



Australian Government

Department of Climate Change, Energy,
the Environment and Water

2025 Reforms to the Default Market Offer

Consultation Paper

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Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

Contents

1	Introduction.....	4
1.1	Purpose of the consultation paper	5
1.2	Your Feedback	5
2	The Default Market Offer	7
2.1	The objectives of the DMO	8
3	The case for reform	12
3.1	Context for price regulation in retail electricity markets in the NEM	13
3.2	Retail competition in the NEM	14
3.3	Previous reviews of the Retail Electricity Code.....	21
4	Consultation approach	22
4.1	Scope of reforms	22
4.2	Stakeholder engagement	22
4.3	Timeframes.....	23
5	Proposed reforms for consultation	24
5.1	DMO objectives	24
5.2	Efficient pricing framework for the DMO	24
5.3	The form of the DMO: tariff or price cap	26
6	Abbreviations	27
7	Glossary.....	28

1 Introduction

The Default Market Offer (DMO) was introduced by the Australian Government in 2019 to address concerns that retailers were advertising large headline discounts against their own independently set and high-priced standing offers prices. This made it difficult for customers to meaningfully compare electricity offers. It also meant disengaged customers on those same standing offers were not benefiting from competition but were instead paying unreasonably high prices.

Implementing recommendations from the 2018 Retail Electricity Pricing Inquiry (REPI) by the Australian Competition and Consumer Commission (ACCC), the DMO was introduced as a price cap for standing offers and a reference price to empower consumers to make better-informed choices in the electricity market.

Now in its seventh year of operation, the Department of Climate Change, Energy, the Environment and Water (the department) is undertaking consultation on potential reforms to the DMO framework to ensure customers on a standing offer pay an efficient price that only compensates retailers for the costs that they incur in providing an essential service.

An efficient pricing framework would ensure that the prices customers pay for a standing offer would reflect the efficient costs to serve a customer and remove or minimise the additional costs built into the current DMO framework to maintain incentives for competition.

Customers on standing offers represent a cohort of customers that have not engaged, or cannot engage, in the competitive process of seeking the cheapest offer in the retail electricity market.¹ Therefore, certain costs components allowed under the current DMO framework, such as a competition allowance and customer acquisition and retention costs, are additional costs that these customers pay where they do not accrue the benefits of competition.

The reforms for consultation outlined in this paper aim to improve the policy articulation of the DMO framework and its function as a safeguard for customers unable, or unwilling, to participate in the market. In doing so, this consultation process seeks to examine the key policy objectives guiding the DMO pricing framework with a focus on striking an appropriate

¹ Standing offers have a range of consumer protections set under the National Energy Retail Law that are not available to customers on a market offer.

balance between protecting customer access to fairly priced electricity while maintaining incentives for retailers to compete and make a profit.

In addition, the department will also consider other factors relevant to the DMO pricing framework, including expressing the structure of the DMO as a tariff rather than annual price, and extending its application to tariffs with a demand charge, small business time-of-use and controlled load tariffs.

The department is leading this reform of the DMO framework, which is currently set out in the Part 3 of the *Competition and Consumer (Industry Code—Electricity Retail) Regulations 2019* (Electricity Retail Code).

The department anticipates that consultation of the proposed reforms will be settled in sufficient time for these to take effect for the 2026-27 DMO 8 determination process.

1.1 Purpose of the consultation paper

The purpose of this paper is to support the department's consultation on potential reforms to the DMO framework.

The structure of the paper is outlined below:

- Part 2 provides an overview of the DMO, its background, how it regulates standing offers, and changes to its policy approach since its implementation.
- Part 3 examines the market conditions leading up to the implementation of the DMO, the state of competition and associated challenges, and sets out the rationale for the DMO framework placing greater emphasis on consumer protections via the adoption of an efficient pricing framework.
- Part 4 outlines the consultation approach and invites stakeholder feedback on potential improvements to its functionality.
- Part 5 provides a summary of the potential reforms and related queries we are consulting on.

The observations outlined in this paper are intended to facilitate informed discussion and invite considered feedback from relevant stakeholders. This consultation paper outlines our principles and proposed approach for amending the DMO framework.

1.2 Your Feedback

To inform this process, the Commonwealth is seeking input from stakeholders on the operation, effectiveness, and market impacts of the DMO since its introduction. Feedback received will help guide potential reforms to better support competitive, fair, and transparent outcomes for both customers and industry participants.

We invite stakeholders to make written submissions in response to this consultation paper.

Submissions should be made by 5pm on 18 July 2025. Stakeholders intending to make submissions are strongly encouraged to do so by the due date. We may not be able to consider submissions received after this deadline.

To make a submission to this consultation paper, please choose from one of the following:

- Respond to any or all of the questions asked in this paper via the template document on our website, which will be treated as a written submission.
- Send your feedback by email.

Any queries should be directed to the department's Retail Market Policy team by email to DMOReforms@dcceew.gov.au.

2 The Default Market Offer

On 20 August 2018, the Australian Government committed to introducing a Default Market Offer for electricity standing offers, following key recommendations from the ACCC's REPI (June 2018), aimed at restoring affordability and competition.

