

Default market offer 2026-27

Issues paper

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Justice and Equity Centre
ABN 77 002 773 524
www.jec.org.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000
Phone + 61 2 8898 6500
Email contact@jec.org.au



About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

Contact

Kira van Os
The Justice and Equity Centre
Level 5, 175 Liverpool St
Sydney NSW 2000

T: +61 2 8898 6500
E: kvanos@jec.org.au

Website: www.jec.org.au

The Justice and Equity Centre office is located on the land of the Gadigal of the Eora Nation.

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1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the AER's issues paper for the default market offer in 2026-27 (the paper).

We support effective default price regulation and its critical role in protecting consumers and shaping a retail market that works better for all consumers. This process is a timely opportunity to reshape the Default Market Offer (DMO) so that it can play this critical role. We strongly encourage the AER to use this opportunity to ensure the DMO more meaningfully supports and protects fairer outcomes for consumers as the energy system transitions. This is particularly important during this time of sustained high energy costs and ongoing cost-of-living pressure for households.

We welcome the outcomes of the DMO review, and the explicit intent to focus on ensuring all consumers can access a fair, trusted and reasonably priced electricity offer which reflects the essential nature of the service. This intent aligns with a range of recent reforms and, properly delivered can help shape the DMO to be a more robust, widely applied and effective regulatory tool.

2. Interpretation of reforms to the DMO

The outcomes from the review of the DMO clearly state an intention to reform the retail energy market, ensure it delivers fairer outcomes, and create more meaningful price protections for consumers.

Giving the DMO a singular objective squarely focuses the AER on consumers' interests. We strongly recommend the AER take every possible opportunity to interpret this objective – and its constituent directions – through the lenses of consumers needs, perspectives and expectations for essential energy services, and optimising good, fair outcomes for all consumers. We encourage the AER to be bold and prioritise good outcomes over procedural expediency or continuity with existing approaches. It cannot be assumed that the current framework, with incremental tweaks to reduce costs, is compatible with the stated objective

We are concerned that some of the initial interpretations and proposals in the Paper do not fully reflect the intent expressed in the objective. In the remainder of this submission we highlight opportunities to more consistently apply the objective and deliver on the intent to create a fair, efficient offer for consumers.

2.1 Objective of the DMO

2.1.1 Interpreting the new objective

A single, consolidated objective provides a comprehensive, unqualified and consumer-focused vision for the role of the DMO in the energy market. However, the language used in the objective, and the fact this is the first process, render it necessary to interpret aspects of the objective to guide how it will be implemented.

The AER's recent work on Towards Energy Equity has made important progress in developing an understanding of the role of market design in exacerbating consumer vulnerability, and the need to prioritise consideration of equity in outcomes for all consumers in the regulation of energy. We encourage the AER draw on this work in interpreting its updated DMO objectives.

The starting point should be recognition of the existing issues with the DMO - as it has been implemented - which prevent it from providing the fair, trusted and reasonably priced electricity option intended from the reformed DMO.

- Fundamentally, the DMO has intentionally been set above a 'fair' or efficient price, eroding the trust of consumers who have received the consistent message that they cannot trust the offer they are on.
- The ACCC has consistently found that consumers on standing offers tend to pay higher prices than those on market offers¹ even when standing offers should involve less cost and risk to provide.
- The increasing complexity of retail plans means it is difficult, if not impossible, for most consumers to determine whether they are getting a 'fair' offer. At the same time, they are penalised for not switching regularly.²
- The inherent complexity of the DMO methodology means it is difficult to determine the degree to which the inefficient (unreasonable) costs of retail practice are being entrenched. That is, its difficult to determine how much inefficiency is being baked into the AERs DMO calculations.
- The DMO as implemented includes multiple duplicative 'premiums' in cost stack elements, in addition to a retail margin which, cumulatively drives the DMO up beyond what is efficient, fair or 'reasonable' for a consumer to pay.
- The DMO cannot be opted into, which means that many consumers on the DMO may not regard it as a trusted and fair option, but rather a necessity.
- People generally have low trust in the broader energy sector,³ and many do not trust messages about different offers,⁴ thus further reducing the incentive to switch between offers.

