ENERGY CONSUMERS AUSTRALIA

Default Market Offer 2026-27 Issues paper

Submission to the Australian Energy Regulator (AER)

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Energy Consumers Australia is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system—one that meets everyone's needs and leaves no one behind on the journey to net zero.

Feedback on the Default Market Offer 2026-27 Issues paper

Energy Consumers Australia (ECA) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Default Market Offer (DMO) 2026-27 Issues paper.

The recent reforms to the DMO – which are aimed at improving its function as a safeguard for disengaged consumers – present an important opportunity for the AER to revise its DMO approach and methodology to ensure the DMO is a genuine and meaningful support for consumers.

ECA has long held concerns that the DMO has not been functioning as an effective safety net for consumers, and it is important that the AER takes advantage of this opportunity to recalibrate the DMO as a meaningful protection, particularly for consumers who are in vulnerable circumstances or who are unable or unwilling to engage with the energy market.

Our submission focuses on ensuring the AER applies the new DMO objective and methodology in a way that supports good outcomes for consumers, particularly standing offer customers who rely on the price protection that the DMO is intended to provide. This means – beyond simply applying a new price methodology – ensuring the DMO achieves its objectives to be 'fair' and 'trusted'.

This will require the AER to consider its approach to all elements of the DMO – particularly components like wholesale costs, retail margins, and customer acquisition and retention costs where previous DMOs have provided too much allowance to retailers at the expense of standing offer customers. We also think there are specific opportunities to make the DMO work better for small business customers.

This review is being undertaken in the context of material electricity price increases, inflationary pressures and government subsidies that seek to alleviate them. It is therefore essential to ensure that the DMO can make a meaningful contribution in helping to address affordability and energy hardship and restoring consumer trust in the energy sector.

Thank you for considering this submission. If you have any questions, please contact Adam Collins at adam.collins@energyconsumersaustralia.com.au.

Summary of Key Points

This section sets out our high-level comments on the issues raised in the Issues paper. Our detailed responses to the consultation questions are in the next Section.

The AER needs to effectively apply the new DMO objective

The forthcoming changes to the DMO's objectives and methodology are the most significant changes to the DMO framework since it was introduced, and it is imperative for consumers that the AER makes changes to its approach to effectively apply the new objective. As we have argued before, the DMO has not been effectively achieving its various objectives and needs to clearly focus on a primary consumer protection objective.[1]

We welcome the new DMO objective to, 'protect households and small businesses on standing offers and in embedded networks by providing a fair, trusted and reasonably priced electricity option that reflects the costs of supplying customers with an essential service'.[2] Effectively applying the new DMO objective requires the AER to put consumers' interests at the centre in determining the DMO.

The DMO needs to be fair and trusted

The new DMO objective includes that the DMO should be 'fair' and 'trusted'. It is important that the AER actively seeks to achieve these objectives in determining the DMO and not assume that adopting a particular methodology will automatically deliver these outcomes.

The DMO needs to represent a fair price for the standing offer customers it seeks to protect. These consumers generally will not have chosen to be on a standing offer (and may be unaware they are on one) and may be unwilling or unable to engage with the energy market. In this context, a 'fair' price should only include retailers' efficient costs of supplying electricity. Indeed, the government has confirmed that the policy intention is for the DMO to be 'a fair price that does not build in additional costs over the efficient cost to electricity retailers of providing an essential service'.[3]

The DMO objective needs to be considered in the context of concerns about energy affordability and broader cost-of-living pressures, and in an environment where one in five Australian households are vulnerable to, or are experiencing, some form of energy hardship.[4] Our surveys show that 98% of consumers have some concern about the cost of electricity and 99% have some concern about cost of living generally (with 43% and 64% respectively 'extremely concerned').[5] A 'fair' price in this context needs to be genuinely affordable having regard to cost of living pressures.

Applying an efficient price methodology as required under the proposed Regulations will help to get the DMO closer to 'fair', but in considering the various questions that arise in setting the DMO – such as ensuring retailers, rather than consumers, bear the burden of wholesale price risk – the AER should consistently preference outcomes for consumers in accordance with the new objective.

Fairness would also indicate that the DMO should be reasonable in the context of other, better offers available in the market. While we acknowledge the DMO does not need to be the best offer in the

[1] ECA, Submission on 2025 Reforms to the Default Market Offer, 5-6.
[2] AER, Issues paper, 5.
[3] DCCEEW, DMO Review Outcomes - 2025 Reforms to the Default Market Offer, 38.
[4] ECA, New report reveals scale of energy hardship in Australia | Energy Consumers Australia.
[5] ECA, Consumer Energy Report Card data, December 2024.

market, previous DMOs have been set too high to adequately protect consumers – up to 27% above more competitive offers.

