

28 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

Dear Ms Elkins

Default Market Offer prices 2025-26 - retail cost component

Energy Locals Pty Ltd (ACN 606 408 879) (**Energy Locals**) refers to your email of 11 April 2025 inviting further submissions on the retail cost component of Default Market Offer 7 (**DMO**).

We appreciate the AER's continued engagement with industry stakeholders and the recognition of the importance of ensuring that the DMO allows retailers to recover reasonable costs and earn a reasonable profit, consistent with the *Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019*.

As a small energy retailer, we strongly disagree with the suggestion that:

"The DMO is a price cap only for customers on standing offers, and that it may therefore be appropriate to base the calculation of retail costs on the retail costs of the Big 3 retailers, which have the majority of standing offer customers."

While the DMO is the standing offer it also plays a key role in acting as a reference price. This dual role should not be overlooked.

If the AER were to adopt the methodology of using a customer weighted average of reported costs based on the proportions of standing offer customers attributable to each retailer in DMO regions, we are concerned that this will result in retail costs that are not reflective of the unique cost challenges faced by smaller or new entrant retailers. This would not be consistent with the DMO's stated objectives.¹

We reiterate our position raised previously. In response to the Issues Paper we supported maintaining the same "cost stack" methodology with a broader data set and recent data to ensure accuracy.² We also highlighted that costs to serve differ substantially for smaller retailers in comparison to large retailers. We flagged the example of metering costs, with smaller retailers likely to have higher costs from metering providers, given the negotiating power of customer numbers will be more limited. Similarly, per-customer costs for maintaining IT systems and compliance are disproportionately high for small and emerging retailers. Smaller retailers and new market entrants also have higher acquisition and retention expenses, as smaller brands must work harder to build awareness and trust in competitive markets.

A key objective of the DMO is to promote competition. As noted by the AER in its retail market report much of the innovation in consumer energy resources in recent years is driven by new market entrants who *"have sought to differentiate themselves through innovative business practices and product offerings."*³

Basing the DMO on the cost base of the largest three retailers would unfairly squeeze smaller players and could inadvertently affect competition and product innovation.

¹ AER, Default market offer prices 2025–26: Draft determination, p10-11.

² Energy Locals submission, Default Market Offer prices 2025-26 Issues Paper, 8 November 2024.

³ AER, Annual retail markets report 2023–24

We also highlight that the cost components of the DMO are to be based on a “prudent retailer” - not a large retailer. If the AER were to make this change for the retail component then it would undermine the methodology of all other cost components which are based on a prudent retailer.

In summary, we urge the AER to ensure that its methodology does not inadvertently disadvantage smaller players, who play a vital role in keeping the market competitive and customer focused.

Thank you for considering our feedback.

Yours sincerely,

Adrian Merrick
Chief Executive Officer
Energy Locals Pty Ltd