

# DMO 8 Draft Determination – Stakeholder Submission – Humenergy Group Pty Ltd

## 1. Executive Summary

We support the Default Market Offer's role as a safety net and its purpose of protecting customers from unjustifiably high standing-offer prices. Humenergy Group holds the position that the proposed efficient cost methodology and the resulting DMO price is materially flawed for the following reasons:

### 1. Real electricity costs have not decreased in aggregate

Following analysis of large retailer contracts observed over the last 15 months, we have seen no reduction in total bulk energy costs. Any reductions in core energy costs have been offset entirely by increases in network and other costs.

### 2. Business operating costs have increased

This DMO implies a reduction in retail operating costs. Contrary to this, we have observed a material increase in operating costs – consistent with ABS, RBA and industry data indicating a 7–11% increase in the cost of doing business across FY2025–FY2026. Capital costs remain elevated with the cash rate at 4.1%, regulatory burdens and costs are growing whilst broad cost of living pressures elevate bad debt risk.

### 3. Misaligned methodology – efficient cost cannot serve as both a **binding price cap** and **market benchmark price**

DMO remains a maximum price cap, not only in legislation but also in how it is widely understood across the market — by consumers, businesses and retailers alike. It has always functioned as a consumer protection mechanism, not a tool to set the “correct” market price. Imposing an efficient cost as a price cap will systematically misallocate risk and produce unintended consequences.

In our view, the draft DMO 8 outcome materially understates efficient costs and risks. The issue is not any single parameter, but the cumulative effect of multiple downward adjustments: no observable reduction in bulk energy costs; reduced retail operating and bad-debt allowances despite worsening arrears; a uniform 6% margin; removal of mechanisms supporting competition; and adoption of a median wholesale benchmark with a limited volatility allowance and fixed contract cut-off. Together, these changes bias outcomes below efficient cost [2].

The draft determination does not simply reduce prices—it redistributes risk. By anchoring the DMO to central estimates, lowering key allowances, and applying uniform assumptions, the framework shifts increasing levels of cost and volatility risk onto retailers without a pathway to recovery. This will not result in a more efficient market, but in a more fragile one: characterised by under-recovery, reduced participation from smaller and non-vertically integrated retailers, and a gradual erosion of competitive tension. Over time, this will reduce choice, constrain innovation, and degrade service quality.

## 2. About Humenergy Group

Humenergy Group is an Australian energy services provider focused on delivering lower-cost, transparent, and practical energy solutions for residential and commercial strata communities. In preparing this submission to the Australian Energy Regulator (AER), Humenergy draws on its experience as both an authorised electricity and gas retailer and an accredited Embedded Network Manager within the National Electricity Market. The company works closely with property developers, body corporates, and community operators to design and operate integrated energy systems— including embedded networks, bulk hot water, metering, solar integration, and billing services— while also providing energy procurement and optimisation expertise. This operational perspective, particularly in managing retail risk, customer billing, and embedded network compliance, informs the views presented in response to the DMO 8 draft determination. We have a unique position within the retail electricity market as we tender to many different generators for power purchase agreements – resulting in an elevated viewpoint of the competitive landscape.