With energy being an essential service, consumers must be confident they can access a simple service at a fair price. There is overwhelming evidence that households cannot, and do not want to have to be switching plans constantly in an attempt to ensure they are paying a fair price.⁵ Given the AER has also recognised the barriers many consumers face in actively participating in

¹ ACCC, 2025, [Inquiry into the National Electricity Market, July 2025](#), p 41.

² ACCC, 2025, [Inquiry into the National Electricity Market, July 2025](#), pp 45-46.

³ Energy Consumers Australia, 2024, [Energy Consumer Sentiment Survey June 2024](#)

⁴ CHOICE, 2025, [The Power of Confusion: Designated Complaint](#), pp 9-15.

⁵ For example see CHOICE, 2025, [The Power of Confusion: Designated Complaint](#), p 19; Energy Consumers Australia, 2025, [Consumer knowledge of electricity pricing and responsiveness to price signals](#)

the market,⁶ or getting good outcomes when they do, there is a strong case for an offer that households can choose and trust.

Interpreting fair, reasonable and trusted

It is relevant to consider the cumulative impact of years of this consumer experience, and messaging to ‘switch and avoid being ripped off’. This is likely to have driven the well documented general consumer mistrust of the energy market as a whole.

The DMO should provide an affordable choice for consumers regardless of capacity to ‘engage with the energy market’. The DMO should be a tool to build consumer trust, and implement equity and fairness, by ensuring no consumers are penalised simply for wanting energy they can use and pay a fair price for. We strongly recommend linking interpretation of what can be trusted, with what can be demonstrated to be efficiently costed and fair. To be clear this does not necessarily mean the DMO needs to be the cheapest offer in the market.

A fair offer should be grounded in a concept of fairness for consumers. This starts from a foundation of efficiency, what costs should be included and what assumptions should be made about them. It also means avoiding including the costs of risks that retailers are better placed to manage (and should be), which is particularly important to consider when determining efficient wholesale and network costs (see Section 3). Consumers on standing offers should also not be expected to pay for services that do not benefit them.

Providing a reasonably priced option that reflects the costs of supplying customers with an essential service also means those costs must be limited to only those which are essential. It’s reasonable to consumers that they pay a fair (efficient) cost for the provision of the service they receive. This should not include costs for aspects which are not relevant to them, or which subsidise benefits for others.

In this context, cost stack components must be assessed for their relevance and/or limited to remove implicit premiums. We welcome the removal of the competition allowance in the cost stack, as we have long argued an added allowance disincentivises competition through efficiency.⁷ As further outlined in Section 3, there are other cost stack components which are incompatible with the renewed objective, such as metering costs, and costs to acquire and retain customers.

2.1.2 Broader purpose of the DMO

We consider the DMO reforms enable the DMO to more meaningfully fulfill its roles as price protection and market shaping reference.

Arguably the DMO has not been fulfilling its role as a reference price, which has distorted the market and lead more broadly to poorer consumer outcomes. Experience from Victoria shows that a more reasonably priced standing offer can positively influence market offers. With a greater emphasis on efficiency in the formulation of the DMO, it should have a more meaningful role to

⁶ AER, 2023, [State of the energy market 2023](#), p 248.

⁷ For example see [Joint Submission 2025 Reforms to the Default Market Offer](#)

signal good value in the market and incentivise retailers to offer value to consumers without penalising those who need and want a simple offer.

There is still confusion in the public – and potentially among decision-makers – regarding what the DMO is and what function it serves. Public commentary about the DMO often refers to it as a “price cap”, which it is not. Market prices can – and should – exceed the DMO where those offers present additional value to consumers that is not related to the basic cost to serve. As the energy market becomes more complex, there is greater need for a trusted indication of a fair price. Expressing the DMO as a tariff for different types of offers will give it greater utility as a comparison price. We support the rewording of the language used in the DMO and note the need for clear qualification of the meaning of a ‘maximum annual bill’ if it must be used.

