Ref: JF:HP20250710

10 July 2025

Victoria Mollard
Executive General Manager
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Ms Mollard

**Essential Energy Submission – Pricing Review Discussion Paper EPR0097**

Essential Energy welcomes the opportunity to contribute to the Australian Energy Market Commission (AEMC) on its Discussion Paper as part of its Pricing Review.

As a distributor, Essential Energy manages over 183,000 km of powerlines, covering 95% of New South Wales (NSW) and parts of southern Queensland, serving more than 900,000 customers, including homes, hospitals, schools, businesses, and community services. Essential Energy's commitment to integrating Consumer Energy Resources (CER) is reflected in the connection of 307,005 solar connections with a total panel capacity of 2,278 megawatts (MW) as of the end of June 2025, representing a third of Essential Energy connections incorporating CER.

Essential Energy commends the AEMC's efforts to explore pricing reforms that enhance affordability, efficiency, and equity in the National Electricity Market (NEM) with a focus on the future energy needs of consumers. Essential Energy supports meaningful reforms that deliver lasting value to consumers, grounded in robust evidence and a holistic understanding of the energy market.

The comprehensive scope of the Discussion Paper is appreciated and Essential Energy suggests that further granularity in analysing network costs, retailer relationships, and consumer equity will strengthen the foundation for effective reforms as stages of the review progress. To ensure durable outcomes amidst evolving technology, market dynamics, and consumer needs, Essential Energy encourages the AEMC to revisit the foundational principles underpinning current pricing arrangements. By fostering collaboration among distributors, retailers, and regulators, this review can deliver a pricing framework that benefits all consumers for years to come. Essential Energy looks forward to engaging further with the AEMC to refine these proposals and contribute to a consumer-centric energy future.

## TRANSPARENCY OF NETWORK COSTS IS AN IMPORTANT FOUNDATION OF PRICING REFORM

Essential Energy appreciates the AEMC's focus on scrutinising network costs and recommends a transparent, granular breakdown of these costs to distinguish between those costs Distribution Network Service Providers (DNSPs) can control and those costs distributors have little to no capability to change

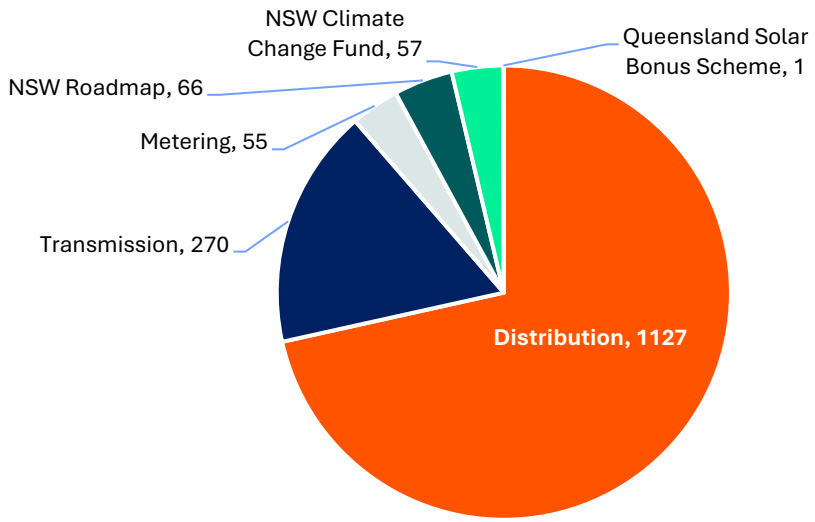
or influence. This clarity will support informed decision-making and ensure reforms effectively address rising cost drivers while maintaining distribution network reliability and affordability.