It is important to ensure that the DMO is 'fair' from the perspective of the consumers it seeks to protect, rather than from the perspective of energy retailers. Regulatory processes are often preoccupied with perceived fairness to regulated entities, prioritising regulatory certainty and deferring to concerns about implementation costs and competition impacts at the expense of outcomes for consumers.

A related change to the DMO framework is the removal of the requirement for the AER to have regard to the principle that retailers should make a reasonable profit – which we advocated should be removed as part of the DMO review.[6] This change is significant and should simplify the AER's decision-making framework and ensure its focus is clearly on outcomes for consumers, without deference to concerns about competition or retailer profits.

For the DMO to be 'trusted', consumers should have confidence that the AER in setting the DMO is prioritising outcomes for consumers, not energy providers, and that the DMO only includes the efficient costs of providing an essential service.

The objective for the DMO to be 'trusted' should also be considered in the context of consistently low levels of trust in the energy sector. ECA's surveys find that only 43% of consumers trust electricity companies – less than supermarkets and banks.[7] Consumers also lack trust in governments to put consumers' interests first.[8]

To help restore this trust, consumers need to have confidence that the DMO is a genuine price safety net. Market offer customers who use the DMO as a reference price to compare offers should also be able to trust that an offer claiming to be better than the default offer is genuinely offering good value. This can only be the case if the DMO itself is set at a fair price.

Key components of the DMO need to be revised to meet the new objective and methodology

The AER rightly acknowledges that setting the DMO based on efficient costs will have implications for each element of the cost stack.[9] More generally the new framework requires that – in addition to applying an efficient price methodology – the AER must consider whether the DMO meets the overall objective of being fair, trusted and reasonably priced. This has significant implications for several elements of the cost stack and we have highlighted in this submission some key changes we believe are required.

The AER should adopt a lower wholesale cost benchmark

We welcome the AER undertaking a review of the performance of its wholesale cost model. This analysis clearly shows that the 75th percentile WEC estimate adopted for previous DMOs is far too high. We have previously argued for the AER to adopt a lower benchmark, and agree with the AER that a move to a lower percentile may be merited under both the current and proposed Regulations.[10] However, even at

[6] ECA, Submission on 2025 Reforms to the Default Market Offer, 7.
[7] ECA, Energy Consumer Sentiment Survey, June 2024.
[8] ECA, Energy Consumer Sentiment Research, October 2022.
[9] AER, Issues paper, 8.
[10] AER, Issues paper, 27.

the 50th percentile the model still resulted in significant over-recovery compared to actual wholesale costs – on average 6.8% per year across the last five determinations.[11]

It is important to consider the practical implication of this: consumers on standing offers have, in each of the five years covered by the analysis, on average significantly over-compensated retailers for wholesale costs compared to actual wholesale costs.

The example below highlights how this would have impacted standing offer customers in the Ausgrid network during the DMO 6 period (2024-25): a representative residential customer would have paid $82 more compared to actual wholesale costs, and a small business customer $210 more. The impact would have been even greater for customers in some other networks like Endeavour, where the back-cast analysis shows the difference between the 75th percentile estimate and actual wholesale costs was higher (and the AER's residential model usage is also higher).

The impact of these excess costs – both to individual consumers, for whom this extra amount is meaningful, and the cumulative impact on the more than half a million consumers on standing offers – is significant.

Example: residential and small business standing offer customers in the Ausgrid network paid around $82 and $210 more in wholesale costs respectively in 2024-25

The back-cast analysis indicates that in the Ausgrid network, for DMO 6 the 75th percentile wholesale costs estimate exceeded actual wholesale costs by around $21 per MWh.

A representative residential standing offer customer (based on the AER's residential model annual usage for Ausgrid of 3.9 MWh) would therefore have paid around $82 (i.e. $21 x 3.9) more in wholesale costs during the DMO 6 period compared to if the allowed wholesale costs had reflected actual costs.

A representative small business standing offer customer (based on the AER's small business model annual usage for Ausgrid of 10 MWh) would have paid around $210 (i.e. $21 x 10) more during the DMO 6 period compared to if the allowed wholesale costs had reflected actual costs.

We strongly support the AER moving towards a lower benchmark but recommend the AER go further than the 50th percentile and determine the percentile which, based on the back-cast analysis, would have resulted in no over or under-estimation of wholesale costs, consistent with the requirement to determine efficient wholesale costs. We also agree that no volatility allowance should be provided to compensate retailers for wholesale risk, particularly given the back-cast analysis shows previous DMO decisions have consistently allowed retailers to over-recover wholesale costs from consumers (i.e. this risk has been borne by consumers not retailers).

