GloBird Energy Pty Ltd
ABN 68 600 285 827
85 Maroondah Hwy, Ringwood, VIC 3134
PO BOX 398, Ringwood, VIC, 3134
globirdenergy.com.au
133 456

26 November 2025

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

Submitted by email: **DMO@aer.gov.au**

Dear Adam,

RE: Default Market Offer Price 2026-27 - Issue Paper

GloBird Energy (**GloBird**) welcomes the opportunity to provide feedback on the issue paper for the Default Market Offer Price 2026-27 (**issue paper**).

GloBird commenced operation in 2015 and has since become one of the fastest growing electricity and gas retailers in Australia, with a customer base over 250,000 residential and small business customers across Victoria, New South Wales, Queensland and South Australia. Our excellent value energy offerings, innovative products and a high-quality customer service are key drivers of our success in this highly competitive energy market.

GloBird's submission provides feedback on the following questions raised in the issue paper:

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?

Variable costs should be allocated to the usage charge of the tariff and any other costs should be allocated to the daily supply charge. GloBird agrees with the proposed apportionment of costs. Additional comments on specific costs are as follows:

1. **NUOS Charges** – the DMO tariff should match the underlying network tariffs as best as possible, taking a pragmatic approach, so that variable and fixed daily charges are accurately reflected in the DMO.
2. **Bad Debt** – the most accurate way in apportioning bad debt costs is to allocate it to both the fixed and variable parts of the DMO tariff, in recognition that bad debt varies based on consumption. Further comments are provided in our response to question 17.
3. **Retail Margin** - both the fixed and variable components should include an allowance for Retail Margin. The Retail Margin will be expressed as a percentage per annum and reflects the commercial risks that the retailer is exposed to. These risks can shift as the underlying cost drivers change and as the retailer's investment position moves up or down. This percentage can be applied to both the fixed cost stack and the variable charges. Doing so ensures that the Retail Margin adjusts appropriately as the customer's consumption and revenue change.

GloBird Energy Pty Ltd
ABN 68 600 285 827
Unit 10, 613 Whitehorse Rd, Mitcham, VIC 3132
PO BOX 398, Ringwood, VIC, 3134
globirdenergy.com.au
133 456

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

GloBird agrees, basing the maximum annual bill amounts on flat DMO tariffs is a pragmatic and simple solution.

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?

Yes, separate flat rate and time of use DMO tariffs should use the corresponding network tariff to determine network costs. The DMO tariff and the build up of the cost stack in the DMO tariff should be as accurate as possible and this means matching the underlying network tariffs. This is more important now given the larger numbers of customers that are on time of use tariffs.

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?

Given the maximum annual bill is a bit of a “catch all” to be applied to types of customers on standing offers for which there is no DMO regulated tariff, we would support a blended network cost. This provides a pragmatic approach to the calculation of the maximum annual bill amount. We believe that a blended network rate will be more representative of how consumers will be using energy and will then be charged by the network provider.

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?

Following from question 4, a blended network rate will be more reflective of the network tariffs that customers are actually on. More so now with more consumers moving to time of use tariffs. This would allow the DMO cost stack to be reflective of what network tariffs customers are actually on.

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 strongly object to the use of 50th percentile. We don’t believe it aligns with the proposed requirements to consider “efficient costs to supply small customers” or is even a “reasonable forecast of WEC”. In fact, it is GloBird’s view that a WEC estimate based on the 75th percentile is already too low.

The energy market is extremely volatile with chances that prices could go as high as $20,300/MWh for hours at a time. This can theoretically happen a number of times through the month or year. The probability of prices going this high for periods on end may seem low, but it is a real risk that can actually happen. The impact on retailers not adequately hedged for these low probability scenarios is catastrophic because they most likely will become insolvent if not hedged for these events. Because the risk is so severe, retailers must hedge for these low probability outcomes. Adopting the 50th percentile just doesn’t allow for the costs retailers incur in managing these low probability but severe outcomes.

In addition, retailers incur a cost in managing the volatility and variability of customer load which has become more volatile and more variable in recent years. Customers are now dramatically shifting demand around between certain hours of the day. This will continue to evolve in ways that are hard to predict and forecast.

GloBird Energy Pty Ltd
ABN 68 600 285 827
Unit 10, 613 Whitehorse Rd, Mitcham, VIC 3132
PO BOX 398, Ringwood, VIC, 3134
globirdenergy.com.au
133 456

With the introduction of Electric Vehicles, batteries, further take up of solar, free electricity during the day, this volatility and variability will get worse. There is no way of predicting this, so a retailer must prudently hedge this variability, further increasing wholesale costs.

Yes – the 75th percentile might compensate retailers in more volatile outcomes, but a retailer must hedge against volatile outcomes every year, carrying the wholesale risk-management and hedging costs even in years when volatility does not eventuate.

Further, we think it is dangerous to look back in time and analyse price outcomes on what "has" happened as opposed to what "could" happen. We also believe the current back-casting sample size is too small to draw a definitive conclusion on. It's the "what could happen" scenario that a retailer has to hedge against. Because the chance of extreme prices "could" happen for hours on end and "could" happen multiple times in a month or year, retailers have to hedge to these events. The fact it hasn't happened in the past or is less likely to happen based on past analysis ignores the fact that an extreme price event for an extended period of time could happen. Predicting wholesale costs in this manner will not capture all the risk management costs a typical retailer incurs in managing its wholesale costs.

