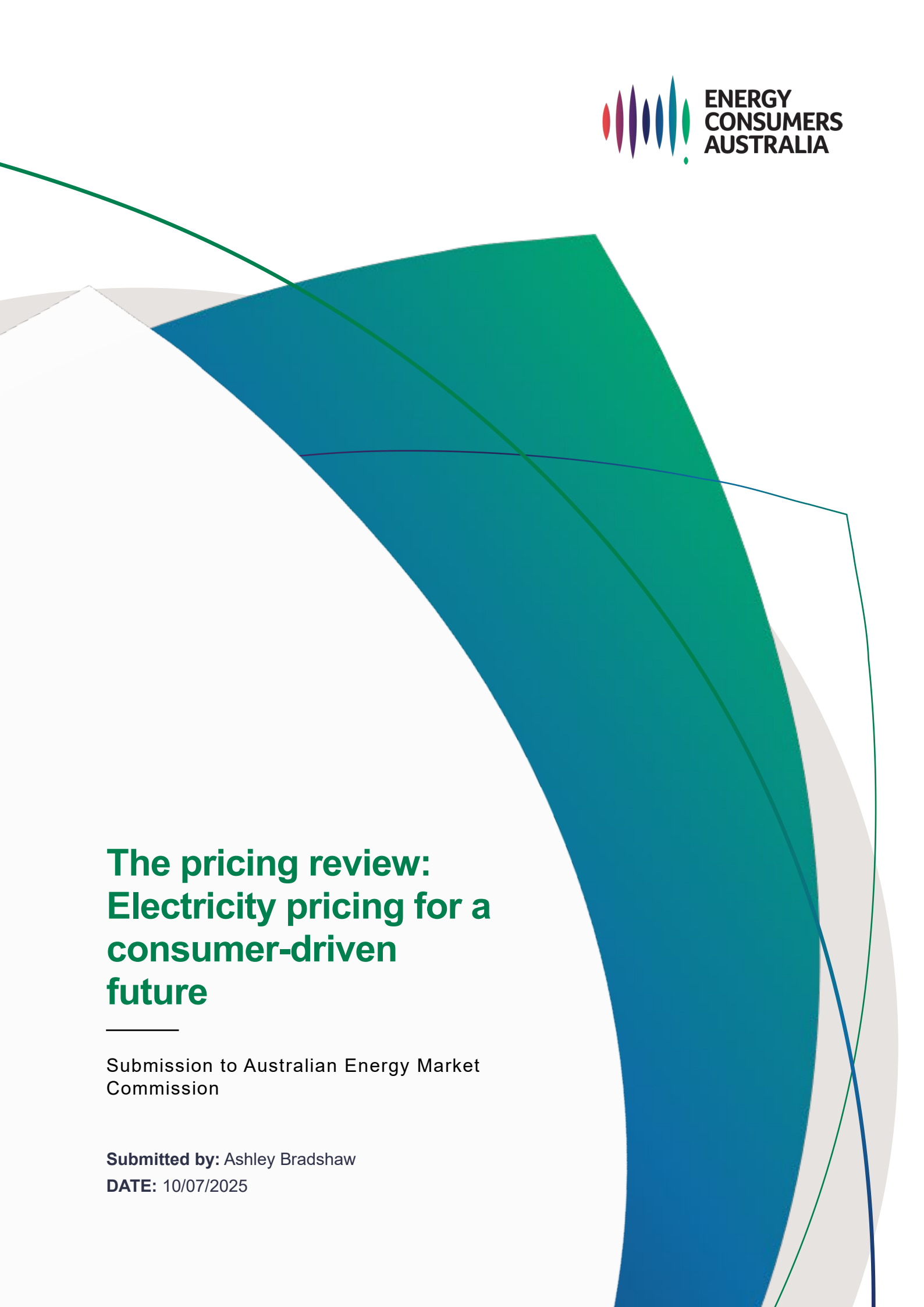


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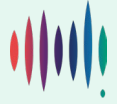
# The pricing review: Electricity pricing for a consumer-driven future

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Submission to Australian Energy Market  
Commission

**Submitted by:** Ashley Bradshaw

**DATE:** 10/07/2025



## Feedback on the AEMC Pricing Review Discussion Paper

Energy Consumers Australia (ECA) welcomes the opportunity to contribute to the AEMC's review of electricity pricing for a consumer-driven future. We support the AEMC's ambition to ensure electricity pricing frameworks are effective, fair, and fit for purpose as the energy system becomes more dynamic and decentralised. In particular, we welcome the focus on consumer outcomes – including affordability, simplicity, predictability, and choice – and encourage the Commission to continue to place these at the heart of reform efforts.

Fundamentally, this review must provide solutions that ensure that:

- retail services are simple and comparable, in the context of an increasingly complex retail electricity market;
- system costs are recovered fairly, noting that cross-subsidies already exist and could grow; and
- electricity is affordable for all Australians.

The discussion paper provides a reasonable exploration of the barriers to access to simple services. However, we consider it lacks a sufficient exploration of the broader potential fairness and affordability issues the sector will face. We therefore encourage the AEMC to explore these difficult issues in greater depth as part of later rounds of consultation.

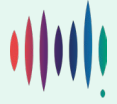
Our submission responds to the overarching questions in the consultation paper and proposes several actions that we believe can help deliver equitable, affordable and consumer-centred outcomes. We also highlight areas for further exploration in subsequent stages of the review process, with the understanding that next stages of this review will likely be further Issues Papers.

Further information is provided in our responses to the questions posed by the Consultation paper. If you have any questions, please contact Ashley Bradshaw at [ashley.b@energyconsumersaustralia.com.au](mailto:ashley.b@energyconsumersaustralia.com.au)

Yours sincerely

A handwritten signature in blue ink, reading "Brendan French".

Dr Brendan French  
Chief Executive Officer



## **Question 1: If we focus on enabling bookend products (from basic to sophisticated), is this sufficient to enable the range of products and services that will meet consumer preferences and lower system costs?**

We support the development of new, more sophisticated energy products and business models—such as “prices to devices” and orchestration services—that can deliver value for engaged consumers and the broader system. However, the AEMC’s primary focus should remain on ensuring that all consumers, particularly those who are less engaged or more vulnerable, continue to have access to simple, affordable, and reliable electricity services in this period of transition.

Our recommendations are:

- The AEMC should prioritise removing barriers and ensuring very simple retail offerings remain available options during the transition. This is because most consumers either prefer straightforward energy services or cannot participate in more complex offerings
- The AEMC should review whether emerging services—such as VPPs—are genuinely reducing system costs, and that any value created is fairly distributed among all consumers.

### **Focus needs to be on removing barriers to the access of simple products and services**

Most people say that they just want basic electricity services, and many that desire additional services, still prioritise reliability and price.

Our research shows that most consumers (54%) just want a ‘basic’ relationship with the energy system – a simple and reliable electricity service at an affordable price. Of those, most (88%) say they think they already have a basic relationship with the electricity system.<sup>1</sup> This suggests that simple products—predominantly flat consumption plus daily supply charges – may be most aligned with these consumers’ current wants and expectations.

