



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

9 April 2026

To Mr Harrigan,

**Default Market Offer 2026-27 – Draft Determination**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (AER) on the draft determination 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 continued engagement on the DMO reforms and recognises that amendments to the regulatory framework were likely to drive methodological changes, particularly with an increased focus on a retailers' 'efficient' costs of supplying energy. However, ENGIE emphasises that finalisation of the DMO 8 is occurring in a rapidly shifting environment that is placing significant pressure on energy retailers. Beyond the changes to the DMO and the introduction of the Solar Sharer Offer, retailers are also working to implement a significant number of reforms in the second half of 2026, including a package of consumer reform rule changes proposed by the Minister for Climate Change and Energy. These market reforms are occurring in the context of heightened fuel market disruption, inflation increases, and interest rate rises stemming from the recent escalations of conflict in the Middle East, which may contribute to more significant cost-of-living pressures in 2026-27 than previously expected. While ENGIE will continue to support its customers through its hardship policies and programs, the additional pressures on household budgets may result in higher debt provisioning for energy retailers.

It is, therefore, important that the AER take into account the cumulative impact that the changes to the DMO methodology proposed in the draft determination may have on retailer viability. ENGIE believes this impact to be material and considers there are several components of the cost stack that are not consistent with the requirement that the DMO allow retailers to recover their efficient costs.

In the remainder of this submission, ENGIE provides detailed comments on key sections of the draft determination paper.

### Solar Sharer Offer (SSO)

ENGIE recognises the AER faces several constraints from government policy when it comes to setting SSO tariffs. ENGIE is broadly supportive of the AER's approach to setting SSO tariffs, which follow the corresponding DNSPs' time-of-use network tariffs and provide for retailers to recover costs incurred in the free usage period.

However, ENGIE does seek to reiterate previous feedback that by relying on the standard DMO usage profile when setting SSO tariffs, the AER risks significantly understating the consumer behavioural response to the SSO and may expose retailers to a substantial under-recovery of their efficient costs.<sup>1</sup> ENGIE considers that the AER's draft proposal to assume no behavioural response from customers on the SSO is unrealistic, particularly in the context of the information customers must be provided in advance of signing up to the SSO.<sup>2</sup>

ENGIE acknowledges that the AER did seek information from retailers that have provided energy plans with 'free usage periods', which provided a wide variety of load shift responses from consumers. As the AER does not currently have access to a reliable dataset on the representative consumer behavioural response and associated load profile, ENGIE recommends the AER take a different approach that manages the risk that retailers will not recover their efficient costs if there is a strong consumer behavioural response to the SSO tariffs.

In terms of cost recovery for retailers, the AER's draft position was to reapportion all relevant costs incurred by retailers in the free usage period to the usage charges for the non-free usage periods. The AER stated that reapportioning these costs to usage charges would create stronger price signals for customers to change their usage behaviour than reapportioning these costs into the daily supply charge.<sup>3</sup> While ENGIE agrees with this principle, ENGIE asks that the AER consider reapportioning some of the relevant costs into the daily supply charge for the final determination.

ENGIE contends that allocating relevant costs incurred in the free usage period to both usage charges and the daily supply charge would retain price signals for behavioural change and also address part of the under-recovery risk that retailers will face from the AER's use of the standard DMO usage profile when setting the SSO tariffs for the initial SSO.

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<sup>1</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, p. 2.

<sup>2</sup> Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019, 1 July 2026, section 13.

<sup>3</sup> Australian Energy Regulator 2026, Default market offer prices 2026-27: Draft determination, March, p. 126.

## Allocation of costs to the fixed and variable tariff caps

As outlined in our previous submission, ENGIE is broadly comfortable with an approach that allocates fixed retailer costs to the daily supply charge and allocates variable costs to the usage charges in the DMO tariffs.<sup>4</sup>

ENGIE notes that the AER is considering moving away from this initial position based on the AER's calculation of the draft DMO tariff caps resulting in some daily supply charges that are higher than those in current standing offer tariffs set by retailers. While ENGIE acknowledges this initial position may negatively impact some consumers with relatively low annual usage, ENGIE considers the three alternative options to cost allocation are largely arbitrary approaches to achieve the AER's desired balance between supply and usage charges.

