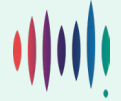


2026-27 Default Market Offer Draft determination

Submission to the Australian Energy
Regulator

DATE: 10/04/2026



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.

1 Feedback on the Default Market Offer 2026-27 Draft Determination

Energy Consumers Australia (ECA) appreciates the opportunity to comment on the Australian Energy Regulator’s (AER) Default Market Offer (DMO) 2026-27 Draft determination.

ECA generally welcomes the approach the AER has taken in its draft determination and the analysis underpinning it. The AER has reconsidered its approach to most elements of the DMO cost stack in line with the changes to the DMO framework arising from the recent reforms to the DMO.

The proposed reductions in the DMO, arising from both the methodology changes and changes to market conditions, are particularly welcome at a time when consumers are facing significant affordability pressures. For example, AER data shows customers in a hardship program hold an average debt of \$2,392 – a 22.8% increase in one year.¹

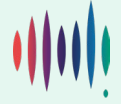
This only strengthens the need for the DMO to be a genuine and meaningful support for customers, particularly those in vulnerable circumstances or who are unable or unwilling to engage with the energy market.

We have strongly supported and advocated for the changes to the DMO framework to make it a more fit for purpose protection that prioritises outcomes for consumers. To deliver on the new consumer-focused objectives of the DMO it is important that the AER’s final determination maintains the cost reductions proposed in the draft and that the AER also looks for further opportunities to ensure the DMO is a fair, trusted and reasonable price set at an efficient level, in line with the new framework. To that end, this submission includes further recommended changes in relation to wholesale costs and retail costs and margins.

We also broadly support the draft determination on the Solar Sharer Offer (SSO) but recommend the AER monitor consumer response to and outcomes on the SSO and ensure clear communication from the AER and retailers to prospective SSO customers.

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

¹ AER, [Key insights – October to December 2025 retail performance data](#), 13.



Wholesale costs

We support the draft decision to adopt a lower estimate of wholesale energy costs (WEC). However, we are concerned that the inclusion of a volatility allowance erodes much of the benefit of adopting a lower WEC estimate, and in some cases results in a higher WEC than if the previous methodology had been used. We recommend the AER not include a volatility allowance.

We support the lower wholesale cost estimate

We welcome the WEC estimate moving to the 50th percentile rather than the 75th percentile used for DMO7.

As the AER's back-cast analysis indicates, the previous approach has meant that the WEC estimate has in most cases resulted in significant over-recovery of wholesale costs.² In practical terms this means that standing offer consumers 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. We noted in our submission to the Issues paper as an example that, during the DMO6 period (2024-25), a representative residential customer in the Ausgrid network would have paid \$82 more compared to actual wholesale costs, and a small business customer \$210 more.³

We agree that, in theory, a 50th percentile estimate (without a volatility allowance) should reflect the appropriate allocation of wholesale risks to retailers and consumers and is consistent with an efficient cost approach. However, the AER's analysis also shows that even at 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.⁴ Given this, we recommend that the AER continue to assess the performance of the wholesale cost model against actual wholesale costs. If the model continues to over-estimate wholesale costs at the 50th percentile this may suggest a need to make adjustments to the model.

A volatility allowance should not be included

We do not support the inclusion of a volatility allowance and recommend it is removed in the final determination. We supported the AER's previous position in the Issues paper that a volatility allowance is unnecessary as an adequate risk buffer already exists at the 50th percentile.⁵

Given the requirement for the DMO to be based on efficient costs, and the aim of the WEC methodology to produce an unbiased estimate of the true WEC incurred by an efficient and prudent retailer, we do not think the existence of different risk profiles for different retailers justifies the inclusion of a volatility allowance (which accrues to all retailers and is paid for by all standing offer customers regardless of their retailer).

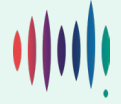
The reduction in WEC attributable to the change in methodology (as opposed to market drivers) can be calculated by subtracting the proposed WEC estimate from the 75th percentile WEC estimate. The inclusion of the volatility allowance significantly erodes the benefit of moving to the 50th percentile WEC estimate. We note even without the volatility allowance the reduction in WEC attributable to the change

² AER, Assessing the performance of the wholesale cost model.

