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## **RE: Default Market Offer (DMO) prices 2025- 2026: draft decision**

### **About Powershop and Shell Energy in Australia**

Shell Energy is an energy solutions business and renewables and battery energy storage system developer in Australia.

As the one of the largest electricity providers to commercial and industrial businesses in Australia<sup>1</sup>, Shell Energy offers integrated solutions and market-leading<sup>2</sup> customer satisfaction, innovation across a portfolio of electricity, gas, environmental products and energy productivity. Our residential energy retailing business Powershop, acquired in 2022, serves households and small business customers in Australia.

Our generation assets include 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and the 120-megawatt Gangarri solar energy development in Queensland. Shell Energy also operates the 60MW Riverina Storage System 1 in NSW, as well as the 200MW Rangelbank Storage System and 370MW Koorangie Storage System both located in Victoria.

Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy, while Powershop Australia Pty Ltd trades as Powershop. Further information about Shell Energy and our operations can be found on our website [here](#).

### **General Comments**

Powershop recognises the cost-of-living pressures facing many energy consumers and acknowledges that supporting vulnerable customers is important part of a retailer's role. The DMO is an important safety net for standing offer customers and a reference price for consumers to compare market offers. Given its policy objective, it is integral that the DMO does not become a blunt instrument to artificially lower energy costs. A better solution is to incentivise efficient investment that drives down wholesale and network costs and promote retail competition to improve price and service outcomes for consumers.

Our submission focusses on the following key areas:

- The relationship between cost-reflective retail cost calculations, retail margins and the availability of competitive market offers;
- Accommodating significant investment underway in every part of the energy supply chain as the sector responds to the evolving needs of the energy transition;
- The importance of maintaining stability in the competition allowance for efficient retailing; and,
- Solar hedging costs and the treatment of other emerging consumer energy resource (CER) technology costs.

## Retail costs, margins and competitive market offers

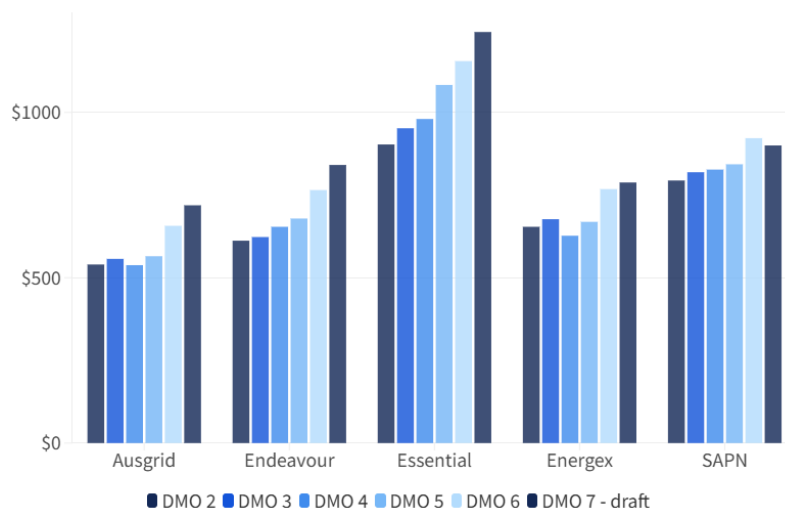
A key benefit of a competitive energy market is the availability of market offers and investment in efficiencies that drive down the cost to serve customers and provide new and better services for consumers. Consistent accommodation of accurate retail cost and reasonable margin in the DMO are essential to strengthening competition, innovation in products and services and encouraging new entrants to the market. This is crucial in the context of the ongoing energy transition, which is decentralising energy flows and enhancing consumer energy literacy and engagement. Augmenting or rebuilding crucial parts of our energy system requires significant investment in transmission and retail systems, which carry additional risk. It is essential that the regulator continues to support the substantial investment required to accommodate our evolving energy system when determining retail prices.

Powershop supports the AER's determination that the smart meter roll-out and rising bad debts are a driver of increasing retailer costs.<sup>1</sup> Cost of living pressure has a clear impact on the rising level of customers facing financial difficulties and, in turn, the credit risk that retailers carry. Powershop works closely with customers in hardship and has robust mechanisms in place to assist customers to access programs. As the number of consumers facing financial difficulties rises, we support the AER's view that DMO 7 must accommodate the increased cost for retailers to help consumers get on top of debt and support them through periods of hardship.

