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Australian Energy Regulator
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To Mr Day,

Default Market Offer 2026-27 – Issues paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (AER) on the issues paper for the Default Market Offer 2026-27 (DMO 8).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE appreciates the AER's early engagement on detailed methodology issues for DMO 8 and the implications of the recent DMO framework review. The upcoming reforms to the DMO and comparison pricing, as well as the introduction of a Solar Sharer Offer, will add pressure on retailers that already have a substantial pipeline of system change work scheduled in the lead-up to 1 July 2026. Most notably, retailers are dedicating significant resources to the implementation of the Minister for Climate Change and Energy's package of rule changes to help households access cheaper energy deals, increase support for people experiencing hardship, and deliver more protections for consumers.

In the remainder of this submission, ENGIE provides some high-level feedback on the Solar Sharer Offer and provides responses to each of the questions listed in the issues paper.

Solar Sharer Offer

Alongside this submission, ENGIE has attached the confidential version of the submission provided to the Department of Climate Change, Energy, the Environment and Water (Department) on the 'Solar Sharer Offer – Consultation Paper 2025-26'.

In that submission, ENGIE has asked the Department to provide the AER with clear direction on the matters it must take into account when determining the Solar Sharer Offer (SSO) and the specific design of the

zero-charge usage window. In addition to the long-term interests of consumers, it is particularly important that the AER considers the efficient costs of retailers supplying small customers on the SSO, including a margin and modest costs associated with customer acquisition and retention.

ENGIE also requested that the Department direct the AER to apply a bespoke annual usage profile for the SSO based on the expected shifts in consumption behaviour. As the AER's existing usage profiles are based on historical Australian Energy Market Operator (AEMO) interval meter data, relying on this data to determine the SSO tariff structure may significantly understate the shift in consumption and may expose retailers to a substantial under-recovery of their efficient costs. When determining an appropriate model annual usage profile for the SSO, the AER may consider obtaining information from retailers currently providing offers with 'free-usage windows' to understand the extent that consumption has shifted to these high solar generation periods.

ENGIE also flagged the importance of prompt decisions on the key design features of the SSO to enable retailers to commence scoping out the necessary system changes to support the SSO. ENGIE is concerned about long lead-times that will be required to implement significant system and process updates in time for 1 July 2026. Specifically, if the AER does not publish clear direction on key design features of the SSO prior to the scheduled March 2026 draft determination, this will make it very challenging for retailers to progress the necessary changes in time for 1 July 2026.

Overall changes to the DMO

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?

ENGIE agrees with the AER's proposal to build separate fixed and variable cost stacks to create the DMO tariffs, which will comprise of a fixed daily charge and variable usage charges.

In relation to network costs, as will be expanded on in response to question seven, ENGIE contends that these costs should be apportioned to the fixed and variable cost stacks in the same manner as the underlying network tariff structure. To minimise the risk to retailers from managing mismatches between retail and network tariff structures, it is important that the DMO methodology enables retailers to pass-through underlying network tariff structures and rates.

In relation to the apportionment of bad debt costs and retail margins across fixed and variable cost stacks, ENGIE has provided feedback on these topics in response to questions 17 and 20 respectively.

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

Broadly, ENGIE considers the DMO methodology should result in the flat and non-flat DMO tariffs roughly equating to the same annualised bill amounts in a single distribution region. On that basis, ENGIE would be

comfortable with the AER determining maximum annual bill amounts by annualising the cost of the flat-rate DMO tariff based on the relevant annual usage amounts for residential and small business customers.

Network tariffs

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?

ENGIE supports the AER setting the flat and time-of-use DMO tariffs based on the corresponding network tariff codes and associated network costs. Retailers typically align their retail tariff structures with network tariff structures to ensure network costs are a pass-through and retailers are not exposed to risks of not recovering this significant cost component from customers.

As highlighted in the issues paper, the Australian Energy Market Commission's (AEMC) accelerating smart meter deployment rule change will require retailers to absorb costs related to tariff mismatches.[1] This is because retailers will not be able to assign customers onto a retail tariff structure aligned with their network tariff code without explicit informed consent for an initial two-year period. In ENGIE's submission to the AEMC on that rule change, ENGIE emphasised that requiring retailers to manage the tariff mismatch would expose retailers to a risk premium, which should be accounted for in the DMO methodology for flat tariffs through an uplift.[2] ENGIE continues to contend that the DMO methodology should explicitly account for the risks that retailers will be exposed to from an obligation to supply flat tariff retail contracts to customers that have an underlying cost reflective network tariff structure.

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?