We are also concerned that the distribution is not even and that the risk then could be skewed towards extreme market circumstances. We ask that the AER publish all 500 simulation results for stakeholders to understand the distribution.

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

Further to our point above, we don't believe a prudent retailer is hedging on a basis similar to the 50th percentile WEC estimate, so we don't believe the 75th percentile is providing retailers with a "buffer" in the WEC estimate.

If the eventual outcome is a move to a 50th percentile WEC estimate, a volatility allowance would go some way to recognising the costs retailers incur for preparing for volatile events, that could happen in the future but may not have necessarily happened in the past analysis. There will be events in the electricity market with extreme volatility, if there is no recognition of the WEC a retailer incurs to manage this, retailers will not be able to "ride out" these exceptions having a detrimental effect on competition.

Again, a good example of this (described above) is ever changing demand and the volatility and variability of this demand. An allowance would go some way to covering the WEC to manage volatility and variability in demand.

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

We have commented above on this. No, we strongly disagree that the 50th percentile WEC estimate aligns more closely with the proposed requirement to consider the efficient costs to serve customers.

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

We do acknowledge this market is developing, however the problem with looking at ASX volumes is that it ignores the volume of contracts traded in the OTC market which is probably developing faster than the ASX. These contracts are quite complex so tend to be negotiated more between parties, which lends itself to being traded on the OTC market as opposed to the ASX market.

GloBird Energy Pty Ltd
ABN 68 600 285 827
Unit 10, 613 Whitehorse Rd, Mitcham, VIC 3132
PO BOX 398, Ringwood, VIC, 3134
globirdenergy.com.au
133 456

As an example, GloBird does have an Evening Peak trade in QLD that was traded in April 2025. We also have traded reasonable volumes (for GloBird size) in Evening Peak contracts in Victoria (noting this is outside the DMO region but is where most of our customers are)

We do think these contracts are now a part of retailers WEC's and we do think they are more likely traded via OTC. As a result, GloBird would suggest the AER:

- Consider including Evening Peak contracts in future DMO's (if not included in DMO 8);a nd
- Consider collecting OTC contract information on Evening Peak contracts in a similar manner the South Australia contract data is collected.

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

We would recommend option 2 which seeks to apply the customer-weighted average costs to serve of all retailers. Practically we don't think the difference in serving small standing offer customers is that much different than all small customers. In addition, if all costs of the retailers are picked up, as opposed to just those related to standing offer customers, this will prove to be accurate and representative of a retailer's true costs. Further, such approach is a pragmatic and simple solution as well.

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

Firstly, it remains imperative that there is a "reasonable" cost component in the DMO for acquiring and retaining customers. We believe the spend in this area by retailers is fundamental to creating competition and encouraging customers to better use their electricity resulting in an overall lower electricity price for consumers.

Secondly, with the more detailed construction of the DMO in 2026-27, by tariffs, rather than an annual amount, the DMO is reflective of a small customer on a market contract, just as much as it is a small customer on a standing offer. It stands to reason that there is a "reasonable" amount for customer acquisition and retention.

We don't believe option 1 is appropriate. With 90% of standing offer customers with the big 3 retailers, this will result in a cost to acquire and retain that is far too modest for the smaller retailers, who are the ones driving competition.

Likewise option 2 is not appropriate. For the reasons discussed in the issues paper, the data is just too old and will not be an accurate reflection of a smaller retailers cost to acquire and retain.

Similar to determining an efficient cost to serve, we see no reason why the costs to a retailer of acquiring and retaining customers cannot be determined by using a customer weighted average, of costs to acquire and retain, of all retailers.

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

We agree with all the observations in the issues paper. We believe the DMO should attempt to be as accurate as possible, especially with a component such as bad debt which can be material to retailers and is impacted by the customers usage. As such we recommend Option 3.

GloBird Energy Pty Ltd
ABN 68 600 285 827
Unit 10, 613 Whitehorse Rd, Mitcham, VIC 3132
PO BOX 398, Ringwood, VIC, 3134
globirdenergy.com.au
133 456

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

GloBird believes that the Expected Returns approach should be used to estimate a range of retail margin required. While we recognise it's a challenge to determine some of the parameters used in this approach, its exactly these parameters, such as Weighted Average Cost of Capital ("WACC") and standard deviation of market returns, that will be determining a retailer's expected margin.

One of the key inputs to expected retail margin will be the WACC. Smaller retailers, who are fundamental in creating competition and driving energy prices down, will have a higher WACC than the larger tier one retailers. This is the problem with using cost data for standing offer customers. It will primarily be cost data from the tier one retailers who have a much lower WACC and a lower expected margin than the smaller retailers.

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

We would suggest the hybrid approach where margin is applied into a fixed dollar amount and a percentage amount. This will allow consumers to better manage their total energy cost. For example, a lower user should face lower costs because there is a lower retail margin component.

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

As a practical approach, we would recommend using a similar process to DMO's 6 & 7, setting the retail margin as a percentage. Although we would prefer a split between fixed and variable costs, it is accurate that retail risks and therefore margin vary as costs go up and down.

If you have any questions about this submission, please contact Nabil Chemali Senior Manager Regulation & Commercial, at **nabil.chemali@globirdenergy.com.au**

Yours sincerely

John McCluskey
Executive Manager
GloBird Energy