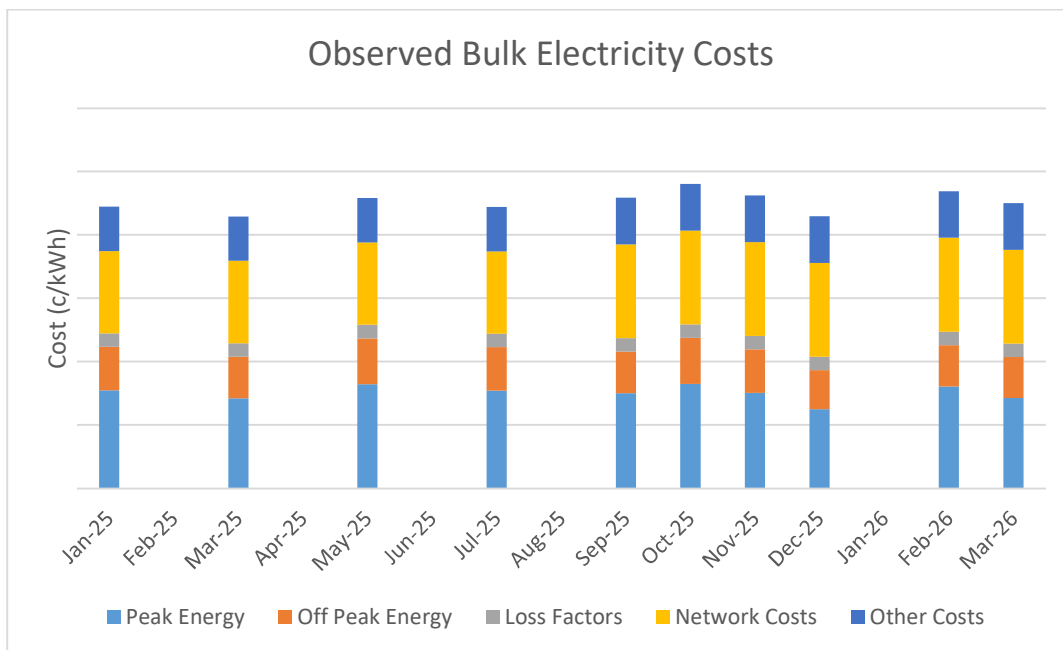
## 3. Real Electricity Costs

Based on analysis of large retailer contracts over the last 15 Months, we have seen no reduction in total bulk energy costs which includes energy, network and other costs.

While there has been a reduction in energy costs, this reduction has been wiped out entirely by the increase in network and other costs in July 2025.

As such we are effectively paying the same for bulk energy.

In addition, risks remain to the downside with global conflict causing instability and increased volatility in energy markets.



## 4. Retail Costs and Margin

The draft determination includes reductions in key cost centres- particularly retail operating cost allowances and bad-debt allowances [5][6].

For Energex:

- Residential bad debt allowance falls from \$35.45 to \$28.95 per customer
- Small business bad debt allowance falls from \$55.10 to \$40.58
- Retail operating costs are also reduced materially [6]

This reduction is not reflected in observed market conditions. ABS, RBA and industry data show a clear increase in the cost of doing business of ~7–11% across FY2025 and FY2026 to date. Humenergy Group has observed material increases in operating costs over the last 12 months, consistent with broader industry data. Labour costs, a key component of retail operations, have continued to rise, with the Australian Bureau of Statistics reporting Wage Price Index growth of approximately 3.7–4.1% over FY2025 and remaining elevated into FY2026. General input costs have increased, with CPI tracking around 3.2–3.6% over the same period, reflecting persistent inflationary pressure across goods and services. Retailers are additionally exposed to rising property and overhead costs, with rents increasing in the order of 5–7%, alongside materially higher insurance premiums, which industry bodies report have risen by 10–20% in recent periods.

At the same time, the cost of capital remains elevated, with the Reserve Bank cash rate holding at approximately 4.10%, increasing financing costs and working capital pressures, particularly for retailers carrying customer debt. Beyond these macro drivers, compliance and regulatory costs have expanded as retailers respond to enhanced consumer protection frameworks, hardship obligations, and reporting requirements, while ongoing investment in billing systems, data capabilities, and technology platforms continues to drive cost growth. These increases are structural and cumulative, directly contradicting the assumption of declining retail cost allowances embedded in the draft determination. The observed reduction in AER cost inputs is primarily driven by methodology and historical data, whereas current and forward-looking indicators show increasing cost pressures.

A 6% retail margin does not provide sufficient headroom to absorb increasing customer credit risk, nor does it accommodate the fact that Retailer obligations are increasing [14]. Retailers are expected to administer complex social policy: ranging from hardship programs, providing cost of living rebates and coordinating decentralised energy technologies. Implementing all of this involves considerable time, expense, and risk – especially for smaller retailers such as Humenergy Group.

A 6% margin is insufficient to accommodate the risk and costs involved with retail electricity operation that does not benefit from vertical integration or significant economies of scale.

The AER's own retail performance data shows:

- Average hardship customer debt increased to \$2,392, up 22.8% year-on-year
- A significant cohort of customers in arrears exceeding 90 days [3]

At the same time:

- Interest rates remain elevated (cash rate ~4.10%) [10]
- Inflation remains above long-term targets [11]
- Cost-of-living pressures persist

These conditions are consistent with increasing—not decreasing—bad debt risk.

Under the draft model:

- The margin allowance for a residential customer is approximately \$115/year
- The bad-debt allowance is approximately \$29/year

Any deterioration in arrears would rapidly erode profitability and increase the likelihood of under-recovery.

The AER's conclusion that costs have reduced for DMO 8 does not reflect the real cost conditions faced by retailers. The apparent reduction is largely a function of methodology choices and backward-looking inputs, rather than evidence of a genuine fall in the cost of supplying customers. The AER has not shown that retail electricity supply has become cheaper in practice. It has shown only that, by changing key assumptions and using backward-looking data, the model now produces a lower number.

## 5. The Role of the DMO

The DMO is both:

- a regulated price cap for standing offers, and
- a reference price used across the competitive retail market [1]

Because of this dual role, the DMO effectively anchors pricing outcomes. Setting this anchor too low constrains retailers' ability to recover costs and manage risk, particularly where those risks cannot be passed through dynamically [1].