Ongoing reforms mean that the DMO will have an evolving role in the market. These reforms, which the AER should consider, include the recent AEMC rule changes on improving consumer confidence in retail energy plans⁸ and assisting hardship customers⁹. These reforms will potentially increase proportions of consumers on standing offers or on offers capped by them. In this context the new objective of the DMO is highly relevant, and the significance of the DMO as a tool for improved equity and fairness, substantially greater.

2.1.3 Interpreting the mandatory considerations

The mandatory considerations help to provide transparency on how the AER will approach its objective, although clarity is needed on how these will be interpreted.

The mandatory consideration of the long-term interests of consumers is reasonably well-defined and grounded in the National Energy Objectives. We highlight this as an additional direction to consider ‘efficiency’ as the central reference for decision-making.

The remaining considerations should be clearly defined by the AER early on to set a precedent for following DMO reviews.

Types of small customers on standing offers and in embedded networks

Given energy is an essential service, equity must guide interpretation of this consideration. Given the DMO is a ‘default’ offer, it is not possible (or appropriate) to make assumptions about who is likely to be on it. An equitable (and simple) approach should be to assume that any consumer may be on a standing offer, including those most vulnerable or most likely to experience disadvantage. Adopting a principle of ‘universal design’ would then be appropriate. This means designing to meet the needs of those most vulnerable on the understanding this will ensure it meaningfully meet the needs of all.

This approach can help to avoid making misguided assumptions about who will or will not be impacted by the offer, with consequences for many vulnerable consumers (as is currently the case). As discussed in previous sections, many consumers want a simple and fair offer, which

⁸ Australian Energy Market Commission, 2025, [Improving consumer confidence in retail energy plans](#)

⁹ Australian Energy Market Commission, 2025, [Assisting hardship customers](#)

could be provided by the DMO. Therefore everyone, including the most vulnerable people, have a potential need for a fair, efficient and trusted offer.

Efficient costs for small customers on standing offers or in embedded networks

Throughout this submission we argue that efficiency must be the central consideration. An efficient cost approach goes beyond the specific costs considered, and should also take account of the incentive for retailers to be efficient. The AERs consideration of costs must avoid baking in current inefficient practice and/or unnecessary inflation.

An efficient cost for small customers on standing offers or in embedded networks also cannot include costs that do not serve or affect or benefit those customers (that is, broadly implementing a beneficiary pays principle). Where possible, the AER should therefore determine costs with reference to standing offers. For example, how it has proposed to weight certain calculations by standing offer customers. If there is material uncertainty over whether a cost and its benefits to customers on standing offers can be estimated with precision, we recommend it is either not included or downsized relative to its uncertainty.

Modest costs associated with customer acquisition and retention

We strongly disagree with making any explicit allowance for costs of customer acquisition and retention on the basis it would be fundamentally at odds with the objective and the other mandatory considerations.

We contend the framing of the requirement gives significant discretion to the AER in determining how these costs have been 'taken into account'. This includes noting that the allowed margin provides ample scope for such costs that may relate specifically to standing offer consumers.

Notwithstanding this, in context of the broader objective and other mandatory considerations we contend there is no justification for costs to acquire and retain customers (CARC) being explicitly included in the efficient, fair or reasonable costs to serve standing offer consumers.

Section 3.3 provides more detail on why a non-zero CARC cost does not meet the overall DMO objective.

2.2 Setting of the DMO

We encourage the AER to be transparent in its reasoning and methodology for determining the DMO. Where possible, the AER should take a principled approach to interpreting the reforms and clearly communicate these principles and how they have been applied.

Costs feeding into the determination must also be considered holistically so that affordability is centred. This means that where there is a range or degree of uncertainty in a cost component, preference is given to lower values. Holistic consideration also means ensuring that multiple allowances are not made for the same costs and risks – as has happened to date in setting higher than efficient costs in the stack, as well as margin, as well as competition allowance and CARC.

The requirement to express the DMO as a tariff cap in addition to an annual cap will help to resolve issues with transparency and legibility of the DMO. Where assumptions are involved in the determination of a tariff, these must be communicated clearly.

2.2.1 Response to consultation questions

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?

