13 April 2026

Paul Harrigan
Executive Director
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted by email: DMO@aer.gov.au

Dear Mr Harrigan,

Default market offer prices 2026-27 – Draft Decision

Origin Energy (Origin) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) Default market offer (DMO) prices 2026-27 Draft Decision.

Origin acknowledges the recent refocusing of the DMO objectives to place greater emphasis on consumer protection, including by ensuring customers pay no more than the efficient cost of supply. The current cost-of-living environment is extremely challenging, and it is important that the regulatory framework provides appropriate and effective protections. Origin is also committed to delivering real and targeted support for our customers that need it most.

At the same time, it is critical that the DMO pricing framework allows retailers a reasonable opportunity to recover their efficient costs, which in turn supports innovation, a competitive retail sector, and better outcomes for consumers. In this context, Origin has significant concerns with a key aspect of the draft determination. The proposed treatment of network charges is an unreasonable decision which is not supported by any logical, analytical, or legal basis. It fails to take into account efficient costs, and costs of distributing electricity, which are both relevant factors which the AER must consider under the Retail Code. This decision risks undermining the credibility of the DMO price setting process. Origin strongly disagrees with this approach. These concerns, together with comments on other parts of the draft determination, are outlined below and set out in further detail in Attachment 1.

Network Pricing

In previous DMO decisions the AER has recognised that network costs are a non-controllable cost for retailers and has treated the approved network tariffs as a pass-through component in the DMO cost stack.

For this DMO decision, the AER notes that, as the smart meter roll out progresses, an increasing proportion of customers will be assigned to a time of use (TOU) network tariff, although they may remain on the flat DMO. The resulting challenge is how to reflect a mix of underlying network tariffs in the calculation of a flat DMO while also ensuring that retailers can recover the network costs they are required to pay.

The approach adopted in the draft determination is to simply include the lower of the applicable network tariffs in the DMO. However, retailers are required to pay the actual network costs incurred regardless of which tariff is selected for the purposes of the DMO calculation. As a result, the approach set out in the draft determination does not allow retailers to recover efficient, non-controllable network costs.

The draft decision acknowledges this shortcoming and suggests that it could be overcome by retailers arranging accelerated smart meter installations which would facilitate the transfer of customers to a TOU network tariff. However, this is not possible. As part of the AEMC final determination for the *Accelerating smart meter deployment rule change*, networks, retailers, metering coordinators and metering providers have jointly developed a five-year meter replacement program having regard to efficient workforce planning, geographically coordinated installation at scale, and constraints on the availability of specialist labour and metering equipment. This program of work took approximately 18 months to develop, and has been approved by the AER.

It would not be operationally possible, particularly given labour and equipment constraints, to re-sequence this program in response to retailer requests for accelerated smart meter replacements as suggested in the draft determination. Such an approach would also undermine the significant work undertaken by the AEMC and industry to deliver an orderly and efficient smart meter roll out.

Origin recognises the inherent complexity in calculating an efficient flat rate DMO where underlying network tariffs are transitioning over time. Notwithstanding, simply selecting the lowest tariff does not address this complexity and instead results in a systematic under-recovery of efficient (actual) network costs. TOU network tariffs should only be reflected in the flat DMO where a smart meter has been installed, and the customer has transitioned to that tariff.

A more robust approach would be for the AER to reflect actual efficient underlying network costs by incorporating the proportion of customers with smart meters into the calculation, consistent with the meter replacement trajectories set out in the AER approved DNSP legacy meter replacement plans.

Such an approach would result in a DMO calculation that is efficient, transparent, and consistent with the AER's obligations under the Retail Code.

Wholesale Energy Cost (WEC)

As we have outlined in previous submissions, we consider that balancing the allocation of risk between retailers and consumers is best achieved by adopting the 95th percentile of modelled WEC outcomes given the inherent uncertainties associated with estimating that component of the DMO and modelling spot prices. We consider there is a material risk in further lowering the WEC estimate to the 50th percentile particularly in a transitioning market with more unpredictable outcomes.