We discuss this further in response to **Q10** to **Q12**.

Retail costs should be minimised, and acquisition and retention costs should be at or close to zero

Retail costs under the DMO need to reflect that around 90% of standing offer customers are served by Big 3 retailers, who have significantly lower costs to serve than other retailers.[12] More generally, as we

[11] Ibid, 29.
[12] ACCC, Inquiry into the National Electricity Market report - December 2024, 59

have argued in response to previous DMOs, the AER should apply careful scrutiny to reported retail costs and make these costs, and the retail cost data reported by retailers, as transparent as possible.[13]

Standing offer customers should not have to pay for customer acquisition and retention costs given they are not engaged in the retail market and therefore do not benefit from acquisition and retention activities of retailers.

The proposed Regulations propose to moderate the level of customer acquisition and retention costs (CARC) to some degree by requiring the AER take into account only 'modest' CARC. We note a requirement to 'take into account' these costs does not mean they must be included in the DMO – and in any case we consider an efficient level of CARC for standing offer customers to be at or close to zero.

Retailers –primarily the Big 3 who serve around 90% of standing offer customers – do not incur significant costs to acquire standing offer customers, who typically default onto standing offers rather than actively choosing to be on them. Likewise, retailers do not need to incur significant expense to retain these customers, who by definition are not engaged in the market. The AER's own data shows that there is very little movement of standing offer customers to market offers or vice-versa.[14]

As with other retail costs, the AER should carefully scrutinise retailers' claims for CARC (and not simply adopt a CARC benchmark) and only allow costs that are efficient and consistent with the DMO objective (we think it is unlikely there will be any material costs that meet these criteria).

We discuss this further in response to **Q15** and **Q16**.

The DMO needs to work for small businesses

The reforms to the DMO also provide an opportunity for the AER to give attention to ensuring the DMO works effectively for small businesses. Around 16-18% of small business customers in DMO regions are on standing offers – twice the rate of residential customers.[15]

Energy prices are a significant contributor to financial stress faced by small businesses. Three quarters of small businesses say they are concerned about the cost of electricity, and the average energy debt for a small business consumer is almost twice as high as residential consumers.[16]

The DMO is unique in applying a significantly higher retail margin for small businesses compared to residential customers. The current 11% margin is nearly twice as high as the 6% margin for residential customers. While we think the residential margin is also worthy of review, adjusting the small business margin to align with the residential margin on its own would have an immediate and noticeable impact on energy bills for small businesses on standing offers.

We are pleased that the AER is considering revising the small business margin to be closer to the residential margin. We agree that any bad debt allowance is more appropriately accounted for elsewhere in the costs and shouldn't result in a higher small business margin, particularly given other regulated prices apply uniform margins across residential and small business consumers.

We have discussed this further in response to **Q19**.

[13] ECA, submission-doc-aer-dmo-prices-25-26-draft-determination.pdf, 5.
[14] AER, Retail energy market performance update for Q3 2024-25, Schedule 2.
[15] AER, Default Market Offer (DMO) 2025-26 draft determination | Australian Energy Regulator (AER).
[16] AER Retail energy market performance data Q3 2024-25, Schedule 3.

Responses to consultation questions

Overall changes to the DMO

1. **How should the AER apportion costs across the supply and usage charge elements of the tariff? Is the proposed apportionment of cost elements appropriate?**

We are generally comfortable with the approach the AER has proposed in section 3.1 of the Issues paper. We have commented on the approach to bad debt and retail margins in response to **Q17** and **Q18**.

ECA considers several pricing principles that may be relevant to this question and in determining the DMO generally, including:

- prices should allocate costs fairly, recognising that much electricity infrastructure is sunk and many costs cannot be avoided
- prices must be publicly acceptable and transparent, ensuring they are understandable and perceived as fair by stakeholders
- prices must be fit for purpose for a distributed energy system. Notably, they must reflect that the future where significant amounts of energy are generated and stored locally. In addition, that many consumers are becoming "prosumers" exporting their own energy and being intermittently independent from the grid. These trends will increase significantly into the future.
- prices should promote system efficiency where it meaningfully does so, but in a way that does not unfairly burden those unable to participate
- consumers should only be exposed to dynamic prices if they have an ability to respond to and benefit from them.

ECA has raised in other reviews the need for fairer and more equitable mechanisms for recovery of network costs including rebalancing of fixed and variable charges,[17] though we recognise these are broader issues may be beyond the scope of the AER's review.

