SHOPPING CENTRE COUNCIL OF AUSTRALIA

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Default Market Offer 2026-27 Issues Paper

The Shopping Centre Council of Australia (SCCA) welcomes the opportunity to provide input into the Default Market Offer 2026-27 Draft Determination (the Draft Determination) and to contribute the perspective of our members, many of whom are embedded network operators (ENOs).

The SCCA and our members have had longstanding engagement with the AER on embedded network matters, and arguably more so than any other party across the period that the AER has been the regulator. We have engaged across all relevant consultations in relation to retail exemptions, network exemptions and customer protections. Our feedback on the Draft Determination is from the perspective of ENOs, as well as our experiences engaging with regulatory proposals pertaining to embedded networks.

We appreciate the engagement we've received from the AER team, including in our meeting on 9 April 2026. As we discussed, embedded networks and ENOs are often wedged into sub-optimal regulatory frameworks that aren't designed for embedded networks or that seek to address problems that don't exist. A common justification is that increased requirements for embedded networks are needed for consumer protection, however our experience is that failures in consumer protection (at least in respect of embedded networks for small business customers as distinct to residential customers) are never identified or detailed.

In our experience, this is due to a lack of familiarity from regulators with embedded networks and the challenges that industry face complying with regulatory requirements in practice, particularly while energy costs continue to increase alongside compliance costs without acknowledgment by regulators.

Further, in our experience our concerns are too often dismissed, with unfulfilled commitments that they will be considered as part of other reviews.

Ultimately, these issues will only be resolved through a commitment from the AER to review and reform the exemption framework for non-residential embedded networks in collaboration with ENOs. This would require a focus on the impact of the multitude of regulatory and exemption conditions that impact embedded networks.

Such a review would align with the Government's broader productivity agenda, particularly in respect of the productivity-inhibiting effect of isolated regulatory measures combining to create environments that are, in practice, unworkable for industry. In effect, embedded networks are experiencing a 'death by a thousand cuts' through siloed regulation that doesn't consider the practical impact of each additional requirement or constraint.

Our feedback on the Draft Determination highlights these issues and proposes interim solutions that would support the ability of shopping centre ENOs to continue to provide energy to tenants at efficient, competitive, and viable prices.

Context

We note the AER's comment at section 4.3.6 of the Draft Determination that issues in respect of embedded networks are not relevant at this stage "because the DMO will not apply to

embedded networks in DMO 8". Respectfully, the DMO is directly relevant for ENOs because embedded networks must comply with the standing offer that is set at or below the DMO.

In practice, therefore, ENOs are effectively already capped at the DMO because:

- Exempt sellers being required to ensure pricing and selling rates are no higher than the standing offer, which is set at or below the DMO. This means ENOs are, as a matter of practical operation, already subject to a DMO cap; and
- Under AER exemption frameworks (including the Network Exemption Guidelines), exempt sellers are required to cap each component of the applicable standard/standing offer, not just the total bill. This "component-level" cap is especially consequential when DMO methodologies change the balance between supply charges, usage charges, peak/off-peak relativities, or other tariff components.

Accordingly, changes to DMO methodology and structure have real and immediate consequences for ENOs through this regulatory linkage.

For context, the current cost environment for embedded networks is already stretched. Our members have experienced cost base increases of approximately 5% (including new embedded network tariffs), at the same time as average gross margins have reduced by 13.3% on an annualised basis across NSW, QLD, and SA.

Cost increases including the proposed DMO 8 calculation methodology, current raw energy contract status, the Ausgrid annual network tariff incremental tariff ratchet for embedded network NMIs, and increased state-based regulatory requirements are all contributing to higher costs for ENOs. The combination of higher costs and lower margins ultimately impacts the ability of ENOs to improve their networks and delivery greater efficiencies for the benefit of customers.

Increasing Complexity of the Regulatory Environment Across Jurisdictions

Broadly, we are increasingly concerned that the regulatory environment for embedded networks is becoming more complex, fragmented and difficult to operationalise, particularly for operators with networks across multiple jurisdictions.

