

Our Ref: 31371496
Your Ref: EPR0097

Friday, 13 February 2026

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

Dear Ms Collyer,

Re: Pricing Review – Electricity pricing for a consumer-driven future: Draft report

The Australian Energy Regulator (AER) welcomes the Australian Energy Market Commission's (AEMC's) Pricing Review – Electricity pricing for a consumer-driven future draft report. In this report, the AEMC has provided the Australian energy sector with a consumer-centric vision for the future of electricity pricing, with draft recommendations that consider potential solutions to important challenges we all face in the energy transition.

We generally agree with the objectives and intended outcomes set out by the AEMC in its draft report and support a number of the recommendations. In particular, we support progressing recommendations 3 and 4 now and welcome further engagement with the AEMC and other stakeholders to ensure they are implemented effectively.

It will be important to ensure the benefits of potential changes outweigh their costs, taking into account the impact of existing market reform processes and interactions with the broader network regulation framework. Therefore, we support further consideration of recommendations 1 and 2 in the longer term if implementation of existing reforms to address these issues does not sufficiently improve consumer outcomes. We also encourage further analysis to determine the best pathway to achieve the intended outcomes of recommendations 5 and 6.

The options proposed under recommendations 5 and 6 include numerous rule changes as well as changes to regulatory policy, processes and decision-making. The AEMC's analysis exemplifies the challenges inherent in many of these regulatory processes, such as the challenge of balancing equity, efficiency and simplicity in network tariff reform. As the economic regulator responsible for decisions relating to network tariff design in the National Electricity Market, we regularly grapple with the same challenge. This extends beyond how network costs are allocated to, and recovered from, households and small business based on their consumption. We also see how that challenge has changed over time, as our understanding of what is equitable and efficient has evolved alongside the energy system.

As set out in [our December 2024 submission](#), a future energy market that delivers in the long-term interests of consumers requires a least-cost system that provides value for all customers large and small, including households and small businesses. To achieve this, our experience has highlighted the need for efficient utilisation of network infrastructure, supported by flexible capacity on the demand side to reduce the need for network augmentation. It has also highlighted the need for consumer trust, founded on equity as well as meaningful choice enabled by effective participation from energy service providers and retailers. We agree with the AEMC that customers should have a range of retail offers to choose from. A key role of energy service providers in the market is to enable meaningful customer choice by delivering retail offers that manage risk – including network pricing risk – for those customers who can't manage this risk themselves or who place a higher value on predictability.

The AEMC has suggested in its draft report that there may be a need for higher fixed charges as a feature of network tariffs. We agree this may be worth considering in some contexts to appropriately balance the equity and efficiency of network tariffs in the future energy market. However, the existing rules can support this outcome – what is needed now is careful consideration of the signals such tariffs will send into the future, as well as how they interact with broader barriers and enablers in the regulatory framework to support industry and consumer behaviour change. In progressing tariff reform, it is important to address customer impacts and incentives in relation to consumer energy resources and ensure that customers with these resources remain connected to the grid. Failing to do so risks driving customers to exit the grid, which will in turn drive up costs for customers who can't access these resources.

Looking ahead, we can foresee an energy system with increasing flexible load that grows as sources of energy change, emphasising the need for new value streams to incentivise flexibility and reduce the need for network investment in capacity. As the proportion of customers on time-of-use and demand-based consumption and export tariffs continues to grow (from 13% in 2020 to 46% in 2025), universal smart meters and increasing automation will drive fundamental changes in who (or what) receives price signals and how these signals work. Supported by mechanisms such as traditional load control (separate circuits), appliance automation, home energy management systems and third-party control of appliances including dynamic operating envelopes, this will create new opportunities to improve network utilisation for a least-cost future energy system.

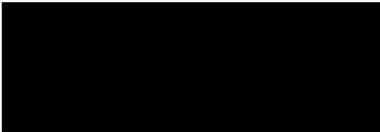
As a sector, we must consider pricing reform within the context of not only this future but also the broader network regulation framework, rather than considering these issues in isolation. For example, the effectiveness of proposed changes to the tariff structure statement may differ significantly across possible forms of control, which include not only a revenue cap but also a range of potential alternatives. The AEMC's forthcoming [Electricity Network Regulation Review](#) is a timely opportunity to design a holistic solution by considering the interactions between network tariffs, access frameworks, forms of control, incentive schemes, flexibility, non-network options and demand forecasting assumptions. We look forward to engaging with the AEMC and other stakeholders on the Electricity Network Regulation Review.

We also welcome further engagement with the AEMC as it finalises the recommendations from its Pricing Review. In the meantime, we will continue to consider how we can support more efficient and equitable network tariffs within the current framework, ahead of the fourth round of tariff structure development by network businesses for all customers. The existing rules and tariff structure statement framework enable the AER to shape network tariff design, including by considering whether, how and for whom tariffs could shift towards higher fixed charges and by using short run marginal costs to support more dynamic and locational pricing to reward flexibility in both use and generation.