Retail Costs

We support the AER's decision to adopt a customer-weighted average approach to quantify the efficient costs to serve and other costs. We agree this approach reflects the revealed costs reported by retailers operating in competitive markets, which we agree is a suitable indicator of efficient costs.

Retail Allowance

Appropriate risk compensation is an important part in setting the retail margin. In our view the margin should reflect the growing regulatory and commercial risks of delivering retail services in the current environment including additional regulatory risks introduced through this draft determination. On this basis we support, at a minimum maintaining current retail margins.

Solar Sharer Offer (SSO)

A key policy objective of the SSO is to incentivise households to shift their consumption into the free-power period. However, the draft determination does not assume any degree of customer load shifting. As a result, this allocates all the financial risk of behavioural change onto retailers.

While we recognise that there is a lack of robust data to fully inform forecasts of consumption change, given the objective of the policy and the incentive of zero cost energy we consider a modest assumption around usage shifting to the free period is appropriate. This would reduce in some part the financial risk exposure of retailers.

If you wish to discuss any aspect of this submission further, please contact Sean Greenup (sean.greenup@originenergy.com.au)

Yours Sincerely,

Steve Reid
General Manager, Regulatory Policy

1. Network costs

1.1 Requirements of the DMO Code

[1] The Electricity Retail Code sets out a number of 'matters relevant to determining annual prices' which are factors the AER is expressly required to consider. Relevantly, the AER is required to have regard to 'the efficient costs of supplying electricity in the distribution region to small customers on standing offers'. These costs are to include amongst other inputs, 'the cost of distributing and transmitting electricity in the region'.[1]

[2] The relevant network revenues and tariffs are set and approved by the AER through regulatory processes specified in the National Electricity Rules (NER). Notably, the NER states that 'a Distribution Network Service Provider charges in respect of its provision of direct control services to a retail customer should reflect the Distribution Network Service Provider's efficient costs of providing those services to the retail customer'.[2]

[3] The AER notes that, as the smart meter roll out progresses, an increasing proportion of customers will be assigned to a TOU network tariff, although they may remain on the flat DMO. Customers on the flat DMO therefore comprise a mix of flat and TOU network tariffs. The challenge is how to reflect this underlying mix of network tariffs in the calculation of the flat DMO while ensuring retailers can recover the network costs they are required to pay.

[4] The approach taken in the draft determination is to apply the lowest cost of either the flat rate or TOU network tariff in calculating the flat DMO. However, this will result in systematic under-recovery for retailers where customers do not have a smart meter and therefore remain on a higher-cost flat tariff.

[5] It is also worth noting that both the flat and TOU network tariffs have been approved as complying with the NER, including that they are efficient. It is also necessary to recognise that a TOU network tariff does not represent the approved network costs for a customer with an accumulation meter; this is a flat network tariff.

[6] Notwithstanding we agree that it is appropriate that the amount of flat DMO customers with a TOU network tariff should be reflected in the DMO. However, the costs of a TOU network tariff should only be reflected in the flat DMO <u>when</u> there is a smart meter replacement.

[7] As is demonstrated in section 1.3 below, it is not possible for retailers to arrange for a meter replacement at the scale and timeframe required to ensure cost-recovery in the relevant period (noting Origin alone has ■ of residential sites with accumulation meters across three networks). As such, this DMO decision:

- Fails to take into account the relevant considerations of efficient costs of supplying, and the costs of distributing, electricity in the relevant distribution region.
- Lacks evidentiary support for the suggestion that retailers could arrange meter replacements at such a massive scale in a matter of weeks or months rather than the 5 years schedule which was developed over 18 months.
- Is an unreasonable decision with no evident justification.

[1] Competition and Consumer (Industry Code-Electricity Retail) Regulations 2019, s. 16(4).

[2] National Electricity Rules, cl 6.18.5(a).

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- Does not reflect the costs of supplying small customers with an essential service, and therefore fails to meet the new objective of the Retail Code.

1.2 Implications of the AER decision

[8] Retailers must have a reasonable opportunity of recovering their actual efficient costs. Network costs are outside of a retailer's control and are assigned to a connection point by way of a network tariff based on the metering technology that exists at the customer's premises. The only way these costs can change is for a change in the metering installation.

