

Default market offer prices 2025-26

Submission to Issues Paper

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The Default Market Offer's primary function is as a consumer protection tool

The Default Market Offer (DMO) was introduced as a consumer protection tool. This function must be at the centre of any decision the Australian Energy Regulator (AER) makes when calculating the DMO.

The Australian Competition and Consumer Commission (ACCC) identified two key benefits to the DMO when it was recommended as part of their Retail Electricity Pricing Inquiry in 2018. These two benefits were:

- “a cap for the price of default offers to limit the ‘loyalty tax’ that is levied on disengaged consumers
- a reference bill amount which all discounts must be taken from”.¹

These two outcomes reflect the DMO's foundational purpose, which is to protect consumers and ensure they are not paying unreasonably high prices. It was intended that the DMO would protect consumers by capping the price paid by disengaged consumers and by providing a tool to help engaged consumers trying to navigate a complicated energy market. These benefits are also explicitly referred to in the AER's explanatory statement accompanying the Final Determination on the DMO in 2019².

The AER includes in its determinations additional objectives it considers relevant when determining an annual price. These include maintaining incentives for competition, innovation and for consumers to engage in the market and allowing retailers to recover their costs. Despite this, our view remains that the primary function of the DMO is as a consumer protection tool. These additional objectives should be pursued only so far as they create material benefits for consumers, and they should be clearly discounted compared to the consumer protection benefits.

The competition allowance should not be included in future determinations

We supported the AER's decision to leave off the competition allowance for DMO 5. We believe the justifications for this decision remain strong. We are not aware of any evidence that it has hindered competition, and consumers continue to face significant financial pressures.

The AER's quarterly retail performance reporting data has found that the market share of small retailers continues to increase³. We have also seen no Retailer of Last Resort events since DMO 5 came into play. Both small and large retailers have offers that are priced well below the reference price. This confirms what we have previously argued; key competition metrics will be unaffected by the removal of the competition allowance. Its inclusion would therefore be an unnecessary cost for consumers to bear and in opposition to the DMO's function as a consumer protection tool.

It would be particularly unreasonable to include a competition allowance given ongoing cost-of-living pressures. The AER notes the decision to leave off the competition allowance was “made with regard to the economic conditions, cost-of-living pressures and energy affordability issues experienced by

¹ Australian Competition and Consumer Commission, *Restoring electricity affordability and Australia's competitive advantage*, June 2018, p. 249, available:

https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

² Australian Energy Regulator, *Explanatory Statement Accompanying the Default Market Offer*, April 2019, available:

https://www.aer.gov.au/system/files/AER%20Final%20Determination%20-%20Default%20Market%20Offer%20Prices%20-%20Explanatory%20Statement%20-%20April%202019_0.pdf

³ Australian Energy Regulator, *Quarterly retail performance report January - March 2024*, June 2024, available:

<https://www.aer.gov.au/system/files/2024-06/AER%20-%20Quarterly%20Retail%20Performance%20Report%20-%20January%20to%20March%202024.pdf>



consumers”⁴. These issues continue. Our Energy Consumer Sentiment Survey finds that almost half of households are more concerned about their ability to pay their electricity bills than they were a year ago⁵.

The AER has indicated in its Issues Paper it will use the Consumer Price Index (CPI) to determine if it applies a competition allowance, citing it is a transparent, objective and predictable approach. CPI is one measure to understand cost pressures facing consumers, but we also know it is hardly the full story. During the first year of COVID-19 lockdowns, for example, we saw CPI reach negative levels at times despite many households and small businesses facing enormous financial pressures⁶. The Australian Bureau of Statistics itself says “the CPI is designed as a measure of inflation experienced by households, rather than a measure of the cost of living⁷.”

Rather than rely on CPI, the AER should remove the competition allowance permanently, especially given proof it is not needed to ensure competition. This approach will ensure consumers experiencing financial hardship do not face unnecessary costs, even if CPI decreases. Given the on-going volatility in CPI, removing the competition allowance would be a more transparent, objective and predictable approach.

The small business retail margin should be reduced in line with residential

We maintain that small businesses should not pay a higher retail margin than household consumers. It is not immediately obvious that small business are more expensive to serve than households. More particularly, there is a high degree of diversity among small business consumers, their energy habits, and their costs to serve. Applying one standard retail margin for all of them blatantly ignores this diversity, punishing the majority of small business that pay their bills fully and on time.

The AER currently applies a 6% retail margin for residential consumers and an 11% margin for small businesses. The Australian Retailers Association found that over half of small retailers would pass cost increases on to their customers⁸. As our previous [submission](#) noted, increased costs to small businesses therefore have a twofold effect; it increases small business costs, thereby increasing costs ultimately paid by consumers of these businesses.

Our previous [submissions](#) highlight that energy bill stress is an issue faced increasingly by small businesses, not just households. Our Energy Consumer Sentiment Survey finds a third of small businesses say electricity is their most significant overhead and that half were more concerned about their ability to pay their electricity bill than they were a year ago⁹.

Retail cost data should be as transparent as possible

Transparent data on all elements of the cost stack is vital to ensure the costs being recovered by consumers through their energy bills are fair and reasonable. There is already significant information

⁴ Australian Energy Regulator, *Default Market Offer Prices 2025-26 Issues Paper*, October 2024, p. 30, available: https://www.aer.gov.au/system/files/2024-10/AER%20-%20Default%20market%20offer%20prices%202025%E2%80%9326%20issues%20paper_0.pdf .

