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2026-27 Default Market Offer Draft Determination (DMO 8)

AGL Energy (AGL) welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER)'s 2026-27 Default Market Offer (DMO 8) Draft Determination (Draft Determination).

AGL supports the revised objective for the DMO as a fair, trusted and reasonably priced safety-net for standing offer customers. Against this objective, AGL considers the AER's DMO framework and building block methodology can work and is, in many respects, applied with rigour and transparency in the Draft Determination. Retailers operate in a competitive market and where actual costs of supply reduce, that should be reflected in the DMO price.

However, taken as a whole, the Draft Determination does not meet the DMO objective because it does not provide confidence that a prudent and efficient retailer can sustainably recover efficient costs and manage risk within a fixed price cap. The concern is that parameter selection across the total cost stack is not consistently prudent: by systematically adopting low-end assumptions across multiple components, and, critically, embedding a structural mismatch between benchmarked and payable network tariffs, the Draft Determination materially increases the risk of under-recovery. This is particularly concerning given the extreme uncertainty and volatility currently prevailing across energy commodities and supply chains.

A safety net price that is not viable is not efficient. As raised in our submission to the *Default Market Offer 2026-27: Issues Paper* (Issues Paper)[1], the DMO must allow a prudent and efficient retailer to recover efficient costs and manage risk under a fixed retail price cap. Retailer viability underpins customer protections, competition, and the ability of the sector to finance network, generation, and transition investment.

The Draft Determination materially increases the risk of retailer under-recovery. It repeatedly adopts the bottom range estimate across cost components and embeds structural mismatches with retailers' actual costs, particularly for network tariffs.

Risks of an aggressive DMO approach are amplified by current market conditions. The energy sector is experiencing heightened volatility and uncertainty, with recent global developments increasing wholesale price risk and funding pressure. At the same time, the Draft Determination removes prudential buffers and introduces new obligations, including the Solar Sharer Offer, with compressed timeframes and unrecognised implementation costs.

Retailers bear asymmetric risk under the DMO. Prices are fixed, while wholesale, network, variable operating costs such as bad debts and Government environmental and other scheme costs are not. Losses during price shocks are immediate and unrecoverable, while any potential upside is generally competed away. Setting the DMO at the lower bound of the representative retailer's efficient cost range in this environment heightens the risk of liquidity stress and market instability, which could have consequences for retailer stability.

DMO tariff structures will change retailer standing offers. The move to more prescriptive tariff cap price regulation is now resetting default tariff structures and the apportionment of costs between fixed and variable components. The clear difference between observed current retail offers and the draft regulatory pricing

[1] See AGL's submission to the Default Market Offer 2026-27: Issues Paper

outcomes demonstrates a material shift that will have broader implications for market offers. The pure DMO building block regulatory pricing model will inevitably fall short of reflecting market-based default and standard market tariffs and structures that have evolved over many iterations of review and refinement. This outcome is unavoidable in a prescriptive regulatory pricing framework. We acknowledge that the AER may undertake further calibration between the fixed and variable components of the tariff to reconcile this regulatory outcome with market offers.

Effective reform implementation rests on timing of tariff structure certainty. Consistent with previous determinations, the DMO tariff price will inevitably change between the draft and final DMO decision due to changes to market information. However, the introduction of a tariff cap along with the amended DMO retailer obligations now prescribe the tariff structures of many of the standing offer tariffs retailers must offer. Industry certainty is needed to implement these tariff structures by 1 July. Even minor adjustments between the draft and final determination to TOU and SSO tariff structures make implementation materially more difficult. We request the AER provide industry guidance at the earliest opportunity of any potential changes to DMO and SSO tariff structures.

