AUSTRALIAN ENERGY REGULATOR

Customer Consultative Group

Feedback report to DMO 8 Issues Paper

Version 1
19 November 2025

Introduction

AER Consumer Consultative Group November 2025 meeting details

Held online Wednesday, 19 November 2025, between 1.30 – 2.45pm.

The meeting was chaired by Lynne Gallagher and involved Kate Symons, AER Board members. Both Board members assisted staff with the discussion of key topics relevant to the 2026–27 Default market offer (DMO 8).

Customer Consultative Group (CCG) members present for the meeting represented the following organisations:

ACT Council of Social Service	Justice and Equity Centre
COTA Australia	Mark Henley (individual)
Ethnic Communities' Council of NSW	NSW Business Chamber
Financial Counselling Australia	Tenants' Union of NSW
Thriving Communities Australia	

Purpose

The CCG is a key source of consumer insights and intelligence for the AER, which helps to ensure a broad range of consumer voices are heard and considered across the AER's work and decisions.

AER staff provided an overview of key changes to the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (the Regulations), as recommended by the Australian Government Department of Climate Change, Energy, the Environment and Water (DCCEEW) through its review of the DMO regulatory framework. AER sought feedback from CCG members on a select group of topics from the DMO 8 issues paper that are relevant to the regulatory reforms, namely:

- The new DMO Objective

- The new mandatory matters for consideration, in particular:
  - types of small customers on standing offers
  - efficient retail costs to serve customers
  - efficient retail margins
  - modest costs to acquire and retain customers.

This document provides an overview of the main points discussed and the feedback provided by the members of the CCG within the facilitated discussion.

Main takeaways

- The new DMO objective is seen as critical for calculating the DMO as the key terms of 'fair, trusted and reasonable' underscore ensuring that electricity is affordable.
- The reference to electricity as an essential service in the new DMO objective is also understood to influence AER calculations of efficient pricing for retail costs and retail margins, as well as any inclusion of costs to acquire and retain customers in the DMO.
- Standing offers should be considered as broad enough to cover anyone at any time, including customers who are experiencing vulnerability, linguistically diverse, less digitally literate or those unable to choose other offers.
- Efficient pricing structures for retail costs and margins can be aimed at setting a standard of behaviour for retailers and influencing/incentivising retail efficiency.
- There is general agreement that costs to serve and acquire customers should not feature in a DMO focused on protecting standing offer customers.

Discussion summary

We sought views on

The new DMO objective

The 2025 reforms to the DMO will introduce a new guiding objective for the DMO that is to protect small customers on standing offers and in embedded networks by providing a fair, trusted and reasonably priced electricity option that reflects the costs of supplying customers with an essential service. The AER will be required to align its determination of the DMO with this singular objective.

How do you think the AER should apply the terms '*fair, trusted and reasonable*' when determining the DMO?
What does it mean to reflect the costs of electricity as 'an essential service'?

What we heard

'Fairness' was seen to accord with efficient pricing of genuine retailer costs.

'Reasonable' was considered to imply affordability for those on the DMO but also that retailers can recover their efficient costs without price gouging.

'Trust' was generally perceived to involve an obligation for the DMO to be trusted by consumers and is tied with fairness, being efficient, evidence-based and well communicated to all audiences.

The inclusion of the concept of 'essential service' seemed significant for CCG members in that it further emphasises affordability for all, and that DMO prices should be fair and trusted because it applies to something that all citizens hold as a right.

Energy is an essential service. People should not be penalised for not engaging in the market.

It will not be a fair outcome if standing offer customers are paying 20 to 30% more than market offer customers.

The AER should clearly communicate why DMO 8 is different from previous DMOs, explaining the differences between the new objectives and the previous competing objectives, as well as methodology changes and resulting pricing impacts.

The AER must simplify the DMO so that it's easy for consumers to navigate prices so they don't just stick with the DMO.

A fair and reasonable price is something that is efficient.