However, as we discuss in our response to Question 2, even ‘simple’ retail electricity products are difficult to compare. Retailers offer differing fixed and variable charge combinations and sometimes tiered consumption rates even for ‘flat’ tariffs.

As we noted in our submission on the Draft Terms of Reference for the review, one type of billing outcome common in other sectors that would meet consumer preferences for predictability and consistency is subscription billing. The Discussion Paper mentions this as a potential ‘basic’ offering but notes existing barriers.<sup>2</sup> These models could offer consumers greater bill certainty and transparency, aligning more closely with their expectations for simplicity and affordability.

### **Those who are more ‘engaged’ still prioritise reliability and price**

Around 46% of consumers say they desire something greater – an “active” relationship (e.g. having a choice of different tariffs; adjusting use throughout the day to save; having the ability to choose various clean energy plans). However, only 34% of those who want an “active” relationship say they currently have it. This indicates that there is consumer desire for additional products and services.

<sup>1</sup> Energy Consumers Australia, Consumer Energy Report Card.

<sup>2</sup> The Discussion Paper notes the current design of network tariffs may discourage retailers from offering subscription-style products and other product types that are popular in markets outside energy: p 8.

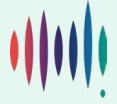
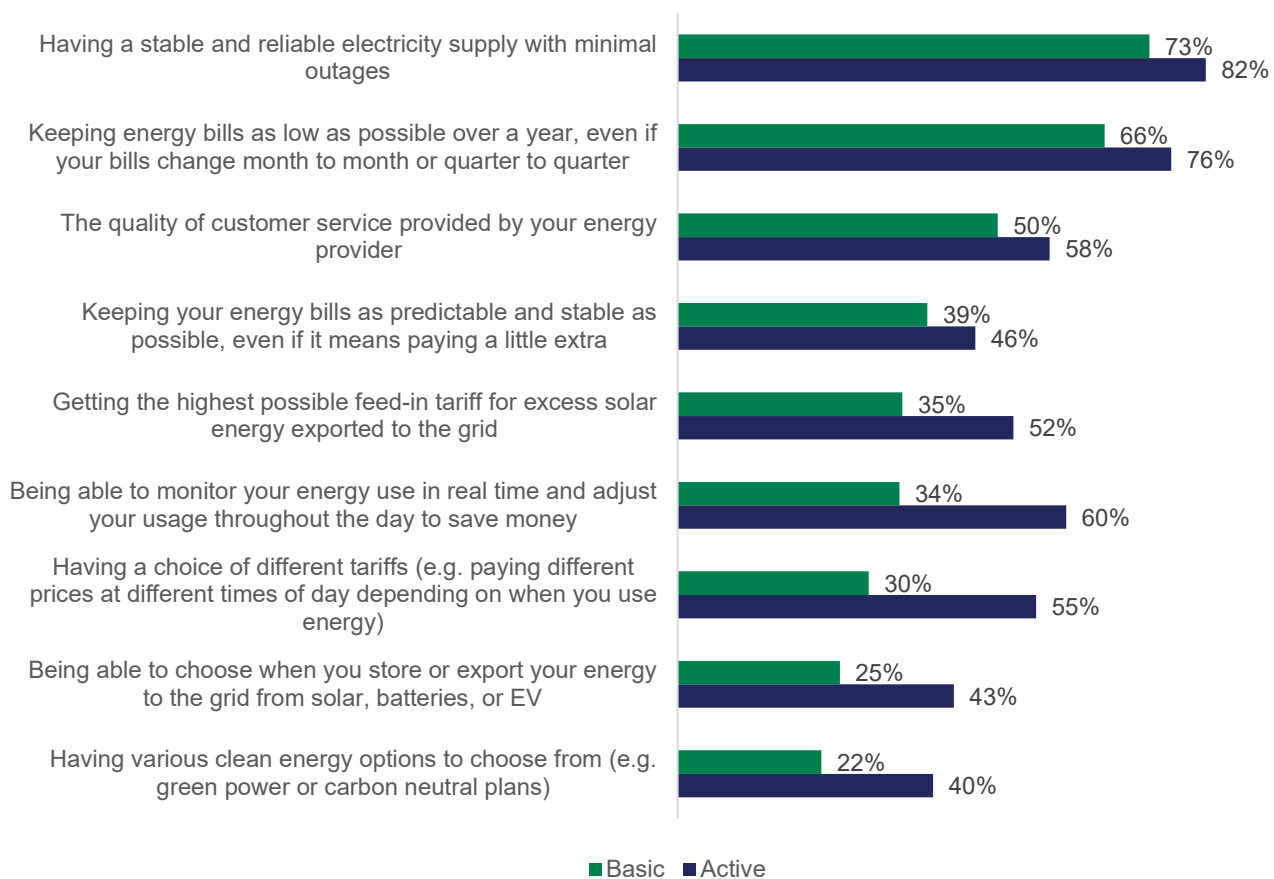


Figure 1 provides greater insight into the features and services people value from electricity plans. It shows that those wanting a “basic” relationship predominantly value reliability and low prices. In contrast, those wanting an “active” relationship show more interest in services like access to real time data and different tariff structures.

However, even for those who desire more, reliability and low prices remain the key priority. This tells us that many people who may appear “engaged” may at the end of the day, simply value price and reliability. In other words, people aren’t becoming “engaged” out of interest in the system, but rather in response to high electricity bills.

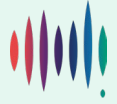
**Figure 1 - Energy plan features that are “very important” for people that want a basic or active relationship**



Source: Energy Consumers Australia, Consumer Energy Report Card.

### **Sophisticated services do not necessarily lower system costs and may create costs**

We encourage the AEMC to review how emerging products, such as VPPs, are working in practice, and whether they are delivering measurable system-wide benefits. While many “sophisticated” products already exist in the market, it is not yet clear that they are delivering the measurable system-wide benefits that may be assumed.



It is important that consumers with CER receive fair value for the services they provide. However, it is equally important to ensure they are not overcompensated—for example, being paid for services not actually delivered, or using CER to avoid system costs that should be shared fairly.

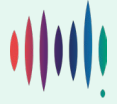
We agree with the AEMC's observations that current network tariffs tend to facilitate network cost transfers between consumers, rather than reducing overall network costs. Though we acknowledge that these same tariffs may incidentally reduce wholesale market prices in some cases.

Our previous research shows that the most common behavioural responses to time-of-use tariffs are the shifting of use of dishwashers and washing machines. Given these are relatively small loads, shifting of use may not materially impact system efficiency.<sup>3</sup>

Moreover, our research suggests that lower-income households are more likely than others to respond to price signals by reducing energy use, including essential services such as heating and cooling. While this may reduce system load at certain times, it can come at a human cost — exacerbating hardship and energy inequality without delivering meaningful system savings.

These findings suggest that while demand-side flexibility and pricing innovation will be important in the future energy system, these products must be carefully designed to ensure that incentives are aligned with actual system value, and that vulnerable consumers are not disproportionately burdened in the name of efficiency. We provide some further recommendations on this as part of our response to Question 3.