We can continue to set expectations for distributors to more accurately calculate their long run marginal costs to better reflect the benefits of avoiding network augmentation locally and across the network and to incentivise more efficient orchestration of consumer energy resources. In our [draft decisions](#) for the 2026–31 regulatory control period for Victorian distribution network service providers, we have already asked businesses to consider opportunities to improve their approaches to calculating long run marginal costs and this will form a key part of our expectation setting for all distribution network service providers in the next round of tariff structure statements.

Thank you for your important work in this space. If you would like to discuss this submission, please do not hesitate to contact me or Stephanie Jolly, Executive General Manager, Consumers and Markets.

Yours sincerely,



Lynne Gallagher
AER Board member

Lodged online on: 13.02.2026

Attached: Detailed response to recommendations (13 pages)

Detailed response to recommendations

Recommendations we support progressing now

Recommendation 3: Periodically review whether regulations are supporting good consumer outcomes in an evolving market.

We note this recommendation proposes that the AEMC commit to a 3-yearly review to support and complement the transition of the market monitoring currently conducted by the ACCC to the AER as part of our ongoing market oversight role.

We support this recommendation, noting the proposed periodic review is intended to assess the effectiveness of regulations and monitor the effectiveness of competition in a way that complements existing monitoring. We would welcome the opportunity to engage further with the AEMC to better understand how the proposed monitoring will differ from existing monitoring and reporting, which as noted in the report includes not only AER activities but also jurisdictional programs (for example, IPART electricity market monitoring, ICRC ACT retail electricity market monitoring, and QCA monitoring of the southeast Queensland retail electricity market).

We also welcome the AEMC's support for our proposal to the Treasurer to amend the *Competition and Consumer Act 2010* to reduce duplication of data gathering and facilitate sharing of data, which would support effective implementation of this recommendation.¹ As noted in our letter to the Treasurer, the Energy Security Board's data strategy identified energy access and data sharing as one of two critical workstreams to manage changing data needs in the energy transition and optimise the long-term interests of energy consumers in a digitalised economy. Updating the regulatory framework to charge agencies with the obligation to collect and share all necessary data (using the approach taken for *National Greenhouse and Energy Reporting Act 2007* reporting) would facilitate a 'collect once' approach to data gathering, generating efficiencies for both government and industry and enabling more informed policy and regulatory decision-making.

¹ AER, [Letter to the Treasurer and Minister for Finance](#), 1 August 2025.

Recommendation 4: Provide the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers, including new and emerging types.

We note this recommendation proposes additional funding to upgrade Energy Made Easy, which is a decision for government.

We welcome the AEMC's recommendation for additional funding for Energy Made Easy to enable us to continue to upgrade the website to remain fit for purpose as the retail market evolves. Energy Made Easy is an independent, trusted website which enables consumers in the ACT, New South Wales, southeast Queensland, South Australia and Tasmania to compare different energy plans and make informed choices about the best plan for them. In the 2024–25 financial year, almost 2.4 million active users visited Energy Made Easy, of whom over 1.2 million completed an energy plan comparison search.

Website traffic data collected over this period shows that Energy Made Easy is the preferred energy comparison website for Australian consumers. On a monthly average basis, Energy Made Easy outperforms leading private sector businesses that provide competing energy comparison services.² In 2024–25, Energy Made Easy provided personalised plan comparisons using customers' own usage data over 900,000 times, representing the majority of our search traffic. Of these users, over 200,000 switched retailers – and it is likely many more switched to another plan with their existing retailer, although this is not something we can track. In total, we estimate that Energy Made Easy saved Australian consumers over \$38 million in the 2024–25 financial year by helping them switch plans. This data demonstrates the opportunity available to better serve and benefit consumers through necessary improvements to Energy Made Easy.

We are always seeking to improve the functionality of Energy Made Easy and to ensure that it continues to evolve along with the market so that consumers can continue to make informed choices about their energy plans and retailers. We are currently working with government to explore opportunities for funding to upgrade the Energy Made Easy website, calculation engine and retailer portal to uplift accessibility and cybersecurity, increase the accuracy of comparison results, and update functionality to keep pace with the changing energy market and better support customers to switch plans. These upgrades would ensure a consumer-centred user journey that helps customers switch to more affordable and appropriate energy plans that better reflect their lives and support trust in the energy market.