An efficient cost price cap simply doesn't make sense within an environment of increasing business operating costs, volatile wholesale electricity price swings and an increasingly complicated retail landscape. The draft determination highlights a focus upon a highly refined definition of 'efficient' costs; however, this has been achieved via over-reliance on average cost prediction. Averages are only correct in hindsight. Using an average cost prediction as a ceiling fails to capture the full array of market conditions and removes the flexibility of the retailer to absorb shocks, whilst also stifling innovation and investment.

A central concern with the draft determination is the internal inconsistency of setting a maximum price based on a median cost outcome. By definition, a median **benchmark** implies half of plausible cost outcomes will **exceed** the benchmark. In a competitive market, this is manageable; however, when combined with a regulated **price cap**, the risk allocation becomes skewed, with retailers bearing the downside.

This understanding is reinforced through the Better Bills framework, which requires retailers to compare every customer's bill against the DMO. This comparison is based on a standardised level of

electricity usage that does not reflect how customers actually consume energy (TOU plans, solar usage etc.). Despite this, the DMO is consistently presented as the benchmark price, further entrenching its role as the market reference point.

At the same time, the DMO is constructed using historical data and modelling assumptions, meaning it is inherently backward-looking. In a market where wholesale costs and risks can shift materially in short timeframes, this approach ensures the DMO is always lagging real-world conditions.

Using a tool designed as a maximum price cap to instead determine an “efficient” price — based on outdated data, standardised assumptions and simplified modelling — is fundamentally flawed. It creates a structural risk that prices are set below the true cost of supply, with potentially significant consequences for competition, service quality and long-term market sustainability.

Using efficient costs to set a price ceiling is inherently flawed, as it masks real cost variation, and imposes a benchmark that **fails to reflect economically justified pricing**.

## 6. Wholesale Energy Costs

The draft DMO adopts a wholesale energy cost based on a P50 estimate with a limited volatility allowance. For Energex, this results in a modelled wholesale cost of \$131.61/MWh, down from \$150.63/MWh in the previous determination [5].

This outcome is highly sensitive to two design choices:

### A. Contract price cut-off

Wholesale costs are derived from ASX Energy contract prices observed up to 20 February 2026 [2]. However, retailers continue to build hedge positions beyond this date. Historical evidence shows that where forward prices increase after the cut-off, the model can materially underestimate actual procurement costs [2]. Furthermore, this cut-off pre-dates the ongoing conflicts in the Middle East, hence, does not reflect the increases in contract price since the conflict began.

### B. Percentile selection

The shift from a higher percentile approach in prior determinations to a P50 benchmark represents a material change in risk allocation [2]. While a volatility allowance has been introduced, its magnitude is modest relative to the range of potential outcomes.

## C. Market indicators

Recent observable market data demonstrates variability and potential for upward deviation:

Indicator	Value
QLD spot price (Q3 2025)	\$72/MWh [7]
QLD spot price (Q4 2025)	\$58/MWh [4]
ASX base settlement (Q1 2026)	\$65.37/MWh [8]
QLD forward base (Mar 2026 snapshot)	\$83.69/MWh

These indicators highlight that wholesale outcomes are inherently variable and that reliance on a single percentile with a fixed cut-off introduces systematic risk of underestimation.

### 7. Removal of Competition Allowance

The amended framework removes any competition allowance [6].

This shifts the benchmark toward lowest-cost operators and reduces viability for:

- smaller retailers
- non-vertically integrated retailers

In Queensland, non-major retailers hold a significant share of the market [9]. The AER has recognised that these retailers face higher hedging and capital constraints as well as higher costs to acquire and retain customers [6]. Compounding this, is the usage of the standing offer customer-weighted average to calculate the costs to acquire and retain customers – a method that also favours the cost profile of tier 1 retailers as mentioned within the draft determination. In addition, the following decisions also skew the cost profile towards that of tier 1 retailers:

- Customer-weighted cost benchmarks anchor “efficient costs” to the operating structures of large retailers, whose scale dominates the dataset.
- “Efficient cost” defined by observed market averages effectively treats incumbent cost structures as the benchmark, embedding scale advantages into regulation.
- Adoption of the 50th percentile wholesale cost reduces risk buffers, favouring retailers with stronger balance sheets and more sophisticated hedging capabilities.
- Volatility allowance based on cost of capital advantages larger retailers with cheaper and deeper access to capital.
- Uniform treatment of margin within efficient cost removes recognition of differing risk profiles and cost structures across retailer sizes.
- Exclusion or simplification of complex cost drivers (e.g. solar, load variability) favours retailers with diversified portfolios and operational scale
- Reliance on advanced data (e.g. interval metering) aligns methodology with capabilities more accessible to larger retailers.