As per the response to question two, ENGIE considers the DMO methodology should result in the flat and non-flat DMO tariffs roughly equating to the same annualised bill amounts in a single distribution region. For the purpose of calculating the network costs for the maximum annual bill, ENGIE would be comfortable with the AER choosing a specific network tariff, such as the flat-rate network tariff. However, the AER should cross-check the result against the network costs that would arise under a blended approach to ensure the network cost estimate is reflective of the efficient costs that retailer incur.

[1] Australian Energy Regulator 2025, Default market offer 2026-27: Issues paper, November, p. 14.

[2] ENGIE 2024, Submission to Accelerating smart meter deployment – Directions paper, 12 September, p. 4.

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?

If the Regulations do not change in time for the DMO 8 decision, ENGIE would support the AER developing a blended network tariff to more accurately calculate the efficient network costs incurred by retailers when supplying an increasing number of customers being supplied under cost-reflective network tariffs.

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

If the Regulations do not change in time for the DMO 8 decision, ENGIE's preference is that the AER develop a blended network tariff cost based on the information that retailers report under the new retail performance reporting guidelines from Q1 2025-26.

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?

In distribution regions with more than one relevant time-of-use network tariff code, ENGIE's preference is that the AER apply a blended approach, which may be based on the proportion of customers on each tariff code. ENGIE agrees with the AER's comment in the issues paper that a blended approach may more accurately reflect the underlying network costs across a tariff structure.[3] A blended approach would be simpler for both the AER and retailers than if the AER were to create separate DMO tariffs for each of the individual network tariff codes (for example, creating three residential DMO time-of-use tariffs that are matched against the three Essential Energy residential time-of-use network tariff codes).

Wholesale costs

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

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?

In relation to the AER's proposed options for accounting for accumulation meter customers in controlled load profiles, ENGIE's preference is for option two that blends an interval meter controlled load profile with AEMO's historical accumulation meter Controlled Load Profile.

While AEMO's Controlled Load Profile relies on older demand data, ENGIE contends that the actual controlled load profile for accumulation meter customers is unlikely to have changed materially from the

[3] Australian Energy Regulator 2025, Default market offer 2026-27: Issues paper, November, p. 17.

most recent Controlled Load Profiles. ENGIE's view is that option two most appropriately reflects a prudent retailer's hedging practices based on a customer base that has both accumulation and interval meters.

As the installation of smart meters accelerates over the next few years, ENGIE expects that the reliance on AEMO's historical accumulation meter Controlled Load Profile will naturally decline and the DMO methodology can transition to an approach that solely uses the interval meter controlled load profile.

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

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

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?

ENGIE does not support the AER adopting the 50th percentile wholesale energy cost (WEC) estimate. This proposed shift from the 75th percentile would significantly reduce the allowance in the DMO 8 price to account for forecasting errors and the risks of underestimation. ENGIE continues to consider the 95th percentile WEC estimate would more closely represent a prudent retailer's approach to hedging their load in the context of an increasing volatile and uncertain future market and enable the recovery of efficient wholesale costs. In comparison, the AER's analysis appears to suggest a 50th and 75th percentile estimate would have resulted in a retailer not fully recovering their wholesale costs when supplying the DMO price to customers in Essential Energy and Energex distribution regions in two out of the last five years.[4]

ENGIE acknowledges that the supplementary report demonstrates the 75th percentile estimate has typically provided a wholesale cost estimate with a buffer that has enabled a retailer to recover its wholesale costs across most regions in most of the previous DMO determinations. However, ENGIE does not agree with the findings in the report that the existence of a buffer represents an 'overestimate' of wholesale costs.[5] Forecasting spot market and load outcomes is not an exact science and there are many uncertainties at the time a hedging strategy for a period is developed. It is appropriate for a retailer to sufficiently hedge against the risks of plausible outcomes in an upcoming period, such as adverse weather conditions, plant outages, policy changes or other volatility, even if these do not end up eventuating. If a retailer is not sufficiently hedged, they may be exposed to significant volatility and spot price outcomes that can threaten their ability to compete in the market and recover their costs.

ENGIE notes that the purpose of the 75th percentile estimate, or a higher percentile estimate, is to provide a risk buffer against volatility. While this approach has mostly provided a sufficient wholesale cost estimate in previous DMO determination periods, this does not mean it can be concluded that future outcomes will be the same. ENGIE notes there are several uncertainties for wholesale market outcomes in future years, such

[4] Australian Energy Regulator 2025, Assessing the performance of the wholesale cost model, November, pp. 20 & 22..