Key points in response to the AER's Draft Determination

- **Industry certainty is needed to implement these tariff structures by 1 July.** We request the AER provide industry guidance at the earliest opportunity of any potential changes to DMO and SSO tariff structures.
- **The draft DMO systematically selects the lowest plausible values across multiple cost components, which may seem reasonable individually but collectively understates efficient costs and risk.** This cherry-picking approach undermines the likelihood of that all components are accurately represented and increases the risk that the DMO is set too low. Additionally, this approach does not in all instances represent what is feasible, as is particularly the case with the approach to selection of lowest cost network tariffs.
- **Efficiency must be assessed across the total cost stack, not parameter by parameter.** An approach that repeatedly selects the floor of each efficient range materially increases the risk that the overall cap sits below the efficient cost to supply.
- **The network tariff approach is not a question of estimation methodology, but a structural flaw in the construction of the efficient price**. The draft DMO embeds network tariffs that retailers do not face and cannot practically adopt within the regulatory year, breaking cost reflectivity as the foundation.
- **Retailers cannot rapidly or unilaterally respond to the network tariff benchmark assumed in the Draft Determination.** The transition from flat-rate to TOU network tariffs must be completed by 2030. However, this change will not happen immediately and requires a phased implementation over several years. The transition is governed by detailed regulatory requirements, meter eligibility and system constraints that sit outside retailer control. The assumption that this can occur within the next DMO price period is requiring retailers to bear new cost risks. In some cases, to achieve lower network costs for customer consumption types that benefit from TOU network tariff structures, an even further accelerated smart meter deployment is required. Whilst AGL supports this intent, this would also further increase metering costs that are not captured in the DMO.
- **The resulting under-recovery of network tariffs by retailers could be material, persistent and unavoidable**. This will weaken retailer viability and undermine the stability of the framework.
- **Manipulating network tariffs does not improve cost efficiency of the DMO as networks are entitled to be repaid with interest next year for any under recovery**. The AER regulates network tariffs to be revenue neutral. If bulk reassignment of customers was possible, any under recovery would simply increase network tariffs and DMO prices next year. AGL agrees that some network tariffs are not appropriate and supports regulation to require networks to produce better network tariff structures. However, the DMO should reflect network costs as they are, not as we may wish them to be.

- **The shift from a P75 to a P50 wholesale energy cost, combined with a modest volatility allowance, removes essential prudential headroom.** A median forecast may be statistically unbiased, but retailer exposure under a fixed cap is asymmetric, with losses during price shocks immediate and unrecoverable. As highlighted in the ACIL Allen report, WEC estimation accuracy is notably impacted during more extreme increasing market price environments, resulting in substantial underestimates of the WEC.
- **Global energy market conditions have structurally increased volatility and prudential risk**. Setting the DMO at or near the floor of efficient cost at this point in the cycle heightens the risk of liquidity stress, credit tightening and retailer failure, with flow-on impacts for customers.
- **The introduction of new obligations, including the Solar Sharer Offer, compounds risk at precisely the point headroom has been reduced**. Implementation uncertainty and one-off costs further weaken recoverability under the draft settings. The assumption that prospective SSO customers will not shift additional consumption into the free period presents a cost recovery risk for retailers that actual SSO customers free window consumption is potentially far greater and up to the daily consumption of a five person household amount within the three hours. This additional cost will never be recovered directly from the SSO customer base and must instead be absorbed by the retailer.
- **A margin that does not recognise risk undermines the viability of SME offerings.** Reducing SME margins to a uniform 6% disregards the distinct risk profiles of business customers.

DMO reform implementation

AGL is committed to achieving the broad suite of DMO reform requirements by 1 July 2026. In parallel with the numerous new and additional requirements for regulated and non-regulated tariffs under the DMO framework, there is also a further package AEMC initiated retailer obligations coming into effect at the same time.

In light of this extensive reform agenda, to ensure these regulatory changes are successfully implemented, AGL has already commenced work to develop new regulated products and update internal systems. This means the deployment of additional resources to develop the new regulated products reflecting regulated tariff structures in the coming months along with undertaking an extensive compliance testing process to achieve quality customer outcomes.

