27 November 2025

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a/g Executive Director,
Default Market Offer and Consumers
Australian Energy Regulator
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By email: DMO@aer.gov.au

Dear Adam and colleagues

Default Market Offer 8 – Issues Paper

Energy Trade Pty Ltd (**Energy Locals**) wishes to provide feedback in response to the *Default Market Offer 2026-27 (DMO 8) Issues Paper* (the **Paper**).

We are an embedded network operator with extensive expertise in the implementation and management of embedded networks, which includes electricity, gas, hot water, solar PV, electric vehicle charging and battery storage. We recently obtained our own retailer authorisation and have extensive experience as an energy retailer through our connection with EL Retail Energy Pty Ltd (formerly Energy Locals Pty Ltd).

While our customer base consists of customers within embedded networks and the DMO does not yet formally apply to them, we recognise the importance of the DMO as a reference price and its role in driving competitive pricing. It is, therefore, imperative that the DMO is calculated appropriately and accurately.

In our submission, we have responded to the stakeholder questions listed in Appendix A of the Paper. Where we have not listed a question, we do not have a strong position or comment.

1. 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?

We are supportive of the proposed apportionment of cost components[1] which provides that "costs to serve," "costs to acquire and retail" and "smart meter costs" are fixed costs, provided that these are carefully calculated to ensure they accurately reflect actual costs of retailers to supply and service a customer. We are also supportive of "bad debt" being treated as a variable cost, given it is a function of usage, and have commented further on this below.

2. Network costs

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?
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?

[1] AER, *Default Market Offer 2026-27 Issues* Paper, p.12.

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?

We consider it essential that the DMO tariffs directly correspond with the underlying network tariffs, as the DMO should reflect actual, not theoretical, cost structures.

The network cost component of the DMO must reflect what the networks are doing in practice. Accordingly, flat-rate and time-of-use (**TOU**) retail tariffs should be based on their equivalent network tariffs to ensure accuracy and transparency in cost recovery.

Adopting the actual network tariff is more accurate and better reflects the cost to serve. Under the current Regulations, the AER should also avoid blended approaches and continue to use the specific network tariff (flat or TOU, as applicable) that corresponds to the tariff structure applied to the customer. For the same reason, we do not support the development of a blended network cost for maximum annual bills.

3. Wholesale costs

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

Our preferred option is option 2. A blend of the interval meter controlled load profile with AEMO's historical accumulation meter controlled load profile appears to be the option that is most cost reflective.

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

We do not support the adoption of a 50th percentile WEC estimate. As the AER notes, the 75th percentile WEC estimate has been used "to provide retailers with a buffer against unexpected volatility."[2] This buffer remains imperative.

The modelling underpinning the 50th percentile outcome is unrealistic. It assumes that prolonged exposure to spot price volatility is acceptable. For example, we note that in DMO 6 nearly 60% of energy in the Endeavour network is unhedged.[3] No prudent retailer, with proper governance structures and risk reporting, would tolerate such exposure. The AER must consider this particularly given the recent market volatility and the exit of several retailers from the NEM.

While we do not support the adoption of the 50th percentile, if this is adopted, we do think a volatility allowance is essential.

4. Retail and other costs

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 outlined above, we do not think the "bad debt" cost component should be fixed as the risk of non-payment arises at the customer level. For this reason, any allocation of bad debt should be proportional to the overall revenue split between fixed and variable charges. In our view, the most appropriate approach is option 3, where the bad debt allowance is apportioned across both fixed and variable components with an equal weighting. We agree that option 3 would result in the most accurate recovery of bad debt.

5. Retail margin

We have no specific comment on the retail margin stakeholder questions, other than to reiterate that with the likely continued exclusion of the competition allowance, the retail margin must be set at a level that enables retailers to operate sustainably.

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[2] AER, *Default Market Offer 2026-27 Issues Paper*, p.27.

[3] AER, *Assessing the performance of the wholesale cost model*, supplementary report for the DMO 8 Issues Paper, p.7.

Please note that we have made a submission to the Department of Climate Change, Energy, Environment and Water (**DCCEEW**) on the Solar Sharer Offer Consultation Paper. We are very happy to discuss with the AER our views on how the SSO can be implemented effectively.

We look forward to participating in future engagement on the development of the DMO Guideline particularly with respect to the application of the DMO Framework to embedded networks in DMO 9.

We are happy to discuss this submission with the AER at any time.

Yours sincerely

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