2. **How should the AER determine maximum annual bill amounts? Should they be based on the flat DMO tariffs?**

We generally support the AER adopting a simple and transparent approach but recommend the AER model the outcomes for consumers under different approaches. If differences under these approaches are significant (i.e. consumers would significantly pay more under a flat tariff approach) this may suggest the AER should adopt a different approach.

While the paper notes that the ESC bases the VDO maximum annual bill amounts on flat tariffs, prior to the most recent VDO the maximum annual bill was based on two-period time of use tariffs. This resulted in a maximum annual bill that was $30 lower than if the bills had been calculated by reference to the flat tariff.[18]

[17] See e.g. ECA, Submission to the AEMC Pricing Review, 16ff.
[18] ESC, Victorian Default Offer 2025–26, 66-67.

Network costs – general comments

Network costs represent approximately 40% of retail electricity cost stacks, making them a significant driver of retail prices and ultimately household bills. Recent reforms have seen many customers placed on time-of-use (TOU) network tariffs, meaning network costs are now influenced not only by how much electricity is consumed in a period, but also when consumption occurs.

This shift introduces complexity for retailers and consumers, notably creating complexities in determining what a 'fair' price is. Retail reforms intend to ensure customers pay no more than necessary for energy bills. Yet, time-based cost recovery methods imply that customers with peakier load profiles should pay more, even if they consume the same amount of electricity per year.

We are unsure how a realistic and useful reference price can be developed with this dynamic. There is well-known variability in how customers use energy, driven by varying life circumstances such as when people are home and the hours they work.

We recommend the AER coordinate with AEMC and DCCEEW on network tariffs to ensure reforms deliver consistent and transparent outcomes for consumers. Without clear guidance, retailers face uncertainty in designing tariffs that comply with DMO constraints while responding to network pricing signals. This could undermine the objectives of both reforms.

3. **Under the proposed Regulations, should the separate flat rate and time-of-use DMO tariffs use the corresponding network tariff to determine network costs? Why or why not? What alternative approaches should be considered?**

We generally support the AER using the corresponding network tariff (though this should not include demand tariffs), though there are issues that warrant further consideration. Using the corresponding network tariff is the most straightforward approach and should help ensure retailers are not over or under-recovering network charges.

AER retail performance data shows that most customers on a TOU retail tariff are also on a TOU network tariff. This would suggest that using a TOU network tariff for the TOU DMO tariff is appropriate.

However, given the AEMC rule changes, a growing number of customers will be on a flat consumption tariff but will be charged a TOU network tariff. As we discuss below, the implications of this are unclear, depending on whether retailers still pass on higher or lower network costs to individual customers (e.g. if a customer is charged higher network charges, would the retailer increase prices for that customer).

4. **Should the AER develop a blended network cost for the maximum annual bill, or should it instead adopt a particular network tariff? Why or why not? What alternative approaches should be considered?**

We have two potential alternative approaches for the AER to consider. The first would be to simply set two separate maximum annual bills, one for customers on TOU tariffs and the other for customers on flat tariffs. This avoids the complexity of blending.

If the AER does not believe it has the discretion to provide distinct maximum annual bills depending on whether a consumer is on a flat or TOU tariff, our other approach is to nevertheless do the analysis as if it had such discretion and then choose the smaller maximum bill. The DMO is a consumer protection, and the maximum bill should be as small as the AER can reasonably make it. If there was a significant difference between the options, then a blending approach may be appropriate.

Whether the AER should develop a blended tariff depends on whether network tariffs are viewed as being retailer costs, or customer costs (and how this is treated under the DMO maximum annual bill).

If network tariffs are retailer costs, they operate similarly to wholesale costs, where retailers manage these charges and determine how they are recovered through retail pricing. Under this approach, network tariffs do not directly dictate what a household pays for network access; rather, they determine what a retailer pays for its portfolio of customers. Therefore, a blended approach would likely be appropriate for estimating the costs faced by retailers.

If network tariffs are consumer costs, then retailers should price discriminate between households based on their implied cost to serve. For TOU tariffs, this means households would pay different amounts for network access depending on when they consume electricity. However, as mentioned, this poses risks to ensuring every customer can access a fair price for energy.

5. **Under the current Regulations, should the AER continue to use the flat rate network tariff or instead develop a blended network tariff to derive network costs?**

We assume the Regulations will be updated to reflect the outcomes of the DMO review and therefore have not considered this in detail.

