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Mr Paul Harrigan
Executive Director
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Australian Energy Regulator
Level 17, 2 Lonsdale Street
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Dear Mr Harrigan

Default Market Offer prices - 2026/27 Draft Determination

The South Australian Department for Energy and Mining (the Department) thanks you for the opportunity to comment on the Default Market Offer (DMO) 2026/27 Draft Determination.

The South Australian Government is committed to lowering electricity costs for consumers and again thanks the Australian Energy Regulator (the regulator) for its dedicated efforts in producing the 2026/27 DMO draft determination.

We are pleased that the draft determination has resulted in a potential reduction in the DMO price for South Australian electricity consumers, and trust that regulator will, at least, maintain these reductions as it develops its final determination.

Ensuring affordable electricity is vital for households and businesses alike and, given the broader cost-of-living pressures consumers are currently facing, decreases in electricity prices are welcomed.

The draft decision represents a notable improvement compared to the electricity price increases seen in recent years' determinations and comes on the back of encouraging signs that the wholesale market had recently stabilised after previous peaks. It is pleasing that the regulator also notes reductions in many cost components are due to underlying changes in market conditions. Although the ongoing conflict in the Middle East may influence the regulator's ultimate wholesale cost determination, it is encouraging that current trends suggest contract prices, while rising, are still lower than those seen last year.

We thank the regulator for its draft decision to reduce the wholesale energy costs (WEC) percentile from the 75th to the 50th. As noted in our submission to the Issues Paper, it was particularly concerning that the analysis undertaken revealed the previous use of the 75th percentile estimate consistently led to retailers extracting

excessive costs from standing offer customers. This move is more in line with efficient costs to supply standing offer customers, as required under the amended DMO regulations. We urge the regulator to maintain this position in the final decision.

The Department does however question the addition of the volatility allowance, which would add around \$4.50 to the DMO for a South Australian residential customer on a flat rate. This is particularly concerning given, as we understand it, the difference in the use of the 75th versus 50th percentile resulted in around a \$19 over-recovery in DMO 7 alone. The inclusion of the volatility allowance effectively removes some of the benefit to consumers in moving to the 50th percentile.

We note the comment in the draft determination that the choice of percentile estimate is ultimately a decision about the extent to which consumers or retailers should bear the risk that actual wholesale cost outcomes may differ from those forecast, and that the regulator considers the forecast risk should be allocated evenly - which is achieved through adopting the median forecast estimate, the 50th percentile.

It could be argued that the addition of the volatility allowance shifts the balance back in favour of retailers, and so no longer represents an even distribution of risk between consumers and retailers. While we note retailer viability and the preservation of retail competition is critical to the long-term interests of consumers, we are concerned that the introduction of the volatility allowance imposes an unnecessary additional cost burden on consumers.

We support the regulator's decision to reduce small business retailer margins to 6%, despite our continued opposition to setting fixed percentage margins.

As mentioned, we consider retailer viability and the preservation of retail competition as critical to the long-term interests of consumers. However, we do note the regulator's analysis of retail competition in Victoria which has shown that a small business retail margin that had reduced from 5.7% in the first VDO to 5% in the most recent final determination has not resulted in a decrease in retail competition. On this basis we would support the regulator making a further reduction in the DMO retailer margins.

The Department is also concerned that the setting of separate tariff caps, as required by the regulations, has resulted in higher daily supply charges than what is currently observed in the market. This is despite the overall reduction in the DMO.

The Department's research shows that the current AGL and Origin Energy standing offers in South Australia have daily supply charges around 62-64 cents per day below the draft DMO daily supply charge of 178.35 cents per day. Noting around 84% of residential customers on standing offer contracts in South Australia are with these two retailers (Q1 2025/26) this decision will have an impact on their 50,000 customers, not accounting for customers of other retailers.

Despite the benefit of overall lower DMO prices, if a customer has a lower consumption level, and is therefore proportionally impacted more by a higher fixed charge, they may still experience a sizeable increase in their energy bill due to this proposal. This decision may also have flow-on impacts on retailers' market offers, impacting more customers.

Conversely, any increase in the usage charge that results in an over-recovery of costs from larger users, as suggested by the regulator, is also discouraged given these customers can often be those on payment plans or hardship schemes.

The Department acknowledges there is no straightforward fix to this matter; however, it is essential to develop a solution that effectively addresses the needs of all customers. We ask that the AER continues to investigate this matter to find the appropriate balance in making its final decision.

Again, we thank you for the work on this important determination and consider it imperative that the regulator's final determination maintains at least the level of price reduction as determined in the draft decision for South Australian consumers.

Should you have any questions in relation to this submission, please contact Mr Chris Leverington, Principal Policy Officer, Strategic Policy and Delivery Division, on (08) 8429 3298.

Yours sincerely



Rebecca Knights
**ACTING DEPUTY CHIEF EXECUTIVE
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