The introduction of a tariff cap along with the amended DMO retailer obligations now prescribe the tariff structures of many of the standing offer tariffs retailers must offer. Development of new regulated products is based on a draft determination that is subject to change. Any changes to regulated tariff structures set out in the Draft Determination should be made as soon as possible to allow for the structured change management and testing processes conventionally deployed to achieve quality customer outcomes.

An additional step beyond the regulatory decision milestones of draft and final decisions would assist industry implement these tariff structures in time to meet the 1 July commencement. Even minor adjustments between the draft and final determination to TOU and SSO tariff structures make implementation materially more difficult.

We request the AER provide industry guidance at the earliest opportunity of any potential changes to DMO and SSO tariff structures. We will continue to work closely with the AER as these DMO reforms are finalised.

Network tariff alignment

The Draft Determination changes the routine network tariff selection for the DMO flat-rate network cost forecast by applying the least cost network tariff potentially available for a sub-set of flat-rate customers. The AER considers the ‘potential least cost’ approach is consistent with efficient cost regulatory framework. AGL considers this characterisation to be incorrect. The issue is not whether a particular tariff is ‘efficient’ in the abstract, but whether the DMO is constructed on network charges that retailers are actually required to pay in supplying customers covered by the cap.

An efficient price must reflect the efficient cost *to serve*, not the theoretical lowest charge available within the tariff menu of a distribution network. Currently, over 60% of AGL's DMO flat rate customers are not on a TOU network tariff. Where the DMO embeds a network tariff that is not applicable to the majority of flat-rate customers, as is the case with the proposed draft DMO, and cannot practically be applied within the regulatory period, the resulting price is not efficient. It is simply non-recoverable.

The AER's approach assumes that retailers can respond to the DMO by promptly transferring customers onto the lowest cost network tariff. In practice, this assumption does not hold. Network tariff assignment is not within the unilateral control of retailers. Transfers require coordinated DNSP processes, customer notification and consent, system reconfiguration, and alignment with metering capability. These steps are governed by -jurisdiction specific- rules and cannot be implemented at scale within a single pricing year.

Even where a lower-cost tariff exists, most customers are either not eligible for immediate reassignment or are contractually and operationally constrained from transfer. For many customers, reassignment requires meter reconfiguration, load eligibility testing, alteration of protected conditions, or DNSP approval processes with extended lead times. In several networks, default tariff assignment rules explicitly prevent retailers from mass reassigning customers without a trigger event or customer-initiated change.

As a result, the draft DMO prices customers as though they are supplied on tariffs that retailers are not actually permitted to use. This creates systematic under-recovery that cannot be remedied through competitive behaviour or operational efficiency. The impact of this mismatch is material and persistent. For affected networks, under recovery ranges from approximately $67-$114 per residential customer and $213-$680 per SME customer per year. These impacts apply for large customer cohorts across multiple networks and persist regardless of retailer performance.

Importantly, this is not a question of conservative versus aggressive parameter selection. It is a break in cost reflectivity that undermines the otherwise rigorous process the AER applies to constructing an efficient price. A price cap based on costs that retailers cannot recover is not an efficient safety net, but rather a structural defect in methodology.

A pragmatic tariff alignment is essential to preserve the integrity of the DMO framework. Flat retail offers should be benchmarked to flat network tariffs where they apply to customers, and time-of-use offers to default TOU tariffs that retailers can practically assign customers to. Where the AER considers alternative approaches, it must explicitly account for the timing, consent and system constraints inherent in network tariff reassignment. Absent such alignment, the DMO ceases to represent- an efficient cost to supply, regardless of the precision applied elsewhere in the Draft Determination.

The accelerated smart meter roll-out program will result in an ever growing number of flat-rate default tariff customers with an underlying default TOU network tariff. AGL acknowledges this change will eventually result in a material proportion of flat rate customers with this underlying input cost. Whilst this milestone will not occur for several years due to the majority of flat rate DMO customers having a flat rate network charge, we support the AER's commitment to exploring an enduring methodology that will reflect this shift in cost inputs.

