3 April 2025

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

Via e-mail: DMO@aer.gov.au

Dear Ms Elkins

**Default Market Offer 2025-26 (DMO7) – Draft Determination**

Alinta Energy welcomes the opportunity to respond to the Australian Energy Regulator's draft determination on the Default Market Offer for 2025-26 (DMO7).

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers. Alinta Energy has also been at the forefront of driving retail competition and delivering substantial benefits to consumers across competitive energy markets for many years. We make specific comments on the components of the draft determination and the approach the AER has adopted calculating various components of the DMO below.

We remain concerned that the calculation of the DMO has moved away from its original objective of protecting customers from unreasonable prices while allowing retailers to recover their costs (and a sufficient return on investment, reflecting the risk of highly competitive retail markets). While recognising the AER has felt it necessary to modify the determination of elements of the DMO cost stack over time, these decisions have at times appeared arbitrary and not supported by observable evidence in the market.

For example, the move to the 75$^{th}$ to 95$^{th}$ percentile of wholesale market outcomes in the 2022-23 DMO (DMO4) coincided with very high spot market prices and volatility in part linked to the conflict in the Ukraine. Subsequently, several retailers withdrew from the retail market or were subject to retailer of last resort events.

Similarly, the decision to remove the 'competition allowance' component of the retail allowance, when previously no separate component of a retailer's return was contemplated increased risk for retailers and added to the uncertainty of how the DMO would be calculated. The uncertainty has been exacerbated in the draft determination through the introduction of a new criteria whereby the proposed benchmark is the trimmed mean CPI whereas DMO6 only refers to CPI, which would reasonably be interpreted as headline CPI.

With respect the calculation of network costs, the mismatch between network tariff types and the basis of network costs in the DMO is becoming increasingly challenging with flat tariff customers not reflecting the costs associated with cost reflective tariffs. We understand that despite support for blending flat and time of use network tariffs, the AER will retain the flat network tariff approach to DMO7. For DMO8, we recommend that the estimation of network costs be revisited to develop a more accurate approach.

We recognise the challenges the AER faces in arriving at an approach to determining the DMO that balances stability with the need to adapt to changing conditions in the energy market. However, this demonstrates the inherent difficulty of price regulation, particularly in a market as complex and subject to change as the retail energy sector. Further, we would urge the AER to base its final determination on the evidence available and resist efforts to reduce particular elements of the DMO inconsistent with its objectives.  This will not be in the long-term interest of consumers and will inevitably result in negative impacts to effective competition and consumer choice in the immediate term, and potential higher prices in the medium term.

The challenge to accurately estimate costs for the DMO will increase with greater penetration of consumer energy resources, the likely increase in transmission and distribution costs to manage the energy transition and the impacts of CER and the changing mix of electricity generation and the contracts retailers will use to hedge risk.

Alinta Energy supports the use of an expanded data set to estimate retailer costs and the approach adopted to determined wholesale energy costs in South Australia.

Finally, the timing of the final determination remains problematic for retailers, placing pricing, billing and customer facing teams under significant pressure to deliver the changes in product, pricing and billing systems and updating collateral by the effective date. Alinta Energy has raised this issue on a number of occasions in the past in submissions to DMO determinations.[1] Acknowledging the timing of DMO7 is set and that any change to timing would involve changes to the *Competition and Consumer (Industry Code— Electricity Retail) Regulations 2019* and other instruments, we recommend this issue be considered by the AER for DMO8 and subsequent determinations.

We welcome any further opportunity to discuss our response with the AER, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely

**Shaun Ruddy**
Manager, National Retail Regulation

[1] See for example our submission to the Default Market Offer - 2021-22 (18 March 2021), Alinta Energy submission - DMO3, page 2.

## Default Market Offer cost components - comments

### 1. Network costs

#### 1.1 Blending flat and time of use tariffs

Alinta Energy recommends that the calculation of network costs should be further refined for DMO8. While blending flat and time of use network tariffs is one approach, alternatives that further improve the accuracy of network costs incurred should be considered. This issue will persist with the accelerated deployment of smart meters and ongoing network tariff reform involving cost-reflective tariffs.