The removal of any mechanism supporting viability increases the risk of reduced competition and

increased market concentration.

## 8. Cumulative Impact of Methodological Changes

The draft determination applies multiple conservative adjustments simultaneously:

- Lower wholesale percentile (P50)
- Limited volatility allowance
- Reduced retail operating costs
- Lower bad-debt allowances
- Reduced small business margin
- Removal of competition allowance

The combined effect is a material downward shift in the DMO.

For Energex:

<i>Customer Type</i>	<i>DMO 7 (\$/year)</i>	<i>Draft DMO 8 (\$/year)</i>	<i>Change (\$)</i>	<i>Change (%)</i>
<i>Residential</i>	2,143	1,927	-216	-10.1%
<i>Small Business</i>	4,294	3,744	-550	-12.8%

This highlights the importance of assessing accumulative impacts rather than individual inputs in isolation [6].

## 9. Queensland-Specific Considerations

South-east Queensland presents additional complexities:

- High rooftop solar penetration
- Increasing EV uptake
- Changing load profiles and demand shapes

AEMO has identified significant changes in demand patterns and renewable penetration [12]. Energex also reports strong EV growth in the region [13]. As an embedded network provider – increased implementation of solar and EV charging facilities increases infrastructure and maintenance costs.

These factors increase:

- volatility exposure
- hedging complexity
- reliance on cap products

A median-based benchmark does not adequately capture these dynamics.

If set below efficient cost:

- Retail pricing flexibility is reduced
- Competitive offers are compressed
- Retailer exit risk increases
- Service quality declines

## 10. Recommendations

To address the issues identified, Humenergy Group recommends the AER:

1. Reconsider the application of “efficient cost” as a price ceiling
  - Clarify the role of the DMO as a consumer protection mechanism rather than a prescriptive market price
  - Avoid using central estimates (e.g. P50) as a binding cap where they do not reflect the distribution of real-world outcomes
2. Reassess wholesale cost methodology
  - Evaluate higher percentile outcomes (e.g. P60–P75) to better reflect risk exposure
  - Increase the volatility allowance to capture the full range of potential market conditions
  - Review the contract price cut-off to better align with actual retailer hedging practices
3. Review retail operating cost assumptions
  - Align cost allowances with observed increases in labour, systems, compliance, and financing costs
  - Ensure the methodology reflects current economic conditions rather than historical averages
4. Re-evaluate the retail margin
  - Stress test margins across a range (e.g. 6%, 8%, 10%) against current risk conditions
  - Recognise that a uniform margin does not reflect differing retailer risk profiles, particularly for smaller participants
5. Reconsider bad debt allowances
  - Align assumptions with current hardship and arrears data
  - Ensure sufficient headroom for worsening credit conditions
6. Introduce a transparent viability mechanism
  - Replace the removed competition allowance with a clearly defined mechanism that supports sustainable participation
  - Ensure the framework does not unintentionally favour large, vertically integrated retailers
7. Assess cumulative impacts explicitly
  - Publish analysis showing the combined effect of all methodological changes
  - Avoid evaluating individual inputs in isolation where their interaction materially shifts outcomes
8. Validate outputs against real market indicators
  - Cross-check model outputs against forward contract prices, ASX settlements, and AEMO data
  - Ensure the final DMO reflects observable market conditions rather than purely modelled estimates

## 11. Conclusion

The draft DMO 8 determination represents a material shift in both methodology and outcome. While the objective of delivering lower prices for consumers is acknowledged, the current approach relies heavily on central cost estimates, reduced allowances, and uniform assumptions that do not reflect the realities of operating in the retail electricity market. Put simply, bulk electricity costs and retail operating costs are not falling.

The evidence presented in this submission demonstrates a clear disconnect between the draft model and observed market conditions. Real bulk energy costs have not declined when considered in total, retail operating costs are increasing across all major inputs, and customer credit risk is deteriorating.

At the same time, the draft determination applies multiple downward adjustments simultaneously—lower wholesale percentile, reduced cost allowances, and a fixed 6% margin—resulting in a cumulative outcome that is likely below efficient cost.

A central concern is the internal inconsistency of using an “efficient cost” framework to set both a maximum price cap and a market benchmark. In practice, the DMO continues to anchor pricing behaviour across the market. When this anchor is set using median assumptions and backward-looking data, it shifts risk disproportionately onto retailers while limiting their ability to respond to volatility and changing conditions.

The consequence is not merely reduced retailer margins, but a structural compression of the competitive market towards under-recovery. If sustained, this creates a credible risk of reduced competition, constrained innovation, and declining service quality—particularly for smaller and non-vertically integrated retailers.

A recalibration of the methodology is therefore required to ensure the DMO continues to function as an effective safety net without undermining the viability and sustainability of the retail market.

## Appendix A – References

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