Consistent with previous options explored, we support a customer-weighted blended approach to calculating network costs for flat rate DMO prices. Alternatively, the AER could apply a gradual increase in the proportion of TOU network tariffs reflected in the relevant flat rate DMO tariffs. This approach would be based on the average retailer smart meter rollout up to 2030 with additional practical considerations of when network tariffs may be assigned in each distribution network.

Further, any consideration of underlying network tariff costs should also consider the following factors:

- Even as smart meters are deployed, Energex tariff assignment rules delay TOU reassignment (~12 months), further limiting access to lowest-cost tariffs and extending under-recovery.
- We expect that up to 15-20% of customers we need to roll onto a smart meter will experience meter defects. The cost to remediate this could cost between $500-$2,000 for the majority of these

customers, with some customers unable to cover the costs due to reasons such as disadvantage and renting.

- The opt-in requirements for changing from a flat rate to TOU retail product will likely result in a growing proportion of customers remaining on flat rate retail products when a smart meter is installed.

Wholesale settings

The energy market is increasingly unpredictable. The current energy crisis—emerging after much of the draft DMO work was completed—appears more severe than the shock following the Russia–Ukraine conflict. With limited flexibility in the DMO, any underestimation of costs could have material consequences.

Global energy volatility has structurally increased wholesale risk. Retailers now face faster and larger swings in prudential requirements and cash calls.

In stressed conditions, constrained margins drive defensive behaviours, including tighter credit policies and reduced investment in customer facing improvements. The collapse of multiple UK energy retailers in 2022 highlights the risks of price caps that lack sufficient headroom.

The draft decision to move the wholesale energy cost from a P75 to a P50 estimate, supplemented by a modest volatility allowance, materially reduces the headroom available to manage wholesale risk. While this change appears small in isolation, it removes precisely the buffer required in a market characterised by increasing volatility and correlated price shocks.

Retailer exposure under a fixed price cap is asymmetric. Losses during price spikes are immediate and unrecoverable, while gains during lower-price periods are competed away. A median wholesale allowance may be statistically unbiased, but it is not fit-for-purpose as a recoverable cost benchmark under a regulated cap.

The proposed volatility allowance appears calibrated to average variation, not the extreme tail events that drive prudential stress and cash margining requirements. This increases the likelihood of sharp liquidity pressure, particularly during system wide events, including recent global developments increasing wholesale price risk and funding pressure, with no mechanism for recovery once the DMO is set. As highlighted in the ACIL Allen report, WEC estimation accuracy is notably impacted during more extreme increasing market price environments, resulting in substantial underestimates of the WEC.

AGL considers that the wholesale allowance should either remain anchored at approximately the 75th percentile, or, if a median is retained, be accompanied by a materially stronger and transparent prudential allowance that reflects real funding and margining requirements. A safety net that eliminates essential headroom does not increase efficiency; it increases the risk of market failure.

SSO implementation costs

While AGL supports the general intent of the proposed Solar Sharer Offer (SSO) - to increase access to the benefits of solar and shift load to reduce system costs – to ensure an efficient and customer-centred rollout, we consider that all design elements must be assessed against three key objectives and controls identified in our submission to the *Solar Sharer Offer: Consultation Paper 2025–26*[2]:

1. **Viable:** a sustainable pricing structure that reflects the cost of supply without reliance on unfair cross subsidies from other customers. Consistent with the DMO principles and good regulatory practice.
2. **Doable:** designed with simplicity and flexibility to reduce implementation cost, risk and customer confusion. Full implement of all aspects of the proposal by 1 July 2026 is extremely challenging.

[2] See AGL's submission to the Solar Sharer Offer: Consultation Paper 2025-26

3. **Safeguards:** fair use controls and consideration of network impacts to protect customer experience, minimise unfair cross subsidies and support a more equitable transition. The SSO should be a voluntary 'opt-in' product for customers, as proposed.

While we welcome the inclusion of safeguards in the Draft Determination to minimise unfair cross-subsidies and support an equitable transition, the significantly compressed implementation timeframe introduces material risks for both retailers and customers. These risks have the potential to undermine the viability, feasibility, and consumer outcomes of the SSO.