#### 1.2 Legacy meter costs

We understand the AER is assessing the SA Power Networks and Energex revenue resets at present and other distribution businesses provide annual pricing proposals setting out the cost recovery for alternative and standard control services, which include the cost of type 5 and 6 legacy meters. As the AER is aware, distributors will continue to recover the cost of legacy metering assets from retailers under the Accelerated Deployment of Smart Meters rule change until mid-2030. We support the inclusion of legacy meter costs as basic meters are replaced by type 4 and 4A meters, which are separately included in the smart meter component of total retail costs.

#### 1.3 Treatment of NSW Renewable Energy Zone costs

We support the inclusion of New South Wales Renewable Energy Zone costs in the DMO to support the NSW Electricity Infrastructure Roadmap.

#### 1.4 Timing of final determination

As discussed above and relayed to the AER in previous submissions, consideration of a better approach to the timing of the final determination would reduce the regulatory burden and costly commitment of retail resources to meet the effective date of DMO prices. We do not support delaying the effective date as a means of solving this issue, but an earlier final determination date would reduce the costs involved to prepare for the application of new DMO pricing and the significant complexity involved in this. Alinta Energy would welcome discussing this issue in detail with the AER for future DMO determinations.

### 2. Wholesale energy costs

#### 2.1 Load profile

For DMO7, we support the blending of interval data and the NSLP as proposed by the AER. However, notwithstanding the impact of controlled load and customers with solar PV systems, a sample of interval metered customers without these appliances would closely reflect the usage of NSLP customers, as the now represent material subset of all customers.

#### 2.2 Exclusion of solar exports from the interval meter dataset

We understand the AER has determined to maintain the approach applied to DMO6 that excludes solar exports produced by small customers from interval meter data used to simulate load profiles. This approach creates inconsistency with AEMO settlement for retailers and potential challenges in underestimating hedging. The AER has undertaken an analysis adjusting WEC outcomes including and excluding solar exports. The approach accounts for any change in the risk profile facing retailers where solar exports are excluded from the load profile.

The minor nature of the changes arising from this comparison and the resulting hedging adjustment set out in table 5.1 of the draft determination suggest that applying the adjustment for DMO7 may be of limited value.

### 2.3 South Australian wholesale methodology

Alinta Energy supports the continuation of the approach adopted by the AER for DMO6 to apply to DMO7, noting the consistency of OTC contract market data with ASX contract data.

## 3. Environmental costs

Alinta Energy supports the maintenance of the market-based approach to environmental cost forecasting. The outcomes of the National Electricity Market wholesale market settings review may introduce new or replacement environmental costs that will need to be included in the determination of the DMO.

## 4. Retail costs

### 4.1 Collecting cost data from a greater number of retailers

We support the approach to collecting data on retail and other costs from a broader cohort of retailers. As noted by the AER, this wider group of retailers supplies 99 per cent of small customers where the DMO applies and therefore provides a more accurate reflection of retailer costs.[2]

### 4.2 Legacy metering cost recovery

Alinta Energy agrees with the changes to the calculation of smart meter costs by removing the non-capital component of alternative control service meter costs from the annual smart meter cost. As discussed in part 1.2 above, we support the recovery of legacy metering costs in the network cost component of the DMO.

## 5. Retail margin and competition allowance

We agree with the AER that maintaining the retail margin at 6 per cent for residential customers and 11 per cent for small business customers to be appropriate for DMO7.

The competition allowance (which will not apply to DMO7) is set as a fixed dollar amount. For DMO4 and DMO5, a 'retail allowance' set at 10 per cent and 15 per cent for residential and small business customers respectively applied (later reduced for DMO5). For DMO5, the AER stated that "the retail allowance set for each year needs to:

- reflect a return on retailer risk
- provide some leeway for differences in retailers costs relative to our model
- provide room to allow retailers to effectively compete in the current market."[3]

In addition to our comments above on the change in methodology, we acknowledge the impact of higher inflation in recent years impacting a range of goods and services consumed by households and businesses and have offered support including debt relief for customers and measures beyond those required by regulation. At the same time, the shift from retail allowance to retail margin plus competition allowance (with the latter applying based on movements in the CPI) is an example of changes to the calculation of the DMO that creates material uncertainty.

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[2] Australian Energy Regulator (2025), *Default market offer prices 2025-26: Draft determination*, page 56.
[3] Australian Energy Regulator (2023), *Default market offer prices 2023-24: Final determination*, page 39.