Government of South Australia
Department for Energy and Mining

Deputy Chief Executive

Level 4
11 Waymouth Street
Adelaide SA 5000

GPO Box 618
Adelaide SA 5001

ABN 83 768 683 934
DEM.executiveservices@sa.gov.au
www.energymining.sa.gov.au

DEMC25/01592

Mr Adam Day
A/g Executive Director
Default Market Offer and Consumers
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Day

Default Market Offer prices - 2026/27 Issues Paper

The South Australian Department for Energy and Mining (the department) thanks you for the opportunity to comment on the Default Market Offer (DMO) prices – Issues Paper.

The South Australian Government remains committed to reducing consumers' electricity bills and thanks the Australian Energy Regulator (the Regulator) for its work on the 2026/2027 DMO determination.

The increased weight the Regulator placed on protecting consumers in recent DMO determinations has been pleasing. We reiterate our expectation that the Regulator will appropriately examine current and expected future market conditions to ensure price relief is delivered to consumers in the 2026/2027 DMO. The department again encourages the Regulator to consider broader economic conditions and cost-of-living pressures as it develops the DMO.

We believe the main priority right now should be protecting consumers from unfairly high electricity prices – and therefore support the new guiding objective for the determination of the DMO. We are confident the Regulator will continue to focus on this objective as it sets the DMO.

We provide the following views on the Regulator's approach to adopting other changes to its DMO methodology.

Wholesale costs

We thank the Regulator for its assessment of the performance of the wholesale cost model versus actual outcomes. It is, however, particularly concerning that the analysis revealed the use of the 75th percentile wholesale energy cost estimate has consistently led to retailers extracting excessive costs from standing offer customers in most years.

Given these findings, we consider it appropriate that the 50th percentile (at most) be used in this DMO. Further, we question what impact this over-recovery has had on consumers – noting the 75th percentile has been used by the Regulator for some time, and that the 95th percentile was used prior to DMO 4.

Further, we suggest that analysis of this type be undertaken on a regular basis by the regulator to ensure that issues are brought to light and resolved promptly.

Regarding the appropriate controlled load profile to include, we note the issues associated with all options presented in the Issues Paper. However, the department would oppose the use of option 3, which will result in the controlled load profile closely resembling the general use consumption. This is opposed as less usage would be assigned to solar and overnight periods, when controlled load typically operates. As the Regulator suggests, this approach would produce a profile that diverges materially from the known demand shape of controlled load and potentially result in overestimation of the controlled load wholesale energy cost.

Additionally, we support the Regulator's position to not include a solar hedging adjustment. Retailers have several options available to manage the risks associated with customers exporting solar energy. We would be concerned if an adjustment to the DMO is added as it could result in retailers recovering more costs than necessary, given these risks are already manageable in other ways. For this reason, we endorse the Regulator's recommended approach.

Retail Costs

In setting the costs for acquiring and retaining customers on standing offers under the proposed new framework, the department considers that it may be suitable to adopt the approach taken by the Essential Services Commission of Victoria (ESCVic). Although ESCVic's method relies on historical data, it aligns with the Commonwealth's aim of keeping these costs 'modest'.

This is demonstrated in the 2025/26 Victorian Default Offer (VDO), where ESCVic's estimated acquisition and retention costs for domestic consumers in Victoria were about 26 per cent lower than the national average. Additionally, ESCVic suggests they chose these data as the most reliable available before a sharp increase in acquisition spending was seen in most jurisdictions. On initial review, this seems to be a reasonable starting point for calculating 'modest' acquisition and retention costs.

We also support the Regulator's move to seek only cost information related to historical 'actual bad debts' that have been written off in previous financial years, as raised in our submission to the 2025/26 DMO Draft Determination. However, we question how substantial the change in this cost category will be from previous determinations, and the impact this has had on the DMO if previous determinations were based on accounting for bad debt provisions – noting that retail costs were a key driver of increases in DMO 7.

Retail margin and competition allowance

We note the significant impact the Commonwealth's review outcomes will have on the retail margin and competition allowance components of the DMO. We support the Regulator's proposal to reduce small business retail margins from the current 11% rate, consistent with the rates set by other regulators and in line with the principle that efficient margins should only compensate retailers for risk not accounted for elsewhere in the regulated price. We also note the lower retailer margins set for all customers in the ACT, Tasmania and Victoria.

The department has previously noted that applying a retailer margin on a percentage basis compounds increases in other components of the DMO, resulting in a larger increase than may otherwise be the case. This view was supported by Frontier Economics during their engagement on the Independent Competition and Regulatory Commission's Retail Electricity Prices determination for ActewAGL customers for 2024-27.

In that process, Frontier Economics stated that applying the retailer margin as a percentage ignores that increasing energy costs *reduce* the risk faced by the retailer and so therefore overcompensates the retailer as energy costs increase. Noting that applying a dollar value may undercompensate retailers, Frontier Economics therefore proposed a hybrid solution. We consider a move to a tariff-based pricing structure, following the Commonwealth review, allows for further consideration of this hybrid approach by the Regulator.

It is also encouraging that retailers are still offering prices well below the DMO, despite the current DMO price not including a competition allowance. While we understand a competition allowance will not be permitted under the Commonwealth's proposed reforms, should those reforms not proceed and the Regulator's discretion over the inclusion of the allowance is retained, we maintain our opposition to the introduction of a competition allowance in DMO 8.

The department thanks the Regulator for the work on this important determination. Should you have any questions in relation to this submission, please contact Mr Chris Leverington, Senior Policy Officer, Strategic Policy and Delivery Division, on (08) 8429 3298.

Yours sincerely

Vince Duffy
DEPUTY CHIEF EXECUTIVE
DEPARTMENT FOR ENERGY AND MINING

12/ 12/2025