³ ECA, Submission on the Default Market Offer 2026-27 Issues paper, 5.

⁴ AER, Issues paper, 29.

⁵ Ibid.



in methodology is already modest compared to the scale of over-recovery of wholesale costs suggested by the back-cast analysis.

For example, for a representative DMO customer in the Ausgrid network (based on the AER's assumed usage levels) adopting the 50th percentile WEC estimate instead of the 75th percentile results in a \$19.50 reduction in wholesale costs for residential customers and a \$50.00 reduction for small business customers. Including a volatility allowance lowers this to \$13.57 and \$34.80 respectively – removing around 30% of the benefit.⁶ There are similar outcomes for customers in other regions.

In some cases (Ausgrid CL1 and Energex CL2) including the volatility allowance results in a higher WEC estimate than if the 75th percentile had been used.⁷

If a volatility allowance is retained, we recommend the method to calculate it is reconsidered. It is not clear what alternative methods the AER has considered. The proposed approach (WACC x the difference between the 100th percentile WEC and 50th percentile WEC) results in a volatility allowance that is overly affected by outliers at the 100th percentile.

While we have not undertaken a detailed comparison of the different methods used, we note the proposed volatility allowances for the DMO (~\$1.50/MWh) are around three times the volatility allowances for the Victorian Default Offer (VDO) (~0.50/MWh).⁸

Network costs

We support the AER's draft decision to use the lowest cost tariffs between the flat rate and time of use network tariffs. This is especially important to reduce affordability pressures for standing offer customers given network costs comprise 38%-47% of the draft DMO cost stacks and the AER's observation that network prices are generally rising.⁹

We agree with the AER's assessment that this approach best ensures consumers do not pay more than efficient costs, consistent with the DMO framework and objective, and that this provides an incentive for retailers to have the lowest cost applicable network tariffs assigned.¹⁰ We recommend the AER maintain this approach in its final decision.

Retail costs

We maintain our view, noted in our earlier submission to the Issues paper, that efficient retail costs to serve should be based on standing offer customer-weighted costs, and customer acquisition and retention costs (CARC) should be at or close to zero.

While we welcome that retail costs have declined relative to DMO7, this is a result of market drivers (lower reported retailer costs) rather than any changes to the AER's methodology to determine these costs (aside from the adjustment to CARC). The AER should take the opportunity to adjust the retail cost

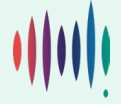
⁶ ACIL Allen, Wholesale energy and environment cost estimates for DMO 8 Draft Determination, Figure 3.27 and ECA analysis of data supplied by AER.

⁷ Ibid.

⁸ AER, Cost assessment model data; ESC, Victorian Default Offer 2026–27 Draft Decision Paper, 65.

⁹ AER, Cost assessment model data and Draft Determination, 11.

¹⁰ Ibid, 60.



methodology to meet the new DMO objective and framework, which requires the AER to consider the efficient costs to supply electricity to standing offer customers.

The draft determination notes that maintaining a customer-weighted approach ‘maintains regulatory consistency with prior DMO determinations’ (though the AER notes this is not a determinative factor).¹¹ We do not consider this should be a consideration for this DMO given the significant changes in the DMO framework. Indeed, these changes suggest the AER should update its approach to meet the requirements of the new framework, rather than maintain an approach consistent with previous DMOs.

Retail costs should:

- reflect the costs of an ‘efficient’ retailer – not simply the costs that retailers have self-reported
- reflect that the vast majority of customers on standing offers are served by Big 3 retailers, who have a significantly lower cost to serve than other retailers.¹²

While the cost data excludes outliers, we do not think it necessarily follows that the remaining cost data approximates the costs of an efficient retailer (or to put it another way, that this data does not include any inefficient costs). It is not clear if the AER has undertaken additional analysis to determine that these costs are efficient. Per our previous submission we also reiterate 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.