If the new Regulations are not made and there is uncertainty in the data to determine a blended tariff, the default should be to err on the side of a lower-priced bill for consumers in line with the DMO objective. We would assume that many customers on a standing offer may not have a smart meter and therefore would not be charged a TOU tariff – so a flat tariff may be appropriate. However, there are difficulties in determining the reference price given how much variability there will be by load profile (if the AER is expecting retailers to pass on individual network customer costs).

6. **If we were to create a blended cost, how could the issues for small business network tariffs be overcome?**

These issues highlight the difficulties in having multiple network tariffs within networks. Preferably, a default tariff should be chosen and applied across most customers (unless for example a customer is part of a Project Edith type trial). This may require further consideration by AER's DMO and network pricing teams to ensure alignment across pricing policy.

7. **Where the corresponding network tariffs are used, and there is more than one default network tariff (for instance in Essential Energy and SA Power Networks), what approach should be used?**

This also highlights the growing complexity in the network tariff process and the need for coordination. We suggest the AER undertake an analysis of weighted average vs most common network tariffs to determine which works best for different consumer archetypes, and adopt an approach that is least cost to consumers.

Wholesale costs

8. **Which option do you consider best meets the criteria set out above?**

9. **What are your views on the application of the new approach to the Energex controlled load profile, in addition to the regions where AEMO's Controlled Load Profile is no longer published?**

We do not have comments on **Q8** and **Q9** at this stage.

10. **What are the implications of adopting the 50th percentile WEC estimate instead of the 75th percentile, based on the back-cast analysis?**

We welcome the AER undertaking the back-cast analysis to assess the performance of its model against actual wholesale costs. As the Issues paper identifies, the back-cast analysis strongly supports preferencing the 50th percentile WEC estimate over the 75th percentile used in recent DMOs (ee note an even higher 95th percentile benchmark was used for earlier DMO determinations).

However, the back-cast analysis also identifies significant over-recovery – an average of 6.8% across the last 5 DMO determinations – even at the 50th percentile.[19] We recommend the AER adopt a lower benchmark, i.e. the percentile which, based on the back-cast analysis, would have resulted in no over or under-estimation of wholesale costs. This would be most consistent with the requirement for the AER to determine efficient wholesale costs.

While we recognise that the AER finds that there is no evidence of systemic underestimation or overestimation,[20] the analysis shows that the model has, based on actual wholesale costs, consistently overestimated the actual WEC (even at the 50th percentile) in recent DMOs. This is significant and should inform the AER's decision on the appropriate percentile.

As stated earlier, it is important to consider the practical implication of this: consumers on standing offers have, in each of the five years covered by the analysis, on average significantly over-compensated retailers for wholesale costs compared to actual wholesale costs. The example shown on page 5 of this submission highlights how this would have impacted a representative standing offer customer in the Ausgrid network.

Given there are around half a million standing offer customers, over the five years covered by the back-cast analysis this represents tens or even hundreds of millions of dollars more that have been recovered from standing offer consumers on wholesale costs alone, compared to if the wholesale component of the DMO reflected actual wholesale costs.

11. **What factors should we consider in determining whether a volatility allowance is necessary?**

We agree with the assessment in the Issues paper that a volatility allowance is unnecessary, even at the 50th percentile.[21] We would argue that it is also not necessary at a lower percentile – one that would have resulted in no over or underestimation based on the back-cast analysis.

The AER's previous approach has been to adopt the 75th percentile to provide a risk buffer to retailers. This approach demonstrably results in significant over-recovery of wholesale costs that is paid for by standing offer consumers. We have previously argued this is not appropriate – and it is certainly not appropriate going forward with the change to the DMO methodology requiring the AER to only include efficient costs, and to no longer require the AER to have regard to retailer profits.

Even at a lower percentile (i.e. lower than 50th percentile) the volatility allowance should not be necessary because the assumed hedging strategy in the model itself already limits volatility.[22] To the

[19] AER, Issues paper, 29.
[20] AER, Assessing the performance of the wholesale cost model, 1.
[21] AER, Issues paper, 29.
[22] AER, Assessing the performance of the wholesale cost model, 1.

extent there is volatility, the AER should consider why retailers need to be compensated for this volatility, rather than the standing offer consumers that the DMO is meant to protect. Volatility in wholesale costs can result – and for previous DMOs, has resulted – in standing offer consumers paying more to retailers than if the model and chosen percentile had accurately reflected actual wholesale costs (acknowledging the AER cannot predict this outcome in advance).

We would argue that the DMO objective, and the removal of the requirement that the AER consider retailers' profits, means that any allowance for volatility should accrue to standing offer customers rather than to retailers.

We note also that the retail operating margin – depending on how it is determined – may also compensate retailers for wholesale cost risks.[23] Retailers should not be compensated twice for the same risk (if they need to be compensated for this risk at all).

