ENERGY CONSUMERS AUSTRALIA

30 April 2025

Additional feedback on retail costs in the Default Market Offer 2025-26

Energy Consumers Australia is pleased to see the Australian Energy Regulator is further consulting on the retail cost component of the Default Market Offer prices for 2025-26.

In our submission to the AER's Draft Determination we argued the AER should apply greater scrutiny on retail costs prior to the Final Determination, particularly costs related to customer acquisition and retention. The Draft Determination indicated retail costs would rise substantially for the DMO 7 compared to DMO 6. Our submission argued this is unjustified and that there is substantial evidence that the AER should employ a lower benchmark when calculating retail costs.

- Retail cost data is based off information provided by retailers. Under current arrangements there is little incentive for retailers to improve efficiency or report on reductions in retail costs. Before a weighted average is used, greater rigour is needed to ensure costs reported by retailers are, indeed, prudent and efficient.
- The DMO was introduced in 2019 to protect disengaged consumers on standing offers from unreasonably high prices. Disengaged consumers do not benefit from costs related to customer acquisition and retention and should therefore not be paying these under a "reasonable" price. ECA appreciates that these costs must be included due to the DMO's role as a reference price. However, appropriate weight must be given to the DMO's role as a protection for disengaged consumers and therefore these costs must be kept minimal.
- Retailers can and do price market offers higher than the DMO. There is an implicit assumption in DMO determinations that the reference price acts as a 'soft cap' on all market offers. However, the ACCC's Inquiry into the Retail Electricity Market reveals that retailers can recover costs from disengaged market offer customers who are on prices above the DMO. The AER must consider this when deciding on how to achieve the DMO policy objectives to allow retailers recover efficient costs and maintains incentives for competition.
- Newer retailers are likely to spend inefficiently on acquisition costs to grow their customer base with the expectation these costs would be recovered later. These costs should not be considered "efficient" and should not be included in the calculation of the DMO.
- The Draft Determination notes Big 3 retailers have increased costs on customer acquisition and retention costs. We find this particularly concerning given the majority of consumers are already with a Big 3 retailer. Increased spending from Big 3 retailers is further evidence that reported costs may not be 'efficient'.
- The DMO already includes a retail margin and an optional competition allowance which the AER has insisted must be included in order to maintain incentives for competition, innovation and investment by retailers. We see little reason
- Large increases to retail costs are particularly unreasonable given ongoing cost-of-living pressures. Our Consumer Energy Report Card reveals 90% of households and 87% of small businesses are concerned about the cost of living. Despite consumers facing multiple years of high energy bills, there is little evidence that retailers have faced any significant difficulty or that competition has been negatively impacted. The DMO's objective to protect consumers must be given greater weight in this context.

Please reach out to Alice Gordon at alice.g@energyconsumersaustralia.com.au if you have any further questions.

Yours sincerely,

Alice Gordon, Manager Consumer Advocacy