



9 April 2026

Paul Harrigan
Executive Director, DMO and Consumers Branch
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

By e-mail: aerinqury@aer.gov.au

Dear Paul,

Default Market Offer 2026-27 – Draft Determination

Alinta Energy welcomes the opportunity to respond to the Australian Energy Regulator's draft determination on the Default Market Offer for 2026-27 (DMO8).

As a major retailer to over one million customers, Alinta Energy has a strong interest in retail price regulation and its impact on the retail energy market.

We have concerns about the cumulative direction of the DMO framework following the 2025 reforms. These changes introduced a revised objective which, combined with AER-initiated changes, has resulted in adjustments to the methodology and a tightening of retail cost allowances. In addition, the draft determination proposes changes to the wholesale energy and network cost components that further shift risk onto retailers. In combination, changes to wholesale, network and retail cost allowances may place increasing pressure on retailer participation over time.

This reinforces the importance of recalibrating the final decision to support competition and a resilient retail market, sustaining a broad range of offers and ongoing innovation in the long-term interests of consumers.

1. Changes to the DMO

The DMO has undergone significant and repeated change since its inception, including the extensive review in 2025, which introduced a new statutory objective redefining the role of the DMO in relation to small customers and its pricing framework. Successive reforms have materially evolved the role of the DMO and reduced retail cost recovery. Ongoing adjustments have also created a degree of uncertainty, which can make longer-term planning more challenging for retailers.

Over time, this may influence the breadth of participation and the diversity of offers available in the market. Ensuring the framework continues to support a competitive and sustainable retail sector will be important to maintaining innovation and engagement across all customer segments, in the long-term interests of consumers.

2. Efficient Cost Approach

The 2025 reforms require the DMO to be based solely on efficient costs. While the use of efficient cost benchmarks is an appropriate starting point, their application in the draft determination appears to adopt a narrow interpretation that does not fully reflect the commercial realities of operating in a competitive retail market. In practice, efficiency must encompass not only the direct costs of supply, but also the

costs associated with managing risk, acquiring and retaining customers, and investing in systems and product development.

The draft determination's treatment of these elements risks excluding costs that are integral to the functioning of a competitive market. Activities such as customer acquisition, innovation and ongoing system development are not discretionary overheads, but necessary features of a dynamic retail sector. Where benchmarks are set below levels that support commercially sustainable participation, the likely outcome is a reduction in retailer diversity and competitive tension, rather than a genuine improvement in efficiency. Over time, this may limit the range of offers available to customers and reduce the incentives for innovation, which would not be consistent with the long-term interests of consumers.

3. Measures of competition

In its December 2025 report in its Inquiry into the National Electricity Market, the Australian Competition and Consumer Commission noted the limited improvement in market concentration (as measured by the Herfindahl-Herschman Index).¹ While it is expected that the level of concentration of market share would decline following market deregulation (for example, halving between 2009 and 2019 when the DMO was introduced in the case of New South Wales), since the introduction of the DMO (and Victorian Default Offer [VDO] in the same year), improvements in the level of market concentration have stalled.

While the AER points to the impact of applying uniform retail operating margins to small business customers under the VDO as not being detrimental to competition (the HHI-index has remained stable), this, and the re-introduction of price regulation through the VDO has not resulted in a material *decrease* in market concentration.²

4. Wholesale Energy Cost Percentile

The AER proposes to continue to apply a 50th percentile wholesale energy cost forecast. We remain of the view that this materially understates the risk retailers bear in managing wholesale exposures. Retailers must purchase hedging products based on risk-adjusted commercial requirements, not median cost assumptions. Underpricing wholesale risk forces retailers to absorb volatility, creating financial fragility.

The consequences of this approach were clearly observed during the 2022 wholesale price crisis, when sustained price volatility and elevated contract costs contributed to the exit of more than a dozen small and mid-tier electricity retailers across the NEM, with approximately 500,000–600,000 customers involuntarily transferred or exited via retailer of last resort processes.

The application of the 95th percentile in earlier DMO determinations reflected the asymmetry of risk exposure to retailers. Most customers are insulated from wholesale market price volatility, and hedging against that volatility to shield customers from price shocks is a fundamental function of electricity retailers. In this context, the accumulation of risk and the distribution of wholesale market price outcomes mean the 50th percentile is not a balanced or accurate approach to risk allocation.

While we support the inclusion of a volatility allowance, it serves a different function to the choice of percentile benchmark and cannot substitute for it. A volatility allowance is designed to account for short-term price variability, whereas the percentile benchmark determines the level of wholesale cost exposure that retailers are expected to manage. In this context, it is doubtful that a volatility allowance combined with a 50th percentile benchmark would have reflected the risks retailers faced during the 2022 price shock associated with the Russia–Ukraine war. Notably, that period saw retailer exits despite the 75th percentile being applied for the first time.

Current geopolitical conditions, including conflict in the Middle East, point to a market increasingly exposed to recurring exogenous shocks rather than isolated events. In this environment, a 50th percentile benchmark derived from back-casting may understate the asymmetric and episodic nature of wholesale price risk. We therefore recommend the AER review this approach and consider a return to at least the 75th percentile to better reflect forward-looking risk.

