

09 April 2026

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Sent via email to: DMO@aer.gov.au

Re: AER's Default Market Offer (DMO) 2026–27 Draft Determination

I refer to your Default Market Offer (DMO) 2026–27 Draft Determination and thank the Australian Energy Regulator (AER) for its consideration of stakeholder views.

1st Energy is an electricity and gas retailer serving customers across New South Wales, Queensland, South Australia, Tasmania, and Victoria and a wholly owned subsidiary of Origin Energy. Since our establishment in 2015, we have been committed to offering competitive energy products in an increasingly complex and evolving market.

We remain supportive of the AER's objective of ensuring that default market offer prices reflect the efficient cost of supply while protecting customers who are less engaged in the retail market. The DMO plays a critical role in maintaining trust and fairness in the energy system.

However, we have concerns that elements of the Draft Determination, particularly in relation to network cost allocation, depart from cost-reflective principles and do not adequately reflect the practical and regulatory realities faced by retailers and distributors.

In our view, the current approach risks systematically understating efficient costs, which may distort the DMO as a benchmark and, over time, undermine competition and retailer sustainability.

Network tariffs

A central concern for 1st Energy is the AER's approach of assigning the lowest cost network tariff in determining DMO network cost inputs.

While we understand the intent to reflect efficient outcomes, this approach implicitly assumes that:

- Customers can access the lowest cost tariff; and
- Customers can be transitioned to that tariff within the relevant timeframe

In practice, these assumptions are difficult to actualise and do not reflect how tariffs are applied in the market. As a result, the Draft Determination relies on tariff structures that are not broadly assignable to the customer base and therefore do not reflect the efficient cost of supplying those customers.

There are both structural and operational constraints that limit the ability to assign customers to the lowest cost network tariff. Time-of-use tariffs require smart metering and cannot be applied to customers with accumulation meters. A substantial proportion of customers remain on accumulation meters and are therefore ineligible for these tariff structures.

Even where customers are technically eligible for alternative tariffs, there are practical limitations to transitioning customers at scale. It is therefore unrealistic to assume these benefits will be fully realised or that customers will adopt the corresponding retail tariff.

Accordingly, the outcome is a DMO that understates the efficient cost of supply, particularly in relation to network costs.

Controlled Load Tariffs

1st Energy supports, wherever possible, the use of actual underlying network tariff structures in deriving controlled load (CL1 and CL2) inputs. We acknowledge the AER's move toward using interval meter-controlled load profiles where available. However, elements of the methodology appear to carry forward assumptions from previous determinations without sufficient validation, and we have concerns that aspects of the supply charge allocation have been mis-specified. This can be seen in the cost assessment model, where the blended approach to controlled load from prior DMO determinations appears to have been inadvertently carried over resulting in the understating of controlled load daily supply charges.

Smart Meter Rollout

While we support the AER recognising the increasing uptake of smart meters, we consider that the methodology should use forward-looking, evidence-based projections where appropriate.

Retail Costs

1st Energy supports the AER's continued use of a customer-weighted average approach to estimate efficient retail costs, including cost to serve. We consider that efficient cost to serve should reflect the minimum cost required to provide compliant retail services at an appropriate level of quality, including billing, customer service, complaints handling, hardship support, regulatory compliance and ongoing system maintenance. Consistent with our previous submissions, these costs should be derived using a representative cross-section of retailers, including small and medium retailers, with appropriate normalisation for scale and scope differences. While a customer-weighted sample can support this objective, it is important that the underlying dataset reflects the diversity of retailer cost structures across the market, rather than being skewed toward large retailer operating models.

We have more significant concerns in relation to the AER's proposed approach to estimating customer acquisition and retention costs (CARC), particularly where a standing offer customer-weighted approach is applied. Standing offer customers do not reflect active acquisition behaviour and typically involve minimal or no acquisition cost, whereas retailers operating in the competitive market incur material costs

to acquire and retain customers, particularly where scale advantages are limited. As a result, a standing offer-weighted approach risks systematically understating efficient acquisition costs and does not reflect the cost of participating in a competitive retail market. In addition, forthcoming NERR reforms apply standing offer pricing constraints to market customers, which is inconsistent with the above approach.

In our view if CARC is set too low, competitive incentives are undermined and the distinction between standing and market offers is blurred.

Retail Margin SME

1st Energy does not support aligning SME margins to a uniform level. SME customers exhibit different risk characteristics compared to residential customers, including greater variability in usage, different credit risk profiles and more complex servicing requirements. A risk reflective approach should therefore be maintained.

Solar Sharer Offer

1st Energy maintains its position as set out in previous submissions in relation to the Solar Sharer Offer. We are concerned that the current design assumes customers are no worse off without behavioural change, which weakens incentives for demand shifting and undermines the policy intent of the reform.

We also consider that the current approach does not appropriately allocate the costs associated with free period structures across the supply chain, and retailers should not be expected to absorb these costs in isolation.

Conclusion

1st Energy supports the AER's objective of delivering fair and efficient pricing outcomes, however, we consider that key aspects of the Draft Determination require refinement to ensure they remain cost-reflective, operationally feasible and aligned with regulatory requirements. In particular, the current approach to network cost allocation does not adequately reflect the practical limitations of tariff reassignment.

For any queries regarding this submission, please contact Aneta Graham, Head of Regulatory and Compliance, aneta.graham@1stenergy.com.au.

Yours sincerely



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