<sup>3</sup> Energy Consumers Australia, Consumer knowledge of electricity pricing and responsiveness to price signals, January 2025.



## The need to ensure *affordable* services, not just *basic* services

The AEMC must put forward concrete proposals to ensure that vulnerable households do not bear an unfair burden from the energy transition. While the Issues Paper rightly explores emerging pricing models, it gives insufficient attention to how overall system costs are recovered from consumers—and the risk that current cost recovery methods may entrench structural inequities.

We urge the AEMC to expand its work on cost allocation by:

- Undertaking forward-looking modelling of how all energy system costs—not just network costs—are currently and prospectively allocated across consumers;
- Assessing whether existing cost recovery mechanisms (e.g., network tariffs, environmental scheme pass-throughs, and transmission costs) are exacerbating hardship or inequity;
- Recommending reforms or principles that would ensure fairer allocation of transition-related costs, especially for households unable to access solar, batteries, or other cost-reduction options.

This modelling should assess whether historical cost allocation methods remain fit for purpose in a decarbonised, decentralised energy system. In our view, many current approaches — such as volumetric recovery of transmission and emissions reduction policy costs — no longer align with system needs or fairness.

While the AEMC may not itself implement pricing or subsidy reforms, it can play a critical role in diagnosing these issues and advising ministers on long-term policy responses, such as those discussed in our response to Question 4.

### Affordability risks in current cost recovery structures

While the average Australian household spends around 3% of its income on energy, our research reveals that this cost is not evenly distributed. One in ten Australian households spend more than 6% of their income on energy, and 4% of households spend more than 10% of their income.<sup>4</sup>

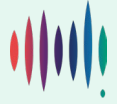
Many of these households face disproportionately high energy bills, and have limited means to do anything about it. We see that:

- over 60% of households who spend more than 6% of their income on energy fall into the top quartile for energy costs.
- Most of these households rent or say their annual household income is less than \$50,000 a year and therefore have limited scope to make changes to their property to reduce energy use.

Today, most of a consumer's electricity bill will likely come from retail grid consumption charges. These charges are used to recover wholesale costs, most network costs, and environmental scheme costs.

As more large-scale investment is made to decarbonise the grid, system costs will likely rise in the short-term (notably transmission and renewable energy policy costs). This may result in consumption prices rising.

<sup>4</sup> Energy Consumers Australia, Consumer Energy Report Card.



At the same time, many consumers are investing in solar and battery systems to reduce their exposure to grid consumption charges. This may mean that under the status quo, transition costs will disproportionately impact those already vulnerable to energy hardship.

### **The need for future-focussed analysis of energy system costs and how they will be allocated**

The AEMC's paper acknowledges concerns about fairness and cross-subsidies in network tariffs, but there is insufficient analysis to understand their scale or materiality – now or in the future. Further, the paper lacks a sufficient interrogation of other system costs such as transmission investment and environmental policy costs.

We recommend the AEMC undertake forward-looking modelling of energy system cost recovery. This analysis should examine how costs are currently and prospectively allocated between different consumers.

We are particularly concerned that jurisdictional scheme costs and major transmission investments are recovered regressively via electricity bills through consumption charges. This approach is regressive and places a disproportionate burden on vulnerable household. Doing nothing on risks undermining the equity of, and public support for, the energy transition.

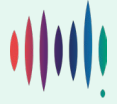
### **Address long-term equity and unfair outcomes that result from current cost-recovery methods**

If these aforementioned issues are not addressed, there is a real risk that electricity becomes unaffordable for many Australians.

We do not believe that a review of pricing and tariffs in the electricity sector can be comprehensive if it doesn't address the fundamental reality that current pricing strategies tend to entrench disadvantage rather than alleviate it. While the AEMC's review acknowledges this in certain areas – most notably in regard to network cost allocation – it has not done in others. We believe that for this review to be successful in achieving its remit, the Commission should demonstrate a keen focus on equitable pricing, particularly for those most exposed to higher energy costs. To this end, we are hopeful that a future paper from this review (perhaps in concert with the announced review of the default market offer) would address the feasibility and viability of some form of efficient subsidised pricing, as opposed to the current model which incorporates a cost-inefficient opt-in federal/jurisdictional payment subsidy with a sometimes-arbitrary emergency voucher system, both underscored by highly expensive and often ineffective retailer hardship programs.

Energy affordability is already creating significant challenges for the sector and imposing broader costs throughout the system. Existing government and industry schemes to support vulnerable customers—such as payment support, hardship programs, and disconnection processes—are costly and fragmented. Preliminary findings from a forthcoming study by Reform Matters for ECA estimate that household disconnections cost the system \$157 million annually—about \$5,500 per disconnection. Up to \$141.5 million could be saved if disconnections were prevented in all but the most intractable of circumstances.

The most effective and lowest-cost way to reduce household energy debt and prevent disconnections is through structural affordability measures. We urge the AEMC to ensure that the review acknowledges this and proposes viable solutions to what must surely be a primary objective of a properly functioning essential services market.



## Question 2: Can we rely on competition in the retail market to deliver the mix of products and services that customers value?

Under current settings, we cannot rely on competition to deliver good outcomes for consumers. While retail competition is delivering innovation, it has not consistently delivered equitable outcomes for all consumers.

The limitations of relying on competition in the electricity retail market in achieving good consumer outcomes are longstanding and, by now, well known. The ACCC's Retail Electricity Pricing Inquiry in 2018 and subsequent reports found that competition is not delivering benefits for all consumers.<sup>5</sup> In Victoria – the first state to deregulate electricity prices – the Thwaites Review in 2017 found that the promised benefits of competition have not been realised.<sup>6</sup>

Despite reforms since then – notably regulation of standing offer prices and market offer discounting practices through the introduction of the Default Market Offer and the Victorian Default Offer, as well as other improvements to consumer protections – many of these issues persist.<sup>7</sup> The competitive retail market is still not operating in a way that enables consumers of an essential service to achieve good outcomes.

We encourage the AEMC to focus on improving consumer outcomes in the energy retail market and to think holistically about how this is best achieved. Given the identified limitations of competition in delivering good consumer outcomes in this market we are doubtful that proceeding from a starting point of 'rely[ing] on competition' and focusing on 'improv[ing] the effectiveness of competition' to deliver the objectives of the review is adequate.

The AEMC appears to acknowledge there are structural features of the electricity retail market that lead to poor outcomes for consumers.<sup>8</sup> While the paper states that competition 'relies on either consumers switching plans or retailers keeping downward pressure on prices for those who don't switch', the latter is not occurring to a meaningful degree given the ACCC's finding that customers who do not switch pay more.<sup>9</sup> It is not clear these issues can be resolved through enabling further competition. ECA argues a more fundamental shift is needed – to introduce a consumer duty to put responsibility on energy providers to ensure good outcomes for consumers, rather than requiring consumers to bear this responsibility, or relying on competition to deliver good outcomes.<sup>10</sup>

Question 2 focuses on whether retail competition will deliver a suitable product and service mix. This appears to presuppose the outcome of the answer to the first question the AEMC seeks to test – whether focusing on this product and service mix is sufficient to meet consumer preferences and lower system costs. We argue that it isn't. The AEMC needs to consider, concurrently but separately, whether retail competition will deliver *affordable* energy services – for all customers, not just those who are 'engaged'

<sup>5</sup> ACCC, Retail Electricity Pricing Inquiry–Final Report (2018), xi, xii; [Competition in retail electricity market not delivering for all customers | ACCC](#).

