Mr Adam Day
a/g Executive Director, Default Market Offer and Consumers
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email: DMO@aer.gov.au

26 November 2025

Dear Mr Day,

Default market offer 2026-27: Issues Paper

ActewAGL Retail (ActewAGL) welcomes the opportunity to provide comments on the Issues Paper for the 2026-27 Default Market Offer (DMO8) published by the Australian Energy Regulator (AER) on 5 November 2025.

Our key concerns are in relation to the timeframe available for consultation and implementation of the proposed changes, the potential impact of the proposed changes on competition and the implicit rebalancing of cost recovery from market offers that will be required under the proposed changes. Each of these issues is discussed below.

Our responses to the AER's stakeholder questions are provided in the attachment.

Unreasonable timeframe for consultation and implementation

The Issues Paper proposes fundamental changes to the DMO including significant reductions or removal of costs, setting a DMO tariff rather than an annual price and the introduction of a new Solar Sharer Offer. While ActewAGL recognises that many of these proposed changes are aimed at addressing the reforms proposed by the Department of Climate Change, Energy, the Environment and Water (DCCEEW), the timeframe for consultation and implementation of the proposed changes is unreasonably short. Given the scale, scope and potential complexity of the changes proposed together with the lack of detail on the regulation changes, ActewAGL considers the DMO8 process inadequate to arrive at a fair, trusted and reasonably priced electricity option.

ActewAGL strongly urges the AER to only implement changes for DMO8 that are necessary to reflect the changes proposed by DCCEEW and to implement these changes as simply as possible. ActewAGL notes that the AER will be required to develop a guideline on the approach to determining the DMO during 2026, before commencing the DMO9 process. ActewAGL considers the consultation on the guideline provides a more appropriate opportunity to consider the proposed changes in more detail and should provide stakeholders with a greater opportunity to provide considered feedback and input on the changes.

Impact on competition

ActewAGL is concerned about the proposed changes for DMO8 on competition in the retail electricity market. Competition is critical to promoting the long-term interests of consumers, which is the objective of the National Energy Retail Law. The AER itself has highlighted the importance of competition in retail energy markets:

> *Competition in retail energy markets is designed to stimulate innovation and ensure better quality, lower cost products and services to consumers.*

Competition in the retail energy market is intended to drive customer participation by offering a wider range of products and prices to meet differing customer preferences and demand. [1]

The changes proposed in the Issues Paper are all aimed at reducing the DMO tariff and comparison price. This makes it more difficult for small stand-alone retailers such as ActewAGL to compete with large gentailers. When making its decision for DMO8, ActewAGL requests that the AER carefully considers the impact on competition by assessing the impact of its proposed changes on a holistic basis rather than as isolated elements of the cost stack.

Further, ActewAGL requests that consideration be given to whether it is necessary for the new regulations to be imposed on small retailers. The three largest retailers account for over 60 per cent of small electricity customers and therefore provide a competitive constraint on the rest of the market. Alternatively, ActewAGL requests that consideration be given to how the DMO could reasonably reflect the costs associated with the increasingly onerous DMO compliance requirements which disproportionately impact small retailers.

Rebalancing of cost recovery

The AER's proposed approach would result in retailer-specific costs being calculated for standing offer customers (rather than for the whole retail market). Given that standing offer customers are skewed more heavily toward the largest three retailers with lower average costs, this approach would result in lower retailer costs being included in the standing offer. This would likely be unrepresentative of actual costs incurred by smaller retailers.

While the AER can change the way costs are calculated to reduce the level of costs allocated to standing offers, this does not change the total level of costs that retailers need to recover from all customers. If the AER decides to allocate less costs to standing offer customers, then it follows that more costs will need to be recovered from market offer customers and the discounts that retailers can offer will need to be reduced. While the number of standing offer customers is relatively low, this situation could change significantly following the proposed changes to standing offer tariffs and the introduction of the Solar Sharer Offer.

ActewAGL is concerned that the proposed rebalancing of cost recovery will result in higher prices for customers that are more price sensitive and actively engage in the retail market through market offers. If standing offer prices are reduced significantly, then there is the potential that regulation will crowd out the competitive market. If this is the policy intent then it should be clearly articulated so stakeholders can provide feedback on the proposed rebalancing of cost recovery across standing and market offers and the increased emphasis on regulated versus competitive outcomes.