[9] Noting this, the AER states that its decision provides an incentive for retailers to have the lowest cost applicable network tariffs assigned. Where a cost-recovery shortfall arises, the AER suggests retailers can arrange smart meter installations, noting that retailers are required to do so for small customers by 2030.[3]

[10] However, as discussed in the Section 1.3 below, the timing of smart meter installations is not solely within retailers' control and is primarily dictated by the mandatory smart rollout program. As a result, retailers will under-recover the costs set out in table 1 below for each customer on the flat DMO. Specifically, retailers will be required to pay networks the flat network tariff for all flat DMO customers, while only recovering the lower TOU network tariff through the flat DMO.

Table 1: Network price impacts of draft decision on flat DMO (inc GST)[4]

Network	Flat	TOU	Impact
Ausgrid	$743.09	$754.24	0
Endeavour	$910.76	$916.11	0
Essential	$1,314.80	$1,191.33	-$123.47
Energex	$871.67	$746.35	-$125.32
SAPN	$1,004.32	$930.67	-$73.65

1.3 Smart meter rollout

[11] On 24 November 2024, the AEMC published its final determination for the *Accelerating smart meter deployment rule change*. Under the final rule, new regulatory arrangements require retailers and Metering Coordinators (MCs) to replace all existing Type 5 and Type 6 metering installations ('legacy' meters) with a Type 4 ('smart' meter) meter by 1 December 2030.

[12] To achieve this significant program of work, the AEMC's rule introduced a new regulatory mechanism where DNSPs were required to work with retailers, MCs, and other stakeholders to develop Legacy Meter Replacement Plans (LMRP) so that all parties could agree which legacy meters will be replaced, and when.[5]

[13] The LMRPs promote efficiency through geographic, high-volume, and batch installations ensuring a coordinated rollout thereby enabling better workforce management. This systematic and coordinated replacement of accumulation meters supports efficient workforce planning, including in regional areas by facilitating the use of local work forces and avoiding the need to move

[3] AER, 2026-27 Default Market Offer Draft determination, March 2026, p. 60.
[4] AER, 2026-27 Default Market Offer Draft determination, March 2026, pp. 64-65.
[5] AEMC, Rule determination, Accelerating smart meter deployment, 28 November 2024, p. 10.

installers annually or create local boom-bust cycles having regard to labour market conditions for electricians and the availability of metering components.[6]

[14] Through this extensive consultation, each DNSP developed a five-year meter replacement program which has been approved by the AER. The meter replacement programs developed by SAPN, Energex and Essential Energy are set out in table 2 below. Importantly, retailers and metering providers (MPs) have resourced on the basis of these approved replacements plans and have entered commercial contracts for their delivery.

Table 2: AER approved LMRP Annual replacement program

Year of Rollout	SAPN[7]	Energex[8]	Essential[9]
Year 1	78,290 (15%)	224,113 (20%)	86,610 (13%)
Year 2	126,919 (25%)	281,587 (25%)	158,277 (24%)
Year 3	129,862 (25%)	277,508 (25%)	160,042 (24%)
Year 4	103,068 (20%)	173,560 (15%)	162,296 (25)
Year 5	78,544 (15%)	167,344 (15%)	87,172 (13%)
Total Meters Installed	516,683	1,124,111	654,397

[15] The AER has stated that if a retailer wishes to avoid a cost under-recovery, then it should arrange for a meter replacement. Origin currently has [redacted] residential sites with accumulation meters across these three networks.

[16] It is not operationally possible, nor is it economically efficient, to re-sequence this program in response to retailer requests for accelerated smart meter replacements as suggested in the draft determination. It would place unreasonable stresses on already tight resources which would likely result in price increases as MPs compete for limited resources. Furthermore, these programs are based on the co-ordination of resources and targeted geographic locations to utilise scale and efficiency. Such an approach would also undermine the significant work undertaken by the AEMC and industry to deliver an orderly and efficient smart meter roll out.