Alongside this, the government endorsed the ACCC's proposal to use the DMO as a benchmark for comparing electricity prices—boosting transparency and helping customers navigate the market more confidently.²

The Electricity Retail Code came into effect on 1 July 2019.³ It operates in New South Wales, South Australia, and South East Queensland by:

- applying the DMO price cap to standing offer prices available to certain residential and small business customers;
- requiring retailers to compare their prices to the DMO (called the reference price); and
- imposing specific requirements on communicating of prices and advertising conditional discounts.⁴



Figure 1: Map of DMO regions

The Electricity Retail Code also sets out the framework for the Australian Energy Regulator (AER) to make determinations for a financial year. The Electricity Retail Code is scheduled to sunset on 1 July 2029.⁵

² ACCC 2018. [Restoring electricity affordability and Australia's competitive advantage: Retail Electricity Pricing Inquiry – Final Report](#). June 2018.

³ *Competition and Consumer (Industry Electricity Retail Code – Electricity Retail) Regulations 2019 (Cth)*

⁴ The DMO objectives are set out in several sources including: the ACCC Retail Electricity Pricing Inquiry final report, June 2018; the Explanatory Statement accompanying the DMO Regulations, 2019; Treasurer's and Minister for Energy's request to the AER to develop a DMO, 22 October 2018; and the Minister for Climate Change and Energy's letter, 2024.

⁵ ACCC 2021. [Guide to the Electricity Retail Code – Version 3](#). July 2021.

Similarly in Victoria, as a result of an independent review in 2017⁶ which identified several key issues inflating energy prices, the Victorian Government agreed on 26 October 2018 to a suite of recommendations to place customers back on a level playing field⁷ which included the introduction of the Victorian Default Offer (VDO). The implementation of the VDO aimed to provide a simple, trusted and reasonably priced electricity option that safeguards customers unable or unwilling to engage in the retail market, without impeding customer benefits experienced by those who are active in the market.⁸

2.1 The objectives of the DMO

The DMO was introduced in response to the ACCC's findings in its REPI report of significant failures in the development of retail competition which led to poor customer outcomes and hindered the ability for smaller retailers to attract and acquire customers.

To address these issues, the ACCC outlined a plan to reset the rules and policies shaping competition in Australia's electricity market. Recommendations 30 and 32 of the REPI report led to the creation of the DMO. Recommendation 30 proposed replacing independently set standing offers with a regulated default offer determined by the AER. Recommendation 32 advocated for the introduction of a reference price to standardise how retailers advertise discounts.

The current DMO pricing framework is defined by three key policy objectives:

1. **Protect** customers from unreasonable prices in the market by reducing unjustifiably high standing offer prices.
2. **Allow** retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention.
3. **Maintain** incentives for competition, innovation and investment by retailers, and incentives for customers to engage in the market.

As noted by the AER in its final determination for the 2025-26 DMO, the Electricity Retail Code requires that the DMO reflects the 'reasonable' costs of a retailer supplying electricity, whereas regulatory frameworks in other regions including Victoria incorporate efficient costs

⁶ Thwaites J, Faulkner P, Mulder T, 2017. [Independent review into the electricity & gas retail markets in Victoria](#). August 2017.

⁷ Essential Services Commission (ESC) 2018, [Fair Pricing in the Energy Market: Terms of Reference for the Essential Services Commission](#). December 2018.

⁸ Ibid.

of supply. For regional Queensland, the Australian Capital Territory (ACT) and Tasmania, where there is limited retail electricity competition, regulated prices are intended to be efficient prices in the market, due to the lack of competitive tension between retailers.

Both the VDO and DMO regulated offers seek to provide enhanced protections to disengaged customers in competitive retail markets. However, the policy objectives of each framework place a different emphasis on the extent to which standing offer customers not engaged in the competitive market bear additional costs for incentives for competition.

Ultimately, this results in setting a regulated price at the efficient cost of supplying electricity (in the VDO) compared to allowing for additional costs such as the inclusion of a competition allowance (in the DMO). Further, the VDO places constraints on some cost categories such as retail margins and customer acquisition and retention costs that otherwise have limited explicit constraints under the DMO pricing framework.

2.1.1 The DMO regulates the price charged for standing offer contracts

Standard Retail Contracts (referred to as standing offers in this paper) are intended to provide a level of protection to customers not engaged in the retail electricity market. The terms and conditions of a standing offer is set by law and cannot be changed by a retailer.⁹ A customer may be on a standing offer for several reasons – such as, if they have never switched to a retailer’s market offer or have defaulted to a standing offer at the end of their market offer benefit period.

Standing offers are generally not the cheapest offers on the market. The majority of customers are on “market offers” that are subject to a set of minimum terms and conditions and for which the retailer, not the AER, sets the price. Retailers may offer discounts, feed in tariffs, renewable energy options, and other incentives to customers on their market offers.

The DMO is set as an annual price cap based on a model annual usage for standing offers in DMO regions. The AER annually determines the DMO price in accordance with the requirements set out in the Electricity Retail Code.