We also welcome the AEMC encouraging stakeholders to participate in our [Retail guidelines review](#). This review is an opportunity for stakeholders to contribute to shaping the retail energy customer journey across many customer experiences including choosing and comparing plans, receiving bills, understanding changes to plan benefits and accessing payment difficulty assistance. Through this review, we are considering opportunities to improve retailer communications, manage increasing complexity, make it easier to access a better offer, improve price transparency and improve payment assistance information. We

² This includes iSelect (energy), Compare the Market (energy), WATTevery, GoSwitch, Electricity Wizard, and Bill Hero.

encourage stakeholders to participate in our upcoming consultation on the draft retail guidelines, which we expect to publish in April 2026.

Recommendations we support considering in the longer term

Recommendation 1: Require energy service providers to charge all customers on the same plan the same price, to address the ‘loyalty tax’ on customers who don’t switch and ensure every customer is always on the best price.

This recommendation proposes to amend the rules to require each energy service provider’s market offers to remain competitive, be meaningfully different, and be offered to their existing customers.

This recommendation also proposes that the AER develop a compliance regime and regulatory guidance for principles-based regulation of ‘meaningfully different’ plans.

In addition, this recommendation suggests potential legislative reforms due to interactions with explicit informed consent provisions in the law.

We understand the concerns about the ‘loyalty tax’ faced by consumers who do not regularly switch energy plans, as highlighted by the ACCC’s Inquiry into the National Electricity Market. Since the default market offer (DMO) was introduced to protect customers on standing offers, the greatest cost impacts of the ‘loyalty tax’ have been experienced by customers on older market offers. The AEMC’s [Improving consumer confidence in retail energy plans](#) final rule will limit these impacts by also preventing customers on market offers from paying prices above the DMO once their benefits expire. However, we recognise that this recommendation may be intended to protect customers if recommendation 2 is implemented and the DMO is eventually removed as proposed by the AEMC.

We also acknowledge there may be broader benefits from the proposed change. If implemented effectively, this recommendation could complement the Improving consumer confidence in retail energy plans rule change by simplifying aspects of the retail market for consumers and making retail prices more transparent. However, poor implementation could increase retail complexity by encouraging further proliferation of different plans and plan names, which could exacerbate customer confusion while increasing retailer costs (which may be passed on to consumers in the form of increased prices).

Stakeholder responses to our recent [Retail guidelines review consultation paper](#) (which sought feedback on how to improve transparency and reduce customer confusion in relation to plan names) have highlighted the potential impacts of both outcomes. For example, many consumer groups noted that customers use plan names to quickly understand plan features and can be confused by retailers using the same name for plans with different prices or tariff structures. In contrast, retailers suggested that restricting the use of same name plans would likely result in more plans with less descriptive names, which may mean little to customers and reduce the effectiveness of competition while involving significant implementation costs. However, stakeholders agree on the important role of energy plan names in enabling customers to make decisions about energy plans that meet their needs.

We encourage the AEMC to further explore the potential impact of this change on competition more broadly, including by making underlying assumptions more explicit. Further analysis of the incremental impact and broader effects of this recommendation

following implementation of the Improving consumer confidence in retail energy plans rule change would help clarify whether the benefits of the proposed changes are proportionate to the costs and risks, including under different implementation scenarios. For example, the likely benefits may differ depending on whether recommendation 2 is also progressed. In addition, the AER would require additional funding to support, monitor and enforce compliance with the proposed principles-based requirement that plans be ‘meaningfully different’ to ensure they provide different value to customers. This would include developing guidance to support retailer compliance, followed by ongoing compliance monitoring to give confidence to consumers.

Recommendation 2: Introduce a competitive franchise for the cohort of customers who haven’t chosen a market offer, so that all customers are on a competitive plan.

This recommendation suggests potential legislative reforms to:

- introduce new roles and responsibilities for retailers, regulators and market bodies to enable a competitive auction for serving customers on standing offers
- address interactions with explicit informed consent provisions in the law
- eventually, remove the DMO.

This recommendation also proposes rule changes to specify auction design, retail franchise contract requirements and customer protections, as well as updates to guidelines and energy service provider systems.

This recommendation is proposed to follow and be informed by the findings of the AEMC’s first periodic review of whether regulations are supporting good consumer outcomes in an evolving market in 2027–28.

We agree that all customers should benefit from retail competition. Under the current framework, customers on standing offers benefit from retail competition because it drives efficiencies in retailer costs which are reflected in the calculation of the DMO. In 2025, the Commonwealth Department of Climate Change, Energy, the Environment and Water announced reforms to the DMO that would further strengthen these benefits, including by extending the DMO to all small customers on standing offers and by requiring the DMO to be determined based on the efficient cost of serving those customers.³ We have consulted on how best to adapt our approach to determining the DMO to meet the new policy objective, which will be applied from 1 July 2026.⁴

It is unclear that the proposed alternative of a competitive franchise would more effectively reveal an efficient cost for serving customers on standing offers than the DMO determination process under the planned reforms. For example, doing so would require the active and ongoing participation of retailers to create competitive tension in the bidding process. The draft report acknowledges the risk of limited participation in this process. Our experience administering the [Retailer of Last Resort scheme](#) suggests this risk is likely to be realised.