In the Discussion Paper, network costs are cited as approximately 40 per cent of customer bills. Nevertheless, such network costs, or Network Use of System (NUoS) charges, vary across jurisdictions resulting in differing impacts on consumers' electricity costs. In NSW, Essential Energy's NUoS charges comprise several components, including:

1. **Distribution Use of System (DUoS) charges**: these provide revenue that Essential Energy receives to fund its investment in and the maintenance of its network.
2. **Metering charges:** Essential Energy's revenue previously collected through metering fees as part of Alternative Control Services.
3. **Transmission Use of System (TUoS) charges**: Costs relate to transmission of electricity over Transgrid's high voltage network. These transmission costs are passed onto to Essential Energy who subsequently pass them onto customers.
4. **Jurisdictional Scheme Amounts**: Essential Energy is required to pay these amounts pursuant to NSW and QLD jurisdictional scheme requirements, including contributions to infrastructure construction under the *Electricity Infrastructure Investment Act* (NSW) (NSW Roadmap), the NSW Climate Change Fund, and the Queensland Solar Bonus Scheme[1]. These costs are charged to Essential Energy, which subsequently recovers those costs from customers[2].

Figure 1 shows the breakdown of Essential Energy's total revenue for FY2024-25 by component.

**Figure 1: Essential Energy total revenue by component, FY25 ($ million, nominal)**

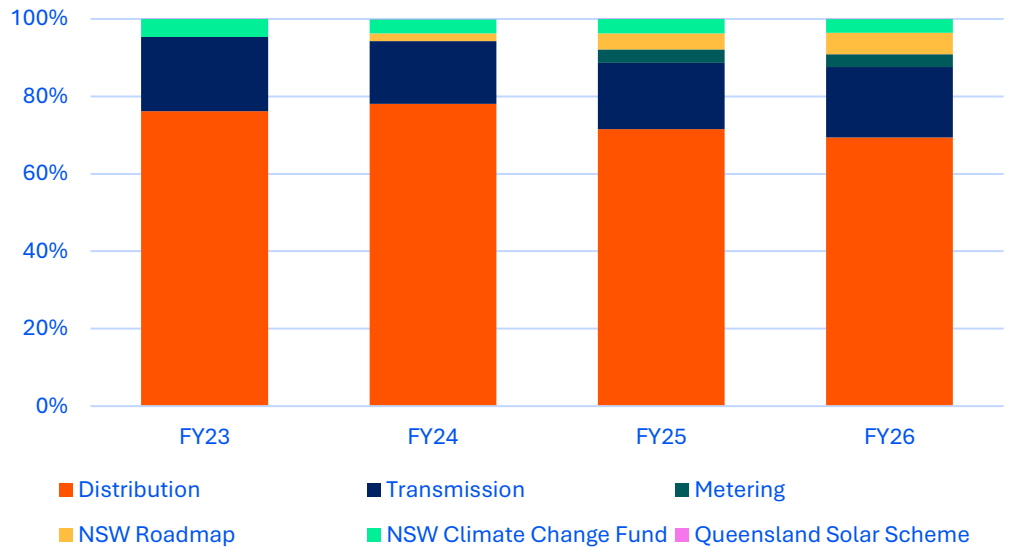



**Source: Essential Energy, 2025-26 Annual Pricing Proposal (March 2025)**

[1] Essential Energy has a limited number of customers in South-East Queensland and therefore is subject to select Queensland regulations.
[2] It is noted that costs for each jurisdictional scheme are only recovered from customers in those jurisdictions.

The only component over which Essential Energy has effective control is the level of DUoS charged to customers. These charges are rigorously managed by DNSPs and are subject to Australian Energy Regulator (AER) oversight through annual pricing proposals and five-yearly Tariff Structure Statement (TSS) processes. As shown in Figure 2, DUoS charges comprise 72 per cent of Essential Energy's total revenue in FY25. Despite rising input costs across the NEM, DNSPs continue to optimise DUoS charges to deliver efficiencies for consumers. The proportion of Essential Energy's total revenue comprised of DUoS is projected to fall from 76 per cent in FY23 to 69 per cent in FY26.