⁹ Specifically, the NECF prescribes model terms and conditions which standing offer contracts must contain. These include pricing protections for consumers such as limiting price variations to no more than once every six months and imposing information provision requirements on retailers in relation to these price variations. Market retail contracts do not have model terms and conditions under the NECF. Source: [Contract terms | AEMC](#)

The Electricity Retail Code lists the matters the AER must have regard to in its determination:¹⁰

- The prices electricity retailers charge for supplying electricity in the region to that type of small customer.
- The principle that an electricity retailer should be able to make a reasonable profit in relation to supplying electricity in the region.
- The following costs:
 - *Wholesale cost*: the wholesale cost of electricity in the region.
 - *Network cost*: the cost of distributing and transmitting electricity in the region.
 - *Environmental costs*: the cost of complying with the laws of the Commonwealth and the relevant State or Territory in relation to supplying electricity in the region.
 - *Customer acquisition and retention cost (CARC)*: if relevant to the region—the cost of acquiring and retaining small customers.
 - *Retail operating cost*: the cost of serving small customers.

Aside from the mandatory considerations listed above, the AER may also have regard to any other matter the AER considers relevant.¹¹

2.1.2 The DMO acts a reference price for market offers

As well as setting a cap on standing offer prices, the DMO acts as a reference price to allow customers to compare market offers. Retailers are required to provide a percentage comparison between their market offer prices to the DMO when advertising or making any statements about pricing to their customers. This requirement is intended to help customers make an informed decision by making it easier to compare market offers.

As required under the Electricity Retail Code, the DMO price is an annual fixed cost at a model usage. This approach aims to balance the policy objectives of consumer price protection, retailers' recovery of efficient costs, and incentivising market competition, innovation, and investment by retailers. Retailers are able to set their charges for their

¹⁰ Section 16(4), *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*

¹¹ Ibid.

standing offers (supply and usage charges), so long as their price at the model annual usage is at or below the DMO price.¹²

The resulting price setting approach provides a clear reference price for customers with an annual consumption similar to the model usage defined by the AER, while outcomes are less transparent for consumption profiles above or below this usage level.

¹² Australian Energy Regulator. (2024). *Default Market Offer Prices 2024–25: Final Decision*.

3 The case for reform

There is a case for reforming the DMO framework to ensure it is fit-for-purpose to address the current and emerging challenges in the retail electricity space. At the core of the issue is the question of whether the DMO successfully balances its competing objectives to act as a consumer price protection measure while enabling and incentivising competition and customer engagement in the market.

Since the DMO came into effect on 1 July 2019, the Australian electricity sector has experienced significant volatile market conditions, including:

- Rising cost-of-living pressures as households, businesses and industry have faced energy price rises due to Australia's continued reliance on coal and gas-fired electricity generation, compounded by global impacts such as Russia's invasion of Ukraine and the impacts of COVID-19.
- Reports from the ACCC and the Independent Pricing and Regulatory Tribunal of New South Wales have raised concerns about the number of customers paying at or above the DMO, and the lack of price protections for customers on non-flat rate energy offers.
- The Australian energy market has undergone rapid and significant transformation. The increased uptake of CER including solar photovoltaic and battery systems, and electric vehicles, alongside the smart meter roller and wider use of cost-reflective tariffs (such as time of use and demand tariffs) has resulted in increasing complexity in navigating electricity products and services as a greater range of trade-offs must be considered in selecting the right tariff for a household.¹³

These conditions have brought into sharp relief the key policy objectives of the DMO framework and whether it strikes the right balance between protecting customer access to fairly priced electricity while maintaining incentives for retailers to compete and make a profit. The policy objectives as currently articulated may, particularly in circumstances of wholesale market volatility and higher inflationary environments, result in customers on standing offers not benefitting from the competitive market while bearing some of the costs associated with retail market competition.

¹³ AEMC, The pricing review: Electricity pricing for a consumer-driven future. The AEMC initiated this review to address the role electricity pricing, products, and services will play in supporting the diverse needs of customers, including delivering the consumer energy resources (CER) that is being acquired, and will continue to be acquired, for the energy transition.

As evidenced by ACCC reporting, there is a spectrum of customers ranging from those that switch regularly to those who do not or cannot switch. The ACCC also observed most retailers set and adjust prices for new and existing offer customers differently. This contributes to a ‘loyalty penalty’ where customers who do not engage in the market or regularly switch offers pay higher prices than those who do engage with the market or switch regularly.¹⁴

Moving the DMO to an efficient pricing framework would ensure that customers on a standing offer pay a fair price that does not build in additional costs over the efficient cost to electricity retailers of providing an essential service.

3.1 Context for price regulation in retail electricity markets in the NEM

Retail competition in Australia’s electricity market is a relatively recent development.

Under the Australian Energy Market Agreement in 2004, federal, state, and territory governments agreed to phase out retail price regulation where effective retail competition was established. However, they also agreed that, where competition is not yet effective for a market, group of users or a region, or where effective competition for categories of users ceases, retail price controls can be imposed.

Accordingly, standing offer prices were progressively deregulated in Victoria, New South Wales, South East Queensland, and South Australia, as more customers moved to discounted market retail contracts and the market was deemed ‘workably competitive’.¹⁵ Standing offer prices however remained regulated in regional Queensland, Tasmania, and the ACT under jurisdiction-specific applications of the National Energy Retail Law.

