AUSTRALIAN ENERGY COUNCIL

Mr. Simon Duggan
Deputy Secretary
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601

Lodged via online portal

21 November 2025

Dear Mr. Duggan

Subject: Consultation on the Proposed Solar Sharer Offer (SSO)

The Australian Energy Council (**AEC**) welcomes the opportunity to provide a submission to the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) on the proposed Solar Sharer Offer (**SSO**).

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation, supporting the transition to a net-zero economy.

While the AEC shares the government's objective of improving energy affordability, we cannot support the SSO as currently proposed. The policy, in its present form is not cost reflective, introduces systemic risk and may lead to negative outcomes for the very consumers it is intended to help.

1. Managing Retailer Risk Amid Policy Change

The AEC wishes to note the complexity of implementation and risk management challenges introduced by the SSO as a mandatory industry code. The national energy governance framework, administered by the Australian Energy Market Commission (**AEMC**), the Australian Energy Regulator (**AER**) and the Australian Energy Market Operator (**AEMO**) provides retailers with investment certainty through consultative processes. The introduction of foundational market rules outside of this framework can introduce unforeseen operational and financial risk for retailers and create an elevated risk of unintended consequences.

The complexity faced by retailers with respect to policy reforms taking place outside of the existing governance framework is further compounded by the unprecedented velocity of other concurrent mandatory reforms, including the Energy Consumer Reforms, the Accelerated Smart Meter Rollout, and significant changes to the DMO itself. This rapid legislative pace drives industry distraction, compounds administrative complexity, and forces retailers to absorb unrecoverable costs for rushed IT system overhauls, increasing the risk of billing errors and non-compliance.

2. The Core Problem: Mandating a Revenue Shortfall

The core flaw of the SSO is that it mandates a zero-dollar ($0/kWh) retail price for a specific window while leaving the costs to supply that energy intact. This regulatory asymmetry creates a guaranteed revenue shortfall on every unit of energy consumed during the period.

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To mandate a zero-dollar revenue period while retaining positive network, wholesale, and certificate costs renders the tariff non-cost-reflective by design. The impact of moving these costs out of the free window to other higher priced periods creates a risk that households who opt into the tariff yet are unable to move sufficient consumption into the free window would pay higher bills than they would otherwise. This risk is discussed further below.

A. Unrecoverable Variable Network Charges

Retailers are compelled to pay network charges to Distribution Network Service Providers (**DNSPs**) for every customer. Crucially, these tariffs include volumetric (variable) usage charges (cents per kWh) that apply to every unit of electricity delivered.

Even if the retail price to the customer is mandated at $0/kWh, the retailer must still remit these variable usage charges to the distributor. The current patchwork of state-based network tariffs contains no provision for a zero-cost window. Consequently, the SSO forces retailers to pay distributors to supply free energy, creating a direct financial loss on every kilowatt-hour consumed.

B. Disruption of Portfolio Hedging and Wholesale Costs

We are concerned that the policy rationale underpinning the SSO (that a period of excess solar supply flows through to zero-cost wholesale energy input for retailers) represents an over-simplification of the underlying market dynamics. Retailers do not simply buy energy at the live "spot price," which can fluctuate from negative values to the market cap. Instead, retailers manage a portfolio cost. This is a blended price achieved by purchasing hedging contracts (swaps, caps, and futures) months or years in advance to smooth volatility and ensure stable pricing for consumers. This hedging strategy is the reason customers see a single, predictable price rather than the volatility of the wholesale market.

The SSO disrupts this model. Retailers must still procure hedging coverage for the load consumed during the SSO window to protect against price spikes (e.g., if cloud cover reduces solar output while demand remains high). However, the mandated $0 price prevents the recovery of these hedging costs during that time window. By preventing the recovery of the portfolio cost, the policy undermines retailers' risk management strategies.

C. Contradiction with DMO Principles

This misalignment creates instability that contradicts current regulatory principles. In the concurrent consultations for the Default Market Offer (**DMO**), the industry and the AER are actively working to align retail tariffs with underlying network tariffs to reduce complexity and risk. By mandating a retail tariff structure (the SSO) that is completely decoupled from the underlying network and wholesale cost structures, the SSO proposal in its current form enforces misalignment that the AER is currently trying to resolve.

3. Projected Outcomes: Negative Impacts on Consumers and Competition

This current design of the SSO is likely to bring consequences for consumers that run counter to the policy's stated objectives, which are outlined below.

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A. The Mandatory Cross-Subsidy

A revenue shortfall (such as that created by the SSO) cannot be absorbed by retailers. Retailers need to recover these costs and the only available mechanism within the design of the tariff is to raise prices outside the "free" window. This can be done by:

- increasing the fixed daily supply charge; or
- increasing the usage rates during peak/shoulder periods.

There is a risk that such a mechanism disproportionately penalises customers opting into the SSO tariff who cannot shift sufficient load, despite their best intentions. Whilst this concern will be relevant for all customers opting into the SSO, it may be exacerbated for those less able to change their consumption profiles in the home, such as renters, vulnerable households with medical equipment, or those at work during the day. These customers will see their peak and fixed charges rise to subsidise the "free" energy of others, which could lead to inequitable outcomes and bill shock.