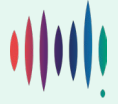
<sup>6</sup> Independent Review Panel, Independent Review of the Electricity and Gas Retail Markets in Victoria (2017), x.

<sup>7</sup> E.g. the ACCC's most recent monitoring report identifies that customers on long term offers pay a 'loyalty penalty': ACCC, Inquiry into the National Electricity Market – December 2024 Report (December 2024).

<sup>8</sup> As noted in the Discussion Paper, 43: '...the retail electricity sector, like other sectors such as insurance, financial, and telecommunications, is one where customers do not have to repeatedly select their provider... This can lead to poor pricing and service outcomes for consumers over the medium to long term'.

<sup>9</sup> ACCC, Inquiry into the National Electricity Market – December 2024 Report (December 2024), 3.

<sup>10</sup> ECA, [Submission to the Better Energy Customer Experiences Consultation | Energy Consumers Australia](#).



in the market. This needs to include customers experiencing hardship and energy poverty, and customers who are paying a 'loyalty penalty'.

As the AEMC acknowledges, there are several interrelated reforms underway that attempt to solve some of these issues. As part of this review, **we recommend focuses on ensuring retail electricity prices and structures remain simple and the retail market removes unnecessary complexity**. There is likely an opportunity for the AEMC to talk with leaders internationally (such as Ofgem) or in other sectors with similar market features to those identified by the AEMC (such as telecommunications), to understand the regulatory barriers to very simple pricing structures in the electricity market.

### Many people don't switch frequently

Historically, customer switching was seen as the main enabler of good outcomes and the main indicator of a functioning energy market. However, many people simply don't investigate switching very often. Figure 2 shows that around 20% of customers say they investigate switching less frequently than every 5 years, despite the ACCC repeatedly highlighting the monetary savings people could achieve by doing so.<sup>11</sup> Therefore, low engagement by some consumers needs to be embedded as an input into market design, rather than something to be necessarily solved. It hardly needs noting that many consumers who would often be characterised as 'low engagement' are also those who experience the highest barriers to engaging.

It is also worth recognising that high switching rates can signal a poorly functioning market. Figure 2 also shows that around 17% of people say they investigate switching several times a year. Having so many customers frequently looking to move could be viewed as an alarming finding for the industry, suggesting a breakdown in trust and satisfaction towards what they are getting from their retailer. Indeed, the oscillating 'frontbook/backbook' model in the energy sector – in which an average consumer will be paying \$317 more after two years with a retailer than if they had moved – ensures that churn dominates retailers' thinking, expenses and focus, to the detriment of service and educating consumers on sustainable pricing.

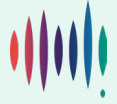
### Competition is leading to costs and cross-subsidies

Requiring consumers to switch to get a fair deal imposes time and grudge costs onto consumers. A market model that presupposes annual or near-annual churn also imposes considerable operational and marketing costs on retailers, which are ultimately passed on to consumers.

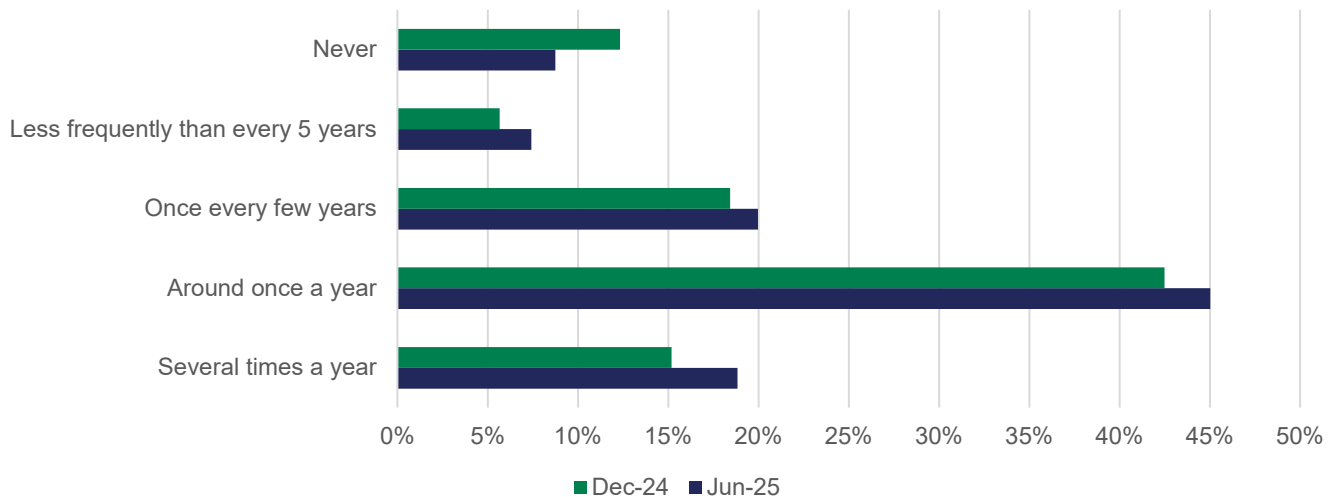
Because retailers can largely only compete on price for most consumers, this has led to large discounting for new customers, often to the degree that new offers are 'loss leaders'. Inevitably, these savings are funded by those that don't switch. If everyone did switch, then these savings seemingly would no longer be available.

It is important that this review recalibrates the churn mentality that dominates the retail energy market and which leads both to unnecessary cost being passed on to consumers as well as the deep dissatisfaction that occurs in the annual recalibration cycle when a customer's price inevitably and inexorably moves from the 'frontbook' to the 'backbook'.

<sup>11</sup> ACCC, Inquiry into the National Electricity Market – December 2024 Report



**Figure 2: How frequently household decisions makers who can choose their retailer say they investigate changing electricity plans**



Source: Energy Consumers Australia, Consumer Energy Report Card.

### The retail electricity market is complex to navigate

Unfortunately, many recent pricing reforms have ultimately led the retail market to becoming more complex, rather than simpler.

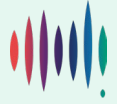
Even legacy “simple” retail electricity plans (i.e., common flat tariffs) are not necessarily easy to compare. Fixed and consumption charges can vary materially across retailers, making direct comparisons of offers difficult, as consumers must compare over two dimensions. Then on top of this, customers are now having to navigate between flat and time-varying pricing structures, feed-in tariff rates, and other dimensions.

Government price comparison websites aim to help consumers navigate the choice, but they have limitations. For example, their recommendations come in the form of an estimate of an annual bill. This is potentially confusing to customers, for a number of reasons.

First, retailers do not offer annual bills. They offer fixed and consumption prices. If this is to continue, comparisons between retail offers may be better placed at directly comparing the rates of retailers.