We also note that DMO retail costs comprise 13-16% of the cost stack, which is generally higher than for the VDO (13%).¹³ This may be due in part to the inclusion of smart meter costs. We support the Justice and Equity Centre’s previous comments on smart meter costs.¹⁴ It is concerning that the draft determination indicates that retailers were not able to provide the AER data on the drivers of smart meter costs given these costs comprise, in some cases, more than a quarter of retail costs.¹⁵

Customer acquisition and retention costs should be minimised

We reiterate our view that 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 draft determination states that standing offer customers do in fact benefit from acquisition and marketing activities, such as advertising to encourage standing offer customers to switch to market offers.¹⁶ It is not clear why enticing customers to switch offers should be considered a benefit to a customer currently on a standing offer, or an efficient cost incurred by the retailer in supplying electricity to a standing offer customer.

To the extent the AER considers CARC must be included, we support the AER adopting a standing offer customer-weighted approach. However, given our view that a standing offer customer-weighted approach should apply to all retail costs, a ‘modest’ CARC should be minimised by further discounting the standing offer customer-weighted costs.

¹¹ Ibid, 76.

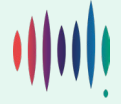
¹² ACCC, Inquiry into the National Electricity Market report - December 2024, 59.

¹³ AER, Cost assessment model data; ESC, [Victorian Default Offer 2026–27 Draft Decision Paper - Table 6 amended 24 March 2026](#), 7.

¹⁴ Justice and Equity Centre, Submission on the Default market offer 2026-27 Issues paper, 12-13.

¹⁵ AER, Cost assessment model data.

¹⁶ Draft determination, 77.



Retail margins

We support the AER's draft decision to establish a uniform margin by aligning the small business margin to the residential margin. The DMO is a particularly important safeguard for small businesses given around 16-18% of small business customers in DMO regions are on standing offers – twice the rate of residential customers.¹⁷

We welcome the AER's analysis and assessment that the lower small business churn risk and price insensitivity does not justify a higher small business margin, and that any additional risks associated with small businesses should be accounted for elsewhere in the cost stack.¹⁸ The reduction in the small business margin, along with other proposed cost reductions, will provide welcome relief for small business customers and help ensure the DMO is fair, trusted and reasonably priced for these customers.

The uniform retail margin should be lowered in line with other regulated prices

We recommend the AER give further consideration to reducing the uniform retail margin in line with other regulated prices such as the 5% margin used in Victoria.

The AER notes that 'Previous margins were appropriate but not under the Regulations' yet does not propose to change the residential margin.¹⁹ As the AER notes, the proposed 6% margin is higher than:

- regulated retail margins in Victoria (5%), the ACT (5.2%) and Tasmania (5.25%)
- the mid-point (5.7%) of the range of observed EBITDA margins for mass market customers (3.9-7.5%)
- the upper bound (5.9%) of Frontier Economics' expected returns modelling (4.5-5.9%)
- aggregated mass market margins (3.0%) inferred from prices of advertised offers (noting the AER considers this to represent a lower bound of an efficient retail margin).²⁰

Indeed, the AER says that 'evidence suggests that a 5 to 5.7% small business margin is at least reasonably efficient'.²¹

The AER says its approach, 'reflect[s] some degree of conservatism, which we consider is prudent given the significant changes elsewhere in the DMO'.²² We do not consider this approach best meets the requirements under the new Regulations, which require the AER to set the DMO based on the efficient costs of supplying electricity to small customers on standing offers, and no longer require the AER to have regard to retailer profits. A 'conservative' approach would seem to provide retailers with additional buffer beyond a truly efficient margin (with this additional cost being paid for by standing offer customers).

The AER also notes that reductions in several cost components have already contributed to the decline in retail margins in dollar terms.²³ It is not clear why changes to other cost components are relevant to the AER's determination of the appropriate retail margin, particularly given the draft decision is to maintain retail margins as a percentage of DMO 8 prices. As the AER notes, risks scale with the

¹⁷ AER, [Default Market Offer \(DMO\) 2025-26 draft determination](#) | Australian Energy Regulator (AER).

¹⁸ AER, Draft Determination, 91.

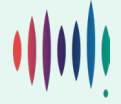
¹⁹ Ibid, 94.

²⁰ Ibid, 96-99.

²¹ Ibid, 93.

²² Ibid, 97.

²³ Ibid, 96.



underlying costs that retailers face.²⁴ If the purpose of the margin is to provide compensation for these risks, an absolute reduction in the level of the retail margin does not justify setting the margin itself at a higher than efficient level. We note, as the AER has also said, that an efficient margin should not compensate for risks that are already captured in other components of the cost stack.²⁵

Apportionment of fixed and variable costs

We support the proposed approach to apportion fixed costs to the daily supply charge and variable costs to usage charges. This is a simple and transparent way to assign these costs.