³ Commonwealth Department of Climate Change, Energy, the Environment and Water, [Review outcomes: 2025 reforms to the Default Market Offer](#), 2025, p 10.

⁴ AER, [Default market offer 2026–27: Issues paper](#), November 2025.

This scheme ensures customers are taken on by another retailer if their retailer of choice fails, keeping them connected. The retailer who takes on the failed retailer's customers may do so as a default Retailer of Last Resort appointed by the AER or as an additional Retailer of Last Resort appointed by the AER following an expression of interest from the retailer. In administering this scheme, we have observed there are times when retailers do not want to assume responsibility for serving a large number of new customers due to the additional exposure to wholesale market risk, credit support and operational requirements associated with these new customers. Before progressing this recommendation, we encourage the AEMC to thoroughly test retailer appetite to participate in the proposed auction and under what conditions. Depending on the outcomes of this further engagement, it may be appropriate to consider this idea further should it become clear that DMO reforms are not supporting better consumer outcomes as intended.

In addition, there may be risks to a new franchise retailer assuming responsibility for a large number of customers at once. For example, ineffective account migration could result in privacy and cybersecurity risks for customers (including for customers affected by family violence), interruption of support for hardship customers and customers on concessions, and loss of usage data that enables personalised energy plan comparisons and better offer messages. A poor customer experience in the migration process could not only negatively impact individual customers but also risk damaging trust in the energy market more broadly. If this recommendation is progressed, it will be important to effectively address these risks.

We also encourage the AEMC to further consider the potential direction and broader impact of proposed reforms to explicit informed consent protections. The National Energy Retail Law sets out requirements for when retailers must obtain explicit informed consent, the conditions under which explicit informed consent has been obtained, and how explicit informed consent must be recorded. We look forward to the AEMC clarifying what the proposed reforms to these protections might entail.

Recommendations for which we encourage further analysis

Recommendation 5: Amend the rules to focus network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers.

This recommendation includes proposals to amend the rules to:

- allow networks to use a broader range of marginal cost considerations when designing tariffs
- update the network pricing objective to clarify that network tariffs should encourage both allocative and productive efficiency, potentially including specified outcomes which the AER could develop evaluation frameworks to measure
- update the pricing principles to refer to minimising distortions to network use rather than minimising distortions to price signals
- require networks to recover transmission and jurisdictional scheme costs in line with the pricing principles and objective
- remove the side constraint, which restricts the extent to which networks can reallocate cost recovery between different types of consumers.

In addition, it proposes that a tariff strategy obligation could be imposed by the AER in the tariff structure statement process and that the AER could provide more explicit guidance to networks on how the existing pricing rules should be interpreted, including by clarifying that:

- the proper application of efficient principles would lead to higher fixed network charges, as this would least distort behaviours and enable better use of the network in an era of highly responsive CER
- locational prices that signal congestion could help networks avoid future capital expenditure
- estimates of long run marginal costs should be more locational to facilitate more granular price signals.

This recommendation also includes potential options to better incentivise networks to deliver efficient tariffs, which may require rule changes or, in some cases, could be initially implemented by the AER under the Small Scale Incentive Scheme⁵ before being introduced directly into the rules.

In general, we support the AEMC's proposition that network tariffs should enable recovery of allowed revenues and provide signals that support efficient network use, investment and operation (including the efficient integration of consumer energy resources), in line with the national electricity objective. However, we encourage further analysis to assess the potential costs and benefits of the proposed changes, particularly where they will be embedded in the rules. In some cases, similar outcomes can already be achieved under the framework. Other changes require more evidence to determine whether they are the most effective pathway to achieve the intended outcome, taking into account the likely benefits, risks and costs.

We would also welcome further engagement on network tariff design issues in the upcoming Electricity Network Regulation Review. The AEMC has suggested that there may be a need for higher fixed charges as a feature of network tariffs to support efficiency by separating residual cost recovery from marginal price signals. This is intended to minimise distortions to customer consumption and investment decisions, enable most revenue to be recovered in a stable way, and allow dynamic charges to reflect genuine time- and location-specific network constraints rather than sunk cost recovery. This proposal comes at a time when utilisation measured across the network is low and the share of allowed revenue that can be recovered through forward-looking long-run marginal-based charges is materially below the total revenue requirement, leaving a large residual that must be recovered through non-marginal charges.