B. Erosion of Competition

The proposal arrives when retail margins are already under compression from a combination of factors, which include a challenging wholesale market, a complex regulatory framework and tightening price regulation approaches. This sustained pressure already limits the ability for retailers to offer competitively priced market offers that most customers are currently benefitting from. By mandating retailers to offer a service where the tariffs are not cost reflective, the SSO introduces a new uncompensated financial liability that may further erode the margin available for competitive market offers to consumers. The cumulative effect of these factors may discourage the development of new, innovative and competitive offers, which could harm engaged customers and work against the objective of market-led efficiency.

Additionally, it is important to differentiate between market-driven offers that feature "free" consumption periods, which are designed to be cost-reflective and sustainable through the offsetting of costs across other tariff components, and the proposed SSO. Retailers' existing free-hour offers are built on a range of factors, including state-based Feed-in Tariff (**FiT**) rates (the payment retailers provide for surplus solar energy exported to the grid), portfolio hedging and cost offsetting. By contrast, the mandatory nature of the SSO risks undermining these existing innovative and cost-reflective market approaches, thereby diminishing the customer benefits that arise from competition.

4. Managing Increased Demand Volatility

The SSO's design potentially contributes to demand volatility, in the event that there is large-scale adoption and significant load shift by participating consumers. The $0/kWh price acts as a powerful incentive to concentrate flexible electricity consumption into a narrow window, which would be followed by the sunset peak consumption period. If the SSO tariff is adopted at a material scale, this could result in the creation of a more severe evening "ramp," which would result in the transition from solar to fast-response thermal generation in a more sudden manner. Applying mechanisms (such as the suggested fair use policy detailed below) may help to mitigate this risk.

Retailers manage this demand volatility through hedging. However, as noted, the SSO (combined with concurrent DMO reforms) limit retailers' ability to recover the cost of these hedging contracts, which impacts upon their ability to manage risk.

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It is noted that the national transition to Time-of-Use (**ToU**) tariffs, driven by the mandatory smart meter rollout and network tariff setting processes, is already an established, market-aligned mechanism for driving load to off-peak periods. For the SSO to effectively achieve its intended purpose without exacerbating network volatility or conflicting with current market signals, its design should be carefully coordinated with these existing foundational reforms and complementary programs, such as the Cheaper Home Batteries Program. This coordination is critical to ensure the SSO acts as a supplementary, reinforcing signal, rather than introducing a potentially destabilising and contradictory mechanism.

5. Recommendations: A Viable Path Forward

The AEC is committed to working constructively with the government. However, for the SSO to be workable, the misalignment between revenue and cost should be resolved before implementation. The complexity of implementing these coordinated national and state-level changes makes the proposed July 2026 deadline extremely difficult to meet.

Retailers require detailed operational rules to begin the complex IT and billing system overhauls. Given this, a minimum 12-month extension from the date all final regulatory details and parallel reforms are confirmed is requested to ensure an accurate, safe, and stable product rollout.

If the SSO is to be implemented, we submit that DCCEEW should consider adopting the following regulatory preconditions:

- **Network Tariff Reform**: The issuance of a formal direction or other regulatory mechanism to implement a corresponding zero-dollar ($0) variable usage charge for network tariffs that aligns with the mandated SSO period. This ensures the retail tariff is not impeded by the network tariff, consistent with the principles being established in concurrent DMO consultations and decreasing the risk for customers opting into the tariff of negative bill outcomes overall.
- **Exemption from Certificate Surrender:** Retailers should be granted an exemption from Renewable Energy Target (RET) certificate obligations for electricity consumed during the SSO period.
- **Cost Recovery for Hedging:** The DMO/SSO pricing methodology should explicitly allow for the recovery of the portfolio costs, including the hedging premiums required to manage the volatility created by the SSO.
- **Operational Safeguards:** Safeguards need to be introduced, such as a fair use policy which puts a limitation on kWh consumption during the free period, to avoid negative consequences for the network and to allow retailers to reasonably model their costs.
- **Review of Existing Incentives:** As an alternative path to achieving fairness for non-solar participants, the government could consider a broader review of the existing incentives and rebates currently provided to solar customers. This approach would allow for the identification and mitigation of any regressive cross-subsidies in the market, addressing the core objective of improving equity for customers not participating in solar schemes without introducing the significant financial and operational risks inherent in the SSO.
- **Extended Timeline:** Strong consideration should be given to the extension of the July 2026 deadline. Retailers require a reasonable implementation period after parallel reforms (including changes to network tariffs and environmental certificates) are finalised.

The AEC and its members are committed to the energy transition and to delivering affordable energy to customers. We encourage DCCEEW to engage with the AEC and its members to design a policy that is viable, equitable, and sustainable.

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Please do not hesitate to contact me at jo.desilva@energycouncil.com.au or by telephone on 0406 950 726 if you wish to discuss this submission further.

Yours sincerely,

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