We recommend the AER take a consistent, principled approach to apportioning costs across the supply and usage charge elements of the tariff. We broadly agree with the approach proposed by the AER, but highlight the following principles as key to a consistent approach to the final apportionment of costs:

- Fixed costs should be those which are unavoidable for the retailer, whereas variable costs are those which change with the amount of energy used and are broadly responsive to efficiency signals. That is, fixed costs should be those better related to the number of retail customers, rather than energy used.
- Prices should incentivise retailer, and system efficiency, without unfairly burdening those with limited ability to shift usage. That is, usage charges should relate to costs which vary according to the energy used.
- Prices should broadly place cost risk with those best placed to manage it.

To clarify, these are not 'rules' but should serve as a consistent starting point. In this context, we broadly support the proposed apportionment of costs elements.

However, we disagree with the proposed approach to bad debt. As an unavoidable cost, this should be fixed as the cost is more closely related to the number of customers served than the volume of electricity sold (see response to question 17 for more detail).

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

In principle, a simple maximum annual bill amount supports transparency. Based on this, we would support the AER using the flat DMO tariff to calculate the maximum annual bill amount. This also reduces the possibility of inaccurate assumptions reducing the overall relevancy of the bill amount.

It would be beneficial for the AER to model maximum bill amounts for consumers on different standing offer tariff types, as a point of reference. If there is a significant discrepancy between calculated annual bills using different tariffs, this gives scope for the AER to consider if an alternative approach would deliver the objective more effectively. Similarly, it is important for the AER to monitor the proportion of consumers on different types of standing offers, as the relative uptake of each type of tariff may also indicate which tariff is the most appropriate basis for calculating a representative maximum bill amount.

3. Methodology for determining the DMO cost stack

Ensuring the DMO represents efficient costs requires a careful examination of each element of the cost stack, and how those elements interact as a whole. We encourage the AER to ensure each component incorporates only the efficient costs of a prudent retailer in serving a standing offer customer, with a view to optimising the impact on improved household energy affordability through ensuring a fair, reasonable and trusted energy offer.

3.1 Network cost methodology

A reformed DMO should contribute to consensus around the cost allocation of fixed and variable components of network tariffs. That is, it should promote a consistent and principles-based approach across networks. Fixed costs should be categorised as costs which are unavoidable for the retailer. This should exclude costs that relate to the amount of energy used or that are responsive to efficiency signals.

We support the proposal to determine maximum annual bill amounts by annualising the cost of the flat rate DMO tariff. However, this approach should be strengthened by implementing a parallel maximum price protection. A hybrid approach that includes both a maximum annual bill amount and a maximum price protection would ensure that consumers experience commensurate outcomes irrespective of their provider or the frequency with which they cycle plans.

3.1.1 Response to consultation questions

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?

We are concerned that the approach to network costs and tariffs may, unintentionally, entrench incorrect and inappropriate assumptions regarding the relationship between underlying network tariffs and retail prices paid by consumers. We have provided links to submissions in response to the AEMC review of tariffs and pricing. We contend network tariffs' role is transparent and efficient cost reflectivity to retailers, whereas retail prices may vary, offering choice of preferred pricing structure to consumers. In simple terms, there is no need – and indeed it is not preferable – to have a retail price reflect a network tariff. An approach informed by this understanding would use a single (ideally cost reflective) network tariff structure assumption for each network, for all DMO offer calculations.

However, in current circumstances where networks have multiple tariffs, with variation often based on the metering technology – and a substantial population on flat network tariffs as a result of having an accumulation meter – an approach consistent with this principle is difficult. All options are likely to involve a compromise of principle and/or efficiency, and come with potential consequences for retailers and some consumers.

We recommend the AER assess the various options according to who is impacted and how material those impacts are, with priority being given to lowest cost outcomes for consumers. For instance, continuing to use a flat rate network tariff for all DMOs may be preferable.

It may be deemed most preferable to use the corresponding network tariffs to determine network costs. The cost and risk implications of this, relative to other approaches, should be examined, and it may be the case that as smart meters reach universality and network tariffs evolve, alternative approaches – such as applying a single network tariff to all calculations – becomes more appropriate.

A key consideration should be the ongoing availability of flat-rate retail options and ensuring consumers continue to have capacity to choose such offers regardless of what their underlying default network tariff (or assumed network tariff) may be.