In 2019, standing offer prices were partially re-regulated in Victoria, New South Wales, South East Queensland, and South Australia. In Victoria, this was achieved through the introduction of the VDO, while in New South Wales, South Australia and South East Queensland, some standing offer prices were capped by the Australian Government through the introduction of the DMO.

¹⁴ ACCC 2024. *Inquiry into the National Electricity Market – December 2024 Report*. December 2024, pg. 12.

¹⁵ Esplin, Davis, Rai & Nelson (2019), [The impacts of regulated pricing on price dispersion in Australia’s retail electricity markets](#), page 2. Accessed 3 June 2025.

3.2 Retail competition in the NEM

Despite retail markets in the NEM evolving substantially since deregulation, the retail market structure has generally remained concentrated, with a few larger retailers enjoying significant incumbency benefits.

In its REPI report, the ACCC summarised its key concerns regarding the development of effective retail competition in the electricity market at the time into three broad categories:¹⁶

- **Market concentration** – The retail landscape is highly concentrated by a few large players, largely due to how the customer base of publicly owned providers was sold.
- **Incumbency advantages** – In this concentrated market, major retailers have significant advantages through their incumbency over smaller retailers and new entrants. These advantages include economies of scale, vertical integration, and financial stability from steady revenue streams through large cohorts of inactive customers.
- **Customer confusion** – The retail market has evolved in a manner that makes it difficult for customers to compare offers and make informed choices.

The ACCC recommended the introduction of a DMO to address specific concerns that retailers were advertising large headline ‘discounts’ against their own independently set and high-priced standing offer prices. It also meant disengaged customers on those same standing offers were not benefiting from competition but were instead subject to unreasonably high prices.

Given the significant changes in the market since that time, and recent findings from the ACCC, it is timely to further interrogate the rationale that the DMO should balance between competing objectives: acting as a protection for disengaged customers, incentivising competition and customer engagement, and allowing retailers to make a reasonable profit from supplying electricity.

3.2.1 Drivers of retail competition

There are several factors that can drive competition in the retail electricity segment, with key factors including market concentration, the costs to supply electricity to customers and the ability for retailers to hedge against wholesale volatility, barriers to entry and operation in the market, and customer behaviour.

¹⁶ ACCC 2018. [Restoring electricity affordability and Australia’s competitive advantage: Retail Electricity Pricing Inquiry – Final Report](#). June 2018, pg. 134.

In its recent NEM Inquiry report, the ACCC have stated that despite the improvements to competitive market conditions, Tier 1 retailers remain dominant, holding a combined market share of 62 per cent across the NEM in June 2024.¹⁷ Specifically in DMO regions, over 2023-24 Tier 1 retailers held 73 per cent of the market share in New South Wales and South Australia, and 72 per cent in South East Queensland.¹⁸

Retail businesses operating in the retail electricity market benefit significantly through developing economies of scale. In the 2018 REPI report, the ACCC noted that there are few retailers that had achieved customer numbers to allow them to take advantage of any substantial economies of scale.¹⁹ The ACCC's most recent NEM Inquiry report highlighted that that this trend has not significantly changed and the market remains highly concentrated, with Tier 1 retailers enjoying a significant cost advantage over other retailers, with their cost to serve being 36 per cent lower than for other retailers in 2024.²⁰

Importantly, as was highlighted in the ACCC's REPI report, due to the way Tier 1 retailers acquired their market share when the market was initially deregulated, these larger retailers enjoy the benefits of 'sticky' customers who are not price sensitive and provide a dependable revenue stream. While the ACCC does not specify the spread between different retailers, in its December 2024 NEM Inquiry report, the ACCC indicated that there is still a cohort of 2.6 million customers with prices at or above the default offers who may benefit from engaging in the market.²¹

The advantages that Tier 1 retailers have over other market participants further extend into the sphere of financial risk management which materially impacts the ability for a retailer to effectively compete.²² The ACCC have noted that the smaller retailers' lack of access to trade on the Australian Securities Exchange and difficulty accessing required products on over-the-counter market prevented them from executing on their preferred hedging strategy and can at times lead to retailers engaging in behaviour that effectively reduces their own market

¹⁷ Ibid, page 59.

¹⁸ AER 2024. [Annual Retail Market Report 2023–24 - 30 November 2024](#). November 2024, pg. 13.

¹⁹ ACCC 2018. [Restoring electricity affordability and Australia's competitive advantage: Retail Electricity Pricing Inquiry – Final Report](#). June 2018, pg. 145.

²⁰ Ibid, page 59.

²¹ ACCC 2024. *Inquiry into the National Electricity Market – December 2024 Report*. December 2024, pg. 27

²² ACCC 2018. [Restoring electricity affordability and Australia's competitive advantage: Retail Electricity Pricing Inquiry – Final Report](#). June 2018, pg. 112.

share.²³ While these issues have a material impact on competition they are not within the scope of this consultation.

3.2.2 The competition allowance in the DMO

The DMO includes retail allowance which aims to maintain incentives for investment, innovation and competition in the market and incentivise customers to engage in the market. The retail allowance was set to reflect a return on retailer risk, allow for differences in retailers' costs and provide additional room for competition.

The retail allowance comprises a retail margin and competition allowance.²⁴ The latter component incorporates additional headroom into the DMO to incentivise retailers to compete. Where applied, the competition allowance would allow most retailers whose cost-to-serve customers are above the weighted average used in the DMO cost stack to continue to make a reasonable profit.