## Network costs

Network costs have steadily increased year on year since 2021 across all network regions in the DMO, with the exception of DMO 4 for Ausgrid and Energex, and SAPN in the draft DMO 7 (Chart 1).

Chart 1. Historical network cost component in the DMO cost stack



Source: AER DMO Final Decisions 2020-2024, AER DMO Draft Decision 2025

The trend also shows that networks face higher than anticipated operating and capital expenditure during five-year pricing cycles to manage the energy transition and evolving load profiles.

Addressing these challenges and providing real benefit and savings for Australian energy consumers now and in the future requires long-term planning and investment horizons. Investment in the energy supply

<sup>1</sup> [Default market offer prices 2025–26: Draft determination](#), AER page 2-3

chain is interconnected, with all stakeholders facing similar drivers that necessitate upgrades in both hardware and software to support the energy transition. With new forms of consumer energy resources emerging, ongoing regulatory support for network and retailer investment is crucial. In the same vein, accuracy in the five-year network pricing determination cycle is essential as retailers rely on the bill impact estimates to build products and forecast network cost exposure. Ensuring networks are accountable to the forecast bill impacts defined in five-year determinations will alleviate this risk.

Retailers face higher network costs under the accelerated smart meter rollout from 1 June 2025 if they cannot pass through assigned default time of use tariffs, undermining the intent of time-of-use tariffs to provide price signals to shift consumption patterns and alleviate congestion (and the need for costly augmentation). If consumption profiles remain consistent and consumers exercise their right to remain on flat-rate, non-cost reflective tariffs, retailers will take on the additional risk of time-of-use tariffs, regardless of whether the retail tariff structure matches.

The additional layer of risk for retailers further reduces their ability to offer value to customers and invest in developing products and services consumers need to navigate the energy transition. This is likely to disproportionately impact smaller retailers and reduce competition. Where retailers are restricted or unable to pass through network Time of Use tariffs during the Explicit Informed Consent Period (Schedule 3, Division 4, rule 3), the mismatch costs need to be accommodated.

Given that network costs comprise a significant proportion of the DMO total cost stack, the AER is well placed to conduct an annual reconciliation that retrospectively compares the pricing determination pass-through and estimated bill impacts in the DMO with actual bill impacts incurred by retailers. Ongoing oversight of this data could provide the AER with a clearer understanding of the accuracy of the pricing determinations used to inform the figures used in the network cost stack. Additionally, it will enable the AER to monitor the tendency of networks to either under-recover or over-recover in their tariff structures. By closely examining the potential discrepancies, the AER can ensure that the network costs allocated in the DMO are more reflective of real-world impacts, thereby promoting precision and transparency in cost stack development. If network costs exceed estimates, this ensures that retailers are not taking on undue network cost control risk that is paid out of retail cost and margin components in the cost stack.

### **Competition allowance**

Powershop does not support the continued exclusion of the competition allowance from the DMO. The approach adopted for DMO 6 and 7 is contrary to the policy objectives that have underpinned the DMO from its inception.<sup>2</sup> This is a marked change in direction by the AER in no longer recognising the critical nature of innovation, investment, and customer engagement in the market. This challenge is especially pronounced given the current stage of the investment cycle, requiring retailers to invest heavily in their systems to reliably and efficiently navigate the energy transition.

Excluding environmental costs, retail costs comprise the smallest component of the DMO price in every region. The competition allowance is intended to provide for the costs of acquiring and retaining customers in support of the competitive market, as outlined in 16(4)(b). Supporting competition in the sector should not be seen as discretionary. Treating the competition allowance as a variable item that can be switched on and off undermines competition and removes the investment certainty needed as energy

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<sup>2</sup> [AER Final Determination - Default Market Offer Prices - 2019](#), Page 30 and 43

retailing expands beyond its traditional role of risk management to also orchestrating and enabling uptake of CER (among other activities on the horizon).<sup>3</sup>

We support the AER's stated aim to prioritise consumer protection in the current economic environment. However, efforts would be better directed at addressing significant structural costs in the regulated monopoly cost centres in the cost stack. Targeting these costs further up the energy supply chain could materially reduce the DMO price, benefitting all consumers, without impacting the level of competition in the contestable marketplace.