Participant comments/responses

Mandatory matter for consideration – Types of small customers on standing offers

The reforms to the Regulations will also introduce new mandatory matters for the AER to take into account when determining the DMO. These matters are:

- the efficient costs to supply small customers, including modest costs for customer acquisition and retention
- the types of small customers on standing offers
- the long-term interests of consumers
- any other matters the AER considers relevant.

The DMO will also apply to small customers in embedded networks from DMO 9.

For DMO 8, the AER will be required to consider the types of small customers on standing offers. This consideration goes to characteristics of standing offer customers, which could include how actively they are engaged in the market or whether they have solar installed.

What other characteristics of small customers on standing offers should we consider?

What we heard

CCG members considered standing offer customers should not be simplistically characterised as unengaged market participants. They considered that anyone at any time for a variety of reasons could be on a standing offer. Given this, it was appropriate for the DMO to have a fair price objective that could protect all electricity customers at some point in time.

CCG members indicated that because standing offers can impact people experiencing disadvantage or vulnerability, the DMO must be set to provide them a trusted and fair offer - rather than assuming they can and should use Energy Made Easy to attempt to find a better plan.

We also heard from CCG members on other relevant aspects such as customers only being on a standing offer by default or for a brief time, some customers having never needed to change or been able to change from a standing offer because there are no other options in their area, customers experiencing vulnerability, and characteristics of home owners and renters.

It is often assumed that standing offer customers are lazy, which is not true. There is a need to understand they have engaged and were no better off, and the market did not work for them. We should challenge that cliché.

Customers experiencing vulnerability are less likely to move to a market offer.

The DMO could apply to any customer at any point in time so it needs to be applicable to everybody. Customers can lapse onto the DMO for just a few billing cycles. At some point people benefit from the price protection of the DMO. Some people, even after a few billing cycles, cannot engage in the market. For example, they may be unable to understand, or choose a better offer, or are time poor, etc

Digital literacy is a key barrier particularly for older customer cohorts. Standing offer customers are limited in terms of how to make comparisons between energy plans.

Renters who move often may be more likely to engage with their retailers compared to people who are living in their own homes and don't realise market offers exist.

Thoughts on the 'mandatory consideration of the long-term interests of consumers' - increasing competition or ensuring the maximum number of retailers possible are operating in the market should not be a goal itself.

Participant comments/responses

Mandatory matter for consideration – Efficient retail costs and margin

Under the reforms, the AER will be required to consider the efficient costs for small customers on standing offers or in embedded networks. This may have implications for how we set retail costs to serve, retail margins and modest costs for retailers to acquire and retain customers (CARC). The next section covers the discussion on modest CARC. The DMO price includes the costs retailers incur in serving customers, which includes billing, customer service and IT, debt collection, managing hardship programs and staff labour costs. These costs are set using the weighted average costs incurred by retailers that they report to us for the most recent completed financial year. For DMO 8, this information request covers 24 retailers selling to more than 95% of customers in DMO regions.

Under the new Regulations, we would still include these costs, but may need to make changes to our approach to reflect the efficient amount for these costs, as they relate to standing offer customers.

The DMO price also must include a margin.

Under the current DMO Regulations this has been a 'reasonable' margin. We have set margins of 6% and 11% for residential and small business customers, respectively. We have considered the higher small business margin 'reasonable' as it could reflect higher risks associated with this group due to greater prevalence of debt and higher debt per instance of debt.

However, the principle that an electricity retailer should be able to make a reasonable profit will be removed from the Regulations. Under the reforms, AER will be required to set 'efficient' margins.

How can we best define and calculate the efficient costs to serve for small customers on standing offers?
How should we approach quantifying an efficient retail margin? Should we distinguish between a small business and a residential customer retail margin?

In quantifying efficient margins, AER will look at:

- retailer data to see what retailers reported for 2024–25 (via AER retail cost data requests),
- margins in the typical offer that customers are on, (published by the ACCC)
- margins in market offers from Energy Made Easy data.