**Figure 2: Essential Energy's proportional revenue by component, FY23 to FY26**



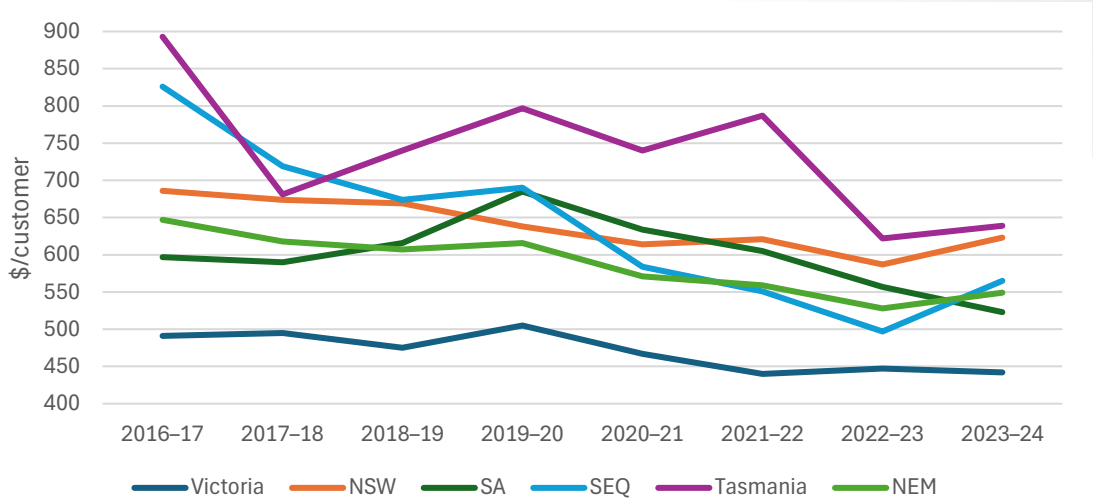

**Source: Essential Energy, 2025-26 Annual Pricing Proposal (March 2025)**

In contrast, the components of network costs which DNSPs cannot effectively control are growing, from 24 per cent of NUoS in FY23 to 31 per cent in FY26. Whilst these non-DUoS charges include transmission network costs, in NSW, jurisdictional scheme costs are increasingly significant due to policy-driven initiatives necessary to deliver the energy transition. These costs are recovered through distributors, as required under the National Electricity Rules (NER)[3]. Separately, transmission and wholesale costs are expected to continue rising, particularly as NSW Renewable Energy Zone projects and other transmission infrastructure face potential delays and resulting cost overruns.

This trend in Essential Energy's costs is mirrored across the NEM. Over recent years, network charges have decreased in real terms across the NEM and in all sub-markets. This is reflected in the National Electricity Market report from which the AEMC sites the 40 per cent figure in the Discussion Paper,[4] and provides an important degree of nuance. The Australian Competition and Consumer Commission (ACCC) indicates that there are drivers of efficiency for distribution network costs, which are delivering real benefits for customers despite significant input cost increases over this period. This trend is shown in Figure 3.

[3] National Electricity Rules, clause 6.18.7A
[4] ACCC, Inquiry into the National Electricity Market report (December 2024), Appendix C, Table C8.1b.