Second, unless consumers upload recent bills or meter information, price comparison websites have to make assumptions about consumption levels that are not transparent and don’t always reflect real household electricity use. As such, the estimates price comparison websites provide may not be representative of the individual.

Lastly, price comparison websites appear to assume that households consume the same amount of electricity per day and with the same average consumption profile within that day. Analysis of averages is misleading and removes important nuance. For example, on days when someone is on holiday, electricity consumption would likely be very minor. While on very hot days, electricity consumption is likely be very high. Not accounting for this variation can make it difficult to understand the likely implications of certain pricing structures.



We caution against a viewing a proliferation of complex products and pricing structures as being indicative of market innovation. Even where products are designed to increase choice for more engaged customers, they should be easy to understand and compare. The AEMC should consider how other sectors, such as telecommunications, have dealt with similar challenges of ensuring simple and easy to understand products and pricing structures despite the underlying complexity faced by retailers, and any regulatory barriers to very simple pricing structures in the electricity market.

### **‘Safety nets’ are important, but improvements are needed**

The Discussion Paper states that ‘safety net pricing and retail price regulation are a particular challenge’ that ‘can create challenges for retailers seeking to offer a wider range of products to customers’ and may ‘impede innovative offers’.

ECA supports regulation of standing offer prices as a protection against excessively priced standing offers, though we have raised concerns about the effectiveness of the Default Market Offer (DMO) in achieving its objectives.<sup>12</sup> As the Australian Government has recently initiated a review of the DMO<sup>13</sup> we do not make extensive comment on the DMO in response to the Pricing Review, though we note we are encouraged by the direction of the DMO review.

The Discussion Paper mentions risks the AEMC had identified in 2018 relating to introducing default market offers, though it is not clear if the AEMC considers those risks have crystallised. We do not see evidence that the introduction of default offers has inhibited the ability of retailers to provide other market offers or innovative product and service offerings, nor that concerns about broader market risks that were raised by some stakeholders when default offers were introduced have been realised.

One related matter, and as highlighted above in Question 1, we recommend the AEMC consider as part of the Pricing Review is pricing for customers experiencing energy hardship, including exploring the feasibility of a low-cost or hardship tariff available to those meeting certain eligibility criteria or broader improvements to the operation of concession schemes. We acknowledge any concessions reforms will necessarily involve a range of stakeholders and we support the AEMC’s recent call for coordinated government action on concessions,<sup>14</sup> though we consider the AEMC itself can play a central role in leading discussions through the Pricing Review.

### **A consumer duty for energy would shift responsibility to retailers to support good consumer outcomes**

We have argued, including through our submission to DCCEE’s Better Energy Customer Experiences (BECE) consultation, that a consumer duty is needed to fundamentally shift responsibility for delivering good consumer outcomes to energy providers, rather than consumers.<sup>15</sup>

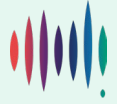
Experience has shown that retail market competition cannot be relied on to ensure good consumer outcomes, and the current framework continues to place an unfair burden on consumers to continually ‘engage’ with the market and switch offers in order to get good outcomes. This is not equitable or sustainable. As we have highlighted through the BECE process, we think there is a role for a consumer duty to address some of the poor outcomes consumers currently experience, including loyalty penalties, over-reliance on switching, confusing information and difficult to compare energy offers.

<sup>12</sup> [Energy Consumers Australia response to DMO 2025-26 Final Decision | Energy Consumers Australia](#).

<sup>13</sup> [Consultation on reforms to the Default Market Offer - Department of Climate Change, Energy, Environment and Water](#).

<sup>14</sup> [AEMC calls for coordinated government action to ensure vulnerable consumers get energy bill help | AEMC](#)

<sup>15</sup> ECA, [Submission to the Better Energy Customer Experiences Consultation | Energy Consumers Australia](#).



While we acknowledge a consumer duty may be outside the scope of the AEMC's Pricing Review, the possibility of a consumer duty, and a trend towards principles and outcomes-based regulation more generally, is important context in framing the reforms that might arise from the Pricing Review.

### **Innovations are coming, but they cannot be accessed by all consumers**

Many existing retailers are offering new products such as VPPs and EV specific plans and tariffs. In addition, new retailers are emerging to sell new business models. For example, Amber represents a new business model of offering customers exposure to the wholesale electricity spot prices. Ovo Energy also offers a similarly innovative product, offering free electricity consumption between 11am and 2pm.

However, these innovations are not for everyone; for example, VPP products require you to own your own home and have solar and batteries. Further, as we discuss below, many of these products require a certain level of risk appetite from consumers.

### **Just because people want sophisticated products, it doesn't mean they understand the true costs and risks**

Many sophisticated products, such as VPPs, transfer risk to consumers, who may not be fully aware of what they are signing up to. For example, some VPPs:

- allow the retailer to use the battery as much as they like, which could lead to battery degradation.<sup>16</sup>
- transfer price risk to consumers. For example, some customers may be signing up to exposure to the wholesale market without fully understanding how high retail prices could become.<sup>17</sup>
- are seemingly used to serve the retailer's interests, not the owner's interests.

We see that many customers with solar and battery systems may appear "engaged" but still have relatively low literacy. For example:<sup>18</sup>

- Around 20% of households with solar say their solar system was installed by the previous property owner or landlord.
- Around 25% households with solar say they don't know the capacity of their solar system.
- Around 1 in 3 households with solar say they don't know their feed-in tariff rate.

Figure 4 shows that the main reasons people are considering installing a battery concern reducing bills, reducing reliance on the grid and having backup power. Making money by trading are lower priority drivers for consumers. This shows that people with solar and batteries cannot be assumed to be sophisticated or "engaged" in the energy system.

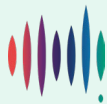
This also shows an inherent conflict between the VPP business model and consumer wants and expectations. A recent ABC article explored some of the issues that are emerging from this conflict.<sup>19</sup> The article's heading is framed as if it were wrong for a VPP to use a customer's battery in a peak period when, in fact, that is the entire purpose of the VPP business model. It appears likely that this consumer did not fully understand the product that they were signing up to.

<sup>16</sup> Finn Peacock, All About Virtual Power Plants (VPPs). Accessed [here](#).

<sup>17</sup> In Amber's pricing model, prices can exceed over \$18 a kWh retail in peak periods.

