

The Hon Penny Sharpe MLC

Minister for Climate Change, Minister for Energy,
Minister for the Environment, Minister for Heritage,
Leader of the Government in the Legislative Council



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Ms Clare Savage
Chair
Australian Energy Regulator

By email: DMO@aer.gov.au

Dear Ms Savage

I welcome and acknowledge the role of the Australian Energy Regulator (AER) in determining the Default Market Offer (DMO) price each year as established under the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019 (the Regulations).

The draft DMO determination for 2025–26 increases between 7.7 and 8.9% for NSW customers on standing offers. These increases are on top of significant price rises in previous years, with NSW DMO prices having increased significantly since 2021–22, by between 41 and 49% (to 2025–26 DMO draft determination) for residential customers.

Given these consumer impacts and current cost of living pressures, I strongly encourage the AER to identify and consider opportunities for reducing the DMO for 2025–26 within the current methodology prescribed by the Regulations.

I recognise that the DMO's policy objectives are to ensure that retailers can recover the costs they incur to serve customers and make a reasonable profit. However, given the most competitive offers in the market are currently between 19 and 25% less than the DMO, I would welcome consideration of whether a lower DMO price may be appropriate in addressing concerns around consumer impacts, while retaining adherence to the policy objectives.

I would particularly welcome the AER's consideration of whether the retail margins permitted within the DMO determination are appropriate given actual retail margins made by energy retailers. I note analysis by the Australian Competition and Consumer Commission in its December 2024 Inquiry into the National Electricity Market report found retail margins for residential and small business customers were 4% in 2023–24 and have been between 0 and 4% since 2019–20. Additionally, where the allowable retail margin is a percentage of the underlying DMO cost stack components, this has resulted in a significant increase in the absolute value of retail margins under the DMO since 2021–22.

Given lower actual retail margins, and the increase in recent years in the value of the retail margin based on a percentage of the DMO cost stack, I request that the AER reduce the retail margin percentages for the purpose of the 2025–26 final DMO determination.

I also note the AER takes a conservative approach to determining the risk margin for wholesale costs, by assuming a 75th percentile of simulated wholesale costs. This built-in risk margin is intended to cover volatility, but it may be arguably conservative from a consumer standpoint. I would request that the AER instead consider utilising the median scenario cost as the benchmark and instead apply a small "volatility allowance" for extreme events.

I would also welcome the AER considering if there are other opportunities for changes to the approach of setting the DMO price for 2025–26 that supports lower price outcomes for NSW energy consumers.

Should you wish to discuss this matter further, please contact Ms Sophia Vincent, Director Energy Consumer and Competition Policy, Department of Climate Change, Energy, the Environment and Water on 02 8229 2927 or at sophia.vincent@planning.nsw.gov.au.

Sincerely

A handwritten signature in blue ink, appearing to read 'Penny Sharpe', with a stylized, flowing script.

Penny Sharpe MLC

Minister for Climate Change, Minister for Energy,
Minister for the Environment, Minister for Heritage

9/4/25