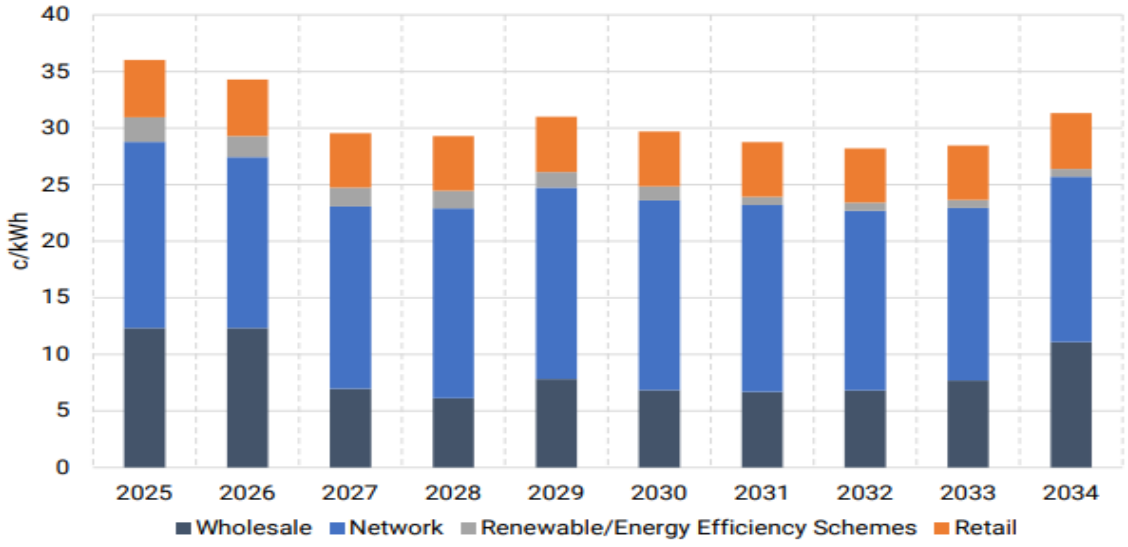
Figure 3: Distribution costs for residential customers, real $2023-24, excl. GST




Source: ACCC, Inquiry into the National Electricity Market report (December 2024)

The AEMC's Residential Electricity Price Trends report (November 2024) also projects an 11 per cent reduction in average real network costs over the next decade[5], shown in Figure 4. However, this projection may not reflect fully the uncertainties and impacts of the energy transition, the costs of which requires recovery via electricity users. These uncertainties underscore the need for a transparent, evidence-based approach to pricing reforms to ensure they address rising costs – particularly those not under the control of networks – with focus on affordability for consumers.

Figure 4: Average residential electricity price outlook, real $2024-25




Source: AEMC, Residential Electricity Price Trends (November 2024)

[5] AEMC, Residential Electricity Price Trends (November 2024), p. 12.

Essential Energy supports innovative ways to reduce costs further. For example, building on its prior submission, allowing distributors to compete on a level playing field, regarding pricing of the connection of generation and storage assets, with how connections at the transmission level is currently priced, would optimise decision-making, improve network utilisation, and lower prices for customers.[6] While the Discussion Paper covers a broad scope, we encourage the AEMC to further explore this opportunity to address inefficiencies in pricing structures, as noted in our response to the Terms of Reference and Consultation Paper.[7]

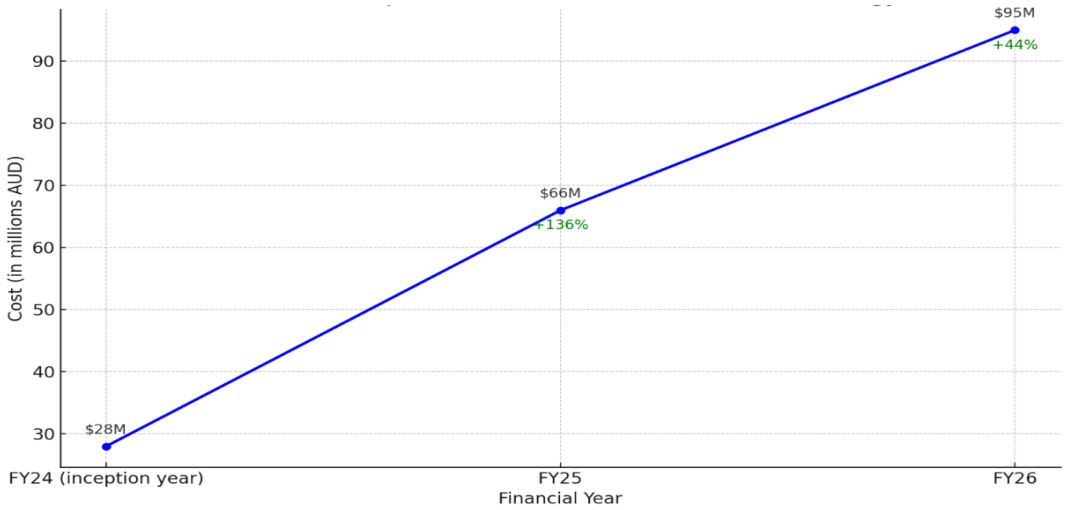
Essential Energy also supports the submission of Energy Networks Australia to the Discussion Paper and accompanying analysis undertaken by Farrierswier which discusses these pricing distortions in further detail.