If a separate network tariff is chosen for the flat rate and time of use DMO's the formulation and implementation of these offers should aim to help address the issue of limited consumer choice of retail products based on their network tariff assignment. That is, a separate DMO for flat rate and time-of-use tariffs should intend to overcome retailers practice of prohibiting/limiting households from accessing a flat-rate retail price.

However, if the intent is to preserve consumer choice at the retail level, then retaining the DMO's focus on a flat rate is likely to be more appropriate, i.e. time-of-use offerings should be based on and benchmarked against this default.

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?

As we have noted in question 3, we understand this issue arises due to current circumstances where network tariffs are being linked to end retail prices. In principle a single cost reflective network tariff should underpin all DMO offers. However, given the current state of the transition to smart meters and the mix of tariffs available to consumers, it may be most appropriate continue using a single flat-rate network tariff.

We acknowledge that retailers prefer blended network tariffs on the basis that a flat rate tariff is less reflective of costs that they incur in some circumstances. While this may be the case, we strongly disagree that misalignment between network tariff structures and the DMO constitutes an additional or unacceptable risk for retailers. To the extent that such misalignment exists, it is important to note that it involves not only downside but upside risk. For example, the flat price paid by consumers involves periods where the differential benefits retailers – such as during periods where the flat price may be more than the non-peak tariff paid by the retailer.

A benchmark for a maximum annual bill without a separate maximum price protection is insufficient. Deriving a maximum annual bill based on an “average typical customer” is problematic given the difference in load profiles across CER and non-CER customers. We are concerned that such averaging, especially as regards time-of-use tariffs, will result in an inefficiently high maximum annual bill.

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?

If the current regulations are to continue, a flat rate network tariff is simpler, and is likely to produce a lower maximum annual bill.

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

We do not have comments on this question.

Question 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?

We recommend setting the DMO based on the most prevalent default network tariff for simplicity and to avoid any unintended cross-subsidisation.

3.2 Wholesale cost methodology

The AER's assumptions and methods for determining wholesale costs should reflect the efficient decisions of a prudent retailer, and therefore not include unnecessary risk premiums. In particular, it is necessary to recognise retailers have a range of means to mitigate, manage and defray wholesale costs and manage wholesale risk.

We contend retailers face a reduced incentive (or requirement) to efficiently manage risks if - as it has done with previous DMOs - the AER makes explicit provision for all potential costs in its DMO calculations. Including all possible costs risks fully compensating retailers for costs (and risks) which they have not actually faced, or which they have (or should have) mitigated or offset elsewhere. That is, costs cannot be considered in isolation from any other factors which may mean those costs are not actually faced or faced in full.

In this context, we support the exclusion of the costs of feed-in tariffs.

Consumer and community advocates do not have visibility of the data used to calculate wholesale costs, impeding our scope to comment in detail on the validity of the DMO wholesale methodology. However, it is critical the AER approach to wholesale costs ensures only the efficient costs actually incurred by a prudent retailer are included in the DMO cost calculation.

3.2.1 Response to consultation questions

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

Option 1 (to use only the interval meter controlled load profile) would seem to best meet the criteria set out by the AER. However, we encourage a more detailed assessment of the prevalence of different metering types for controlled load and differences in demand profiles for those different metering types. If this examination shows that most controlled-load customers have accumulation meters and/or there is a material differences in demand profiles, it may not be appropriate to widely apply the interval meter controlled-load profile. Instead, it may be more appropriate to use a blended profile.

Question 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 this question.

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

We support an approach aligned with the principle of only including efficient costs actually incurred by a prudent retailer. The Paper highlights the fact that the approach to WEC has, to date, overcompensated retailers to the detriment of consumers. Accordingly, we support significant change to estimating WEC.

As the Paper details, adopting the 50th percentile WEC estimate reduces the margin of over-recovery compared to the 75th percentile. The additional risk premium incorporated into the 75th percentile WEC estimate is incompatible with the mandatory consideration of efficient costs to serve customers and is broadly neither fair nor reasonable.