[5] Australian Energy Regulator 2025, Assessing the performance of the wholesale cost model, November, p. 23.

as in relation to policy changes (eg. Solar Sharer Offer, changes to DMO policy, South Australia's Firm Energy Reliability Mechanism, and outcomes from the NEM Wholesale Market Settings Review), the introduction of Project EnergyConnect and transmission loop flows, market risks from coal plant closures, changes in customer consumption behaviour, and increasingly unpredictable weather events and changes to weather patterns.

ENGIE is concerned that adopting the 50th percentile estimate would not reflect an efficient hedging strategy as it assumes that retailers would not sufficiently hedge against potential downside risks and volatility. ENGIE notes that aligning with a hedging strategy based on the 50th percentile estimate may be more challenging for smaller retailers that are not backed by generation assets, due to insufficient liquidity of the necessary financial contracts.

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

ENGIE notes that the AER will be collecting contract information on an ongoing basis through its wholesale market monitoring functions and will have visibility of each participants' inclusion of these new contracts in their hedging strategies. ENGIE does not yet have a view on the parameters and thresholds that should be applied to include these new contracts in the DMO 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?

ENGIE considers the AER's proposed approach to apportioning the wholesale cost estimate across multiple time periods for time-of-use offers appears reasonable and transparent.

Retail and other costs

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

ENGIE does not support option one in the issues paper, which would apply a customer-weighted average of all retailers' costs to serve standing offer customers. As the Tier 1 retailers serve a significant share of standing offer customers, this option would skew the retail cost estimate even further towards these retailers that have much larger customer bases and considerable cost advantages. This option would not reflect that the DMO is a price for standing offers that all retailers must make available to their customers, regardless of whether they currently have a small or large proportion of standing offer customers. As per feedback provided in response to previous DMO reviews, ENGIE contends that using a cost estimate that is

primarily reflective of larger retailers will likely make it more challenging for smaller retailers to recover their efficient costs.[6]

Although option two would likely result in a more accurate estimate of the efficient retail costs to serve standing offer customers, for the reasons above, ENGIE is also not supportive of the current approach of applying a customer-weighted average costs to serve. ENGIE continues to advocate that a customer-weighted approach results in a retail cost estimate that is inappropriately skewed towards Tier 1 retailers and does not reflect the efficient costs that most retailers will incur in supplying customers under the DMO tariffs.

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

Similar to the feedback provided in response to question 15, ENGIE notes that the DMO is a price for standing offers that all retailers must make available to their customers, regardless of whether they currently have a small or large proportion of standing offer customers. For that reason, the AER should calculate an allowance for costs to acquire and retain customers that is reflective of the efficient costs that most retailers will incur. While option one is more reflective of actual and forecast efficient costs than option two, ENGIE reiterates its general concerns with the suitability of a customer-weighted approach.

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?

ENGIE supports option one, which treats bad debt as a fixed cost component of the DMO. ENGIE supports this option as it is administratively simple and aligns with the approach taken by other regulators, most notably the Essential Services Commission of Victoria.

Retail margin

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

ENGIE notes the Department's proposed DMO reforms would require the AER to assess retail margins based on the efficient costs of supplying electricity to small customers on standing offers. ENGIE considers the margin required to compensate investors for the systematic risk they face in the energy retail market would be consistent across both market and standing offer customers. To the extent there are different risks and costs associated with each customer cohort, such as in relation to bad debts, these should be addressed through those specific cost components in the DMO methodology.

Consistent with the feedback provided in response to question 15, ENGIE would not support the AER adopting an estimate of efficient margin based on a higher weighting on retailers with greater proportions

[6] For example – ENGIE 2024, Submission to Default Market Offer prices 2025-26 – Issues paper, 8 November, p. 5.

of standing offer customers. This would not reflect that the DMO is a price for standing offers that all retailers must make available to their customers, regardless of whether they currently have a small or large proportion of standing offer customers.

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

ENGIE would be comfortable with a lower small business margin in the DMO methodology if the AER were to account for the higher costs of debt for this customer cohort elsewhere in the methodology. As noted in the response to question 18, it may be more appropriate for debt-related costs to be considered in the bad debt cost component of the DMO rather than the margin, as these costs do not relate to a systematic risk that retailers bear.

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

ENGIE supports the AER maintaining a percentage approach to the retail margin, which is simple and promotes regulatory certainty across DMO determinations. While a hybrid approach may also be a valid methodology, ENGIE does not consider there is a strong justification to shift from the current approach, particularly in the context of other significant reforms to the DMO methodology occurring for DMO 8.

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

ENGIE does not have feedback on alternative methodologies for determining a reasonable margin. As noted in response to question 20, ENGIE does not consider there is a strong justification for the AER to vary its methodology for setting retail margins at this time.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0436 929 403.

Yours sincerely,

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