1.4 Proposed alternative to AER position

[17] We agree that it is appropriate that the calculation of the DMO should reflect the underlying efficient costs of service. However, the costs of a TOU network tariff should only be reflected in the flat DMO when there is a smart meter replacement. The DNSPs LMRPs provide an objective forecast of when smart meter replacements are most likely to occur. As a result, the TOU tariffs should be reflected in the flat DMO consistent with this installation timeline.

[18] For example, if we take SAPN to demonstrate how this would work. Starting from the existing ratio of flat and TOU network tariffs for customers on the flat DMO[10], the AER should assume that over DMO 8 an additional 15% of customers (as per the SAPN LMRP) will have their accumulation meter replaced with a smart meter. On this basis, the network costs in DMO 8 should comprise

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[6] AEMC, Rule determination, Accelerating smart meter deployment, 28 November 2024, p. 13.
[7] SAPN, Legacy Meter Replacement Plan, June 2025, p. 13.
[8] Energex, Legacy Meter Replacement Plan, 27 June 2025, p. 21 and p. 26.
[9] Essential Energy, Legacy Meter Replacement Plan, 30 June 2025, p. 30.
[10] This information has been provided by retailers in response to the AER's 44AAFA Notice.

85% flat network costs and 15% TOU network costs. In DMO 9 the ratio would shift to 60% flat and 40% TOU (i.e. 15% plus 25%). This is set out in detail below:

- SAPN Flat Network Tariff approved by AER (basic meters) from table 1 = $1,004.32
- SAPN TOU Network Tariff approved by the AER (smart meters) from table 1 = $930.67
- Flat tariff contribution is the cost of flat network costs multiplied by the number of basic meters: $1,004.32 x 85% = $853.67
- TOU tariff contribution is the cost of TOU network costs multiplied by the number of smart meters: $930.67 x 15% = $139.60
- Total network costs to be included in the flat DMO8: $853.67 + $139.60 = $993.27

[19] A proposed 5-year network cost glide path using the LMRP replacements rates is set out in table 3. Under this proposed approach, retailers will be able to recover their actual efficient costs and customers on a flat rate DMO will pay a charge that progressively reflects the increased installation of smart meters and the TOU tariff that is assigned to them as a result. This provides for an efficient, transparent and robust calculation of costs consistent with the Retail Code.

Table 3: Origin proposed network cost glide path (inc GST)

Network	DMO using Flat Network	DMO using TOU Network	Adj DMO 8	Adj DMO 9	Adj DMO 10	Adj DMO 11	Adj DMO 12
Essential	$1,314.80	$1,191.33	$1,298.38	$1,268.50	$1,238.37	$1,207.75	$1,191.33
Energex	$871.67	$746.35	$846.61	$815.28	$783.95	$765.15	$746.35
SAPN	$1,004.32	$930.67	$993.27	$974.86	$956.45	$941.72	$930.67

* Does not include any assumption on the initial ration between flat and TOU network tariffs. Glide path rates reflect LMRP installation rates as per table 2.

Recommendations

- Support the AER adopting a glide path to derive network costs in the flat DMO cost stack.

1.5 Controlled load profile network costs

[20] We are concerned that there has been an error in the calculation of controlled load network costs. Specifically, controlled load fixed network costs have been treated as variable costs.

[21] To highlight the impact of this treatment, we have taken Ausgrid as an example. The annual fixed network cost for controlled load 1 (CL1) is $15.87 which is made up of:

- $6.53 Standard Control Service costs[11] plus
- $9.34 Alternative Control Service costs[12].

[22] The annual fixed network cost for CL2 is $24.45 made up of:

[11] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Detail inputs' !J232.
[12] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Detail inputs' !J247.

- $15.11 Standard Control Service costs[13] *plus*
- $9.34 Alternative Control Service costs[14].

[23] These are fixed charges that are included in Ausgrid's Annual Pricing Proposal. They are paid by the retailer consistent with how a conventional fixed charge applies i.e. regardless of consumption this is the fixed amount levied by the network and paid by the retailer.