Setting efficient margins would more closely resemble the frameworks applying to the Essential Services Commission (VIC), Office of the Tasmanian Economic Regulator (TAS) and Independent Competition and Regulatory Commission (ACT). These regulators set consistent margins for residential and small business, which are significantly lower than the 11% we have set under the current regulations.

The AER will have discretion to set distinct or consistent margins in residential and small business DMO prices.

What we heard

The new DMO objective was raised in this discussion to help discern the level of efficiency for costs. Fairness and reasonableness mean customers on standing offers should not be paying for costs they don't benefit from, or for choices retailers make which aren't necessary or efficient.

Efficiency is seen as something retailers should be ensuring, especially for an essential service, in their business processes and dealings with customers. CCG members considered the DMO should be set such that it incentivises retailers ensuring the needs of essential service provision are met as efficiently as possible.

There was also a view that retail margins needed to be enough to maintain quality of customer services and not cause business failure.

We need to move away from the assumption that what retailers do is efficient.

Costs to provide services are the main point.

Retailers need to seek efficiencies. Electricity as an essential service means a universal design principle should be applied. Don't make assumptions about levels of engagement or solar capacity. If designed to protect the most excluded, it will still work for everyone.

The DMO objective, whether a cost stack should apply. Go back to fair, reasonable price DMO. Who is this reasonable for (customers with bills, limited income etc) or is it fair for them to take on the burden on a higher DMO because of retailers? Businesses should come in able and ready to compete, taking costs over long term, rather than recovering in the DMO.

Behaviour of retailers needs to be clearer in DMO framing.

In calculating costs, we need to consider the standing offer costs.

Participant comments/responses

Modest costs to acquire and retain customers

Under the current Regulations the AER must have regard to 'reasonable CARC'. We have set this by taking the weighted average CARC reported by retailers to us for the most recent financial year.

Under the reforms the AER will be required to calculate a 'modest' amount of CARC that should reflect:

- The costs of managing relationships and enhancing customer experiences, like comparison tools.
- The costs by retailers in supplying standing offer customers and the extent and nature of those costs.

What does "modest" mean to you?
How can we apply the term "modest" in our cost to acquire and retain (CARC) considerations?

What we heard

There was widespread support for not including CARC in the DMO costings because CCG members considered there is no CARC for standing offer customers, it is not part of efficiency or competitive business processes, nor does it cohere with being an essential service.

There was some concern about setting enough in the costs for CARC to communicate effectively with customers in general and culturally and linguistically diverse (CALD) communities in particular.

If modest CARC is included then it should represent essential costs for services, not the full costs, and should be guided by what is fair and reasonable for the consumer.

There are no acquisition or retention costs for Standing Offer customers. There is no reasonable argument for CARC costs being included in the DMO.

On the fair, trusted and reasonable objective, there must be some structural incentive to efficiency if we are basing costs on what customers do. Incentivizing these businesses to report "efficient" costs and get money back.

Participant comments/responses

Concerned about explicitly defining specific costs as CARC. CARC does not consider the premium in "retained" customers, as we know they are paying more than they need to. These standing offer customers don't cost retailers anything, and retailers get a "premium" for the standing offer customer.

Yet to be convinced CARC should be anything but zero. If CARC must be calculated on something, it should be on the essential service component of a retailer's business. Not additional offerings such as solar, etc. that aren't part of the essential service.

Looking at CALD communities, they need to understand and learn the differences in the energy market and retailers are responsible for that. Where does the cost for interpreting services come from and where does it fit in CARC? From my perspective it is necessary and part of the essential service but others may argue it's not essential.

CARC not part of efficient pricing – should not be part of DMO calculations.

Costs of sales and promotions is not CARC and should not be considered so. Some of the explicit inclusions under the retail costs make it hard to distinguish between a SO customer and others, which then results in what we see as the status quo - SO customer subsidising market offers.

Participant comments/responses