Although the AER's initial position to setting the DMO tariff caps may result in a step-change in the DMO, ENGIE contends that this approach more closely aligns with other policies. For instance, the Essential Services Commission's (ESC) approach for setting the Victorian Default Offer (VDO) places greater weight on the fixed component. Additionally, if taken up later this year, Recommendation 5 of the Australian Energy Market Commission's (AEMC) Pricing Review envisages a transition to network tariffs that are predominantly fixed.

## Wholesale cost methodology - 50<sup>th</sup> percentile

ENGIE does not support the AER's proposed adoption of a 50<sup>th</sup> percentile wholesale energy cost (WEC) estimate and continues to consider that the 95<sup>th</sup> percentile WEC estimate would more closely represent a prudent retailer's approach to hedging their load. ENGIE reiterates its concern that adopting the 50<sup>th</sup> percentile estimate would not reflect an efficient hedging strategy as it assumes that retailers would not sufficiently hedge against potential downside risks and volatility.<sup>5</sup> Indeed, this change would be particularly challenging for smaller retailers not backed by generation assets, due to insufficient liquidity of the necessary financial contracts.

In the context of the AER's obligation to consider the efficient costs of supplying customers on standing offers, ENGIE suggests that a prudent retailer would be relatively more conservative in their hedging strategy when supplying customers on default standing offer contracts compared to acquisition market offer contracts.

ENGIE's concern about the shift from the 75<sup>th</sup> percentile estimate to the 50<sup>th</sup> percentile estimate is more pertinent given the recent escalations in conflict in the Middle East and the resulting fuel market disruption. While electricity wholesale futures for the autumn–winter period have so far remained relatively benign, some analysis suggests that a prolonged conflict, particularly if it damages key LNG export facilities in the

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<sup>4</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, p. 2.

<sup>5</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, pp. 5-6.

Persian Gulf, could materially worsen global supply conditions and place upward pressure on energy prices here in Australia.<sup>6</sup> For instance, analysis already suggests that prices for NEM futures for the 2026-27 financial year (aligned with the draft determination period) were up between 11% and 16% since 2 March for the four mainland NEM states.<sup>7</sup>

ENGIE notes that while not a perfect comparison, these emerging issues have parallels to the 2022 energy crisis. Then, in a submission to the 2022-23 DMO Draft Determination, ENGIE (then Simply Energy) warned that there was a “risk that international issues (for example, the uncertainty relating to war in Europe) will flow through to Australia and create higher volatility in our electricity market.”<sup>8</sup> At the time, the AER was proposing a shift in the margin for forecast error from the 95<sup>th</sup> percentile estimate to the 75<sup>th</sup> percentile. Notably, the ACIL Allen report has since outlined that after this 2022-23 Final Determination was made, traded prices increased consistently, impacted by volatility and disruption from the start of the war in Ukraine. This was noted as an increasing market price environment which resulted “in a substantial underestimate of the WEC.”<sup>9</sup> ENGIE notes that in the subsequent period, seven smaller retailers without generation assets failed and triggered ROLR events.<sup>10</sup>

ENGIE considers that the current uncertainty surrounding the conflict in the Middle East may once again increase volatility in electricity markets, in addition to the regulatory pressures outlined in ENGIEs previous submission.<sup>11</sup> In this context, ENGIE contends it would be appropriate for the AER to retain the relatively more conservative 75<sup>th</sup> percentile estimate until the market outcomes from this conflict is better understood and revisit the consultation on reducing to the 50<sup>th</sup> percentile in a subsequent DMO period.

### Bad debt costs

ENGIE does not consider that the AER’s proposed approach to estimating bad debt costs based on actual expensed written-off debt will provide an accurate estimate of the costs that retailers will face in a future period. ENGIE agrees with Origin Energy’s feedback to the issues paper that provisioned amounts of bad debt would smooth year-to-year fluctuations and would more closely align with common business practices.<sup>12</sup> ENGIE considers this is particularly relevant for 2026-27, as recent trends in cost of living factors (such as increasing CPI, higher cash rates, escalating fuel prices, and an upward trend in the unemployment rate) point towards an elevated risk of escalating household debt levels in 2026-27. Additionally, ENGIE notes that the period from which the data is drawn is inclusive of when both State and Commonwealth

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<sup>6</sup> The Energy 2026, “Will war push up default power bills up again?”, 1 April.

<sup>7</sup> The Energy 2026, “Will war push up default power bills up again?”, 1 April.

<sup>8</sup> Simply Energy 2022, Submission to the Default Market Offer 2022-23 – Draft Determination, 10 March, p.4.

