



20th February 2024

Daniel Harding
A/General Manager, Market Performance
Australian Energy Regulator

Submitted electronically

Dear Mr Harding,

PIAC and SACOSS response to AER Consultation Paper: Default market offer - Net system load profile approach

PIAC and SACOSS welcome the opportunity to respond to the consultation paper (the Paper) on the DMO net system load profile approach. The issue under consideration has the potential to have a material impact for consumers at a time of significant cost of living pressures. Given the potential outcomes for consumers and noting the tight deadlines for consultation and decision-making, we would support the AER taking any extra time available to them to make this decision. While we understand the AER may be limited in their scope to delay the final determination, we support the AER exercising any available scope for flexibility.

Net system load profile approach

PIAC and SACOSS recommend that the AER proceed with option 1 presented in the Paper. We consider this option best aligns with the key principles we have consistently highlighted in DMO determination processes to date. Namely:

- **Ensuring good outcomes for consumers** – The DMO should offer the most robust price protection for consumers possible, ensuring that those on the DMO pay no more than is necessary, and that it provides a meaningful reference to consumers for a ‘fair’/reasonably priced offer.
- **Employing robust, evidence based and transparent DMO methods** – The DMO should be based on robust inputs which are transparent to consumers. Consumers and stakeholders must be able to interrogate the method and the constituent elements and have confidence that they are accurate, reasonably representative, and capable of indicating the efficient cost of providing an energy service to consumers.

Using these principles as a reference we recommend the AER adopt option 1 on the basis that:

- It is the most transparent and based on robust, accurate, publicly available data.
- It is a reasonable reflection of the actual costs retailers have faced in providing the service to consumers.
- Of the options presented, it minimises the costs to consumers.

While option 2 may also be regarded as being ‘an accurate or reasonable representation of the costs which *will* be faced by retailers’, it is not acceptable because:

- It is not a reasonable and accurate representation of the costs which retailers have *actually* faced.
- It is not transparent or based on robust, publicly available data, and instead incorporates modelled adjustment.
- It does not result in the least possible cost to consumers.

Given the current role of the DMO, the small number of (potentially vulnerable) people on retail contracts that reflect the DMO, and the scope for market deals to exceed it, there is unlikely to be any material impact on retailers from any potential difference between a DMO based on option 1 and costs which retailers may actually incur over the course of the DMO 6 period.

We also note that the paper appears to imply that over the DMO 4 and 5 periods it has been set higher than it ‘should’ have been were it to reflect the actual costs faced by retailers. If this is the case, there is further argument for option 1 and ‘erring’ on the side of DMO consumers.

We also note recent letters of submission from the Commonwealth and NSW Energy Ministers in a response to the DMO 6 issues paper. Minister Bowen requested that the AER consider the persistent cost-of-living challenges and exercise flexibility when determining DMO 6.¹ Minister Sharpe similarly requested that the AER consider an alternative methodology to achieve better consumer outcomes.² PIAC and SACOSS consider this input is broadly in line with the reasoning we have outlined in this submission.

Given all of this, PIAC and SACOSS strongly recommend the AER adopt option 1 as the most appropriate solution at this time.

Review of the DMO

PIAC and SACOSS have consistently recommended the AER request a substantive review of the role, purpose, approach, and structure of the DMO. Since the DMO’s inception there have been a number of material changes with implications for the assumptions underpinning the DMO and its role in the retail energy market. The energy transition has accelerated, and the operation of the wholesale energy market has changed markedly. The socio-economic context in which the DMO operates has also changed, accompanied by a more developed understanding of the impact of the retail energy market on the vulnerability of all consumers.

¹ Hon Chris Bowen MP (2023) [Submission – DMO 6 issues paper](#)

² Hon Penny Sharpe MLC (2023) [Submission - DMO 6 issues paper](#)

PIAC and SACOSS, alongside other consumer and community stakeholders, have written to Energy Ministers recommending an Energy Equity and Inclusion workstream to be added to the National Energy Transformation Partnership. This includes a key recommendation that Energy Ministers provide more effective retail market protection through reform of retail regulation, pricing and tariffs – including reform of the DMO. We again highlight this need and support the AER making requests and recommendations in support of such a review following the determination of DMO6

PIAC and SACOSS would welcome the opportunity to discuss this matter further with the AER and with other relevant stakeholders.

Yours sincerely

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