We agree higher fixed charges may be an option to appropriately balance the equity, efficiency and simplicity of network tariffs in the future energy market. However, determining the appropriate balance requires a holistic consideration of the interactions between network tariffs and the broader network regulation framework, including access frameworks, forms of

⁵ Under clauses 6.6.4 and 6A.7.5 of the National Electricity Rules, the AER is empowered to develop and publish an incentive scheme or schemes that provides distribution or transmission network service providers with incentives to provide standard control services or prescribed transmission services in a manner that contributes to the achievement of the national electricity objective.

control, incentive schemes, the emergence of a flexibility market and greater orchestration of distributed resources, non-network options and demand forecasting assumptions.

In progressing tariff reform within this context, it is also important to address customer impacts and incentives in relation to consumer energy resources and ensure that customers with these resources remain connected to the grid. Failing to do so risks driving customers to exit the grid, which will in turn drive up costs for customers who can't access these resources.

Considering these issues together through the Electricity Network Regulation Review would better clarify the trade-offs between equity, efficiency and simplicity which are inherent in network tariff design. Examining these issues through the broader review would also enable a more informed decision on whether the potential burden of administering new incentive schemes is justified by the improved outcomes they would likely deliver, based on a better understanding of how incentive schemes work together. Similarly, a broader review would identify how outcomes may be impacted by interactions with other regulatory mechanisms, such as flexible export limits and dynamic operating envelopes.

In the meantime, to assist the AEMC, we have provided some further specific comments below in response to the package of rule changes proposed by this recommendation, as well as the role of the AER in setting guidance and expectations in relation to the pricing objective and principles set out in the rules.

Rule changes proposed by this recommendation

- **Allow networks to use a broader range of marginal cost considerations when designing tariffs:** We observe that tariffs approved by the AER are already increasingly incorporating both long-run marginal cost (LRMC) and short-run marginal cost (SRMC) signals, as allowed under the current rules. As such, amending the rules to explicitly allow for tariffs to be designed based on SRMC is an incremental change, the key benefit of which could be to make that option transparently clear for all stakeholders. In considering this change, it is important to recognise the value of generalised LRMC-based signals in supporting the intended outcome of more efficient network utilisation and reducing future network costs. These signals enable more predictable and comparatively stable retail pricing which better assists most small customers to make informed decisions about investing in consumer energy resources and flexible energy appliances. As such, LRMC signals enable distributors to *shape* demand profiles permanently, through consumer behaviour change. For example, hot water load control with cheaper rates has been demonstrated to be effective and accepted by customers over many decades. In contrast, SRMC signals support fast-acting flexible *shift* (or *shed*) of demand when needed to address local and temporal conditions on the distribution network but are not necessarily well placed to incentivise permanent load shaping.⁶ Any change should ensure we can continue to realise the benefits of both signals where appropriate.

⁶ Further discussion of demand shaping and shifting can be found in the following papers: C Briggs, D Roche and I Ibrahim, [Flexible demand – The current state of play in Australia](#), Australian Renewable Energy Agency and University of Technology Sydney, May 2024; Energy Networks Australia, [Submission to AEMC Pricing Review discussion paper](#), 10 July 2025, Appendix B – Farrierswier Economic Critique for Energy Networks Australia.

- **Update the network pricing objective to clarify that network tariffs should encourage both allocative and productive efficiency, potentially including specified outcomes which the AER could develop evaluation frameworks to measure:** The draft report proposes updating the network pricing objective to clarify that network tariffs should both encourage behaviour that reduces costs over time (productive efficiency) and encourage consumption when networks are unconstrained and discourage consumption when networks are constrained (allocative efficiency). We consider that the pricing objective is appropriate and remains fit for purpose. If a change to the objective is progressed, we would welcome the opportunity to provide further feedback in response to more specific proposed changes and would support a collaborative approach to defining efficiency, drawing on our experience as the economic regulator of the National Electricity Market. We also note that the AER would likely require additional resources to develop and implement evaluation frameworks to measure efficiency outcomes, as proposed by the recommendation.
- **Update the pricing principles to refer to minimising distortions to network use rather than minimising distortions to price signals:** We encourage the AEMC to further consider and more explicitly analyse the underlying assumptions, broader interactions and potential implications of this recommendation, including the related assumption that the proper application of the updated principle would lead to higher fixed network charges. As highlighted by the technical discussion on the following page (Box 1), this assumption may not hold true in the context of our changing energy system. Such questions reiterate the importance of considering these issues holistically to ensure recommendations are informed by an understanding of how they interact with the broader network regulation framework – now and in the future. We also welcome the modelling being undertaken by the AEMC to clarify how the proposed higher fixed charges could impact different customers, if passed through in full into retail offers. The modelling may identify both the scale of the impact (noting that network costs are between 40–50% of a retail bill) and potential unintended consequences that do not align with the intended outcomes. Quantifying the scale of cost recovery potentially avoided by those with consumer energy resources and energy-efficient homes with volumetric pricing is likely to also better inform tariff transition strategies, as is assessing the impact of the proposed tariff design on network use.
- **Require networks to recover transmission and jurisdictional scheme costs in line with the pricing principles and objective:** We encourage the AEMC to further consider the implementation challenges and potential unintended consequences of this proposal, such as how it would interact with existing prescription for how these costs are recovered (for example, in jurisdictional legislation) as well as the additional administrative burden and costs involved for both distributors in the tariff design process and the AER in reviewing compliance (noting that we only consider aggregate costs passed through under the current rules). The AEMC may wish to consider these issues in the context of the broader Electricity Network Regulation Review.
- **Remove the side constraint, which restricts the extent to which networks can reallocate cost recovery between different types of consumers:** The proposal to remove the side constraint mechanism may underestimate its value as an important protection for consumers to prevent inequitable movements of revenue recovery across tariff classes, which is a broader consideration than matters of tariff design. In practice, the side constraint mechanism limits how much revenue can be recovered from a group

