Natalie Elkins
General Manager, Market Performance Branch
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

8 April 2025

Dear Ms Elkins,

Default market offer prices 2025-26 Draft Determination

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission on the Australian Energy Regulator's ('AER') *Default market offer ('DMO') prices 2025-26 issues paper.*

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Retail Allowance

The AEC supports the AER's decision to keep the retail margin at 6 percent for residential customers and 11 percent for small businesses, as these rates align with regulatory objectives. We understand the pressures on consumer bills arising due to increased network and wholesale price increases and likewise note that retailer margins are at all-time lows. The AER draft determination analysis, we believe, highlights this, noting that there is no evidence of excess profit and continued competition for new customers. However, profit margins are notably tight, with retailers, particularly smaller ones, facing a risky and challenging operating environment. We believe, therefore, that these rates should at minimum be retained and encourage the AER to assess the need for an increase. Indeed, the maintenance of these rates are especially pertinent in light of the continued suspension of the competition allowance, which has increased the risks of cost underestimation.

In our submission to DMO 6, the AEC strongly opposed the removal of the competition allowance outlining that it could negatively affect the more than 90 per cent of customers on market offers. We note that the AER has chosen not to include a competition allowance in DMO 7 and has left it ambiguous as to when it will be reintroduced. The AEC encourages the AER to clarify the application of the criteria set out in the draft determination and provide a clear and objective process for its return.

Indeed, the AEC likewise seeking greater consistency in the AER's approach to this issue to reduce retailer uncertainty. In DMO6, the AER decided to remove the competition allowance because CPI was outside the target range (see sections 1.2 and 8.1.2 from Final Decision DMO6). However, in DMO7 the AER changed this approach by choosing a specific type of CPI in order not to include the competition allowance (in this case the trimmed mean CPI), instead of providing certainty and maintaining the approach for DMO6 (ordinary, headline CPI - refer section 9.3.2 from the DMO7 draft determination). While the justification for the application of the trimmed mean is the impact of the Commonwealth's Energy Relief to small customers, it again highlights the uncertainty facing retailers when settings are changed for each successive DMO determination.

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Retail competition is in the long-term interests of customers, with the competition allowance enabling a sustainable and competitive market that offers consumers a range of fair and valuable products and offerings that suit the needs of different customers. Moreover, it is vital for a retailer's ability to innovate which is increasingly important in enabling the energy transition and maximising customer opportunities. Indeed, we encourage the AER to consider the role retailers play as trusted enablers of consumer participation in a reliable and decarbonised energy system in their final decision.

Solar PV
We are not supportive of a specific modification to consider PV exports on the hedging construct. Indeed, the AEC is unclear why PV risks need to be separately assessed, noting that the ACIL approach to adjusting the hedging construct from one decision to the next would have sufficiently captured these risks. Additionally, the rationale behind removing solar exports was that they are unregulated, allowing retailers to set prices based on their strategies for acquiring and retaining customers. As a result, any extra costs or benefits associated with solar exports should likely be factored into how retailers price solar exports, rather than being included in the DMO hedging assumption.

Moreover, the AEC believes that regulators and governments have an important role in educating customers and raising awareness of solar export pricing. As the value of solar exports continue to decline due to the increasing number of solar installations, retailers must reassess the Feed-in Tariff (FiT) to ensure they can recover their costs and maintain competitive pricing. This may involve reducing the FiT – including to below zero - to better reflect the true market value of solar exports in this evolving landscape where there is an oversupply of solar generation.

Any questions about this submission should be addressed to Jo De Silva, General Manager Retail Policy by email to jo.desilva@energycouncil.com.au or by telephone on 03 9205 3100.

Yours sincerely,

Jo De Silva

Jo De Silva
General Manager Retail Policy