Please contact Clay Mifsud at clay.mifsud@actewagl.com.au if you have any questions or would like to discuss this submission further.

Yours sincerely

Rohan Richardson
Acting General Manager – ActewAGL Retail

[1] AER 2025, State of the energy market 2025, p231-233

Attachment: Response to Issues Paper questions

Question 1: How should the AER apportion costs across the supply and usage charge elements of the tariff? Is the proposed apportionment of cost elements appropriate?

ActewAGL agrees with the method proposed by the AER for allocating fixed (customer driven) costs to the supply charge and volume driven costs to the variable charges. For bad debt, if the AER cannot identify fixed and variable components of these costs, then ActewAGL recommends splitting them equally between the fixed and variable charges for DMO8. While this is a simple approach, it ensures that the costs do not fall disproportionately on small or large customers. ActewAGL assumes that the AER will separately identify bad debt costs for residential and small business customers. For the retail margin, ActewAGL proposes that this be split between the fixed and variable charges in proportion to the rest of the cost stack. This is a simple solution proposed for DMO8 prior to a broader analysis of the issue as part of the guideline consultation.

Question 2: How should the AER determine maximum annual bill amounts? Should they be based on the flat DMO tariffs?

ActewAGL agrees with the AER's proposal to use the flat rate tariff to determine a maximum annual bill amount for customers on standing offers for which there is no DMO regulated tariff. This is approach is both simple and consistent with the Victorian Default Offer (VDO).

Question 3: Under the proposed Regulations, should the separate flat rate and time-of-use DMO tariffs use the corresponding network tariff to determine network costs? Why or why not? What alternative approaches should be considered?

For DMO8, ActewAGL proposes that the AER uses a single network tariff for each of the flat rate and time-of-use DMO tariffs. This approach is simple and does not require the AER to blend network tariffs and then separate out the individual fixed and variable components. ActewAGL proposes that further consideration of the appropriate network tariffs (particularly where multiple network tariffs exist) be undertaken as part of the guideline consultation.

Question 4: Should the AER develop a blended network cost for the maximum annual bill, or should it instead adopt a particular network tariff? Why or why not? What alternative approaches should be considered?

For simplicity, ActewAGL recommends that the AER use the flat rate network tariff (consistent with the use of the flat rate retail tariff) for estimating the maximum annual bill. The alternative of using a blended network tariff based on distribution pricing proposals could be investigated as part of the guideline consultation process.

Question 5: Under the current Regulations, should the AER continue to use the flat rate network tariff or instead develop a blended network tariff to derive network costs.

ActewAGL proposes the AER continue to use the flat rate network tariff in the event the new regulations are delayed.

Question 6: If we were to create a blended cost, how could the issues for small business network tariffs be overcome?

In the time available for DMO8, ActewAGL proposes the AER does not use a blended network tariff for small business customers. The data requirements for calculating a blended network tariff are potentially complex and should not be rushed through the DMO8 process. If the regulations do not change then ActewAGL proposes the AER continue using the current methodology for small business customers.

Question 7: Where the corresponding network tariffs are used, and there is more than one default network tariff (for instance in Essential Energy and SA Power Networks), what approach should be used.

For simplicity, ActewAGL proposes that the AER use a single network tariff even when more than one default tariff exists. The AER could choose the tariff with the highest volumes at the network level. As part of the guideline consultation, further consideration could be given to a methodology that blends these network tariffs.

Question 8: Which option do you consider best meets the criteria set out above?

ActewAGL's preference is to use the simplest method, which we consider to be option 1 (interval meter data only). We note that this issue is temporary and declining over time as the smart meter roll-out is completed. At the end of the smart meter roll-out only interval meter data for controlled load will be required. We consider it appropriate to implement option 1 now given its simplicity and that it will reflect the longer-term outcome.

Question 9: What are your views on the application of the new approach to the Energex controlled load profile, in addition to the regions where AEMO's Controlled Load Profile is no longer published?

ActewAGL considers that, in principle, the same approach should be applied to all distribution areas.

Question 10: What are the implications of adopting the 50th percentile WEC estimate instead of the 75th percentile, based on the back-cast analysis?

As discussed above, ActewAGL considers that the cumulative impact of the proposed cost stack reductions will have a negative impact on competition and the long-term interests of consumers. Other components of the cost stack already reflect average retail costs or are proposed to reflect larger retailers' costs. To overlay a lower WEC on top of these reductions will significantly impede the ability of smaller retailers to compete.