12. **Do you agree that the 50th percentile WEC estimate aligns more closely with the proposed requirement to consider the efficient costs to supply small customers?**

We strongly agree that the 50th percentile aligns more closely with the requirement to consider efficient wholesale costs, particularly given the findings of the back-cast analysis. However, as noted in **Q10** and **Q11** we recommend the AER adopt a lower benchmark, i.e. the percentile which, based on the back-cast analysis, would have resulted in no over or under-estimation of wholesale costs. This would be most consistent with the requirement for the AER to determine efficient wholesale costs.

13. **What parameters should we consider when deciding whether to include new products in the hedging strategy?**

14. **Do you agree with the proposed approach to estimating time-of-use WECs? Is there an alternative approach we should consider?**

We do not have comments on **Q13** and **Q14** at this stage.

Retail and other costs

15. **How can we best define and calculate the efficient costs to serve for small customers on standing offers?**

As the DMO is intended to be based on the efficient costs to supply standing offer customers, we support the AER exploring Option 1: Apply the standing offer customer-weighted average costs to serve from all retailers. Around 90% of standing offer customers are with Big 3 retailers and we note Big 3 retailers have a cost to serve residential customers that is 36% lower than other retailers.[24] We do not consider it is a 'drawback' that is influenced by the cost structure of Big 3 retailers, as this accurately reflects that standing offer customers are predominantly served by these retailers and do not benefit from retail competition.

We note the AER identifies hardship costs and debt collection as costs to be included in the retail costs. While these should be considered, the AER should also consider the interaction between the DMO price itself and these factors. The DMO price directly affects the extent to which standing offer customers will experience hardship and accrue debt. As noted in response to **Q8** and **Q9**, prior DMOs have significantly

[23] AER, Issues paper, 47: e.g. the paper notes the ICRC's retail margin provides compensation for wholesale cost risks.
[24] ACCC, Inquiry into the National Electricity Market report - December 2024, 59.

over-recovered wholesale costs, and we expect methodological choices will have led to higher-than-efficient cost recovery in a range of other areas as well.

Consumers who have already paid an excess amount to (ultimately unnecessarily) compensate retailers for risk should not then be required to pay again for retailers' costs in providing hardship supports to customers who may have accrued debt because of the high price of the DMO.

16. How can we best define and calculate a modest cost to acquire and retain customers?

Of the options presented we prefer the option resulting in the lower CARC estimate (i.e. Option 2).

However, we consider that the appropriate amount of customer acquisition and retention costs (CARC) that should be included in the DMO is zero. We do not believe retailers incur significant costs in acquiring or retaining standing offer customers and therefore the efficient level of CARC should be at or close to zero.

The DMO Review Outcomes paper suggests that government, 'agrees that consumers on standing offers should not be paying for a market they do not benefit directly from'.[25] However the paper also suggests (in justifying the inclusion of 'modest' CARC) that 'retailers will incur some costs in managing the relationship with standing offer customers' including 'enhancing customer experiences, such as the development of comparison tools', 'onboarding costs' and 'ongoing costs related to customer service'.[26]

These costs, as described, are not acquisition and retention costs but are costs to serve that are separately accounted for through the inclusion of retail costs. The AER should ensure that general retail costs are not double counted as CARC.

While the updated Regulations are not available, we understand they will require the AER to 'take into account' modest costs associated with customer acquisition and retention in determining the DMO.

We note a requirement for the AER to 'take into account' CARC is not the same as a requirement to include CARC. That is, a 'no CARC' option should be explicitly considered by the AER (and in our view should be adopted).

The inclusion or otherwise of CARC needs to be considered in context, including in the context of:

- the new DMO objective to provide a fair, trusted and reasonably priced electricity option that reflects the essential nature of electricity supply, and
- the requirement for the AER to determine the DMO based on the efficient costs of supply.

In this context, we consider CARC should only be included to the extent that it reflects an efficient cost a retailer incurs in supplying standing offer customers, and where this is consistent with the DMO objective.

While we note other regulators have used benchmarks in assessing 'modest' CARC,[27] should the AER consider CARC must be included we suggest the AER should determine retailers' costs in acquiring or retaining standing offer customers specifically (rather than retail customers generally), and only include

[25] DCCEEW, Review Outcomes: 2025 Reforms to the Default market offer, 27.
[26] Ibid.
[27] ESC, Victorian Default Offer 2025–26, 18.

those costs in the DMO to the extent that the AER assesses they are efficient and consistent with the DMO objective.