The back-cast analysis still shows significant over-recovery at the 50th percentile. Accordingly, we encourage the AER to undertake further back-cast analysis at lower percentiles to determine a percentile at which there is no consistent over-recovery of WEC. We refer to Energy Consumers Australia's submission to this paper for further analysis on the materiality of WEC at different percentiles.¹⁰

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

We do not support a volatility allowance. A volatility allowance is neither necessary nor consistent with the DMO's objective.

As set out in the paper, the 50th percentile WEC estimate already reflects the expected cost of efficient hedging. The fundamental role of retailers is one of risk management and mitigation. They are best placed to see the costs of service in the system and have a range of tools (and the capacity) to manage and mitigate them. The fundamental intent of a competitive retail market is (or should be) that competition drives retailers to minimise cost and risk for consumers, ensuring the products they offer to consumers are as efficiently priced as possible. However, retailers face a reduced incentive (or requirement) to efficiently manage risks themselves if the AER makes explicit provision for volatility risks in its DMO calculations.

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?

¹⁰ Energy Consumers Australia, 2025, Submission to Default Market Offer 2026-27 Issues paper, p 5 & 10.

We agree the 50th percentile more closely aligns with efficiency, however given the Paper indicates this likely overcompensates retailers - on the basis of historic costs - we strongly recommend assessing further changes.

Both the 75th and 50th percentile overestimate retail costs and incorporate an implicit risk premium incompatible with the assessment of efficient costs. As noted in our response to question 10, the 50th percentile more closely reflects efficient WEC but consideration should be given to a lower percentile that does not result in consistent over-recovery.

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

At this stage, we do not see any clear evidence to support including new products in the hedging strategy. We encourage the AER to continue monitoring new peak products and to revisit consultation as the market for peak contract evolves. In any case, the AER should ensure that new products are only included when it is clearly demonstrated that they are being adopted and materially impacting on the efficient costs to serve standing offer customers or a prudent retailer – that is, that retailers are actually facing the impact of costs relating to these new products.

Question 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 this question.

3.3 Retail cost methodology

The approach to retail costs presents significant opportunity to better reflect the updated objective, and more clearly align the DMO with a fair, reasonable and efficient offer.

However, we are concerned that the proposed methodology for calculating retail costs outlined in the Paper does not reflect the efficient costs of a prudent retailer. Critically, we are concerned it does not account for or incentivise fundamental efficiencies, and so results in inefficient costs being included.

We are particularly concerned with the continued explicit inclusion of costs to acquire and retain customers (CARC) as a stand-alone item in the cost stack. We do not consider this necessary or appropriate under the updated objective and contend CARC can be ‘taken into account’ as part of the retail margin. CARC is not relevant to standing offer consumers, is not a cost to serve, has no benefit to consumers and is not subject to any productivity or efficiency incentive.

3.3.1 Smart meter costs

Smart meter costs should not be explicitly included in retail cost calculations, particularly without greater transparency of how retailers are incurring, offsetting and recovering those costs. If retailers are recovering smart meter costs directly from the impacted customers, recovering some costs from all customers, offsetting costs through sale of data or other services to metering providers, or engaging in any other activity that may alter the impact of the metering costs on the retailer, this must be assessed and accounted for fully. Given some or all of these are likely, we contend there is no strong case for explicitly including metering costs in the DMO cost stack.

It is likely that, with the acceleration of the rollout of smart metering, retailers will argue material changes to their metering costs and the risks they face. However, we contend the lack of transparency and consistency of costs relating to metering is relevant, and it is not possible at this stage to regard smart meters as a ‘pure additional cost’ over and above the standard costs to serve related to legacy metering (which, by virtue of being regulated, are transparent). We do not consider it possible to determine the ‘additional’ costs retailers face without a more holistic assessment.

We consider it critical to the creation of a ‘trusted’ offer that DMO consumers have a level of certainty they are not responsible for metering costs the retailer has either not incurred or has otherwise recovered or offset elsewhere. In this context, the approach must be to err on the side of the consumer.

3.3.2 Response to consultation questions

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

We broadly support option 1, to apply the standing offer customer-weighted average costs to serve from all retailers. This method best aligns with the mandatory consideration of efficient costs to supply standing offer customers, as it is most representative. The fact that this would mostly represent the costs of big 3 retailers is not an issue, as consumers on standing offers are mostly served by these retailers.

