customers.

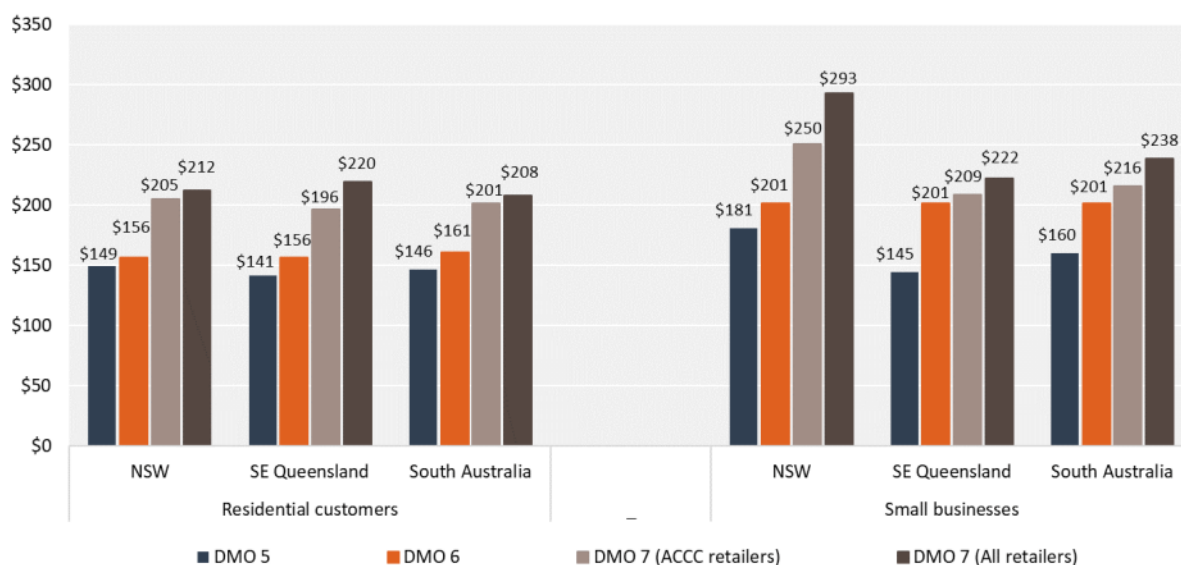
Current market dynamics mean retailers are already facing situations where the market value of solar exports may be insufficient to recover costs associated with paying for the excess power when prices are negative, as well as any additional network charges associated with this surplus generation. This underscores the importance of ensuring sufficient provision in the DMO methodology to help retailers manage these market challenges and recover costs, as discussed above.

The expanded retailer dataset improves the methodology and reflects the growing pressures in the retail sector

As discussed, we fully support the expansion of the retailer cost dataset to retailers, as it enhances the accuracy and reliability of the retail cost estimation. By incorporating a broader range of retailers (i.e. those supplying 99% of residential customers and small businesses), the DMO methodology captures a more comprehensive view of the costs faced by all retailers, including those serving vulnerable customers.

It is worth reiterating the point that the increase in retail and other costs from DMO 4 to DMO 7, as shown in the AER's analysis (see Figure 7.1 below), reflects the growing pressures in the retail sector, particularly for larger retailers who are absorbing higher hardship program costs. These rising costs, including those for hardship and debt collection, underscore the challenges retailers face in a high-cost environment. It will be important that the AER's final decision continues to reflect this approach.

Figure 7.1 Time series of weighted average retail and other costs (\$/customer) by DMO region and customer type, including GST



Source: AER analysis of retail cost information.

Other points

- **Wholesale– Controlled load profile (NSW):** We are comfortable with the approach to continue using the historical Controlled Load Profile for NSW, which aligns with the status quo. We acknowledge that this issue will require further consideration in DMO8.
- **Network cost methodology for small business:** We support the AER's decision to continue using flat tariffs for small business customers in DMO7. Given our

concerns about the availability and quality of data to support blending time of use and flat tariffs, as well as overall concerns on complexity and practicability, we agree that using flat tariffs remains the most practical and reliable option for ensuring accuracy in the DMO price-setting.

- **Retail cost - smart meter allowance approach:** We are pleased that the AER adopted our recommendations made in previous submissions and support the AER's consistent approach to applying these considerations in SA and QLD for DMO7.