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## Default market offer prices 2025 – 26: Issues paper

Submission via email: [DMO@aer.gov.au](mailto:DMO@aer.gov.au)

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### AGL Response to Default market offer prices 2025 – 26: Issues paper

AGL Energy (**AGL**) welcomes the opportunity to comment on the Default market offer prices 2025 – 26: Issues paper (**Issues paper**).

Proudly Australian for more than 185 years, AGL supplies around 4.1 million energy services. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market (NEM), comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

The Issues paper raises several issues relating to the Wholesale Energy Cost (WEC) methodology, Retailer cost assessments, the retail margin and competition allowance, and the impact of smart meter roll-out reforms on the network cost methodology.

We note the underlying objective of the proposed methodology changes are not only to address currently identified issues, but also to build a resilient and consistent pricing methodology for future price determinations. Whilst we support this objective, factors such as the ongoing customer transition to smart meters, the increased uptake of customer energy resources, continued shifts in wholesale market price drivers, and reforms in cost reflective network tariff regulation present significant challenges in providing an enduring methodology.

Attached to this letter is our response to the questions raised in the Issues paper. We look forward to further engagement with the AER and industry on these challenging issues.

If you have any queries about this submission, please contact Kyle Auret on 0422 165 705 or [kauret@agl.com.au](mailto:kauret@agl.com.au).

Yours sincerely,

Ralph Griffiths  
General Manager, Policy and Market Regulation



**ATTACHMENT: Response to Issues paper questions**

**DMO Wholesale costs**

*Net System Load Profile and interval meter data*

**Question 1: Which option do you prefer and why?**

AGL considers that option 2 is the most appropriate approach to address the issues identified in the Issues paper– the blending of one year of NSLP data with interval meter data.

We consider this is the case for three reasons. First, the importance of capturing a customer load profile that broadly reflects a representative retailer’s load. Second, the one year of viable NSLP data reasonably reflects customers on accumulation meters. Third, the importance of consistency in methodology subject to a material change in circumstances.

With regard to the importance of a broadly reflective retailer’s customer load, the NSLP or accumulation meter data, still reflects a significant proportion of a retailer’s customer load. Without this load profile, the results would not truly reflect a representative retailer’s load profile. As noted in the Issues paper (page 13), less than half of customers in the DMO regions currently have an interval meter.

Whilst we acknowledge that the proportion of accumulation meter customers will continue to decline over time as customer’s transition to smart meters, the industry is not yet at a stage where accumulation meter data can be ignored.

As noted in the Issues paper, material issues were identified for the subsequent NSLP data following the implementation of 5MS. However as also noted, these issues were largely rectified through AEMO’s second adjustment. At this stage, the NSLP data following this adjustment reflects a reasonable reflection of accumulation meter consumption data. We do not consider the third adjustment will materially affect this view.

With regard to the importance of consistency in the DMO methodology, we do not consider the corrected NSLP (i.e. following AEMO’s second adjustment) provides a basis to change the methodology due to the potential for further adjustments. Whilst these adjustments may occur, they do not appear to be a material risk to the reliability of the NSLP, but rather remove extraneous values.

We acknowledge that over time, the total percentage of small customers on accumulation meters will reach a stage in which the data will may no longer be a reliable source for forecasting customer load due to settlement anomalies being more pronounced over a smaller data set, however these issues will likely be immaterial when blended with the significantly larger interval meter data set.

Furthermore, for the reasons outlined above, we do not consider option 1, use of interval meter data only, is appropriate. Given the NSLP remains a reliable data source following AEMO’s second adjustment, option 1 would fail to capture all reasonably available sources of information when determining a representative customer load forecast.

**Question 2: Is there another available dataset that could be used to simulate the residential customer load profile that the AER is not currently considering? Is it publicly available?**

We are not aware of another publicly available dataset that could be used to simulate the residential customer load profile.

**Question 3: Do you have access to, or know of, any data which highlights the difference in the consumption profile of accumulation and interval meter customers, excluding the impact of solar exports?**



We do not consider it is appropriate to use an accumulation meter trace excluding solar imports even if it was available. The AEMO settlement process applies the NSLP shape to both import and export channels for accumulation meters. Therefore, any adjustments would likely require assumptions regarding an inferred accumulation meter trace. We do not consider this approach is necessary as it will give rise to unnecessary complications in the methodology.

**Question 4:** If you are a retailer, are you making changes to your hedging strategies or positions in light of AEMO's third adjustment to the NSLP?

Our hedging strategies are based on internal load forecasts of AGL customers, which has reference to historic actual AEMO data.

As noted in the Issues paper, material issues were identified for the subsequent NSLP data following the implementation of 5MS. However as also noted, these issues were largely rectified through AEMO's second adjustment

The NSLP continues to be an important information source for load forecasting.

**Question 5:** If you are a retailer, do you use AEMO's NSLP in your hedging strategy, and if so, how do you weight it alongside any other data sources – for example, your own customer book?