<sup>9</sup> ACIL Allen 2026, Wholesale energy and environment cost estimates for DMO 8 Draft Determination, 17 March, p.24.

<sup>10</sup> AEMC 2024, Failed retailers electricity and gas contracts – Final Report, 24 March, p4.

<sup>11</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, pp. 5-6.

<sup>12</sup> Origin Energy 2025, Submission to Default Market Offer prices 2026-27 – Issues paper, 28 November, p. 8.

governments provided customers with energy bill subsidies. This would have led to lower bad debt outcomes than would have otherwise been the case, particularly in the Energex zone where the Queensland Government provided a \$1,000 credit on the accounts of all households in 2024-25.<sup>13</sup>

In relation to the differing bad debt costs for residential and small business customers, ENGIE agrees with the AER that supplying small business customers involves greater bad debt risk than supplying residential customers.<sup>14</sup> This is largely due to factors such as higher bills, higher outstanding debt, the role of government support, and the limited ability to recover energy debts when a business fails. In that context, ENGIE questions the draft bad debt cost component in the SA Power Networks region that sets a lower bad debt allowance for small business customers than for residential customers. As will be discussed further in relation to small business margins, ENGIE considers that the AER has not appropriately captured the higher risk profile of supplying small business customers in the draft determination.

### Smart meter costs

ENGIE is comfortable with the AER's proposed methodology to quantify smart meter costs through a customer-weighted average. However, in relation to the forecast number of smart meter installations in 2026-27, ENGIE does not support the AER's proposed approach to rely on reported installations as at 30 June 2025 with a cost of capital allowance to cover project shortfalls in this estimate.

The commencement of the accelerated legacy meter replacement program in December 2025 will significantly escalate the rate of smart meter installations in 2026-27 compared to previous years. ENGIE contends that historical data on installations will not provide a reasonable indicator of future installations.

In advance of the accelerated legacy meter replacement program, each DNSP developed a Legacy Meter Replacement Plan (LMRP) in consultation with energy retailers. The annual replacement schedule in these LMRPs establish the annual 'interim targets' that retailers will be required to comply with in each of the next five years.<sup>15</sup> In ENGIE's view, a prudent retailer would estimate their expected smart meter installation costs based on the number of installations required to meet their interim target in each distribution region. A prudent retailer would also provision contingency costs to account for additional smart meter installations required beyond their interim target, such as in relation to customer requests for a smart meter<sup>16</sup> or shared fusing meter replacements<sup>17</sup>.

ENGIE contends that the AER should estimate the number of smart meter installations in 2026-27 based on an average of the interim targets for each DNSP in the 2026 and 2027 calendar years. The AER could then

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<sup>13</sup> Queensland Government 2024, Miles Government delivers \$1,000 for Queensland households, Media release, 2 May, accessible at: <https://statements.qld.gov.au/statements/100217>

<sup>14</sup> AER 2026, Default market offer prices 2026-27: Draft determination, March, p. 90.

<sup>15</sup> National Electricity Rules, Clause 11.177.6

<sup>16</sup> National Energy Retail Rules, clause 59AA

<sup>17</sup> National Electricity Rules, Clause 7.8.10D

utilise this data as an input into its estimate of the customer-weighted average of smart meter costs. ENGIE expects the DNSPs can provide the AER with a breakdown of residential and small business meters in each interim period, if this has not been provided in the LMRP applications already.

### Retail margin for small business customers

ENGIE notes that the AER has proposed to apply a uniform margin of 6 per cent for residential and small business customers, which is a significant reduction from the 11 per cent margin for small business customers in the 2025-26 DMO final determination.

In its submission to the issues paper, ENGIE supported a reduction in the small business margin if the higher risk profiles for servicing this customer cohort were appropriately accounted for in other aspects of the cost stack, such as in the bad debt cost component.<sup>18</sup> Relevantly, it does not appear that the AER has proposed to reallocate any additional costs for bad and doubtful debts in the 2026-27 DMO draft determination, as the allowance for small business customers has decreased by between \$1 and \$14.50 relative to the 2025-26 DMO.<sup>19</sup> In this context, ENGIE does not consider the AER's draft approach to setting the small business retail margin appropriately reflects the efficient margins associated with servicing small business customers.

### Non-regulated tariffs – demand tariff usage profile

ENGIE notes that the amended section 10 of the Electricity Retail Code requires an electricity retailer to ensure that its standing offer prices for 'non-regulated tariffs' comply with the price cap, based on the model annual usage of a representative customer.