of customers relative to the revenue recovered from the same group in the preceding year within the same regulatory control period. This ensures that distributors cannot shift material amounts of revenue recovery from one group of customers to another without appropriate consideration through our regulatory determination processes. We encourage the AEMC to explore opportunities to improve the side constraint mechanism rather than removing it, to allow greater flexibility while maintaining this important consumer protection. For example, our [Annual Pricing Process Review](#) in 2022 looked to explore the practical application of the side constraint mechanism to ensure that declining energy volumes and new or trial tariffs did not prevent the distributor from recovering its allowed revenue. We would welcome further engagement with the AEMC on what we found and opportunities to improve the side constraint mechanism, given its intended purpose.

Box 1: How important is differentiating network tariff fixed charges for efficiency?

In its draft report, the AEMC has argued for a shift toward predominantly fixed charges based on Ramsey-Boiteux pricing theory. In this view, where marginal cost pricing cannot recover sunk costs, residual costs should be recovered in ways that minimise changes in customer behaviour. For electricity networks, this supports removing residual costs from variable charges and recovering them through fixed charges, on the basis that fixed charges don't distort marginal consumption decisions – that is, decisions about how much electricity to use at any given time.

This logic aligns with classic Ramsey-Boiteux theory, which assumes universal participation – that is, all customers will participate in the market by staying connected to the grid but may adjust their electricity consumption. This assumption held when the cost of bypassing the market was prohibitive. This assumption no longer holds when the cost of being electricity self-sufficient is falling rapidly and, for some customer types, approaches or undercuts the effective cost of staying connected to the grid. As the energy market continues to evolve, a growing proportion of customers (including small customers) will be deciding not just how much electricity to use but whether to stay connected to the electricity grid at all.

In this context, uniform fixed charges remove distortions from usage decisions but concentrate residual cost recovery on the decision to stay connected, which will impact customer behaviour. A customer using 500 kWh annually who pays the same \$1,000 fixed charge as one using 6,000 kWh pays a lot more to access the network for each unit of network capacity they need. Once the cost of electricity self-sufficiency (that is, avoiding the need to access the network at all) falls below the fixed charge, disconnection becomes a rational private response, even where continued connection would minimise total system cost.

The draft report frames fixed charges as needing to sit within two boundaries: the floor is defined by avoidable cost (what the network avoids if the customer disconnects) and the ceiling is defined by standalone cost (what it would cost the customer to disconnect). This is consistent with the existing pricing principles. However, both bounds can differ materially across different kinds of customers.

For example, customers with batteries add value to networks by enabling them to more easily and cost-effectively manage variation in load. Marginal export pricing cannot fully capture the network value of these flexible customers because the value lies primarily in the availability of the resource to respond when needed, not in the energy actually exported.

However, a marginal price only compensates for realised actions, not for the standing capability (as network support) that allows network planners to defer investment.

For these customers, the network's avoidable cost may be zero or even negative once this value is taken into consideration – that is, this customer disconnecting from the grid may increase network costs, rather than avoiding them. This raises the question of whether a uniform fixed charge can remain efficient when the value of remaining connected varies materially across customers – and, if not, what principle should guide differentiation of network charges.

An alternative approach of differential residual recovery could reflect how customers actually rely on shared network capacity while preserving participation, which is important for efficiency given that these customers leaving the network would increase costs for remaining customers.

Pricing for the minimum level of network capacity to remain connected to the network could reflect the fact that it is highly inelastic in terms of use (because everyone who wants to use the network needs this level of capacity) but highly elastic in terms of participation (because customers will stop using the network entirely if the price of maintaining this minimum level of capacity is too high relative to alternatives). For example, if the fixed charge for basic connection is too high compared to what customers could achieve by investing in private consumer energy resources, they may rationally invest in reducing their reliance on the network.