Since DMO 6 (2024-25), the AER separated the retail allowance into its individual components to provide a mechanism for the AER to explicitly reflect its considerations of electricity affordability and cost-of living pressures as a part of its price setting approach.²⁵ In its prior determinations for DMO 6 (2024-25) and current DMO 7 (2025-26), the AER have excluded the application of the competition allowance. The AER has previously noted affordability concerns are a relevant consideration in the DMO and determined that it was appropriate to continue to address these by including or excluding the competition allowance.²⁶

Submissions to the AER as a part of the DMO 7 process noted retailers argued the need for headroom in the DMO to facilitate competition and innovation²⁷ which will lead to better customer outcomes. It was argued that the exclusion of the competition allowance would hinder the ability for smaller retailers to compete with larger retailers.

In its DMO 7 final determination, the AER did not consider the exclusion of the competition allowance would unduly restrict competition, noting market developments in 2024-25 indicated that the exclusion of the competition allowance from DMO 6 prices did not harm retail competition. The Energy Consumers Australia's submission to the AER supported the

²³ ACCC 2024. *Inquiry into the National Electricity Market – December 2024 Report*. December 2024, pg. 22

²⁴ AER 2025. [Default market offer prices 2025–26: Final determination](#). May 2025, pg. 71.

²⁵ Ibid, pg. 79.

²⁶ Ibid, pg. 83.

²⁷ Ibid, pg. 81.

exclusion of the competition allowance, stating the removal of the competition allowance for DMO 6 has not appeared to have had an impact on the levels of competition, referring to the strong level of competition in Victoria’s retail market despite the lack of additional headroom under its efficient pricing framework.²⁸

The AER also noted the competition allowance represents an additional amount in DMO prices to further incentivise competition and customer engagement. Unlike other elements of the DMO cost-stack, it is not an allowance reimbursing retailers for a cost of supplying electricity. While the allowance provides for retailers with higher-than-average costs to serve to make a reasonable profit, its exclusion from the DMO price does not impose or burden retailers with an unrecovered cost in supplying electricity.

3.2.3 Competition in Victoria under an efficient pricing framework

On the same day that the DMO came into effect, the VDO was introduced in Victoria by an order under section 13 of the *Electricity Industry Act 2000* (pricing order). The VDO is set by the Essential Services Commission of Victoria (ESC). The DMO and the VDO both serve as government-regulated electricity prices designed to protect customers who do not engage in the competitive retail market. The VDO also serves as a reference price for comparing market offers and seeks to shield customers from excessive electricity prices—ensuring fairness, transparency, and stability in a competitive market.

The pricing order species the objective of the VDO is to provide a “simple, trusted, and reasonably priced electricity option that safeguards customers unable or unwilling to engage in the electricity retail market”. The ESC is also required to meet the objectives of the *Electricity Industry Act 2000* which obligates the ESC to set the VDO utilising an approach which promotes protections for customers, the development of full retail competition, and is consistent between electricity and gas markets.²⁹

The VDO framework requires the ESC to set its price based on the efficient cost of the sale of electricity by a retailer, must not include headroom, and must be expressed in the form of a tariff (with regulated usage and supply charges).

In its advice to the Victorian Government in 2019 regarding the application of the VDO, the ESC defined headroom as “an allowance in a regulated price that does not reflect a cost borne by firms operating in the market”. The ESC further clarifies that this transitional

²⁸ ECA 2025. [Submission to AER Draft Determination on Default Market Offer Prices 2025-26](#). April 2025, pg. 7.

²⁹ Essential Services Commission (ESC) 2025. *Victorian Default Offer Price Review 2025–26: Final Decision*. May 2025, pg. 76.

allowance is generally intended to attract competitors when markets are in the process of being deregulated.³⁰ The pricing order expressly requires the ESC to exclude a headroom allowance in its determination of the VDO cost stack, while still allowing for a retail operating margin set at a level that provides a suitable return to incentivise investment in the industry for an efficient retailer.³¹

An October 2022 review of the VDO considered the VDO has not deterred competition in Victoria's retail energy market. Retailers—including new entrants and smaller providers—continue to operate within Victoria, demonstrating that a well-calibrated, cost reflective and efficiently priced regulated default offer does not undermine market viability.³²

3.2.4 Comparison with other state and territory reference price determination

The DMO plays a different role compared to electricity prices set by other regulators in Tasmania, the ACT, and regional Queensland. As highlighted above, the main difference is that the DMO must be set at a "reasonable" price, while in those other areas, prices are based on what is considered an "efficient" price.

In the ACT, Tasmania, and regional Queensland—where there's limited competition between electricity retailers—regulators aim to set prices that reflect the true cost of supplying electricity efficiently.

3.2.5 Pricing strategies in competitive retail electricity markets

Following the ACCC's REPI report and recommendations, the Council of Australian Government Energy Council (now known as the Energy and Climate Ministerial Council) requested that the Australian Energy Market Commission (AEMC) analyse the impacts of introducing the DMO. The AEMC highlighted several key short-term and long-term risks of introducing a DMO in its advice to government.³³ These included concerns that the implementation of a DMO would result in increases to market offers resulting from

³⁰ Essential Services Commission (ESC) 2019. [Victorian Default Offer to apply from 1 July 2019: Advice to Victorian Government](#), 3 May, pg. 8.

