7 May 2025

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Via e-mail: DMO@aer.gov.au

Dear Ms Elkins

Default Market Offer 2025-26 (DMO7) – Seeking further feedback on retail cost methodology

Thank you for your e-mail of 11 April 2025 seeking further stakeholder views on the retail cost component for the Default Market Offer to apply in 2025-26 (DMO7).

Alinta Energy does not support a change in the approach adopted for the AER's draft determination in relation to retail costs. The AER's e-mail of 11 April suggests two options:

1. **Maintain the draft determination approach to retail costs** – based on the customer weighted average of retailers' costs, or;
2. **Customer weighted average retail costs based on the number of standing offer customers each retailer has by DMO region**

Altering the approach to determining retail costs set out in the draft determination at this late-stage conflicts with the AER's position that focusing on the costs of the former franchise retailers is inappropriate "because it does not reflect the costs of the majority of retailers, including competitors to the incumbents" [see Draft determination, page 63]. While the second option above does not limit itself to the former franchise retailers, practically it would reflect their costs (to the exclusion of smaller retailers) as they supply the overwhelming majority of standing offer customers.

We agree with the AER's reasoning in the draft determination and do not believe a change in approach is warranted. Constantly changing the methodology undermines confidence in the process for setting the DMO and a change that applied the weighted average retail costs based on the number of standing offer customers in each DMO region "would be a significant departure from previous approaches and from other elements of the DMO price where [we] determine reasonable costs across the broader retail cohort" [Draft determination, page 63].

Furthermore, the approach in the draft determination reflects the economies of scale through the customer-weighted approach to average retail costs. Therefore, using a different approach (weighting by the number of standing offer customer each retailer has in a DMO region for example) would not reflect the actual costs incurred.

Retail costs formulate a very small component of the overall DMO yet is an important component for competitive retailers to recover their costs. We are concerned that this particular component of the DMO has been singled out for reconsideration following the Energy and Climate Change Ministers' (ECMC) meeting of 14 March 2025:

Ministers in the Default Market Offer (DMO) regions (New South Wales, South East Queensland and South

Australia) acknowledged the cost of living challenges facing households and businesses, and in this context expressed concern at the potential impact of the draft DMO published under the existing regulatory framework. ***Ministers encouraged the Australian Energy Regulator (AER) to further interrogate retailer revenues and margins****, broader cost pressures across the sector, and to further consider ongoing cost of living pressures in settling the final DMO.*

Ministers noted that the Victorian Default Offer uses a different methodology to the DMO and has resulted in average price increases in the draft decision of less than 1 percent.[1]

We believe the retail costs set out in the draft determination should stand, given nothing has occurred that warrants a change to the calculation of retail costs, or the retail margin (allowance). We note that the network cost component of the DMO has received limited scrutiny or comment yet is a multiple of the retail cost component.

The change in the 2025-26 Victorian Default Offer set out in the Essential Services Commission's draft decision of 1% on average **is not driven by changes in retail costs**. Alinta Energy trust that the AER has had the opportunity to engage with Officials supporting the ECMC to help clarify the differences and drivers of change in the respective draft DMO and VDO determinations for 2025-26.

<u>We strongly recommend that the approach to retail costs applied in the draft determination be maintained in the final determination</u>.

It reflects the AER's own position and the costs incurred by the majority of retailers, including competitors to the largest retailers. This in turn supports ongoing effective competition between energy retailers. Eroding stakeholder confidence in the DMO process through frequent changes to the methodology is not in the long-term interests of customers or effective competition in the retail electricity market where the DMO applies.

In relation to the competition allowance, Alinta Energy recommends the AER reconsider its draft decision to exclude it from DMO7. We note that the Australian Bureau of Statistics report that both the annual rate of headline and trimmed mean measures of the consumer price index are within the Reserve Bank of Australia's target band of 2-3% (2.4% and 2.9% respectively), and not "materially above" it. Expectations are that both measures will remain in the target band over the next 12 months.

A further justification for the exclusion of the competition allowance in the draft determination was the cessation of government electricity bill relief. The re-elected Commonwealth Government has committed to extending this for a further period . Two of the key reasons for excluding the competition allowance from DMO7 no longer apply and we recommend the competition allowance apply in 2025-26.

We welcome any further opportunity to discuss our response with the AER, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely

Shaun Ruddy
Manager, National Retail Regulation

[1] See: https://www.energy.gov.au/energy-and-climate-change-ministerial-council/meetings-and-communiques