[24] However, when calculating the CL fixed charge, the draft determination has developed a weighted average for these costs based on its usage splits for CL. That is, it has taken 66.6% of the CL1 fixed cost ($10.64)[15] and 33.3% of the CL2 fixed cost ($18.71)[16]. These are not variable costs and should not be apportioned based on usage. The retailer is liable for the full value of $15.87 for CL1 and $24.45 for CL2. However, the draft has only allowed for the recovery of $10.64 for CL1 and $18.71 for CL2 meaning retailers cannot recover their full costs.

[25] Origin considers that these CL costs should be treated as fixed network costs in the final determination.

Recommendations

- Support the AER treating controlled load network costs as a fixed (not variable) network charge to ensure retailers can fully recover their network costs.

2. Wholesale energy cost

2.1 Percentile WEC estimate

[26] As we have outlined in previous submissions, we consider that balancing the allocation of risk between retailers and consumers is best achieved by adopting the 95th percentile of modelled WEC outcomes given the inherent uncertainties associated with estimating that component of the DMO and modelling spot prices. This is a key reason ACIL Allen has historically adopted the 95th percentile of the distribution of WECs as part of its modelling approach, which is also utilised by the Queensland Competition Authority (QCA) in setting regulated electricity prices in regional Queensland.

[27] As part of this work for the QCA, ACIL Allen has noted that 'the error in the WEC estimate, due to contract price variation, is likely to be greater in an environment of increasing prices, than it is in an environment of decreasing prices. This is because of the skewed nature of wholesale electricity prices in the NEM – prices can increase a lot more than they can decrease – and demonstrates the risk faced by retailers. This is another reason to adopt a higher percentile of the simulated WECs'.[17]

[28] We consider there is a material risk in further lowering the WEC estimate to the 50th percentile particularly in a transitioning market with more unpredictable outcomes.

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[13] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Detail inputs' !J233.

[14] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Detail inputs' !J248.

[15] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Network costs' !O30.

[16] AER - Draft determination - Default market offer 2026–27 - Cost assessment model, 'Network costs' !O34.

[17] ACIL Allen, *Estimated energy costs for use by the Queensland Competition Authority in its Draft Determination of 2024-25 retail electricity tariffs,* p. 25.

2.2 Volatility allowance

[29] If the AER proceeds with a 50th percentile WEC, it is critical that a volatility allowance is adopted to partially offset the increased risk of under recovery associated with the approach. We support the method the AER has proposed in its draft decision.

Recommendation

- We support retaining the 75th percentile. The use of the 50th percentile will create an unacceptable risk that retailers will not recover their WEC applying the AER hedging strategy in all scenarios.
- We support the AER's proposed approach to include a volatility allowance.

3. Retail Costs

3.1 Costs to Serve

[30] We support the AER's decision to adopt a customer-weighted average approach to quantify the efficient costs to serve and other costs. We agree this approach reflects the revealed costs reported by retailers operating in competitive markets, which is a suitable indicator of efficient costs because it considers economies of scale and promotes incentives for retailers to meet the cost benchmark.

[31] Notwithstanding, we seek clarity regarding the magnitude of the Energex reduction of $51. This value is made up of reductions in retail operating costs, bad debt and meter costs. Notably, the reduction in retail operating costs is $34.82. Origin's reported year on year reduction in its retail operating cost per customer is [redacted]. Even accounting for the impact of potentially greater reductions by other retailers, it seems implausible that, given Origin's proportion of customers in the Energex network, that the weighted average reduction achieved by all other retailers would be nearly double what the AER has determined.

[32] On this basis, we seek clarity on the make-up of the AER's reduction of $34.82 in retail operating costs in the Energex network.

3.2 Costs to acquire and retain customers

[33] We accept that the AER must discharge its obligations in accordance with the Retail Code.

[34] The term "modest" is not defined in either the Retail Code or in economic theory. As a result, the AER must apply its regulatory judgement to determine this value.

[35] We accept that applying a standing offer customer-weighted average of standing offer customers is the most practicable approach in the circumstances. We agree that, since Tier 1 retailers have the largest proportion of standing offer customers, applying this approach would result in costs that have a lower (or 'modest') rate of growth compared to adopting a broader sample that includes Tier 2 and Tier 3 retailers.