³¹ Ibid.

³² Department of Environment, Land, Water and Planning 2022. [Review of the Victorian Default Offer Order In Council – Final Report](#). October 2022, pg. 13.

³³ Australian Energy Market Commission 2018, [Advice to COAG Energy Council: Customer and Competition Impacts of a Default Offer](#). December 2018, pg. 28, 43.

adjustments to retailer pricing strategies, and lower levels of price dispersion across market offers.

The ACCC's NEM Inquiry reports have provided insights into retail electricity market's adaptation to the DMO. Broadly, the outcomes of ACCC's NEM Inquiry reporting do not suggest that the AEMC's initial concerns about the DMO's impact on pricing has fully eventuated.

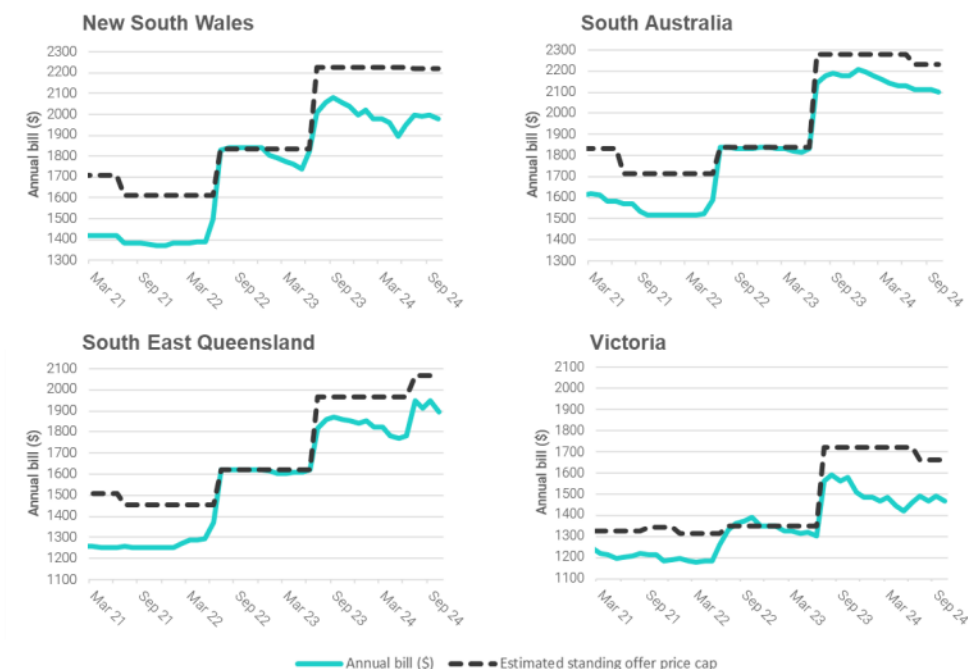
As shown in **Figure 1** below, the pricing of market acquisition offers continues to remain below the AER's determined DMO price level due to the infeasibility of retailers pricing market offers above the DMO if they are seeking to acquire new customers.³⁴ However, this does not reflect outcomes for customers already contracted with a retailer and are subject to a 'loyalty penalty'.³⁵

³⁴ ACCC 2023. *Inquiry into the National Electricity Market – December 2023 Report*. December 2023, pg.51.

³⁵ Ibid, pg. 71.

Figure 1 – Residential estimated median calculated annual price for acquisition offers by region, flat market offers, March 2021 to October 2024.

Residential estimated median calculated annual price for acquisition offers by region, flat rate market offers, March 2021 to October 2024



Source: ACCC analysis of Energy Made Easy and Victorian Energy Compare market offers. Nominal dollars, including GST.

Note: Assumed annual usage in Ausgrid is 3,900 kWh, in Endeavour is 4,900 kWh, in Essential is 4,600 kWh, in Energex is 4,600 kWh, in South Australian Power Network is 4,000 kWh, in all Victorian distribution zones is 4,000 kWh. For states containing multiple distribution regions, the median annual bill is the median of relevant offers in the state, while the standing offer displayed is the median of the default offer prices from the relevant distribution regions.

The impact of the DMO on price dispersion is difficult to assess as the level of price dispersion of market offers tends to fluctuate in response to market conditions as highlighted in AER's Annual Retail Market Report 2023-24. However, the AER's most recent reporting has highlighted that the gap between median market offer and standing offer pricing has widened in many electricity distribution networks over 2023-24.³⁶

Price dispersion features across many different markets and tends to be used as a measure of the competitive dynamics of a market given its close link to market features that impact both customers and competition³⁷ such as price discrimination and engagement. Theoretically, price dispersion in retail markets provides an incentive for customers to switch offers. It also provides a signal for new retailers to enter the market and seek to win new

³⁶ AER 2024. [Annual Retail Market Report 2023-24 - 30 November 2024](#). November 2024, pg. 33.

³⁷ Adams, J 2023. [Price Dispersion after a Price Cap: Evidence from the Australian Electricity Retail Market](#). October 2023, pg. 1.

customers and expand market share. Importantly, the spread of market offers in retail electricity markets can also be closely linked to a retailer's market acquisition and retention strategy.

