



18 July 2025

**To: Australian Government Department of Climate Change, Energy, the Environment  
and Water**  
**Re: Default Market Offer**

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Australian Government Department of Climate Change, Energy, the Environment and Water Consultation on 2025 Reforms to the Default Market Offer.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA considers reforming the DMO a helpful step towards ensuring households and businesses receive a fair electricity bill. There may be opportunities for efficiencies in the DMO process and bill reductions for consumers.

Given that the energy transition is moving fast, and many households are pivoting to install their own rooftop solar, storage and flexible energy technologies, the DMO reform should open the door to innovative tariffs (which may be developed through the ongoing AEMC Electricity Pricing Review) while protecting consumers from unfair prices.

One area that may be limiting the move to more innovative tariffs is the use of standardised load profiles in the DMO process to set annual bill limits and to provide consumers with an estimate of their annual bills. These represent averaged customer consumption but not actual individual customer consumption. Retailers that offer more complex or innovative tariffs may be disadvantaged by the use of these assumed average load profiles in the DMO process, as these profiles do not capture customer behavioural responses to price signals, or unique customer attributes. This may discourage tariff innovation and slow progress toward more cost-reflective pricing.

Changes to the DMO could well find opportunities to reduce electricity bills, but the largest energy bill savings for households could be found by moving away from inefficient appliances to more efficient ones, changing from gas appliances to electric appliances, and installing rooftop solar and storage. IEEFA's recent [report](#) found that household energy bills could reduce by about 90% in key regions by upgrading to efficient electric appliances, solar and batteries.

In the report, we noted that the way households interact with electricity distribution networks could change significantly in the future if more homes take up batteries, solar and efficient electric appliances, and engage in load shifting. While this carries important implications for considering how network cost recovery should be distributed, it also raises more fundamental questions regarding how – or if – the regulated network asset base should be recovered from consumers in a market where some of its services are displaced by Consumer Energy Resources (CER). These pressing questions require a deeper review of the economic regulation of distribution networks. IEEFA recommends a review of the economic regulation of distribution



networks be undertaken to ensure networks and non-network solutions (such as CER) are appropriately incentivised in the context of a [high-CER future](#). This review could happen in parallel to the DMO review process.

Another key reason to review the economic regulation of electricity networks is to ensure that network costs are efficient. [IEEFA](#) found that distribution and transmission networks combined received supernormal profits of \$11 billion from 2014-2022. This is in addition to allowed profits of \$16 billion over the same time period. The [AER confirmed](#) the IEEFA additional profit figure was broadly correct, finding \$10 billion of “outperformance”. [IEEFA believes](#) that this amount of additional profit is unreasonable and is an indicator of the regulatory system not performing as intended. More recently, these supernormal profits have increased substantially, reaching [\\$15 billion](#) from 2014-2023.

IEEFA notes that the DMO reform process should consider the findings of the AEMC Electricity Pricing Review. Another review of the DMO and other price regulation mechanisms in the National Electricity Market may be required post the implementation of any changes arising from the AEMC Electricity Pricing Review.

We thank DCCEEW for the opportunity to submit to the 2025 DMO reform process, and we welcome any questions on our submission.

Kind regards,

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