⁵ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2024, available: <https://energyconsumersaustralia.com.au/publications/surveys-energy-consumer-sentiment-behaviour>

⁶ The Australian Bureau of Statistics, *Consumer Price Index*, September Quarter 2024, available: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>

⁷ Australian Bureau of Statistics, *Frequently asked questions about the Consumer Price Index*, accessed 7 November 2024, available: <https://www.abs.gov.au/articles/frequently-asked-questions-faqs-about-consumer-price-index>

⁸ Australian Retailers Association and American Express, *Small Retail Index*, August 2024, available: <https://www.americanexpress.com/en-us/newsroom/articles/amex-for-business/ARA-Amex-Small-Retail-Index.html>

⁹ Energy Consumers Australia, *Energy Consumer Sentiment Survey*, June 2024, available: <https://energyconsumersaustralia.com.au/publications/surveys-energy-consumer-sentiment-behaviour>



asymmetry in DMO determinations as consumer advocates do not have access to the detailed data being used to determine wholesale cost modelling.

The AER intends to collect its own data on retail costs. These should be made as transparent as possible in the determination to not add to the information asymmetry that exists when advocates engage in these processes.

We already have concerns over some aspects of retail costs being included in the DMO determination. Customer acquisition and retention costs, as one example, should not be included in a price designed to protect disengaged consumers. If the AER does include it, at a minimum transparent data on how significant these costs are should be easily available. The AER's recent State of the Energy Market report outlines how higher customer acquisition and retention costs in jurisdictions where there are higher rates of consumer switching should be offset by reduced retail profit margins. It notes that there is "a risk that competition may increase energy bills for customers if the costs of competing outweigh competition benefits¹⁰". Transparent data is imperative to assess whether the cost benefits expected from a competitive retail electricity market are actually eventuating.

We also believe that transparency over the different costs larger and smaller retailers face would be beneficial to understand the true costs and benefits of increased choice and competition for consumers. The DMO methodology already takes into account higher costs faced by smaller retailers in other elements of the cost stack, notably in wholesale costs. If the higher costs faced by smaller retailers are resulting in materially higher DMO prices, they are unlikely bringing significant cost benefits to consumers. However to assess this, transparent and granular data on their costs is necessary.

There are broader reforms impacting the effectiveness of the DMO as a consumer protection tool

The DMO already aims to protect consumers in multiple, sometimes competing ways. It is both a price cap for disengaged consumers and a reference price for consumers navigating the energy market.

However, the DMO's role is widening even further due to some key challenges facing the energy system. The Australian Energy Market Commission, in its Directions paper on customer safeguards for the accelerating smart meter deployment rule change, has suggested the option that standard retail contracts, capped by the DMO, be the flat retail tariff structure that is available to a customer when they receive a smart meter¹¹. In this instance, a standard retail contract may be the only option available to a consumer wanting access to a flat retail tariff. The DMO's inclusion of headroom to incentivise consumers to engage, or allow retailers to compete below it, is not relevant here as this may be the only option available to them if a flat tariff suits their energy needs best.

We also note there is no DMO calculation for consumers on demand tariffs. We agree that calculating an average load profile for these consumers would be incredibly challenging given huge variations in energy use. But with multiple networks in DMO jurisdictions using demand tariffs as the default for residential consumers, a lack of price protections for these consumers poses a significant risk.

Our submissions to previous determinations highlight that the roles of the DMO are not just growing more complex but are also increasingly important to protect consumers in an evolving energy market. There is ample evidence that consumers already find the energy market complex and difficult to engage with. Over a third of households do not even know what kind of pricing structure they are on (rising to

¹⁰ Australian Energy Regulator, *State of the energy market 2024*, November 2024, p. 244.

¹¹ Australian Energy Market Commission, *National Electricity Amendment (Accelerating smart meter deployment), Rule 2024*, August 2024, pp. iii, available: https://www.aemc.gov.au/sites/default/files/2024-08/directions_paper_-_erc0378_accelerating_smart_meter_deployment_-_ner_and_nerr.pdf



nearly half of households under financial pressure)¹². Complex pricing structures alongside a broadening array of offers with options to add Consumer Energy Resources, Netflix plans or Frequent Flyer points, can add further **confusion** to a market that many already struggle to engage with. The importance of protecting consumers who cannot engage, and providing tools to help those that wish to, is vital.

The Default Market Offer, in its current form, goes some way to fulfilling these needs. For this reason, the AER should take every opportunity to ensure it is calculated in a way that prioritises protecting consumers. We also acknowledge that it is only one part of a wider consumer protection landscape that will need to evolve alongside energy markets. We welcome broader reviews that will consider the role of the DMO in the future, potential needs for reform, and where additional protections may be needed.

For further information on this submission please contact Alice Gordon at alice.gordon@energyconsumersaustralia.com.au.

Yours sincerely,

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¹² Energy Consumers Australia, *Energy Consumer Behaviour Survey*, October 2023, available: <https://energyconsumersaustralia.com.au/publications/surveys-energy-consumer-sentiment-behaviour>

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