It is disappointing that regulatory and pricing measures affecting ENOs are frequently considered in isolation, rather than as a consolidated package. This is particularly evident in the interaction between:

- DMO structural and methodology changes;
- Jurisdiction-specific network tariff developments (including recent changes affecting some areas, such as Ausgrid); and
- Retail Exemption and Network Exemption compliance obligations, including component-level caps.

These challenges are also particularly acute in jurisdictions where engagement from regulators is significant poorer than the engagement the AER conducts with stakeholders. This "siloed" approach increases compliance risk and cost, and can undermine investment certainty, without necessarily delivering commensurate consumer benefit.

Draft Determination Issues

With the above context in mind, our specific concerns with the Draft Determination are as that the Draft Determination is built around assumptions that align with licensed retailer procurement and risk management, including portfolio approaches and wholesale cost modelling. However, ENOs procure electricity in fundamentally different ways:

- ENOs do not purchase wholesale hedging instruments in the same manner as retailers.
- ENO supply pricing is commonly based around a chosen point in time (e.g., contract renewal timing), which can result in a mismatch with the averaged cost outcomes reflected in the DMO methodology.

As the AER refines its modelling to be more "exact" (including with increased reliance on interval data and other modelling changes), these differences become more material. Differences in cost base, metering arrangements, customer preferences, and site-specific operating realities across embedded networks mean more granular DMO modelling can increase the likelihood of inconsistencies—particularly between implied DMO peak/off-peak ratios and what ENOs can practically offer while remaining compliant.

This risk is compounded by the component-level cap that applies to ENOs, which reduces flexibility to manage differences in load shapes, metering configurations and cost recovery needs.

As we have noted above, our members have experienced increased costs of approximately 5% at the same time as they have experienced an average reduction in gross margin of 13.3% on an annualised basis.

This reality informs our concerns with the following specific elements of the Draft Determination:

- **Wholesale energy costs:** The changes in the Draft Determination are a significant departure from previous DMOs and do not align with how ENOs procure energy. Unlike retailers, ENOs do purchase wholesale hedging instruments. ENOs procure in bulk, often up to a year in advance, at set prices at a particular point in time. ENOs do not have the ability to adjust costs in line with the cost averages in the DMO and adapt to more specific wholesale pricing.

- **Network costs:** The reduction in the Ausgrid network costs for small business customers is particularly concerning as it does not recognise the different cost inputs for ENOs. Unlike retailers, ENOs (particularly in shopping centres) are responsible for maintaining their own network infrastructure and managing key operational complexities, including shopping centre operating hours, tenant mix, and metering configurations.

- **Retail Margin:** Again, unlike retailers, ENOs do not operate large, diversified portfolios where prices can be balanced out across the portfolio to maintain competitive margins. This issue is exacerbated by the ENOs being capped to the standing offer. Further, the cost structures for ENOs generally include site-based operational costs, which retailers to not have, including network costs, metering arrangements and compliance obligations.

Recommendations

Noting our overarching concerns with the regulatory framework for embedded networks, Recommendations 1-3 below would require a separate review/reform process.

Recommendations 4-6 are provided to address our specific concerns with the Draft Determination and would alleviate some of the otherwise significant impact of the Draft Determination on embedded networks while Recommendations 1-2 are actioned.

Recommendation 1.	**The AER should establish a focused review on the regulatory environment that ENOs operate within and commit to implementing reforms ahead of DMO 9.**
Recommendation 2.	**As part of the review in Recommendation 1, the AER should establish an industry working group to support the review.**
Recommendation 3.	**The exemption framework for embedded networks should ultimately be adjusted to provide flexibility for ENOs who are otherwise effectively forced to have a DMO price cap through Condition 7 of the *Retail Exempt Selling Guideline*, unlike retailers.**
Recommendation 4.	**The wholesale energy cost methodology should revert to that used in DMO 7.**

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Recommendation 5. **The network cost methodology should include an assessment of embedded networks cost base and the impact of the price caps that ENOs are subject to.**

Recommendation 6. **The retail margins for DMO 8 should revert to those used in DMO 7.**

As interim measures, we propose that Recommendations 4-6 could be implemented through the DMO while being specifically applicable to embedded network on-sellers only.

Follow up

We appreciate the opportunity to provide feedback on the Draft Determination and would welcome continued engagement with the DMO team and other AER representatives.

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