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Lodged electronically

Submission to DMO 2026-27 Issues Paper

Nexa Advisory welcomes the opportunity to contribute to the AER's *Default Market Offer (DMO) 2026-27 Issues Paper* – following our engagement on the Department of Climate Change, Energy, the Environment and Water's *Reforms to the Default Market Offer* (DMO) Consultation Paper[1] and recent Solar Sharer Offer (SSO) consultation.[2]

Nexa is an advisory firm with an unwavering focus to accelerate the clean energy transition in a way that provides secure, reliable, and affordable power for consumers of all types. Nexa Advisory is a team of experienced specialists in the energy market, policy and regulation design, stakeholder engagement, and advocacy. We work with public and private clients including renewable energy developers, investors and climate impact philanthropists to help them get Australia's clean energy transition done.

We support the direction signalled by DCCEEW's DMO reforms and the AER's proposed implementation: moving the DMO to an explicitly cost efficient, consumer protection instrument which:

- provides a fair, trusted and reasonably priced default option for households and small businesses on standing offers;
- no longer incorporates an explicit competition allowance; and
- is better aligned with a high-CER, two-way system, including through time-of-use (TOU) structures and the SSO.

Our submission focuses on several key topics identified in the Issues Paper, namely:

- the treatment of network tariffs and the need for broader tariff reform;
- wholesale energy cost (WEC) methodology, including the move to a 50th percentile estimate and the question of additional volatility allowances;
- the role of the SSO as a catalyst for broader market reform; and
- how the DMO should support innovative market offers.

Nexa supports the proposed new DMO objective and the intention that the DMO be set at the efficient cost of supplying small customers on standing offers and in embedded networks, without a competition allowance.

[1] Nexa Advisory, Submission to 2025 Reforms to the Default Market Offer consultation, July 2025
[2] Nexa Advisory, Submission to Solar Sharer Offer consultation, November 2025

In implementing this objective, we highlight that the way network costs are translated into DMO tariffs and maximum annual bills is central to both consumer protection and system efficiency. We support TOU DMO tariffs – including the recently announced SSO – being aligned with cost-reflective TOU network tariffs. This creates a coherent chain from system costs to network tariffs, to retail tariffs and ultimately to customer price signals. It also enables the SSO and other TOU offers to reflect the underlying economics of a two-way system with abundant daytime solar.

Key recommendations

In implementing the current DMO changes, we recommend that the AER:

1. **Support development of smarter tariff structures that better reflect the economics of a two-way system with abundant daytime solar**

- The AER should align DMO TOU tariffs - including the SSO - directly with DNSP cost-reflective TOU network tariffs to create a consistent chain of price signals from system costs through to customers.
- AER should also work closely with the AEMC and DCCEEW to ensure network tariff reviews/reforms are streamlined and there is no duplication in effort.

2. **Undertake an independent review of distribution networks and address the capex bias**

- The AER must prioritise reforms that improve utilisation and avoid unnecessary network investment, enabling households with and without CER to benefit from lower future network costs. As we have advocated previously, the network capex bias is the underlying root cause of these challenges and as such, an alternative model such as the 'totex' model should be reviewed and adopted as a fundamental priority reform.
- The review should assess:
    - the role of DNSPs in facilitating the energy transition;
    - the ability of DNSPs to adapt their business models to facilitate the integration of CER; and
    - whether existing governance arrangements and regulatory oversight ensure value for energy consumers (e.g., whether the existing capital expenditure bias can be addressed through an alternative 'totex' model).

The need for broader network tariff reform

DMO design alone cannot fix shortcomings in network tariff design. Nexa reiterates the concerns raised in our previous submissions that while retailers and energy service providers have adopted innovative offers - innovation continues to fall short at the network charges level.

Network charges are already the single largest cost line on an electricity bill, averaging about 38 per cent of the DMO across distribution businesses, and climbing as high as 46 per cent in some regions[3]. Because these network costs are socialised, every customer – whether they own CER or not - stands to benefit from smarter, more flexible networks. We have recently discussed that CER could avoid around $8 billion in future generation and storage investment

[3] AER, 2025-26 Default Market Offer Final Determination, May 2025

and a further $11 billion in network outlays by 2040, savings that would flow directly into lower network tariffs and bills for all consumers.[4]

Properly designed tariffs, coupled with effective competition, can significantly mitigate the need for extensive future network investments. Currently, network utilisation stands at approximately 47 per cent, highlighting an urgent need for reform to enhance asset productivity and manage escalating costs which are passed on to consumers[5].