To avoid this, the charge for the minimum level of capacity required to stay connected to the network may need to be very low or zero. Charges could then be differentiated above this floor. For example, customers could be grouped into a small number of broad tiers (such as low, medium and high peak demand) based on their observed capacity usage patterns over time. This approach could better align what customers pay for accessing the network with the network capacity they actually use during network peaks. In comparison to a more granular approach with individual price differentiation, this approach would be stable enough to support reliable residual recovery and avoid large and unpredictable changes in customer behaviour.

Such an approach would also limit disproportionate impacts on low-use customers, many of whom are customers without access to consumer energy resources or energy efficiency (for example, renters, residents in apartments or low-income customers).

Guidance and expectations for network tariff design to reduce future network costs

At the time that the current rules governing distribution network pricing were introduced in 2014, few customers outside of Victoria (which had completed a universal roll out) had smart meters. In that context, the view of the AEMC and AER was that network tariff design should be allowed to reflect retailers' and customers' perspectives, and that cost-reflective tariffs could be progressively implemented by mandating default tariffs in assignment policies. Subsequently, the AER has provided guidance on tariff reform ahead of and as part of the network businesses' regulatory proposals.⁷ Jurisdictional policies also continue to play a

⁷ The first detailed guidance was provided by the AER in its decision on the NSW network service providers' (Ausgrid, Endeavour Energy, Essential Energy) tariff structure statements in 2017: AER, [Final Decision – Tariff Structure Statements](#).

role, such as requiring opt-in network tariff assignment in Victoria, allowing customers to opt out from automatic assignment to time-varying network tariffs in Tasmania, or requiring retailers or distributors to offer a flat (anytime) rate as a consumer protection measure in Queensland and Victoria.

In the period since 2014, network tariff design has continued to evolve to more effectively encourage and incentivise behaviour change that both shapes load and generation and rewards shifting of use and generation (exports). Options for time-of-use network tariffs now include solar soak tariffs, with counterparts in some innovative retail offers. Given the evidence that neither retailers nor customers could understand or respond to monthly maximum demand charges, we have worked with networks for these to become optional tariffs rather than default tariffs for small customers. Trials such as Project Edith, Energy Masters and Solar Active – which involve collaboration with energy service providers and the participation of customers – are building the evidence base for future dynamic network tariff and ‘energy as a service’ options to be introduced. Many standard network tariff trials are also testing dynamic pricing (including rewards) and flexible import and export limits or dynamic operating envelopes. Distributors develop these network tariff trials in consultation with retailers to ensure they will be tested in the market.

We note that the fourth round of development of network tariffs will commence consultation with stakeholders and consumers in 2027, with the NSW, ACT, Tasmanian and NT businesses setting tariffs to apply for all customers (including households and small businesses) from 1 July 2029 for the following five years. This coincides with the universal roll out of smart meters being completed in 2030.

As the AEMC has recognised, consumers are diverse in their willingness and ability to respond to price signals, including as a result of their access to technology that enables dynamic responses to changing market and network conditions. Given this diversity, it is timely to further explore options for subscription pricing that could be packaged into retail offers for consumers who prioritise more predictable bills, as well as options for more dynamic and locational pricing as identified in the AEMC’s draft report. This could provide a foundation for a wider range of innovative retail tariff offers from 2030.

In this context, it is not clear that there is a need for a further tariff strategy obligation in the rules. The rules are founded on efficiency and already contain detailed obligations under clause 6.8.2, which were introduced as part of the 2014 rule change and subsequently amended to apply to pricing for both use and generation (exports). It is also not clear whether the proposed incentives are necessary or desirable to achieve the intended outcomes. It is important to consider any proposed incentives in the context of the broader network regulation framework, ideally as part of the Electricity Network Regulation Review.

[Ausgrid, Endeavour Energy and Essential Energy](#), February 2017. The AER’s most recent detailed guidance was provided in its draft decisions on the Victorian network service providers’ (AusNet, Jemena, CitiPower, Powercor and United Energy) tariff structure statements: for example, AER, [Draft Decision, AusNet’s Tariff Structure Statement 2026–31](#), September 2025.

Recommendation 6: Amend the rules to ensure networks design tariffs for energy service providers, rather than directly for customers, to promote more flexible and innovative retail offers.

This recommendation includes proposals to amend the rules to:

- remove the customer understanding pricing principle
- remove or sunset the customer impact pricing principle, or replace it with an energy services provider impact principle
- make the tariff structure statement more flexible by either shortening the application of the tariff structure statement to 2 or 3 years or lengthening the tariff structure statement to ten years but limiting its scope to at least one enduring basic tariff per tariff class and incorporating a negotiation process for introducing new network tariff structures during the ten-year period
- introduce a transitional energy service provider choice model that would require networks to design both a basic (for example, fixed charge) and dynamic tariff (alternatively, this outcome could be pursued through AER guidance or under the consistency framework proposed in the CER Taskforce's distribution system operator workstream)
- empower the AER to drive standardisation and appropriately paced tariff reform by requiring the AER to consider the necessity of intervening to conduct a 'negotiation' between energy service providers and networks in tariff structure statement processes.