The practical challenges associated with implementation are significant. Retailers face material system, communication, and operational changes, all within extremely compressed timeframes. The absence of historical load profiles for the new tariff further increases forecasting uncertainty and risk. These activities cannot be completed at scale without dedicated resourcing and carry one-off costs that are not reflected in the draft DMO allowances.

Customer confusion is also a significant risk. The SSO represents a substantial departure from traditional tariff structures, and retailers will need to invest in clear, accessible, and tailored communication to support informed decision-making. These additional communication requirements add to the operational burden at a time when headroom has already been compressed by the Draft Determination, further weakening recoverability under the draft settings. It is essential that recognition be given to SSO-related uncertainty further heightening the risk profile of the draft DMO settings, compounding the already reduced buffers within the wholesale and operating cost allowances.

To manage these risks and support an orderly and customer-centric transition, AGL considers that the AER should include a time-limited implementation allowance, either within the retail operating cost or as a small fixed-daily adjustment, to recognise the one-off costs associated with establishing the SSO.

A safety net price must be viable. Without explicit provision for SSO implementation costs, the Draft Determination risks embedding additional structural under-recovery at precisely the point when prudential and operating pressures are increasing across the retail sector.

SSO usage profile

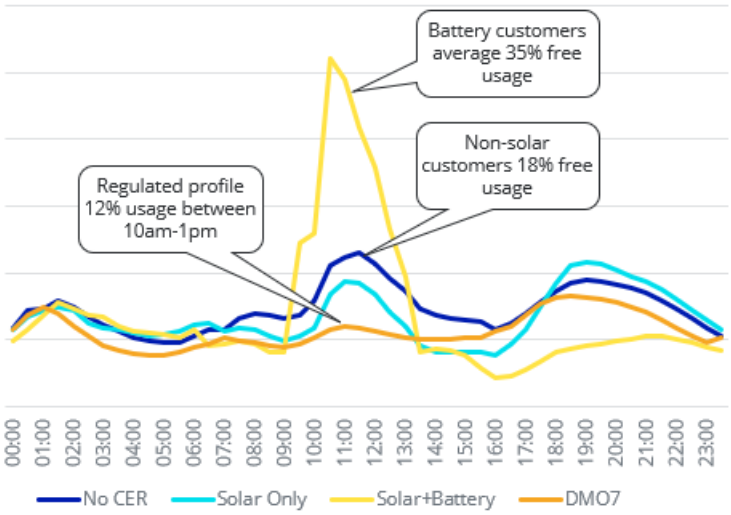
The draft SSO price determination has assumed there is no change in consumption behaviour when compared to the traditional DMO usage profile. In effect presuming that customers that sign-up to the SSO will not shift any additional demand into the free window. This is a material pricing assumption that rests on an unjustified presumption that the SSO will fail to deliver benefits as customers who proactively opt into this tariff will not respond.

As outline by Commonwealth DCCEW, the purpose of the SSO is to help households make savings by moving consumption into the free power period. Design of the usage profile should reflect confidence that this landmark new policy will work as intended.

There is good reason to believe that the SSO will be the battery plan of choice for certain battery customer types. It is therefore possible that the daily consumption of a five person household could be consumed within the free three hour window on this plan by some customers.

In our experience, any customer opting in to this type of product is highly likely to shift their usage, into the free period. As shown in the figure below, insights drawn from our 'Three-for-free' AGL product shows that there are material shifts in customer usage in the free window.

Figure 1 AGL insights on 'Three for free' customer usage



This presents a cost recovery risk for retailers that actual SSO customers free window usage is potentially far greater than presumed by the AER.

Should this likely scenario occur, this additional cost will never be recovered directly from the SSO customer base and must instead be absorbed by the retailer.

We recommend the AER forecast at least a marginal increase in usage during the free usage period. Whilst the additional usage amount may be debatable, the inclusion of any additional amount must be reflected in the pricing methodology.