As option 2 includes market offers – which are able to be above the DMO – this approach would embed costs which are not relevant to consumers on the DMO, and would not align with the renewed objective.

We also note that setting retail costs at the level which is most likely to be ‘efficient’ helps ensure that any retail market participants retain a strong incentive to seek further efficiencies in their provision of standing offers.

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

We do not consider any CARC to be an appropriate element in the efficient cost to serve of standing offer consumers. Further, we do not consider making explicit allowance for CARC to be consistent with the updated DMO objective.

While the AER is required to ‘take account of’ modest costs of acquisition and retention in its DMO determination, this does not require the AER to make explicit allowance in the form of an additional cost component. The review recommended the AER evaluate whether CARC are essential for the retail supply, the benefits of such costs and whether such costs are not already captured in other components to the DMO methodology.¹¹ We contend taking CARC into account as part of the allowed margin, for instance, would meet this requirement. Further, we highlight the

¹¹ Department of Climate Change, Energy, the Environment and Water, 2025, [Review Outcomes: 2025 reforms to the Default Market Offer](#), p 27.

following justifications for not making an explicit allowance for CARC as part of the updated DMO methodology:

- CARC is already accounted for in the allowed retail margin. That is - like any other competitive business - retail businesses can choose to return profit (margin) to shareholders or reinvest in the business by investing some or all in business growth or augmentation activities.
- Broad retail practice is to recover the 'costs' of loss-leading offers from other customers on higher margin offers. Given the opacity of the spread of retail cost recovery from their customers it is hard to justify CARC as purely 'additional' – that is, costs that must be recovered from each customer.
- Consumers who find themselves on the DMO gain no benefit from the inclusion of CARC in the cost stack – indeed explicitly allowed CARC is likely to be 'paying for' the loss-leading offers or lower cost offers of others, contributing to the 'loyalty tax' highlighted by regulators and consumer groups. Additionally, consumers on embedded networks have no ability to change their retailer.
- The fundamental assumption that consumers can 'shop around' for more efficient, 'fair' retail offers is no longer reasonable advice, especially not for the types of customers likely to be on standing offers. The current complexity of the retail market is ineffective in creating better outcomes for consumers, and it may in fact detract from consumer experiences.

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?

We broadly consider bad debt to relate to number of customers, rather than energy usage. A principled approach suggests this is more appropriately recovered as a fixed component.

We welcome the narrower guidance on bad debt and reiterate that quantified bad debt costs should only be those actually written off and unmitigated. The updated definition of 'actual bad debt' better captures retailers' cost of debt, however we clarify it would be better captured by the costs incurred by the retailer that cannot be recovered (e.g. network or wholesale energy charges) as it should not include profit that the retailer was unable to recover. Quantifying bad debt by the amount owed by the retailers' customer overcompensates retailers for costs that they are not actually incurring and effectively means that other consumers are required to compensate the retailer for margin it did not recover elsewhere. This is inherently unfair.

We consider bad debt a fixed cost and therefore prefer option 1. This is because the cost is more closely related to the number of customers served than the volume of electricity sold.

3.4 Retail margin

We support only including the 'fair' margin an efficient and prudent retailer should recoup as part of the provision of standing offer services.

The removal of the separate objective that retailers make a reasonable profit should lead to a decrease in the retail margin used. We note that the 6% retail margin under the last DMO

determination is higher than margins used for other similar regulated prices (between 5.25% set by OTTER and 5.5% set by the ICRC).¹² The retail margin that the AER determines for the DMO should be closer to these figures, if not lower in light of the new objective. In any case, setting the margin any higher than the lowest comparable margin should require robust demonstration that it is warranted and still results in an efficient, fair and reasonable offer consumers can trust.

We have long advocated for more efficient retail margins and disagree with the assumption presented in DMO determinations that a thin margin will necessarily result in retail exit.

However, even were this to be the case, we argue retail exit should be regarded as an appropriate (and desirable) aspect of an effectively functioning competitive market. Indeed the absence of retail exits should be regarded as a clear indication that costs and margins provide a desirable premium to retailers to the detriment of consumers.