ActewAGL considers the back-cast analysis to be irrelevant to costs going forward. As ActewAGL has previously argued, its wholesale costs are increasing over time as hedging costs associated with the net load increase. While the AER has already made the decision to ignore these costs, it would be detrimental to competition to also set a WEC at the 50th percentile.

Question 11: What factors should we consider in determining whether a volatility allowance is necessary?

ActewAGL recommends that the 75th percentile be retained. In this case, a volatility allowance would not be required. A volatility allowance calculated as indicated in the Issues Paper would be insufficient to account for the actual costs associated with market volatility.

Question 12: Do you agree that the 50th percentile WEC estimate aligns more closely with the proposed requirement to consider the efficient costs to supply small customers?

ActewAGL does not agree that the 50th percentile WEC more closely aligns with the efficient costs to supply small customers. Further, we urge the AER to balance the consideration of reducing the DMO price against the impact on competition. This balancing needs to be considered on a holistic basis not individually for the WEC in isolation.

Question 13: What parameters should we consider when deciding whether to include new products in the hedging strategy?

ActewAGL considers a threshold trading volume be met prior to the inclusion of the new products in the hedging strategy.

Question 14: do you agree with the proposed approach to estimating time-of-use WECs? Is there an alternative approach we should consider.

ActewAGL considers the AER's proposed approach to estimating the time-of-use WECs to be reasonable for DMO8. Given the AER continues to use the gross load profile for its analysis, ActewAGL expects that a significant volume of the load will remain during the solar window period, despite the net load that retailers purchase and hedge during this window being much lower. Despite this shortcoming, the approach proposed by the AER more accurately reflects costs than the use of a single WEC across all time periods.

We assume that for the Solar Sharer Offer, the AER will need to set the WEC (and other costs) to zero during the designated window for "free" electricity. We request that the AER explain how these costs will be recovered from other time periods in this offer.

Question 15: How can we best define and calculate the efficient costs to serve for small customers on standing offers?

As discussed at the small retailer roundtable, we do not consider there to be any significant difference between the cost to serve standing offer customers and market offer customers. On this basis, we propose the AER maintain the current approach of applying the customer-weighted average costs to serve of all retailers. This approach is also consistent with the AER's approach of using the total market for estimating network costs and wholesale energy costs and provides a consistent method for setting the comparison price.

Question 16: How can we best define and calculate a modest cost to acquire and retain customers?

The costs to acquire and retain customers will not change based on the AER's method for estimating these costs. If the AER's approach results in less costs being recovered from standing offer customers, then more costs will need to be recovered from market offer customers. If the intention of the proposed changes is to lower standing offer costs, then it must also be expected that the discounts that retailers can offer on market offers must also decline. This applies to all elements of the cost stack and appears to be a policy decision that has already been made by DCCEWW, which will have the effect of undermining market competition.

Question 17: What is the appropriate split of bad debt across fixed and variable components that best reflects the propensity for bad debt to arise?

As discussed in our response to question 1, we expect that the AER will continue to differentiate the level of bad debt for residential versus small business customers. If this is the case, then ActewAGL proposes that bad debt be split equally between the fixed and variable charges for the purposes of DMO8. This issue can then be examined in greater detail during the guideline consultation.

Question 18: Based on DCCEEW's proposed reforms, what other alternative approaches should we consider in quantifying the retail margin

As discussed above, ActewAGL urges the AER to consider the impact of any proposed changes on the ability of small retailers to compete. Reducing margins in addition to removing the competition allowance will make it more difficult for small retailers to compete.

For DMO8, ActewAGL proposes that no change is made to retail margins.

Question 19: Would a lower small business margin be more appropriate under the proposed reforms? If so, why?

See response to question 18.

Question 20: How should the retail margin be apportioned across the fixed and variable cost components of the DMO?

As discussed in our response to question 1, we propose that for the purpose of DMO8, the retail margin be allocated between fixed and variable charges in proportion to the rest of the cost stack. This simple approach can be revisited during the guideline consultation.

Question 21: What, if any, alternative methodologies should we consider in reassessing these retail margins?

If the new regulations are delayed, then the AER is required to have regard to the principle that electricity retailers should be able to make a reasonable profit. In this circumstance, ActewAGL proposes no change to the current methodology.