SME margin

AGL supports the principle that an efficient margin should only compensate retailers for risk not accounted for elsewhere in the regulated price. As stated in our submission to the Issues Paper last year, our view is that the regulatory pricing methodology is unable to capture the inherent risk arising from uncertainty in energy usage due to the wide variation in small business customer types and usage patterns.

Through the course of constructing the representative load shape and daily usage profile, the DMO methodology must make pragmatic compromises to construct a single representative profile. Whilst actual residential load profiles will largely reflect these profiles, actual small business profiles will vary considerably particularly for daily usage profiles.

This volatility in the underlying assumptions has flow on implications for each cost stack component. The wide variation in SME customer types and usage profiles increases the risk that these assumptions are imprecise, which in turn creates risk at the DMO price level. SME customer load is also likely to be significantly more impacted by the economic business cycle, further increasing the risks associated with serving SME customers.

Reducing SME margins to a uniform 6%, as outlined in the Draft Determination, disregards the distinct risk profiles of business customers who have more variable usage, seasonal closures, higher churn, and different contract shapes. Further, a margin that does not recognise risk undermines the viability of SME offerings where SMEs are expected to engage in competitive markets.

While the Draft Determination analyses and refutes a number of arguments put forward by stakeholders to the Issues Paper in 2025, it does not clearly demonstrate how the distinct risk profiles of business customers are accounted for elsewhere in the DMO. For these reasons, we urge the AER to consider reinstating a separate SME margin – unless comprehensive evidence is provided to support the reduction.

Clarification and further cost considerations

Endeavour Energy TOU tariffs

The draft determination for Endeavour's TOU tariff does not currently match the distribution network's tariff. It appears that the weekend timings are not included. We are seeking clarification as to whether this is intentional or an omission. A clarification on this point should be provided as soon as practicable.

Demand tariffs and the calculation of demand charges

With the express inclusion of demand tariffs within the DMO regulatory framework, a model usage profile is needed to calculate the annual price. Currently the draft determination does not make mention of a DMO usage profile for this purpose. Whilst this may be inferred from the daily consumption profile, we request the AER expressly clarify the intended usage profile used for demand tariffs.

Retailer costs benchmarking does not capture the recent RBA decision on merchant card payment fees

The Reserve Bank of Australia has recently announced its conclusions to reform merchant card payments, aimed at reducing the cost of card transactions for consumers and small businesses by lowering interchange fees and removing merchant surcharging. The reforms are intended to improve transparency, simplify payment experiences and address inefficiencies in the current payment system, particularly where interchange fees have remained elevated relative to underlying costs when compared to other jurisdictions.

While the policy intent is to reduce overall payment costs within the system, AGL considers the changes are likely to alter established price signals and cost-recovery mechanisms, requiring retailers to absorb or reallocate card payment costs within their broader pricing and operational structures. In some instances, these costs may be unintentionally passed on to consumers as part of cost recovery.

The reforms also have practical implementation implications, requiring retailers to update systems, billing arrangements, customer communications and internal processes to comply with the new requirements within the relatively short timeframe ahead of the proposed commencement date of 1 October 2026. AGL will provide a confidential estimate of the annual regulatory cost to the AER. This level of cost will not only impact retailer margins but also create a heightened regulatory burden at a time when energy retailers are required to invest significantly in innovation, system change and other regulatory reforms. The RBA changes will also need to be considered alongside new and existing obligations under the DMO framework.

Should you have any questions in relation to this submission, please contact Kyle Auret at kauret@agl.com.au.

Yours sincerely,

Ralph Griffiths

GM Policy and Market Regulation, AGL Energy

About AGL

At AGL, we believe energy makes life better and are passionate about powering Australian life. Proudly Australian since 1837, AGL delivers around 4.6 million[3] gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind and hydro, and batteries and other firming and storage technology. We are building on our history as one of Australia's leading private investors in renewable energy to be a leader in the transition to a lower emissions and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other services to enhance the way Australians live, move and work.

[3] Refer to AGL's ESG Data Centre FY25