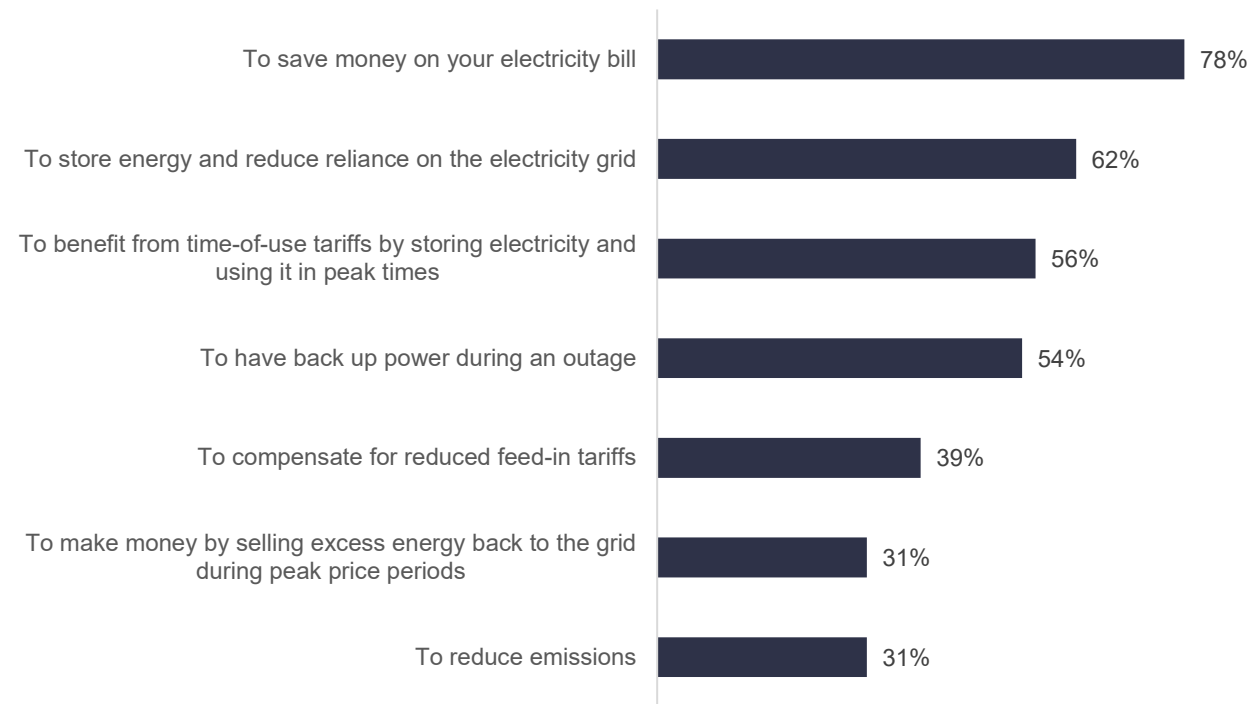
<sup>18</sup> Energy Consumers Australia, Consumer Energy Report Card.

<sup>19</sup> Daniel Mercer, Trust 'on the line' amid claims AGL drained householder's battery at peak times, 9 May 2025. Accessed [here](#).

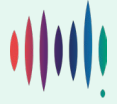


As we discuss in our response to Question 4, some of these issues can be alleviated through different approaches to network tariff design. We also note that VPPs are a relatively new product, and like any new service, there will be trial and error as retailers refine business models.

**Figure 3: Major reasons why people are considering getting a battery for their home**



Source: Energy Consumers Australia, Consumer Energy Report Card.



### Question 3: How can better outcomes for consumers be enabled through network tariff setting processes?

We agree with the issues the AEMC raises in the paper. Below are several comments relating explicitly to retailer/network relationships. We provide a detailed discussion on network tariff design in our response to Question 4.

Our key points are:

- It is not fair for customers to be transferred to new network tariffs upon receiving a smart meter.
- Networks and retailers should not be solely responsible for designing network tariffs.
- Where there are network signals, they need to be clear and targeted.
- Network signals or rebates should be designed for retailers and aggregators and only be given when participants are providing real services.

#### **It is not fair for customers to be transferred to new network tariffs upon receiving a smart meter**

As we stated in our previous submission, there appears to be misalignment on the role of network tariff reform, with some believing retailers should pass on new structures in their retail plans to customers, while others thinking retailers should not do so. As a result of this misalignment, and the lack of a broader coherent pricing strategy, many customers have received a smart meter and have been transferred to punitive retail pricing structures with little understanding of why, or what to do about it.

The AEMC's recent rule change prevents retail tariffs from changing for two years after receiving a smart meter.<sup>20</sup> However, networks can still transfer customers to different network tariff structures. As such these underlying issues are not addressed.

Our previous work has highlighted several issues with these new network tariff structures – both in terms of their effectiveness and fairness.<sup>21</sup> The AEMC's analysis shows that network tariff design is predominantly about the distribution of sunk and fixed costs and the role of network price signals is currently limited.

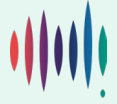
In summary, we are not against network or retail pricing reform. Rather, we view transferring consumers to new network tariffs upon receiving a smart meter is unfair (and unwise for social licence), until there is sufficient evidence that new tariffs reflect the fairest way to recover network costs.

#### **Networks and retailers should not be solely responsible for designing network tariffs**

If, as the AEMC's analysis suggests, the role of network tariffs is increasingly to allocate fixed and sunk costs among consumers, then tariff design is no longer just a technical exercise — it becomes a question of fairness, equity, and social legitimacy. These are not matters that can be resolved through modelling alone, nor are they best left to networks and retailers whose business incentives may not always align with broader consumer interests.

<sup>20</sup> AEMC, Accelerating smart meter deployment final determination, November 2024.

<sup>21</sup> Energy Consumers Australia, Analysis: Cost-reflective network tariffs aren't very cost-reflective, August 2024.



Currently, distribution networks propose their own tariffs in consultation with consumer groups, and the AER approves them based on compliance with the Rules. However, in practice, this process can privilege network-preferred approaches or result in inconsistent outcomes across jurisdictions. There is a risk that some tariff structures may be approved despite failing to reflect broader community expectations of fairness.

We believe there is a strong case for a more centralised, independent process to guide key decisions about the allocation of sunk and fixed network costs. While networks are best placed to model their own cost structures, questions about how these costs should be shared among consumers should be addressed through transparent, participatory processes involving governments, regulators, and civil society.

We encourage the AEMC to use this review process to define the appropriate role of consumer advocates and public interest bodies in network tariff design. A key goal should be to ensure that future network pricing frameworks are not only efficient and rule-compliant, but also fair, transparent, and publicly accountable. We discuss in our response to question four that there will be a necessary role for government to fairly allocate network costs in a high CER future.

### **Where there are network signals, they need to be clear and targeted**

Network signals must be clear, specific, and tied to tangible services, such as load reduction during peak periods or grid support via consumer energy resources (DER). This means that targeted locational signals or rebates are likely to be more effective than uniform time-of-use (TOU) network tariffs.

Uniform TOU network tariffs also create inefficiencies if they do not address specific network constraints. For example, they can incentivise people to use less energy at peak times when there is no cost to doing so. They can also provide discounts for actions that do not meaningfully reduce system costs at all.

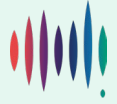
Therefore, any discounts or signals must be evidence-based, linked to measurable outcomes, and designed to avoid cross-subsidisation that unfairly burdens non-participating consumers. This ensures fairness and maintains trust in the tariff system, prioritising consumer value over speculative or poorly defined incentives.

### **Network signals should be designed for retailers or aggregators**

Where there is an evidence-based justification for network tariff signals, these signals should be designed for retailers and aggregators. They should not be assigned to individual household customers.

Networks should frame the consultation from the perspective of seeking services from retailers and aggregators (such as receiving demand response in a certain network location). Then the network would seek views from retailers and aggregators about whether the tariff has been designed to achieve that.