The decision to continue excluding a modest competition allowance (\$20.71 for residential customers) will undermine retail competition, as identified by the ACCC.<sup>4</sup> This is likely to further entrench incumbents that can leverage their scale to maintain profitability, raise barriers to entry and limit the ability of small energy retailers to offer competitive pricing and innovative energy products, which enables an efficient retail marketplace to drive down costs, maximise consumer offerings and reward consumer engagement.

Greater transparency and clarity on the criteria that the AER uses to determine whether the competition allowance will be included in any given year would provide greater certainty for retail competition and investment.

The Reserve Bank of Australia (RBA) has legislative obligations to maintain CPI within a target band and its board uses certain inputs to adjust cash rate settings over the course of the economic cycle. The AER sets the DMO annually and relies on a lagging indicator as a proxy for energy hardship in determining whether to provide an allowance for retail competition in the energy market for the forthcoming 12 months. It remains unclear what combination of indicators the AER considers in determining the competition allowance. For instance, does the AER need to see the CPI figures for all sub-types within the band, and what weighting (if at all) does it apply to the trend and forecast over the 12 months the DMO is active?

### **Solar hedging costs**

Powershop welcomes the tremendous growth in rooftop solar in helping customers reduce energy costs and grow the base of low carbon energy generation in the grid. However, this comes with an ongoing impact on load profile estimation and forecasting and therefore hedging strategies for retailers across their book with solar exports drive up hedging costs and add complexity to managing wholesale market risk. Many retailers are likely to hedge at a portfolio level, and include solar (consumption net of exports), which is a cost of AEMO market acquisitions for retailing across a book, and not an isolated cost that can be carved out for specific customer cohorts.

While it may be difficult to recognise this cost in the wholesale energy cost stack given retailers manage different sized books with varying levels of solar customers, the AER could determine the average cost retailers incur to serve solar customers in each region. Recognising cost on a dollar-per-customer basis in specific regions (where it is material) in the retail component of the cost stack may be more efficient and ensure that the DMO reflects the additional costs and risk.

Feed-in tariffs are not a proxy for retail hedging. Feed-in tariffs do not reduce risk around export or discount the need for solar export to be recognised in DMO calculations. This is neither representative of

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<sup>3</sup> [ACCC - Submission - DMO 6 draft determination - 2024](#)

<sup>4</sup> [ACCC - Submission - DMO 6 draft determination - 2024](#)

a typical retailer, nor is it an avoidable cost that retailers can carve out of their profiles and hedging activities.

Retailer residential load profiles may be exposed to five-minute intervals where they are a net exporter when the pool price is typically negative. This exposure is not appropriately covered by standard hedging products in the market. Negative pool price periods currently account for about 5% of settlement periods, however, the incidence of negative intervals is expected to rise as solar penetration grows – even in states where prices have not been negative.

Alternative strategies mentioned by the AER, including load shifting and demand response levers such as EV smart charging, are not at scale to have a material impact on carving out the residential retailer's load profile against the rate of solar penetration growth. In addition, benefits from load shifting or demand response primarily flow through to the owners of the CER, with no guarantee of return for retailers orchestrating these activities. Responding to these developments requires significant retailer investment to develop new system capabilities, products and ongoing customer support which, like solar hedging, are not accounted for in the current DMO cost stack, particularly as the competition allowance has been removed. Given the limited ability for residential retailers to carve out their profiles, we encourage the AER to recognise these costs in some form, which will support further take-up by consumers.

With the growing impact of solar exports, it is critical that the AER consults on a means for accounting for the cost of solar exports (and solar customers more broadly) if it is not included within DMO 7. Continuing to exclude these costs could be a disincentive for retailers to actively engage with solar customers and further entrench inequitable cross-subsidisation between solar haves and have nots.

Future DMOs should also consider solar export tariffs imposed by distributors, and how retail costs accommodate this change.

### **Environmental costs**

Powershop supports maintaining a market-based approach for calculating environmental costs. Although these costs impact the price consumers pay for energy, they accurately reflect federal renewable energy schemes and the prevailing market prices for certificates. The AER rightly acknowledges that including these costs, which retailers must pay to comply with Commonwealth and state or territory laws, is a legitimate component in the DMO cost stack.

Shell Energy welcomes further engagement on this topic. If you have any questions or would like further details relating to this submission, please contact Brett Crossley at [Brett.Crossley@shellenergy.com.au](mailto:Brett.Crossley@shellenergy.com.au)

Yours sincerely,

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