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

By email: DMO@aer.gov.au

3 April 2025

Dear Ms Elkins,

Default market offer prices 2025-26: Draft determination

ActewAGL Retail (ActewAGL) welcomes the opportunity to provide comments on the draft determination for Default Market Offer (DMO) prices for 2025-26 published by the Australian Energy Regulator (AER) on 13 March 2025.

While ActewAGL operates predominantly in the ACT, we have a growing customer base in NSW. The methodology used by the AER for estimating wholesale energy costs (WEC) is also very similar to that used by the Independent Competition and Regulatory Commission (ICRC) in the ACT. The AER's DMO is therefore increasingly important to our operations.

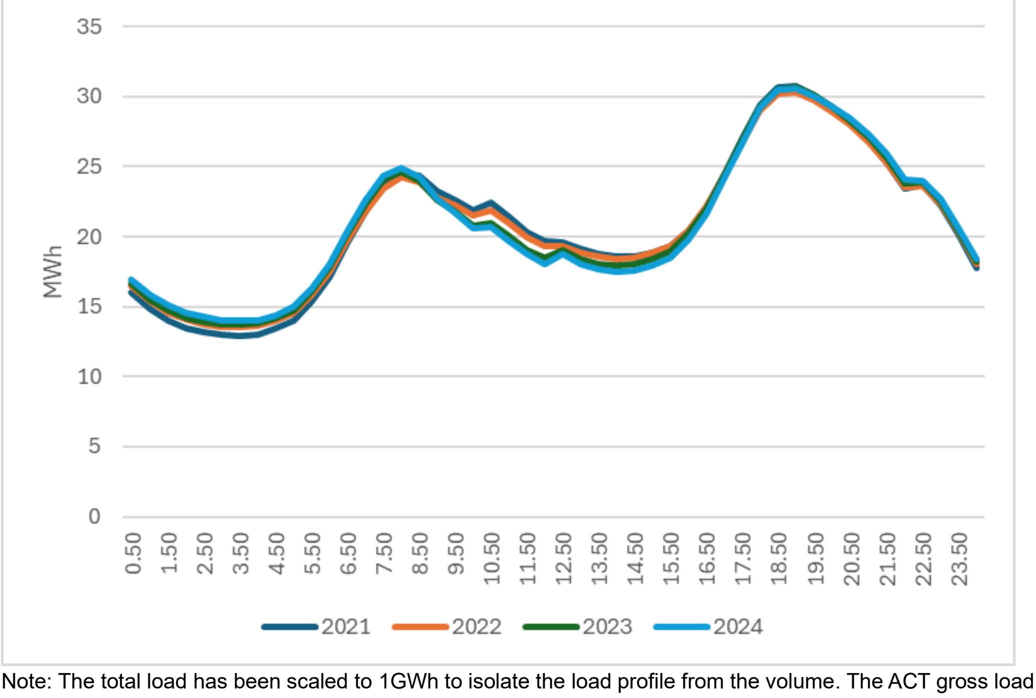
The most challenging issue facing ActewAGL is the change in the load profile driven by solar exports. In the ACT, in particular, the load is heavily skewed toward residential customers, with a solar penetration of 30 per cent. Over the past three years, ActewAGL has experienced a dramatic change in the load profile of its customer base, which is increasingly carved out in the middle of the day (see Figure 1). Given the reduced daytime load at times when the spot price is lower, the average cost of purchasing the net load has increased substantially.

Figure 1: ActewAGL net load profile for ACT

[confidential graph]

In contrast, the DMO and regulated pricing in the ACT continues to be based on the gross load profile (see Figure 2), which is displaying minimal change over time.

Figure 2: ACT gross load profile



Note: The total load has been scaled to 1GWh to isolate the load profile from the volume. The ACT gross load is based on NSLP and Interval meter data to 9 Nov 2024.

We acknowledge the AER's draft decision to exclude rooftop solar exports from the interval meter dataset on the basis that retailers have alternative strategies to manage their purchasing costs, such as adjustments to feed-in tariffs and other load management strategies[1]. However, ActewAGL considers this decision to be unsustainable.

In the very short-term, we accept that the increasing cost of the net load can be managed to some extent by lowering feed-in-tariff (FiT) rates. As solar exports continue to grow, it is necessary to lower FiT rates to maintain parity with the DMO/ICRC regulated pricing decisions. To discount beyond the regulated price requires even more aggressive FiT reductions. The point at which this will become unsustainable (i.e. zero FiT rates) is fast approaching. For example, the Essential Services Commission has set the minimum flat feed-in tariff in Victoria to 0.04 cents per kWh starting 1 July 2025[2].

The AER suggests that to include solar exports and not to account for other available measures to manage the load profile (hot water and electric vehicle charging orchestration, demand management programs and other solar soaking strategies) would result in wholesale costs above what could be reasonably expected to occur. ActewAGL is already actively managing its load profile and therefore, the combined impact of such measures is already accounted for in the NSLP and interval data used to estimate regulated prices.

The AER's proposed methodology for a hedging adjustment does not address this issue in any meaningful way. Adjusting the hedging strategy to reflect the net load and then applying this hedging strategy to the gross load does not reflect the problem facing retailers. It is the higher average cost associated with the net load profile that is the issue. We also note that the AER's estimates of the hedging adjustment are negative for all distribution areas other than Energex, which is inconsistent with the direction of retailer purchasing costs.

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[1] AER 2025, Draft determination – Default market offer prices 2025-26, [Draft decision | Australian Energy Regulator (AER)]

[2] ESC 2025, Final Decision Paper – Minimum feed-in tariffs to apply from 1 July 2025, [Minimum feed-in tariff review 2025–26 | Essential Services Commission].

In ActewAGL's view, it is imperative that changes to the regulatory methodology be considered as soon as possible to address this situation. It is particularly important for stand-alone retailers that have limited options available to manage increasing wholesale costs. If the methodology for the DMO is not changed to reflect the increasing cost of the net load profile as FiT rates move toward zero, then the DMO will no longer act as a 'safety net' to protect consumers from unjustifiably high prices and it will not allow retailers, acting prudently and efficiently, to recover costs or effectively compete through discounts off the DMO which would inhibit competition in the market.

Please contact Rohan Richardson at rohan.richardson@actewagl.com.au or 6248 3592 if you have any questions or would like to discuss this submission further.

Yours sincerely

Todd Eagles
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