ENGIE expects that the most common type of 'non-regulated tariff' will be a demand tariff standing offer. While the AER has published a detailed model usage profile for each distribution region in its draft determination, ENGIE notes that there is no specific maximum demand component provided for the purpose of retailers calculating compliant demand tariff standing offers. ENGIE would appreciate the AER's guidance on whether it expects retailers to utilise the published usage profile to calculate a value for maximum demand (for example, based on the highest 30-minute period of consumption in the profile) or whether this was an oversight in the draft determination and the AER intends to provide a standalone maximum demand value to be used by retailers when setting their 'non-regulated tariffs' in each relevant distribution region.

### Network tariffs

ENGIE opposes the AER's decision to use the "lowest cost network tariffs" and does not believe this position is consistent with the mandatory consideration of allowing retailers to recover the efficient costs to supply customers on standing offers. Likewise, ENGIE questions some of the reasoning the AER has provided for this decision. The draft determination sets out that this proposal "provides an incentive for retailers to have

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<sup>18</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, p. 8.

<sup>19</sup> AER 2026, Default market offer prices 2026-27: Draft determination, March, p. 81.

the lowest cost applicable tariffs assigned” but outlines that in some regions this would be the TOU network tariff, which would only be applicable once a smart meter is installed. However, the paper assumes that “retailers can arrange for installations” to achieve this.<sup>20</sup>

Unlike other elements of the cost stack, network costs are largely outside retailers’ control and there are very few tools in which to manage the risks associated with network tariffs. Overall, retailers have a limited ability to manage the network tariffs assigned to their customer, as this is at the discretion of the distributor. The distributors may choose to reject a request for a tariff reassignment, which can only be made once per year, if they do not agree that there has been a sufficient change in use.

Additionally, many customers, primarily those on accumulation meters, have no choice of network tariff and cannot be supplied on a TOU network tariff. While the AER has somewhat acknowledged this issue, ENGIE does not believe that it would be practical for retailers to arrange for fast-tracked installations above the established Legacy Meter Replacement Plans (LMRP), which have been developed by distributors in consultation with retailers and metering coordinators (MCs) and approved by the AER. Indeed, some distributors have already communicated their concern to retailers around any acceleration of installations beyond the LMRP schedule and bringing forward replacements scheduled for future LRMP interim periods. Retailers have been informed that this activity may result in higher costs to both retailers and consumers.

As a consequence, ENGIE believes this draft decision would have significant implications for retailers’ ability to recover their efficient costs. Moreover, encouraging retailers to depart from well-established LMRP schedules may undermine the integrity of the rollout as a whole. Indeed, it remains uncertain whether the AER has consulted with distributors on this issue and the potential for the escalation of smart meter installations and mass tariff reassignment requests post-1 July 2026 as retailers seek to readjust customers’ network tariffs to match the tariffs relied on by the AER in setting the DMO tariffs.

As the approach to apply the “lowest cost network tariffs” will not likely be reflective of efficient network costs for all customers receiving the relevant DMO tariff cap, ENGIE contends that alternative approaches should be considered. For example, ENGIE previously expressed support for the AER to apply a blended approach where there is more than one relevant network tariff code, which would be based on the proportion of customers on each tariff code.<sup>21</sup> While this feedback was provided in the context of scenarios where there was more than one default network tariff, ENGIE considers this approach could similarly be applied for flat DMO tariff caps. This approach would recognise that customers on a flat DMO may either have a flat or time-of-use network tariff code, depending on their metering configuration. ENGIE notes that this approach would effectively create a ‘glide path’ that reflects the progressive installation of smart meters through to 2030 and the assignment of customers to time-of-use network tariffs.

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<sup>20</sup> AER 2026, Default market offer prices 2026-27: Draft determination, March, p. 60.

<sup>21</sup> ENGIE 2025, Submission to Default Market Offer 2026-27 – Issues paper, 26 November, p. 4.

## Retail costs

ENGIE did not support either of the two options proposed in the issues paper. However, ENGIE's previous submission noted that maintaining the customer-weighted average approach for retail costs to serve would likely result in a 'more accurate estimate' of efficient retail costs to serve standing offer customers. While the AER has chosen the most preferable option of the two, ENGIE maintains its longstanding reservation 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.

## Concluding remarks

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

Yours sincerely,



**Braeden Keen**

Regulatory Advisor



**Matthew Giampiccolo**

Manager, Regulation and Policy