3.3 Previous reviews of the Retail Electricity Code

In 2022, the then Department of Industry, Science, Energy and Resources (DISER) undertook a post-implementation review of the Electricity Retail Code.³⁸ The department consulted stakeholders on five directions to improve the effectiveness of the DMO framework, including its reference price function.

The outcomes of the review included:

- Regulatory change to amend the Electricity Retail Code to move the DMO determination date to the first business day after 25 May. This amendment has now been implemented in the Electricity Retail Code.
- Further consultation on:
 - Amending the name of the reference price to improve customer understanding.
 - Application of the reference price to complex offers, including ensuring comparative advertising is available for complex offers.
 - How to extend price cap protection provided by the DMO to customers in embedded networks, including examination of compliance issues/cost.
- A further review of the Electricity Retail Code to occur two years after the implementation of the Consumer Data Right (CDR) for energy.

Consultation on reforms to the DMO will also provide an opportunity to finalise outstanding outcomes from the post-implementation review including extending price cap protections provided by the DMO to customers in embedded networks.

While the post-implementation review of the Electricity Retail Code in 2022 provided a review on specific aspects of the DMO framework, there has not yet been a comprehensive review of the effectiveness or the operation of the framework itself.

³⁸Department of Climate Change, Energy, the Environment and Water. (2022). Post-Implementation Review of the Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019: Review Outcomes. [code-review-outcomes.pdf](#)

4 Consultation approach

4.1 Scope of reforms

Since the DMO took effect on 1 July 2019, a comprehensive review of the effectiveness of the DMO framework has not been undertaken. The department is consulting with stakeholders about the reforms proposed in this paper to bring the DMO into alignment with an efficient pricing framework.

This consultation process seeks stakeholder views as to the adoption of a framework for the DMO that ensures customers on a standing offer pay an efficient price that only compensates retailers for the costs that they incur in providing an essential service. In doing so, the department is seeking to evaluate the effectiveness of the current DMO framework in achieving its objectives of protecting customers from unreasonably high prices, allowing retailers to recover costs, and whether there remains a case for the DMO continuing to be set with the objective of incentivising competition, innovation, and investment.

At the conclusion of the consultation process, the department will provide its recommendations to government on reforms to the DMO pricing framework that ensures it is fit-for-purpose and provides robust price protections for all standing offer customers and market offer customers through its function as a reference price in the market.

This reform will consider government priorities and policies for energy, climate change, and competition, particularly the CER Taskforce, Rewiring the Nation, the NEM wholesale market settings review, the *Prohibiting Energy Market Misconduct Act 2019* (PEMM) Review, and relevant issues identified through the Treasurer's Competition Taskforce.

The department will seek to settle the final policy position through the publication of an outcomes paper in September 2025. This timing will allow the AER to consult on relevant changes to its methodology as a part of preparing its DMO 8 (2026-27) determination.

4.2 Stakeholder engagement

Stakeholder engagement is a vital component of policy development and governmental decision-making. The primary purpose of engaging with stakeholders is to gather diverse perspectives, identify potential concerns and ensure that the outcomes are informed by a broad range of views.

As part of the reform to the DMO framework, stakeholder engagement will involve a two-stage process. First, a consultation paper will be published to invite feedback from individuals, groups and organisations. The department will also convene targeted stakeholder forums throughout the process to explore stakeholder views in greater detail.

4.3 Timeframes

The department anticipates the following key milestones:

Date	Action
18 June 2025	Publish consultation paper and call for submissions
18 July 2025	Submissions closed
July - August 2025	Targeted workshops to discuss submissions
September 2025	Final Outcomes Paper
October/November 2025	AER will publish issues paper on DMO 8
March 2026	Draft DMO 8 determination published

Stakeholders are strongly encouraged to monitor the department's [Have Your Say](#) page for updates. Additionally, in case of any queries, the DCCEEW Retail Policy team can be contacted by email to DMOReforms@dcceew.gov.au.

5 Proposed reforms for consultation

5.1 DMO objectives

We are consulting on the objectives of the DMO pricing framework and whether the objectives appropriately balance consumer protections with competitive market outcomes.

The Electricity Retail Code sets out three primary objectives to be considered by the AER in determining the DMO. These objectives include:

- Protect customers from unreasonable prices in the market by reducing unjustifiably high standing offer prices.
- Allow retailers to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention.
- Maintain incentives for competition, innovation and investment by retailers, and incentives for customers to engage in the market.

The inherent tension between these objectives can result in reduced transparency and certainty for market participants as they seek to mitigate cost fluctuations in an increasingly volatile market.

1. How can the DMO framework policy objectives be amended to adopt a greater emphasis on protections for disengaged customers in competitive retail markets?
2. Does the DMO framework remain fit-for-purpose noting the rationale for its introduction in 2019 was to address specific concerns regarding the discounting behaviour by retailers identified in the ACCC's REPI report?
3. How successfully does the DMO framework achieve its objective in being a reference price to allow customers to compare market offers? Are there any issues preventing the DMO in achieving this objective?