¹ ACCC (2025), *Inquiry into the National Electricity Market – December 2025 report*, pages 12-13.

² AER (2026), *2026-27 Default Market Offer – Draft determination*, page 92.

5. Lowest Network Tariff Application

The AER has chosen to apply the lowest network tariff when calculating the DMO, namely, the time of use structure. This element of the draft determination further compounds the unreasonable allocation of network tariff risk to retailers, by embedding a structural mismatch that retailers cannot efficiently hedge or manage within existing regulatory constraints.

The change in method also materially dilutes the year-on-year increases in actual network costs. For example, the Energex's Pricing Proposal for 2026-27 indicates the increase in network use of system costs for small customers on the time of use network will be 12.6%.³

The consumer safeguards built into the Accelerating Smart Meter Deployment rule change require retailers to obtain customer explicit informed consent to move customers from a flat to time of use retail tariff structure following the installation of a smart meter. Most distributors will automatically reassign smart meter customers to a time of use network tariff. To manage the mismatch in costs between the retail and network tariff structures, retailers must secure customer consent (whether the customer is on the DMO or a market offer). Simply installing a smart meter will not mitigate the risk of network and retail tariff structure mismatch. Furthermore, retailers have already committed to replacing meters under Legacy Meter Replacement Plans, reflecting an efficient deployment of smart meters by 2030. Departing from current deployment plans may not be possible and doing so will increase the overall cost of the smart meter roll out.

Far from being efficient, the approach to network costs in the draft determination systematically transfers network tariff design risk to retailers, that will ultimately be reflected in higher risk premiums in market offers. To address this, the AER should consider either establishing a DMO for each tariff type or using the highest applicable network cost when setting the cap, to avoid embedding structural mismatches and unmanageable risk within the framework.

6. Small to Medium Enterprise Margin Glide Path

Changes to retail margins for SME customers should be introduced gradually. A transition from 11% to 6% over time would allow retailers to adjust their cost structures and product offerings. More abrupt changes, particularly alongside tighter wholesale and network allowances, may reduce the range of offers available to SME customers.

We encourage the AER to consider a transition period over DMO8–10 (2026–29) to support this adjustment. This would help maintain competition and ensure SME customers continue to benefit from a broad choice of products and ongoing service innovation.

7. Solar Sharer Offer

The AER's draft determination proposes setting the tariff cap for consumption above the fair use threshold (24kWh over the three-hour free period) at the relevant off-peak or solar soak rate. In our view, this does not provide a sufficient signal to discourage excessive usage during the free window, nor does it reflect the underlying costs or the impact that such concentrated demand can have on the grid. Given that average household consumption is between 11kWh and 13kWh per day, exceeding 24kWh within three hours would likely reflect high-load activities such as electric vehicle or battery charging, or significant appliance use.

Without a stronger price signal, customers exceeding the threshold, who are more likely to have invested in CER, may face relatively low marginal costs, with the resulting system impacts effectively borne by other customers. This risks creating cross-subsidies and undermining the intent of the fair use threshold.

We recommend that the tariff cap applied above the free use threshold be set, at a minimum, at shoulder (or equivalent) rates.

³ Energex (2026), *Pricing Proposal Overview Document*, page 9.

8. Controlled Load and SSO Treatment

The Solar Sharer Offer (SSO) provides 3 hours of free electricity during the day but excludes the second element of controlled load customers. This creates inequity and is likely to lead to customer confusion, complaints, and increased administrative burden. While this can be partially managed through clear information during the opt-in process, there is no practical alternative to this approach. It highlights the inherent trade-offs and administrative complexity that arise from market interventions such as the SSO.

9. Apportionment of fixed and variable costs

The reforms requiring the DMO to be set at the tariff level will inevitably affect the balance between fixed and variable components. For some customers, particularly those with lower consumption, increases in the daily supply charge may be material.

Of the options presented in the draft determination to mitigate changes to fixed costs, Alinta Energy does not support a manual adjustment. Such an approach is inherently arbitrary and introduces unnecessary uncertainty for retailers. If the AER intends to adjust the apportionment of fixed and variable costs, a more transparent approach would be to reconsider the allocation of bad debt from a fixed to a variable recovery basis, which would have a clearer and more direct impact on the daily supply charge for DMO8.

From DMO 9 onwards, maintaining consistency in how costs are allocated will be important, with costs recovered through their most appropriate mechanism. As with other components of the DMO, there is a risk that adjustments made now may defer, rather than avoid, more material changes in future determinations.

Conclusion

A sustainable and competitive retail market is in the long-term interests of consumers. In our view, the draft determination does not support this outcome. Without some recalibration of wholesale and network cost settings, there is a risk of reduced retailer participation over time, which may narrow consumer choice and affect outcomes in the longer term.

We recommend the AER to consider refinements to its approach to ensure risks are appropriately allocated and the framework continues to support a competitive and resilient retail market in the long-term interests of consumers.

Alinta Energy welcomes any further opportunity to discuss our response with the AER. Please contact David Calder (David.Calder@Alintaenergy.com.au) in the first instance.

Yours sincerely

Graeme Hamilton
General Manager, Government & Regulatory Affairs