Currently the rules require networks to set tariffs to reflect long-run marginal costs (LRMC). The AEMC paper discusses some of the issue with how this is done. We think there may be scope for networks to instead provide tariffs for retailers and aggregators that reflect short-run marginal costs instead. In practice, these tariffs would be designed for batteries and other CER that can dynamically respond to signals.



## Question 4: What role can network tariffs play in meeting customer preferences while also efficiently and effectively contributing to lower overall costs?

We support the AEMC's analysis of the challenges with current approached network tariff design. In our view, the paper makes a strong case for rethinking how network costs are recovered from residential customers — particularly as consumer energy resources (CER) become more widespread and system investment increases.

The AEMC's review sits at the intersection of long-standing trade-offs in network pricing design: equity vs. efficiency, simplicity vs. cost-reflectivity, and fixed vs. variable recovery. In our view, current rules and practices attempt to serve all goals at once — and in doing so, often fall short of delivering any of them well.

We support a clearer delineation of pricing principles: fixed charges should recover unavoidable costs in an equitable way, supported by well-designed concessions; variable charges should reflect LRMC only where this delivers genuine system benefits without distorting wholesale or CER incentives.

This transition may require difficult trade-offs. On the one hand, volumetric pricing broadly encourages efficiency but will result in growing cost transfers and deadweight losses. On the other, fixed charges reduce transfers and may promote free energy trading in a decentralised energy system — but may have some efficiency trade-offs.

However, delaying action also carries costs — in the form of growing inequities, inefficient investments, and consumer confusion. We encourage the AEMC to model these impacts and consult on long-term pricing frameworks that can sustainably support the energy transition.

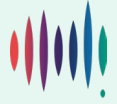
As preparation for this submission, we asked Dragoman Consulting to provide advice on how to improve the equity and fairness of network cost recovery as the energy system progresses for residential consumers. The report supports several issues raised in the AEMC's paper and recommends a shift from consumption-based network charges towards instead relying on fixed charges as the primary mechanism for recovering network costs.

### Consider mandating clearer methodologies for residual cost recovery

The AEMC's analysis in Appendix D illustrates that network volumetric consumption charges are exceeding actual LRMC forecasts. To us, this implies that either:

- Pricing based on LRMC is not fit for purpose, as LRMCS are generally very low and do not support sufficient revenue recovery.
- LRMC network pricing remains fit for purpose in theory, but the issue is that peak consumption tariffs are being inflated. This is to ensure revenue sufficiency, avoid high fixed charges, or to influence consumer behaviour—leading to outcomes that deviate from true cost-reflectivity.

We recommend that the AEMC strengthen the pricing rules to provide clearer guidance on how residual costs should be recovered from residential customers. Currently, Rule 6.18.5(e) sets out high-level principles — such as efficiency, transition, and minimising transaction costs — but gives little direction on how to apply these in practice. For example, it does not specify whether residual costs should be recovered through fixed or variable charges, or how to consider equity and consumer impacts.



This lack of guidance has led to inconsistent practices across DNSPs and contributed to tariff structures that may not fairly or efficiently allocate costs — particularly as the uptake of consumer energy resources (CER) increases and cross-subsidies become more material.

As Dragoman Consulting's report explores, there is a case for recovering residual network costs predominantly through fixed charges in a high-CER future. However, under current rules, there is no consistent basis for evaluating or requiring such an approach.

### **Differentiated network pricing rules for fixed and variable charges**

Relevantly, we believe there is a strong case to reform Rule 6.18.5 to apply differentiated pricing principles to fixed and variable network tariff components. The current framework requires variable charges to be based on long-run marginal cost (LRMC) but provides limited guidance on fixed charges or how the two interact.

Rule 6.18.5 requires that the variable components of network tariffs reflect long-run marginal cost (LRMC). However, it offers limited guidance on how fixed charges should be determined, or how both components should interact to support efficient and equitable cost recovery.

In practice, this has led to tariff structures that mix cost-reflective and non-cost-reflective components in ways that distort incentives and create deadweight losses. Peak-period variable charges are often inflated not because of marginal costs, but to meet revenue targets or shape behaviour. Meanwhile, fixed charges remain low due to equity concerns, despite being better aligned with the cost structure of networks.

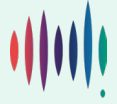
A differentiated framework would recognise that fixed and variable charges serve different purposes. Fixed charges would reflect unavoidable costs that all consumers must pay. Variable charges (on consumption and export) would reflect forward-looking cost drivers where they meaningfully occur — such as localised congestion or peak demand impacts.

Differentiating these two charges would allow them to be designed under different guiding principles:

- Fixed charges would be set to recover the largely unavoidable costs of providing network services, including sunk infrastructure and ongoing maintenance. They would also have to be set with regard to equity and consumer impacts. Concessions/subsidies would be appropriately targeted to this charge.
- Variable charges and rebates would reflect usage and export driven costs. Variable charges would be set based on LRMC (where efficient) and would have regard to any distortion with wholesale signals.

Such an approach is broadly similar to what is proposed in the report by Dragoman Consulting.

We recognise that introducing distinct pricing principles for fixed and variable charges represents a shift from current practice. However, this is not intended to reduce regulatory discipline or increase complexity. Rather, we believe it would improve transparency, economic efficiency, and consumer fairness by ensuring each component serves a clear and coherent purpose. The Australian Energy Regulator would retain full oversight to ensure any tariff designs remain consistent with the National Electricity Objective and deliver consumer benefit.



Importantly, we consider that such an approach may also improve the ability for advocates to engage on network cost recovery decisions, by focusing feedback not on tariff design, but on first principle questions such as:

- What costs should all customers pay for, regardless if they have CER or not?
- Should fixed charges vary for different residential customers? If so, how should they be set?
- What proportion of fixed charges are fair, or are consumption prices preferential?
- Where are the cost pressures on the network, and what are causing them?
- How effective will proposed variable charges be to avoid such constraint?

### **The trade-offs in tariff reform from a consumer's perspective**

Based on the AEMC's analysis, our expectation is that a new approach to network tariff design would likely result in higher fixed network charges for most residential consumers. Historically, high fixed network charges were seen as regressive as they unfairly penalised consumers with low annual energy use. However, in the context of CER this assumption may need to be revised.

Below, we discuss why high fixed network charges may be fairer and more equitable in a future with CER. In addition, we outline the trade-offs to consider if network charges were transitioned to fixed charges.

#### **Flat consumption pricing has benefits but may no longer be fit for purpose**

Historically, most network costs have been recovered through volumetric consumption pricing. This approach made sense, and had several strengths from a consumer's perspective: it is easy to understand ("use more, pay more"), encourages efficient usage, and historically led to relatively fair cost allocation (as those who use more electricity pay more).

However, this model may no longer be fit for the energy system of the future. Consumers with solar and batteries can significantly reduce their consumption from the grid—and therefore avoid paying their share of fixed network costs. This seemingly would create growing cross-subsidies between CER and non-CER consumers.<sup>22</sup>

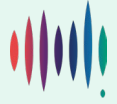
Other drawbacks of reliance on consumption pricing include inequity for low-income households and renters, who often live in inefficient homes and cannot access CER and therefore have higher grid consumption. As we discuss earlier in this paper, customers likely experiencing energy hardship generally have higher than typical levels of consumption.