At this stage in the maturity of the retail market for a (relatively homogenous) essential service it is not in the interests of consumers for margins to intentionally be set high enough to encourage new (inefficient) businesses and retain all the (potentially inefficient) businesses currently operating. An indicator of efficient cost to serve and reasonable margin leaves ample scope to retain existing retailers and allow for the entry of new businesses able to meet similar levels of performance.

3.4.1 Response to consultation questions

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

Meeting the updated objective requires the margin to be set at a fair, efficient level which prioritises the affordability of an essential service over the profits of retailers. Given there appears to be uncertainty regarding what an appropriate level of an efficient margin is, we recommend a default assumption of the lowest figure within the range be used to determine the margin.

As the AER proposes to consider a range of data to determine an appropriate level of efficient retail margin, we recommend less weight be given to retailers' actual margins or related actual costs. There is no evidence to suggest that actual margins are not inflated beyond a level which is reasonable, fair and efficient. The ACCC found that retail margins are both increasing significantly overall and highly varied between retailers.¹³ If actual margins were correlated with efficiency, we might expect to see greater consistency between retailers as well as a reasonably consistent margin over time. Given this is not the case, we question the validity of retailer margin data to determine an efficient margin.

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

We do not have comments on this question.

¹² AER, 2025, [Default market offer 2026-27 issues paper](#), p 47.

¹³ ACCC, 2024, [National Electricity Market December 2024 Report](#), pp 74-77.

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

We refer to the analysis in Energy Consumers Australia's submission to this paper¹⁴ to support a hybrid approach that does not give undue weight to variability in the cost stack. That is, over-weighting the variable component of the retail margin inappropriately amplifies increases to other components of the cost stack.

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

If the regulations do not change, we consider it reasonable to maintain the current approach. Where that approach results in a range, preference should be given to the lower end of the range to better reflect efficient costs.

4. Further resources

We would welcome the opportunity to further discuss these matters with the AER and other relevant stakeholders. Please contact Kira van Os (kvanos@jec.org.au) to arrange any follow-up.

We refer the AER to our recent submissions on the AEMC's pricing review ('Electricity pricing for a consumer driven future') for further JEC views on electricity pricing, including designing more equitable network tariffs.

- [JEC submission to AEMC Pricing Review Discussion Paper](#)
- [JEC submission to AEMC Pricing Review Consultation Paper](#)

The JEC (previously the Public Interest Advocacy Centre) has been a consumer stakeholder in DMO engagement processes since its inception. The below list of resources provides further background into our long-held and evolving positions on the DMO as an enduring consumer advocate on DMO policy.

DMO review

- [JEC, ACOSS, Combined Pensioners & Superannuants Association, Energetic Communities and SACOSS Joint Submission to DCCEEW Consultation Paper](#)

DMO 7

- [JEC, ACOSS, QCOSS and SACOSS Joint Submission to DMO 7 Draft Determination](#)
- [JEC, ACOSS and SACOSS Joint Submission to DMO 7 Issues Paper](#)

DMO 6

¹⁴ Energy Consumers Australia, 2025, Submission to Default Market Offer 2026-27 Issues paper, p 14.

- [JEC, ACOSS and SACOSS Joint Submission to DMO 6 Draft Determination](#)
- [JEC and SACOSS Joint Submission to DMO 6 Net System Load Profile Approach](#)
- [JEC, ACOSS and SACOSS Joint Submission to DMO 6 Issues Paper](#)

DMO 5

- [JEC Submission to DMO 5 Draft Determination](#)
- [JEC Submission to DMO 5 Issues Paper](#)

DMO 4

- [JEC Submission to AER Options Paper: Methodology for DMO 4](#)

DMO 3

- [JEC Submission to AER Position Paper DMO 3](#)

DMO 2

- [JEC Submission to DMO 2 Draft Determination](#)
- [JEC Submission to DMO 2 Position Paper on DMO 2 price setting](#)

DMO 1

- [JEC Submission to DMO 1 Draft Determination](#)
- [JEC submission to AER Position Paper on developing a DMO for the electricity retail sector](#)