This recommendation also suggests that the AER could make it more explicit that we will allow networks to amend the tariff structure statement as allowed under the current rules.

We agree that energy service providers have an important role to play in managing risk and packaging costs into offers for customers. We also agree that it is valuable for distributors to engage with retailers when designing tariffs, to ensure they can fulfil this role effectively. However, we do not consider that the purpose of network tariffs should be to benefit energy service providers and we caution against removing the existing customer impact principle which (with some consideration of retailer capability) currently balances efficiency-driven tariff design and implementation. It is not clear how removing the customer impact principle encourages energy service providers to take more responsibility for managing impacts from tariff changes. In addition, customer impact modelling is critical for us and all stakeholders to understand the effect of network tariffs, as it is difficult to ascertain the fairness or equity of a tariff's cost recovery without it. For these reasons, our preference would be to retain the customer understanding and customer impact principles.

Distributors are not currently precluded from consulting with energy service providers on how network bill impacts might translate to end customers and experience demonstrates there have been many successful collaborations on network tariff design, including through trials. Distributors include retailers in their stakeholder consultation groups for tariff structure statement development. They typically also hold retailer-specific consultations on tariff development, as well as one-on-one conversations (in recognition that commercial confidence can hamper discussion in broader groups). In addition, energy service providers have the opportunity to engage on tariff proposals and the tariff reform program directly with the AER. We invite submissions on distributors' proposed tariffs from energy service

providers and engage directly with energy service providers to explore issues raised through consultation.

Tariff reform roundtables are also an ongoing feature of the AER's regulatory approach. For example, in 2022 the AER held a [tariff reform roundtable](#) with 15 retailer representatives (as well as market body and government staff), in which retailers provided feedback such as the importance of reflecting the customer perspective in network tariff reform, the preference for simplicity among many customers, the opportunities and challenges presented by consumer energy resources, and the importance of flexibility. Periodic roundtables of this type can usefully bring together stakeholders to explore key issues such as how to ensure energy service providers can cost-effectively manage risks inherent in network tariffs, which could inform subsequent reset processes or AER guidance. For example, while there is already significant alignment across network tariffs (such as low-priced periods during the day, cost-reflective tariffs for smart meter customers, and availability of secondary controlled load), roundtables could discuss opportunities to increase convergence as well as where divergence is warranted.

Given these existing opportunities for retailer involvement in tariff design, we consider that increasing flexibility in the network tariff framework should be focused on supporting distributor innovation and responsiveness to rapidly shifting drivers of network cost. It is not clear to us that network tariffs (and therefore tariff structure statement timing) are a block to retailer innovation. For example, we observe that in general retailers have been slow to develop innovative retail tariffs in response to low wholesale costs and low distribution network charges during the middle of the day – a gap which the government's Solar Sharer Offer will help fill. Similarly, for many years most retailers in Victoria have had the benefit of all customers on smart meters and most customers on flat network tariffs with highly predictable network bills, but innovative retail offer development has been concentrated among smaller retailers. Examples of retail innovation in the National Electricity Market, such as dynamic pricing and subscription models, suggest network tariffs already allow for retailers to innovate where they are motivated in doing so. Amendments to the network tariff design process could focus on supporting this innovation by enabling the distributor flexibility which enables those retailers interested in innovation to respond.

To the extent there is more flexibility in the tariff structure statement, we encourage the AEMC to consider the interactions between network tariffs and the applicable forms of control for all recommendations related to network tariffs. The effectiveness of proposed flexibility in the tariff structure statement may differ significantly across possible forms of control within the current network regulatory framework (which include, for example, a revenue cap, a revenue yield control, a price cap, a schedule of fixed pricing, or a combination of control mechanisms). For example, under a revenue cap changes to the tariff structure statement within a regulatory period would result in flow on impacts to the annual pricing process to ensure compliance with the revenue cap. Under a price cap, if new prices are introduced there would need to be consideration of the process and mechanism for determining the appropriate price caps for any new tariffs. As a more extreme example, if the AER applied a schedule of fixed pricing in a regulatory determination, any changes to the tariff structure statement would not be able to be applied until the next regulatory determination. In addition, a shift to alternative forms of control in future may change the incentives on networks in designing tariffs by changing the risk they bear in recovering costs. Again, the Electricity Network Regulation Review should explore these issues to identify a holistic approach to achieving the intended outcomes.