

Adam Day
a/g Executive Director, Default Market Offer and Consumers
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

26 November 2025

Dear Mr Day,

Default market offer 2026-27 Issues Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission on the Australian Energy Regulator's ('AER') *Default market offer ('DMO') 2026-27 Issues Paper*.

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation.

The AEC appreciates the challenges the AER faces in setting the DMO 8 in the context of continued impacts of electricity affordability for customers and the uncertainty around changes resulting from the Governments DMO review. We support efforts to ensure the DMO continues to deliver value for customers; however, it is equally important that the framework maintains a sustainable and competitive retail market. Retailers play a critical role in managing wholesale market risk, investing in innovation, and delivering differentiated products for consumers. This role must not be weakened through regulatory settings that create instability or inhibit effective competition.

In the Issues Paper, the AER notes that the proposed DMO reforms must be enacted prior to being applied to the DMO 8 draft determination. Should this be delayed, the draft determination will be published according to current regulations. In essence, this means that the industry will be required to prepare for two potential methodologies simultaneously. The AEC is concerned that this will introduce significant uncertainty for retailers, particularly as they seek to make hedging and pricing decisions in advance of 1 July 2025. We encourage the AER to work with DCCEEW to ensure that the eventual approach for DMO 8 is communicated to retailers in a timely manner.

We provide further detailed comments on key themes of the issues paper below:

Question 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?

The AEC considers that the proposed apportionment is reasonable.

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

The AEC considers they should be based on flat DMO tariffs as this is the only option to align with reference price requirements.

Question 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?

Question 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?

Question 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?

Yes. For multiple default tariffs, the AER should use the most common tariff. Blending creates instability.

Question 8: Which option do you consider best meets the criteria set out above?

Our preference is for a Control Load Profile that includes a blended interval meter with some accumulation meter controlled load profile.

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

Question 11: What factors should we consider in determining whether a volatility allowance is necessary?

Question 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?

The AEC is strongly opposed to the proposed move to a 50th percentile WEC. While we appreciate that the AER has conducted a back-cast analysis as we recommended in our submission to the DMO 7 issues paper, we do not believe that the results justify a move to a 50th percentile WEC. Indeed, retailers do not hedge in the manner that the analysis has described. Irrespective, even the AER's analysis outlines that at a 50th percentile, retailers would not have recovered their costs in 16% of instances across regions and determination years. The AEC does not believe that this is an efficient or reasonable outcome. Retailers take on significant financial risks, managing wholesale market volatility to provide customers with a level of price certainty with their energy bills.

To manage these risks, the AEC maintains a preference to revert to the 95th percentile which better reflects the overall volatility profile of the NEM. While the issues paper proposes a volatility allowance to manage these retailer risks, this would not be required if a realistic percentile is set. Given the treatment of previous allowances, the AEC would be concerned that introducing a volatility allowance would only serve to introduce significant uncertainty, greater complexity and a false sense of precision. If the AER decides to adopt the 50th percentile WEC estimate, it should ensure a volatility index is included. The high chance of extreme price swings in the NEM significantly increases the potential for retailer losses without such an allowance, especially with a 50th percentile WEC adoption.

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

The AEC advises that this be referred to external consultants for review. The AER should include new products in the hedging strategy once market participants begin using them more frequently.

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

The AEC considers the proposed TOU WEC approach to be reasonable, noting growing uptake of interval meters and the increasing importance of TOU structures in retail pricing.

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

The AEC is supportive of option 2 to maintain the current approach of applying the customer-weighted average costs to serves of all retailers. This option is consistent with the approach taken in DMO 7. While the DMO review outcomes and proposed regulations outline that the AER should consider efficient costs to supply for small customers on standing offers specifically when determining the DMO, the AEC does

not believe that there is a material difference in the cost to serve between market and standing offer customers here.

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

The AEC does not consider either of the two options proposed here in the issues paper to be sufficient. We are concerned that these approaches would have material impacts on smaller retailers, and by extension, competition in the market. Indeed, smaller retailers play a critical role in stimulating competitive pressure by targeting disengaged customers of larger incumbent providers. For these participants to compete effectively, they must be able to recover the costs associated with customer acquisition and earn a reasonable return. We would ask the AER to consider the potential impacts of these approaches to ensure that the CARC is set at a reasonable level.

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

The AEC supports option 1 to allocate bad debt as a fixed cost component of the DMO. As the issues paper suggests, this will be relatively simple to implement and is consistent with the approach undertaken in previous DMO determinations.

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

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

In our engagement with previous DMOs, we have long noted that retail margins are at an all-time low, especially with the loss of the competition allowance. Indeed, the present operating environment, particularly for smaller retailers, remains challenging. Indeed, with the continued pace of reform with the ongoing Accelerate Smart Meter rollout and Energy Consumer Reforms among others, along with heightened network and wholesale costs, there is a great amount of pressure for retailers to compete on price and innovate. The AEC believes, therefore, that where possible, there is a need for consistency with the retail margin and for the AER not to pursue any further decreases.

Should the current competition objective remain in effect, the AEC strongly encourages the return of the competition allowance. We were strongly opposed to its removal and disagree with the rationale behind it. As we have noted in the past, retail competition is in the best interest of customers. The competition allowance helps facilitate that, supporting a sustainable and competitive market that offers consumers a range of fair and valuable products to suit their needs.

Moreover, it is vital for a retailer's ability to innovate which is increasingly important in enabling the energy transition and maximising customer opportunities. Indeed, we encourage the AER to consider the role retailers play as trusted enablers of consumer participation in a reliable and decarbonised energy system in their final decision.

Any questions about this submission should be addressed to Jo De Silva, General Manager Retail Policy by email to jo.desilva@energycouncil.com.au or by telephone on 03 9205 3100.

Yours sincerely,

Jo De Silva

Jo De Silva

General Manager Retail Policy