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3 April 2025

Natalie Elkins  
General Manager, Market Performance  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Ms Elkins,

**Re: Draft determination - Default market offer prices for 2025-26**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make this submission to Australian Energy Regulator's (AER's) draft determination for the Default Market Offer (DMO) to apply from 1 July 2025.

In our view, the AER's draft determination represents a reasonable balancing of the DMO's policy objectives under the current circumstances. It involves relatively small increases for residential and business customers across the DMO jurisdictions that are the result of higher allowances for all elements of the cost stack. Furthermore, the AER's decision making is clear in that it is prioritising affordability relative to the objectives to provide recovery of reasonable costs and the promotion of competition. This transparency is welcomed.

We encourage the AER to maintain the methodological approach from its draft when reaching its final determination. Predictability and transparency are essential for maintaining confidence in the regulatory framework and are consistent with the broader DMO objectives. Retailers can operate their businesses with confidence when the basis for regulatory decisions is clear.

We are acutely aware of the cost of living pressures that consumers are currently experiencing and as a result, many stakeholders are looking to the AER to alleviate this. We note the extensive support and protections available to consumers experiencing payment difficulty and acknowledge our obligations to proactively identify and offer appropriate support. We consider this to be an efficient and effective way to support consumers, rather than reducing the DMO to a level that doesn't allow retailers to recover reasonable costs. This would be contrary to the other DMO policy objectives.

Below, we expand on the key areas of the AER Draft determination that we support and discuss areas for improvement.

## **Calculating retail and other costs**

Red and Lumo support the AER's decision to expand the retail costs database used to develop the AER's benchmark under the weighted average approach. Importantly, the introduction of a wider data set from 13 to 26 retailers provides a more accurate representation of the actual costs of retailers, particularly the smaller retailers who can offer more consumer choice and competition, reducing the bias in favour of Tier 1 retailers. A further issue that we encourage the AER to continue to analyse as it further develops its own processes to collect cost data is whether retailers have a consistent approach to classifying and reporting some significant cost items, such as corporate overheads.

The AER's decision to continue to apply the weighted average approach to determine the benchmark for retail and other costs under the DMO is a positive development. The methodology aligns with the previous DMO determinations (DMO 4, 5, and 6) providing retailers with a consistent and stable approach for determining these costs. While acknowledging that a weighted average approach gives larger retailers more weight in the determination of the benchmark, the methodology is superior to the alternatives tested by the AER (such as a simple average or median). All of these alternatives are sensitive to fluctuations in costs from year to year making yearly comparisons difficult.

## **Higher retail and other costs**

The AER has proposed notable increases in the allowance for retail operating costs. These increases represent a small incremental contribution to the DMO, given the relative importance of the different components of the cost stack. More importantly, this increased allowance reflects evolving regulatory and community expectations about the role of retailers in the energy market. Retailers are increasingly proactive in identifying and offering appropriate support to vulnerable consumers, whether that be due to payment difficulty, life support or family violence. We note the AER's *Customer Engagement Toolkit* and updated *Guidance on Family Violence Rules*, which clearly articulate its expectations for retailers.

The draft determination also notes higher provisioning for bad and doubtful debt, a greater volume of smart meters across NECF states, and increased marketing activities by small retailers. Accounting for these factors in the DMO is consistent with its policy objectives.

## **Issues for further consideration**

While we do acknowledge the broader context for this determination and the AER's rationale for prioritising affordability, we encourage the AER to continue to carefully monitor how this approach is impacting the broader retail market. The focus on affordability could potentially

undermine competition over the longer term, with a particular impact on smaller retailers. It could also influence the ability and incentives for retailers to develop more innovative service offerings. Retailers will play an important role in supporting consumers to navigate the energy transition and DMO determinations are one factor that will influence their ability to do this.

More specifically, we strongly encourage the AER to monitor the impact of its decision to continue to exclude a competition component from retail margin, the ongoing exclusion of solar exports from the load profile that it uses to calculate wholesale costs, and the calculation of network costs on the basis of flat network tariffs. The impact of this approach could impact some retailers more than others, depending on their size or the diversity of their customer base.

Red and Lumo continue to support the development of a blended network cost based on a customer weighted average between a flat and a ToU tariff in each distribution network. This reflects the increasing volume of smart meters across NECF jurisdictions, the underlying distribution networks' assignment policies, and associated consumer protections. The AER is aware that networks generally reassign consumers to a more cost reflective tariff following meter exchange and retailers are constrained in how they can manage these costs by reflecting this change in cost structure through to consumers.

We see some risks for retailers from the consumer protections that came out of the Australian Energy Market Commission's *Accelerated Smart Meter Deployment* project. There will be an increasing number of consumers who opt for a flat price, particularly those who use more at peak times and do not want to shift usage to off peak periods, while the retailer continues to face a sharper price signal.

### **About Red and Lumo**

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland and South Australia and the ACT to over 1.4 million customers. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager, on 0481 013 988.

Yours sincerely

A handwritten signature in dark ink, appearing to read "G. Hargreaves", written in a cursive style.

**Geoff Hargreaves**

Manager - Regulatory Affairs

**Red Energy Pty Ltd**

**Lumo Energy (Australia) Pty Ltd**