5.2 Efficient pricing framework for the DMO

We are consulting on whether an efficient pricing framework should be adopted for the DMO.

An efficient pricing framework would ensure that the prices customers pay for a standing offer would reflect the efficient costs to provide a customer with an essential service and remove or minimise the explicit costs built into the current DMO framework.

Customers on standing offers represent a cohort of customers that have not engaged, or cannot engage, in the competitive process of seeking the cheapest offer in the retail electricity market.³⁹ Therefore, certain costs components allowed under the current DMO framework, such as a competition allowance and customer acquisition and retention costs, are additional costs that these customers pay where they do not accrue the benefits of competition.

4. Should the DMO be set to reflect the efficient costs a retailer might incur in supplying electricity to its customers? How does the DMO compare to other efficient pricing regimes adopted by other states and territories (e.g., ACT, Tasmania, regional Queensland)?
5. What have been the impacts of the DMO in incentivising competition or customer engagement? In what ways has the inclusion of a competition allowance maintained incentives for competition and new entrant retailers?
6. How does the inclusion of a competition allowance level the playing field between retailers, given the current market structure (specifically, considering the high-level of concentration of customers across the Tier 1 retailers, coupled with the significant customer disengagement prevalent in the market)?
7. How does the DMO framework compare to the VDO in terms of balancing consumer outcomes while maintaining competitive retail markets?
8. How has the exclusion of headroom for competition impacted the Victorian market? What are the key reasons why the headroom should be included in DMO regions considering it is not factored into regulated pricing in Victoria?
9. What considerations are taken when setting prices in Victoria when compared to DMO regions in alignment with respective regulated pricing determinations?
10. What specific innovation has been delivered through the introduction of competition in the retail electricity market? What specific innovation has the inclusion of the competition allowance fostered in the market?
11. Is price dispersion of market offers a meaningful area of focus in the context of considerable customer disengagement in the market? What drivers price dispersion in retail electricity markets and how much price dispersion is driven by competition, in comparison to other drivers?

³⁹ Standing offers have a range of consumer protections set under the National Energy Retail Law that are not available to customers on a market offer.

5.3 The form of the DMO: tariff or price cap

We are consulting on whether the DMO should be a tariff rather than annual price at a model usage.

The DMO is currently set as an annual price at a given representative annual consumption level which varies depending on the distribution zone. Retailers are free to set their usage and supply charges as long as the annual price at that consumption level is equal to the regulated price level. However, this results in less transparent pricing outcomes for customers consuming above or below the representative consumption level.

Given the outcomes in more recent ACCC NEM Inquiry reporting which found significant proportions of customers paying at or above the DMO's price level, coupled with the growing prominence of CER and their associated tariff structures, a shift to a regulated tariff can provide greater bill certainty and apply consistently to customers at any consumption level.

12. To what extent does an annual price for a model level of usage help customers compare market offers against a reference price? How could this be improved or enhanced to benefit customers?
13. Should the DMO be expressed as a tariff or annual price cap if its application is extended to additional tariff types not currently considered within the DMO framework?

6 Abbreviations

ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CER	Consumer Energy Resources
CDR	Consumer Data Right
DCCEEW	Department of Climate Change, Energy, the Environment and Water
DISER	Department of Industry, Science, Energy and Resources
DMO	Default Market Offer
ESC	Essential Services Commission
ESC Act	Essential Services Commission Act 2001
NEM	National Electricity Market
NECF	The National Energy Customer Framework
PEMM	Prohibiting Energy Market Misconduct
REPI	Retail Electricity Pricing Inquiry
VDO	Victorian Default Offer

7 Glossary

Default Market Offer (DMO) – a federal government-initiated default electricity price for residential and small business customers in force in New South Wales, South East Queensland and South Australia.

Disengaged customer – a residential or small business customer who is unable or unwilling to engage in the electricity retail market and is placed on a standing offer.

Engaged customer – a residential or small business customer who is able and willing to engage in the electricity retail market and regularly shops around for a better deal.

Headroom – an allowance in a regulated price that does not reflect a cost borne by firms operating in the market, generally used to attract competitors when markets are in the process of being deregulated. A key difference between the DMO and VDO is that the DMO has an allowance for headroom.

Market offer – an offer that energy retailers set on a competitive basis by determining the tariff to be charged. They may offer a discount (or some other benefit) and can vary in length or be ongoing.

The National Energy Customer Framework (NECF) - is a set of national laws, rules, and regulations that govern the sale and supply of electricity and gas to retail customers in participating Australian states and territories.

Retail Electricity Pricing Inquiry (REPI) - was conducted by the ACCC to investigate the causes of high electricity prices and recommend reforms. The final report, released in 2018, proposed measures to improve competition, simplify pricing, and protect consumers from misleading discounts

Standing Offer – a default electricity plan provided to customers who haven't actively chosen a market offer. It acts as a safety net, ensuring access to electricity at regulated prices set by government bodies.

Tariff – the total price charged for electricity or gas. Although tariff structures can vary, the tariff typically includes at least two parts:

- Fixed charge – also called the daily supply charge, or the service to property charge.
- Variable charge – for the amount of energy you use, also called the consumption charge.

Victorian Default Offer (VDO) – a regulated electricity price for residential and small business customers on electricity standing offers in Victoria.