Noting the above response, for retailers, actual settlements, and thus wholesale spot exposure, in respect of a large proportion of customers, is in part based on the NSLP. Accordingly, the NSLP is an important factor in the management of risk. In the case of the DMO, the customer load forecast should be a broad representation of a retailers' market exposure. The NSLP should therefore be incorporated into the DMO forecast to capture this.

**Question 6:** Given issues with the available load profile data, should the AER determine separate load profiles and associated wholesale cost forecasts for residential and small business customers? Are there factors we should consider, depending on which load profile data option is used?

AGL considers the separation of load profiles between these small customer types warrants further consideration by the AER. Importantly, the AER should first assess if there is sufficient information available to separate residential and small business customers and whether there are any potential drawbacks to this approach that may outweigh the benefits of a targeted assessment.

Whilst it may be possible to distinguish the customer type for interval meter data, this not possible for accumulation meter customers. Careful consideration is needed to ensure the correct volume weighting between the consumption and interval meter types can be achieved with this data set.

### *Controlled Load Profile (NSW)*

**Question 7:** Which option do you prefer and why?

AGL considers option 2 – blend historical controlled load with NSLP is the most appropriate approach given this reflects how controlled load is settled. Furthermore, this is likely a more accurate reflection of a representative retailer's approach.

**Question 8:** If you are a retailer, are you making changes to your hedging strategies or positions in light of the removal of the NSW controlled load profiles?

As noted in the responses above, we use our internal load forecasts in our hedging strategy.



<b>Question 9:</b> If you are a retailer, do you consider AEMO's CLP in your hedging strategy, and if so, how do you weight it alongside any other data sources – for example, your own customer book?
See response to question 8.
<b>Question 10:</b> If you are a retailer, does controlled load settlement against the NSLP change your valuation of the associated energy? If so, to what extent?
No, we expect the movement in the NSLP profile by including the controlled load will account for the value of the energy, therefore there is no change in valuation.
<b>Question 11:</b> Is there an alternative approach for modelling the controlled load profile in NSW the AER is not currently considering?
AGL is not aware of any other approach that would be appropriate other than discussed in the options.
<b>Question 12:</b> If Option 1 were adopted, how should the AER estimate the volume of controlled load energy in NSW?
As outlined in our response to question 7, AGL does not support this option even if accurate data at the market level was available to perform the estimate.
<b>Question 13:</b> Do you have or are you aware of any data to show the load shape for customers with controlled load on an accumulation meter compared to those on an interval meter?
No, the only available data for load shape for accumulation meters is the NSLP.

### *Solar PV exports and hedging costs*

<b>Question 14:</b> What are your views on whether the AER should consider accounting for any additional hedging costs arising from customers' solar exports? If you are a retailer, how does the presence of customers' solar exports impact your hedging strategy and how could these additional costs be quantified within the wholesale methodology?
<p>As noted in the Issues paper:</p> <ul style="list-style-type: none"> <li>- the DMO aims to reflect how a prudent retailer might purchase energy, taking into account requirements set out in the <i>Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (Regulations)</i>; and</li> <li>- in identifying customer load shape, the DMO6 factored in interval meter data by using import (consumption) data only and excluding export data;</li> <li>- there can be a cost exposure for retailers during times where their net load, and spot prices, are negative and the AER is conscious of the impact the presence of solar exports could have on retailers' hedging needs;</li> <li>- some retailers indicated to the AER that they use a range of strategies to manage the exposure arising from solar exports beyond adjustments to feed-in tariffs; those strategies cannot readily be accounted for directly in the wholesale cost methodology used for the DMO; the AER considered an approach to identify additional hedging costs arising from solar costs; such approach may be limited in its ability to reflect actual hedging costs; and the AER is seeking input on alternative approaches.</li> </ul> <p>AGL welcomes the AER's invitation to provide input on alternative approaches. That is particularly the case given the risk that the current methodology may underestimate the costs facing retailers and the principles set out in the Regulations, including that an electricity retailer should be able to make a reasonable profit in relation to supplying electricity in the region ( s16(4)(b)).</p>



One way to address this issue would be for the AER to revert to setting the wholesale electricity cost at the 95<sup>th</sup> percentile of outcomes (rather than the 75<sup>th</sup> percentile) as occurred in DMO3 and earlier. That approach would more appropriately reflect the uncertainties and risks faced by retailers, including as to wholesale spot market volatility, solar export volumes and the costs that can arise from negative spot market prices at times of high solar exports. As was noted in the AER's DMO 6 determination, "retailers were consistent in their recommendation to the AER to return to the 95<sup>th</sup> percentile". This would also facilitate a consistent approach that the AER could maintain going forward which would increase efficiency and predictability.

### *South Australian wholesale methodology*

**Question 15:** Further to analysis of OTC contract information, are there other methodologies the AER could investigate to benchmark wholesale cost forecasts in South Australia?