#### **TOU and demand network tariffs may not be fit for purpose either**

Time-of-use (TOU) and demand tariffs have been introduced to improve cost reflectivity and address cross-subsidisation between households without and with solar. However, these structures have several issues:

- They can penalise consumers for when they use electricity, not just how much, which may be regressive.

<sup>22</sup> This assumes that as consumption falls as households get solar and batteries, networks increase consumption prices to ensure revenue sufficiency. While this intuitively makes sense, we do consider this issue needs to be explored in greater detail to understand its materiality.



- They do not resolve the underlying and growing issue that batteries can be used to avoid all consumption-based charges.
- They may reinforce inefficient incentives. Under TOU and demand tariffs, battery users are often rewarded for avoiding network charges rather than providing value to the broader system.
- We also agree with the AEMC's assessment that these tariffs may act as a barrier to wholesale market participation. For example, typical TOU windows (e.g. 3pm–9pm) include high network charges that inflate retail prices. This can reduce the value of exporting through a VPP at peak times — since once the battery is discharged, households may face expensive grid charges for any follow-up consumption.<sup>23</sup>

### **Fixed charges may address these issues—but introduce new trade-offs**

Recovering more network costs through fixed charges is one possible way to improve equity and reduce distortions. Fixed charges:

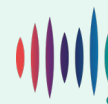
- better reflect the underlying cost structure of distribution networks (which are largely fixed from a consumer's perspective);
- cannot be avoided through consumption behaviour or CER, which limits cross-subsidies;
- do not interfere with wholesale price signals and therefore encourage fair trading of energy in a distributed energy system
- help ensure that CER (like batteries and VPPs) are not discouraged from exporting energy when it is most valuable to the system

However, fixed charges come with drawbacks. For example, they would reduce incentives for energy efficiency and CER investment, which could as a result reduce overall efficiency.

To illustrate what a change to network fixed charges will look like to a household, we provide the illustrative example below.

Table 1 shows the Essential Services Victorian Default Offer (VDO) decision for 2025-26. It also shows the underlying network charges included in the VDO's supply and consumption charges. Table 1 shows that for a customer on the VDO, around 72% of their annual bill comes from consumption charges (assuming 4,000 kWh of electricity a year). Of the consumption charges, around 35% of these costs will be associated with network charges.

<sup>23</sup> This stands in contrast to large-scale generators, who do not face charges for using the transmission network and can participate in the wholesale market without equivalent cost-based constraints.

**Table 1: VDO 2025-26 retail tariff and underlying costs**

|                                  | Unit rates            |                            | Annual charges |                    | Total bill     |
|----------------------------------|-----------------------|----------------------------|----------------|--------------------|----------------|
|                                  | Supply charge per day | Consumption charge per kWh | Supply charge  | Consumption charge |                |
| <b>Retail tariff</b>             | <b>\$1.28</b>         | <b>\$0.30</b>              | <b>\$469</b>   | <b>\$1,206</b>     | <b>\$1,675</b> |
| <i>Underlying network tariff</i> | <i>\$0.34</i>         | <i>\$0.11</i>              | <i>\$124</i>   | <i>\$425</i>       | <i>\$549</i>   |
| <i>Other costs<sup>24</sup></i>  | <i>\$0.94</i>         | <i>\$0.20</i>              | <i>\$344</i>   | <i>\$781</i>       | <i>\$1,126</i> |

Source: ECA analysis of Essential Services Commission 2025-26 VDO decision, and Victorian distribution network tariffs.

Table 2 models a counterfactual scenario in which all network costs are recovered through fixed charges. In this scenario, the daily supply charge increases to \$2.45, while the consumption charge falls to \$0.20. The total bill remains the same, but the composition of costs shifts dramatically: fixed charges account for more than 50% of the total bill, and consumption-related costs decline significantly.

**Table 2: VDO 2025-26 retail tariff and underlying costs with network costs recovered by fixed charges**

|                                  | Unit rates            |                            | Annual charges |                    | Total bill     |
|----------------------------------|-----------------------|----------------------------|----------------|--------------------|----------------|
|                                  | Supply charge per day | Consumption charge per kWh | Supply charge  | Consumption charge |                |
| <b>Retail tariff</b>             | <b>\$2.45</b>         | <b>\$0.20</b>              | <b>\$893</b>   | <b>\$781</b>       | <b>\$1,675</b> |
| <i>Underlying network tariff</i> | <i>\$1.50</i>         | <i>-</i>                   | <i>\$549</i>   | <i>-</i>           | <i>\$549</i>   |
| <i>Other costs</i>               | <i>\$0.94</i>         | <i>\$0.20</i>              | <i>\$344</i>   | <i>\$781</i>       | <i>\$1,126</i> |

Source: ECA analysis of Essential Services Commission 2025-26 VDO decision, and Victorian distribution network tariffs.

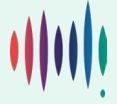
The impacts of fixed network charges would vary across the NEM. In comparison to other jurisdictions, Victorian customers face relatively lower network charges. On average, households across the NEM pay around \$700 per year in network costs. In some jurisdictions however, network charges exceed over \$1,000 a year.

### The role for government in ensuring fairness

As more residual network costs are recovered through fixed charges, questions of fairness and affordability will become increasingly salient — particularly for those living in areas with high network costs per customer. In this context, network tariff reform cannot be left solely to networks and regulators. Delivering fair outcomes in a high-CER future will require active policy leadership.

Governments are best placed to ensure that cost allocation mechanisms reflect community expectations and do not exacerbate disadvantage. Potential policy pathways include:

<sup>24</sup> Includes wholesale, environmental scheme and other costs.



- Removal of environmental policy costs, such as jurisdictional scheme costs and major transmission investments, from electricity bills and recovering them through more progressive tax mechanisms.
- Removal of postage stamp pricing models supported by targeted concessions for high-cost areas, building on successful examples such as the Queensland Government's subsidy for Ergon network customers.<sup>25</sup>
- Recovering residual network costs through property-based charges, such as council rates, rather than electricity bills — reflecting the inherent value a property derives from grid access, regardless of actual electricity consumption.

While the AEMC does not have the authority to implement such reforms, we recommend that the Review explicitly raise these issues and advise energy ministers to consider them as part of broader affordability and equity frameworks.

### The way forward

On balance, we consider the AEMC's and Dragoman's analysis presents a compelling case for rebalancing network residual costs toward fixed charges (or outside energy bills all together). This appears to be a pressing need once a critical mass of customers have rooftop PV and batteries.

In saying this, we remain conscious of the broader benefits solar and batteries provide the energy system and for all consumers. Therefore, any such transition must be underpinned by robust, forward-looking analysis of both system costs and household-level impacts.

We encourage the AEMC to model the long-term distributional outcomes of alternative tariff structures and to consult on clearly differentiated pricing principles that reflect the needs of a decarbonised, decentralised energy system.

<sup>25</sup> For more information, see [here](#) and [here](#) .

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