We do not believe retailers incur significant costs in acquiring standing offer customers. Unlike market offer customers, standing offer customers typically do not elect to be on a standing offer and instead default onto a standing offer in a range of circumstances. Approximately 90% of standing offer customers are with Big 3 retailers,[28] which are also 'designated retailers' under the National Energy Retail Law.[29]

AER's retail performance reports indicate that in Q3 2024-25 less than 0.3% of residential market offer customers, and just 0.04% of small business customers, switched to a standing offer (noting the figure for residential customers represents a recent high and in earlier periods this figure has been below 0.1%).[30] This suggests there is little or no 'acquisition' activity for customers on standing offers.

Similarly, retailers do not need to incur significant costs to retain standing offer customers, who are typically less engaged in the market and therefore less likely to switch. In Q3 2024-25 only around 0.8% of residential standing offer customers, and less than 0.5% of small business customers, switched to market offers (noting this includes customers who switched to another offer with the same retailer). This is significantly lower than the 3-6% of all customers who switch per quarter in DMO jurisdictions.[31]

We encourage the AER to carefully scrutinise any claims from retailers as to CARC costs and ensure these are kept as low as possible – if not zero – in line with the new DMO objective and methodology.

17. **What is the appropriate split of bad debt across fixed and variable components that best reflects the propensity for bad debt to arise?**

Please see our comments in response to **Q15**. Standing offer customers should not have to 'pay twice' for debt-related costs where the high price of previous DMOs has contributed to this debt.

Regardless of the option chosen the DMO tariff should not result in retailers recovering more than is efficient and fair in line with the new DMO objective and methodology. Providing this principle is satisfied we see merit in either aligning the approach with the VDO (Option 1) or further exploring a combination of fixed and variable cost elements (Option 3).

As we have argued in previous submissions, we recommend the AER closely scrutinise bad and doubtful debt costs and seek further information into whether reported bad and doubtful debt costs are actual or estimated.[32]

Retail margin – general comments

In addition to our comments below, while we strongly support the small business margin being reduced to align with the residential margin, we consider the residential margin should also be reconsidered in line with the new DMO objective and methodology.

The 6% retail margin under the DMO is generally higher than the margin under other regulated prices, including the VDO (5.3%) and the margins applied by OTTER (5.25%) and ICRC (5.5%).[33] There is a

[28] AER, Issues paper, 37.
[29] Ibid, 44.
[30] AER, Retail energy market performance update for Quarter 3 2024–25 | Australian Energy Regulator (AER), Schedule 2.
[31] Ibid.
[32] ECA, Submission to AER Draft Determination on DMO Prices 2025-26, 7.
[33] AER, Issues paper, 43; ESC, Victorian Default Offer 2025–26, 57.

strong case to reduce the current 6% margin to at least these levels, if not lower in light of the new DMO objective and methodology. The removal of the requirement that the AER have regard to the principle that retailers should make a reasonable profit is also significant in this context and would support a lower retail margin being considered.

18. Based on DCCEEW's proposed reforms, what other alternative approaches should we consider in quantifying the retail margin?

We strongly support the AER re-evaluating retail margins in light of the changes to the DMO objective and methodology, particularly the change to an 'efficient cost' approach and removal of the requirement to consider retailers' profits. As noted in **Q19,** we strongly support a lower small business margin but also consider there is significant scope to lower the residential margin in line with the new objective and methodology.

We support the AER exploring a hybrid approach to the retail margin with a portion of the margin fixed and a portion variable. As the paper notes a fully percentage-based approach can amplify absolute dollar increases in DMO prices if any underlying DMO cost components increase in value.[34] It is not clear why retailers should be compensated for (and standing offer customers should pay) the increase in these underlying costs given these are already covered elsewhere in the costs.

Based on AER analysis, typical network bills for residential customers have increased between 12 and 21% depending on region in just the last two years.[35] Network costs are around 40% of retail costs, and therefore materially impact the calculated DMO margin in dollar terms.

To illustrate, say average network costs were $700 per customer. With a 10% margin on these costs, retailers recover $70 per customer. If network costs increase by 20%, then retailers will be given a margin of $84 – $14 extra per customer essentially for free.

As the AER would be well aware, network costs are beginning to rise. Unnecessary bill pressure should not be put on customers simply due to the methodological approach to calculate retail margins, especially as GST is then applied on top of these costs, which would then increase costs further.

In addition to the options outlined in the Issues paper (percentage approach and hybrid approach) the AER could also model a fully fixed approach. While it is not clear that this approach would necessarily be preferred, it would help illuminate the trade-offs that a hybrid model seeks to balance.