To address this challenge, the AER should initiate a review of the economic regulation of distribution networks to assess the role of DNSPs in facilitating the energy transition, their ability to adapt their business models to facilitate the integration of CER, and whether existing arrangements and regulatory oversight ensure value for energy consumers (e.g., whether the existing capital expenditure bias can be addressed through an alternative 'totex' model).

We also encourage the AER to continue to work closely with the AEMC and DCCEEW to ensure that DNSP tariff reforms, the AEMC's pricing review and the DCCEEW's National CER Roadmap are aligned with the DMO framework.

Wholesale energy cost methodology

Nexa supports the AER's intention to ensure WEC allowances are consistent with the efficient cost objective.

Given the above, we do not consider that the introduction of an additional 'volatility allowance' is appropriate – though this would depend on the allowance structure decided by the AER. For example, if the WEC is reduced to the 50th percentile, but then a volatility allowance is made, the outcome could likely be similar to a situation where the AER retains the existing 75th percentile WEC allowance. While the DMO is intended to reflect efficient costs, not to provide extra risk coverage beyond what an efficient retailer would require – we would also encourage the AER to avoid unnecessary complexity in deciding the components of the DMO.

Consistent with our submission to DCCEEW's DMO Review, we also consider that the efficient cost base for the DMO should exclude customer acquisition and retention costs (CARC), which disengaged customers on standing offers do not directly benefit from. Retail margins should be set at a level that reflects the efficient risk and working capital requirements of an efficient retailer and should not be used to recreate implicit headroom for competition.

Leveraging SSO to drive broader reforms and cost reflectivity

We support the shift towards TOU WECs to reflect the efficient cost objective and become cost reflective of energy costs throughout the day. This reflects the design intention and objectives of the SSO – reflecting the lower cost of wholesale energy during daytime periods. As a regulated standing offer in DMO jurisdictions, the SSO also has an important equity role for customers least able to engage with complex market offers or invest in their own Consumer Energy Resources (CER), ensuring that these households and small businesses can access the benefits of more cost-reflective tariffs and daytime renewable generation.

[4] Nexa Advisory, Empowering Consumer Energy, 23 June 2025

[5] Ibid

As such, we consider that alongside the SSO, the broader DMO design should be underpinned by cost-reflective network tariffs and an appropriate TOU WEC methodology.

The AER should also treat the SSO as a catalyst for broader market reform. In its pricing review, the AEMC has highlighted that retail pricing frameworks must evolve accordingly to reflect consumer energy uptake and the shift towards a two-way system. The SSO can provide a concrete example of such an evolution – providing in-market evidence of time-dependent and cost-reflective tariffs.

We note that implementing the SSO directly supports several elements of the National CER Roadmap. Notably, it addresses the call to develop new tariff structures that provide equitable outcomes and incentives for CER uptake. As such, we encourage the AER to work with DCCEEW to explicitly monitor and evaluate the SSO's impact as part of National CER Roadmap workstreams. For example, metrics like peak demand reduction, increased midday consumption, or the number of non-solar households taking up the offer could be reported as indicators of progress on how innovative retail offers can contribute to efficient system utilisation and ultimately consumer outcomes.

Nexa supports the AER's intention to consider the outcomes of DCCEEW's SSO process and to refine its SSO methodology through targeted consultation and the annual DMO cycle. We encourage the AER to be explicit about the metrics it will monitor (e.g. SSO uptake, load shifting, bill impacts, retailer pricing responses) to inform future adjustments.

A key objective of the SSO – and better cost reflectivity throughout the broader DMO methodology - should be to enable innovative and consumer-centric market offers

In our submission to the recent SSO consultation, we recommended that DCCEEW explicitly articulate that one objective of the SSO should be to underpin and enable innovative, consumer-centric market offers and to generate evidence on consumers' willingness and ability to shift load – supporting the further development of innovative, consumer-centric market offers which provide price signals to enable broader consumer participation in the energy market.

We encourage the AER to also adopt this as an explicit objective for both the SSO and the broader DMO, so that the default arrangements actively support and enable the development of innovative, consumer-centric market offers.

Finally, we note that pricing reform alone will not fully unlock innovative, consumer-centric market offers. Our previous submissions have highlighted that the National Energy Customer Framework and associated retail regulatory settings can be complex and burdensome for new and innovative retailers. We encourage the AER to work with the AEMC and DCCEEW to ensure that DMO and tariff reforms are accompanied by complementary reform of NECF and related frameworks, so that regulatory design supports, rather than constrains, the development of new consumer-centric offers.

Thank you for the opportunity to provide input into the Issues Paper. We welcome the opportunity to further discuss any aspect of our submission - please contact either myself stephaniebashir@nexaadvisory.com.au or Jordan Ferrari, Director - Policy and Analysis, jordanferrari@nexaadvisory.com.au.

Yours sincerely,

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