[36] Notwithstanding, in the interests of regulatory certainty and consistency, we encourage the AER to commit to this approach to determine CARC to provide retailers with certainty about their likely future CARC allowance.

3.3 Bad and Doubtful Debts (BDD)

[37] We retain our position that the most appropriate approach to determine a bad and doubtful debt (BDD) allowance in the DMO is a bad debt provision consistent with Australian Accounting Standards

[38] As we have argued previously, it is common business practice (not just in retail energy) to make a provision for bad debt in company accounts and to cover this cost through the broader pricing of their goods and services. Retailers adjust their provision estimates each year (consistent with Accounting Standards) and eventually finalise them through write-offs. Provisioning therefore can create a smoother profile of debt relative to actual bad debt written off, which can fluctuate significantly from one year to the next.

3.4 Smart meter costs

[39] We support a continuation of the current approach of using historic installation data until the legacy meter retirement plans are in place. Retailers face significant costs relating to smart meters and it is essential that these costs are included in the DMO price.

[40] We retain our view that a working capital allowance is necessary to cover the cash flow shortfall between a meter installation and cost recovery. This allowance carries greater importance because of the significant increase in forecast installations following the AEMC's accelerated smart meter rule change. In this regard, we support the use of historic installation data until the legacy meter retirement plans are in place. When coupled with a working capital allowance we believe this provides for a more accurate approach to deriving smart meter costs compared to relying on forecasting installation numbers and costs.

3.5 Allocation of costs

[41] We support assigning the recovery of fixed costs to the daily supply charge and recovery of variable costs to the usage charges in the DMO tariffs. We consider this decision provides for an objective approach that can be applied consistently from one decision to the next. We believe providing this regulatory consistency and transparency is important.

Recommendation

- We support the AER calculating retail operating costs and CARC based on the weighted average of supplying all small customers.
- We support the current approach of determining meter costs based on forecast installation with a working capital allowance.

4. Retail margin

[42] The regulatory risks and costs of being a retailer in the NEM have increased over the past few years, with regulatory decisions becoming harder to predict.

[43] The retail margin is intended to provide retailers with a reasonable return on investment and help manage risk while also protecting customers from excessive prices. The AER has highlighted that it considers that margins should not compensate for risks that are already captured in other components of the DMO cost stack.

[44] However, the margin should also account for added risks borne by retailers due the treatment of other components of the DMO cost stack, as indicated throughout this submission.

[45] Against this background and the trend of growing risks for retailers, in the interest of promoting regulatory certainty and encouraging investment, it is important that existing margins are at a minimum maintained.

Recommendation(s)

- The AER maintain the current retail margin of 6%.

5. Solar Sharer Offer

[46] Under the Regulations, the AER must determine a model annual usage, tariff caps and a comparison price for the SSO and this must be done in accordance with the DMO objective and mandatory considerations. To reiterate, these require that the calculation of the SSO must have regard to the costs of supply.

[47] Furthermore, one of the key policy objectives of the SSO is to incentivise households to shift their consumption onto the free-power period.[18]

[48] However, the draft determination does not assume any degree of customer load shifting. As a result, a retailer will only recover their costs if there is no change in customer behaviour. To the extent that there is behavioural change retailers will wear the entire cost risk.

[49] We recognise that there is a lack of robust data to inform forecasts of consumption change. Notwithstanding, given the objective of the policy and the incentive of zero cost energy we consider a modest assumption around increased usage in the free period is appropriate and will reduce in some part the financial risk exposure of retailers.

5.1 SSO Tariff Structure

[50] The AER has overlaid the free usage period onto the respective networks' TOU tariffs. This will create a more complex SSO tariff structure making it harder for customers to understand. However, we consider this trade-off is appropriate so that the SSO tariff structure reflects the underlying network tariff structure thereby reducing the financial risks to retailers of any tariff misalignment.

Recommendation(s)

- The AER includes assumptions around a modest load shifting to develop a more representative SSO tariff.

6. Environmental costs

[51] Origin supports the current market-based approach to determining environmental costs.

[18] Department of Climate Change, Energy, the Environment and Water, Solar Sharer Offer consultation outcomes paper, 2026, p. 5.