Considering the previous bottom-up approach may be appropriate – for instance, looking at historical margins and applying that as a constant margin to the extent this is consistent with the DMO objective and methodology. This may provide more consistency year to year on costs and margins.

The Issues paper suggests under a hybrid approach that the fixed portion of the margin would be indexed by CPI. It is important to recognise that CPI is influenced by electricity prices – indeed the ABS has stated that recent annual Goods inflation is 'due mainly to electricity' prices, which increased by 23.6% to the September Quarter 2025 (see Figure 1 below).[36] This suggests a lower-priced benchmark may be more appropriate.

[34] AER, Issues paper, 47.
[35] AER, AER - Consolidated stakeholder report 2025–26 | Australian Energy Regulator (AER).
[36] ABS, Consumer Price Index, Australia, September Quarter 2025 | Australian Bureau of Statistics.

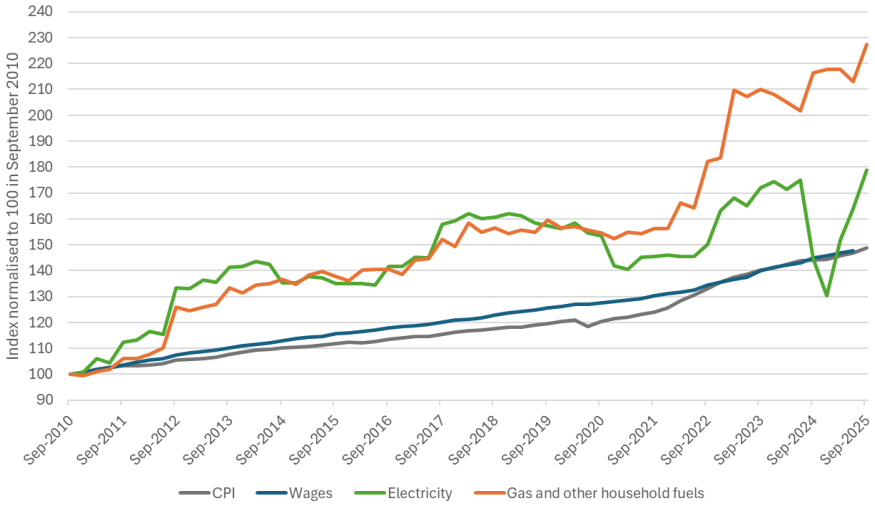

Figure 1 - ECA analysis of ABS consumer price index data

It is also important to ensure that the retail margin does not compensate retailers for risks that are already compensated elsewhere in the costs (or vice-versa). For example, while we don't consider that any allowance or risk premium for volatility in wholesale costs is warranted in the wholesale cost component (see **Q10** and **Q11**) or indeed other components, to the extent that any such compensation for risk is already provided elsewhere in the costs it should not also be included in the retail margin.

19. Would a lower small business margin be more appropriate under the proposed reforms? If so, why?

We strongly agree a lower small business margin would be more appropriate. The DMO is unique in applying a significantly higher retail margin for small businesses compared to residential customers. The current 11% margin is nearly twice as high as the 6% margin for residential customers. Lowering the small business margin would have an immediate and noticeable impact on energy bills for small businesses.

The paper suggests it may be appropriate for the small business margin to 'approach' the residential margin. The simplest and preferable approach is to align the small business margin with the residential margin (i.e. have a single uniform margin, as we have previously recommended),[37] as well as reviewing the level and approach to the uniform margin, with a view to lowering it further than the current 6% residential margin.

The DMO price protections are particularly important to small businesses as around 16-18% of small business customers in DMO regions are on standing offers –twice the rate of residential customers.[38] Energy prices are a significant contributor to financial stress faced by small businesses. Three quarters of small business have said they are concerned about the cost of electricity, and the average energy debt for a small business consumer is almost twice as high as the average energy debt for residential consumers.[39]

[37] ECA, Submission to AER Draft Determination on DMO Prices 2025-26, 7-8.
[38] AER, Default Market Offer (DMO) 2025-26 draft determination | Australian Energy Regulator (AER).
[39] AER Quarter 2 2024-25 Retail Performance Data, Schedule 3.

We agree that any bad debt allowance is more appropriately accounted for elsewhere in the costs and shouldn't result in a higher small business margin, particularly given other regulated prices apply uniform margins across residential and small business consumers (though note our comments on treatment of debt costs generally, e.g. in response to **Q15**).

20. **How should the retail margin be apportioned across the fixed and variable cost components of the DMO?**

21. **What, if any, alternative methodologies should we consider in reassessing these retail margins?**

See general comments on retail margins and comments in response to **Q18**.

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