We note the AER's concern that that this approach will result in some daily supply charges increasing relative to current levels set by retailers for standing offers (noting the AER was not previously required to determine tariff caps and retailers were free to set their own supply and usage charges subject to the DMO requirements). Conversely, we assume in these cases the usage charges will be lower than they were previously.

As the AER notes, some customers (presumably those with lower usage) might experience a bill increase. Equally, customers with higher usage might experience a greater than average decrease.

From the information provided in the draft determination it is not possible to assess the likelihood and magnitude of these impacts and whether intervention to rebalance these costs is warranted (noting the impacts will vary between retailers given retailers currently determine supply and usage charges for DMO customers). If the impact is minor, it may be best not to make the further changes suggested by the three options the AER has proposed and instead accept this as a necessary consequence of the new framework. An overall reduction in the DMO, as suggested by the draft decision, would also mitigate any potential impact.

Rebalancing these charges suggests a degree of policy judgment that the DMO framework may not be well suited for. It may also create additional complexity if the AER were to later determine that the charges should be balanced in a different way. We note in any case DMO customers will experience bill changes following any DMO determination.

Of the options the AER has put forward, Option 3 is the most transparent (and easiest to adjust or remove if the AER were to take a different approach in future determinations). We do not think manipulating individual elements of the cost stack (Options 1 and 2) in order to achieve a desired balance of fixed and variable charges is a suitable approach.

Solar Sharer Offer

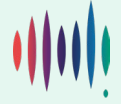
We broadly welcome the AER's draft determination on the Solar Sharer Offer (SSO). We have previously made a number of policy recommendations to the Department of Energy, Climate Change and Water on the SSO²⁶ but we note these are largely outside the scope of the AER's regulatory considerations or discretion under the SSO framework.

We recommend to the AER that:

²⁴ Ibid, 100.

²⁵ Ibid, 89.

²⁶ ECA, [Submission on the Solar Sharer Offer Consultation Paper 2025-26](#).



- the AER monitor consumer understanding of, and response to the SSO, and outcomes for consumers who take up the SSO
- the AER and retailers provide clear communication to consumers about the SSO, with a view to ensuring customers who take up the SSO are likely to benefit from it and are supported to make effective use of the SSO.

We generally support the AER's draft position on the free usage period windows, tariff structure and the reasonable use tariff cap. The proposed free usage windows appear to strike a reasonable balance between simplicity and recognising regional conditions.

While we support using a time of use cost basis, we note that in some cases this results in a quite complex tariff structure with up to four different parts. It may be difficult for some consumers to readily understand the cost implications of using energy at different times of the day outside the free period.

We note the AER does not propose to develop an SSO-specific cost stack in DMO8, which we agree this is a pragmatic decision in the circumstances. The AER should monitor consumer understanding of the SSO cost structures following its implementation with a view to determining their ongoing suitability or whether simpler cost structures should be developed for future DMOs.

Clear communication and supporting consumer understanding of the SSO will be critical to maintaining community trust in the SSO, particularly as a regulated offer announced and implemented by government. This includes ensuring consumers can easily assess whether they are likely to be able to benefit from being on the SSO or if they are better off on another offer.

Reapportioning costs incurred in the free period to other periods results in high peak period tariffs (e.g. up to 61c/kWh in Ausgrid), that may be significantly higher than peak flat or time of use tariffs for customers on market offers. If consumers move to the SSO without being able to shift a significant portion of their consumption to the free period it may not be a suitable offer for them.

We support the draft determination not to assume any degree of customer load shifting or additional consumption for the first SSO, and agree this is more appropriately considered when more information about consumer behaviour is available.

While general information about load-shifting and requirements for retailers to advise customers that the SSO may not be suitable in all circumstances may assist, more sophisticated and targeted information will be needed to support consumers, particularly as the AER and retailers build an understanding of how consumers are responding to the SSO. As the regulator responsible for determining the SSO, the AER has a key role in this both in communicating to consumers about the SSO and in ensuring retailers provide clear advice and support to consumers in relation to the SSO.

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