We consider the existing approach remains appropriate.

**Question 16:** Should the AER repeat the LRMC analysis for DMO 7 as a comparative data point for wholesale energy costs in South Australia?

We recommend that this is completed again as it represents a useful comparison point for the wholesale energy costs in South Australia, particularly the green-fields approach. However, we understand this green-fields approach may take account of existing assets located in other regions that are providing energy through interconnection and, where this is the case, consider that the capital costs for those assets that are providing energy through interconnection should be included.

### Inputs into wholesale modelling

**Question 17:** Would any of our modelling inputs specifically benefit from additional variability? If so, what objective data sources could be used to inform the creation of additional inputs?

AGL is supportive of the modelling process AER follows to develop WEC for DMO. As discussed in our response to question 14, a movement back to the 95<sup>th</sup> percentile would help accommodate some of this uncertainty.

### Retail Costs

**Question 19:** Do you consider these current methodologies appropriate and, if not, what alternatives should be considered?

The AER's retail cost calculation methodology is broadly sound but could benefit from greater transparency in terms of how NBDE is calculated.

Adjusting bad and doubtful debt allowances to better reflect future indicators could strengthen this model. Currently, these allowances are based on historical data, which generally captures payment trends but may not fully account for sudden economic shocks like COVID-19. Introducing a mechanism to adjust allowances in response to significant events would help ensure the DMO remains responsive in exceptional circumstances.

This approach would allow for predictable cost management in normal conditions while providing safeguards for extraordinary events, balancing consumer protection with fair cost recovery for retailers.

**Question 20:** What additional operational considerations or capital expenditure costs should the AER consider in determining the cost recovery of advanced metering costs?



At this stage the annual monitoring of the smart meter roll out is an appropriate tool to monitor retail metering costs. The implications of the yet to be finalised AEMC 'Accelerating smart meter' rule change are yet to be comprehensively realised. We will communicate any additional cost considerations in due course.

## Retail margin and allowance

**Question 23:** What other factors, if any, should the AER consider in deciding whether to apply the competition allowance?

As noted in the Issues paper, the AER's decision to exclude a competition allowance in DMO6 had regard to economic conditions, cost-of-living pressures, and affordability challenges. AGL supports the AER's objective of ensuring consumers don't pay more than necessary for an essential service. To help achieve this, the DMO should provide a safety net while supporting a competitive retail market.

The DMO was established following the ACCC's 2019 REPI report. As set out in the Issues Paper, it is a safety net, and should balance affordability with incentives for both (1) retailers to compete and innovate, and (2) consumers to engage in the retail market, including seeking the best offer for them.

We recommend the AER consider these key points regarding the competition allowance:

- **Balancing the DMO's Role:**  
The DMO should prevent high standing offer prices without becoming an alternative for engaged consumers, who drive market efficiency by selecting the products that best suit them. As the ACCC has previously noted, the DMO price should be set sufficiently above efficient market offers to support retail competition. Retail competition is in the long-term interest of consumers.
- **Supporting Retailer Viability:**  
The Regulations require the DMO to allow reasonable retailer profit (s16(4)(b)). This is essential for sustaining service quality and innovation. An appropriate competition allowance enables a sustainable, competitive market that offers consumers fair and valuable products and a range of options to suit different customer preferences.
- **Addressing Margin Pressures and Cost Complexity:**  
The ACCC's December 2023 report noted that residential retail margins have sharply declined to just 2.3% of average costs to serve those customers. Rising cost variability, driven by complex network tariffs and smart meter rollouts, poses challenges. Such variability underscores the risk that excluding the competition allowance from the DMO may undermine its objectives and jeopardise retail competition.

A competition allowance within the DMO will help safeguard a balanced, sustainable electricity market that serves all consumers effectively. Accordingly, the AER should consider re-including the competition allowance as part of DMO7. By enabling reasonable retailer profit and supporting retailers in navigating increased cost complexities, the DMO can continue to fulfill its role as a safety net without undermining the benefits of a competitive market and engaged consumers.



## Other costs and considerations

**Question 24:** Should network costs be based on a blend of flat rate and time of use network tariffs and why or why not? How could the issues above be overcome – particularly for small business network tariffs – if we were to create a blended cost?

At this stage the current DMO network methodology of a flat rate network tariff calculation should remain in place. The industry still requires more time to consider the impact of the cost reflective network tariff reforms on the network cost drivers and whether additional layers of complexity in the DMO methodology are necessary.

**Question 25:** What are your views on whether the AER should consider adopting new annual usage amounts? What alternative sources should be considered, and/or what values would be more broadly representative than the current assumptions?

The annual usage amounts remain broadly appropriate.

**Question 26:** What benefits do you see in further consideration of improvements to the methodology of timing and pattern of supply? How material may this be and how could we address any additional complexity it causes?

The approach to deriving the timing and pattern of supply remain broadly appropriate.