## Jurisdictional scheme costs are a growing component of consumers' bills that should be reflected in AEMC analysis

Essential Energy considers it important to recognise that some jurisdictions, network bills are increasingly impacted by jurisdictional distribution schemes, which lie outside the operational control of DNSPs. In Essential Energy's case, contributions to NSW Roadmap are the fastest-growing components (in year-on-year proportional growth terms) of Essential Energy's cost stack as illustrated in Figure 5.

Essential Energy understands these are costs that need to be incurred in order to deliver the on the energy transition and legislated energy targets. However, their consolidation within network costs retailers must manage and consumers incur may lead to potential misunderstandings about all of the cost drivers in network charges.

**Figure 5: NSW Roadmap contribution orders for Essential Energy**




**Source: Essential Energy, Jurisdictional Scheme contribution orders since scheme inception with YoY % growth noted at each data point[8]**

[6] Essential Energy, Submission in response to AEMC Pricing Review Terms of Reference and Consultation Paper (December 2024), p.7.
[7] Essential Energy, Submission in response to AEMC Pricing Review Terms of Reference and Consultation Paper (December 2024), p.7.
[8] Costs reflected are recovered solely by Essential Energy customers and do not include the costs paid by NSW DNSPs; Ausgrid and Endeavour

Transparency is essential to empower consumers and inform sound policy decisions. Without clear visibility as to the components of the network charges in consumers' bills that can be affected through tariff structures and consumer behaviour, customers will potentially be disempowered. Further guidance as part of this pricing review is needed for understanding of these components of network costs.

Essential Energy invites the AEMC to collaborate with stakeholders at the next stage of consultation to explore transparency of the network cost stack. This could be implemented as a distinct line-item, similar to federal schemes like the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES). This would enable customers to understand policy-driven costs, make informed energy choices, and enhance trust in pricing. Although implementing such changes may require amendments to State instruments, the benefits of transparency for consumer equity and policy clarity justify the effort.

## NETWORK TARIFF REFORM CAN BRING BENEFITS, BUT THE AEMC MUST TAKE A BALANCED AND EVIDENCE-BASED APPROACH

Essential Energy supports network tariff reforms that empower retailers to meet customer needs. Refocusing network tariffs to align with retailer operations could enhance consumer outcomes, but Essential Energy also sees value in exploring simplification alongside maintaining pricing mechanisms that drive network efficiency. Simplifying network tariffs may improve accessibility for retailers and consumers. However, overly simplified structures could limit DNSPs ability to use price signals – such as time-of-use tariffs – to manage network demand and reduce costs. This shift would place greater responsibility on retailers to balance supply and demand, despite their differing incentives and obligations compared to DNSPs, who are directly accountable for network reliability under the NER.

To ensure these reforms succeed, Essential Energy invites the AEMC to establish a robust, evidence-based foundation for discussion, building on the Pricing Review's comprehensive scope. We recommend further exploration of the tariff-setting process under the NER to align reforms with consumer and market needs. The NER's pricing principles[9] which guide the setting of distribution tariffs, reflect efficient costs and prioritise consumer impacts, aimed to deliver fair and affordable network pricing for retail customers. The AER assesses DNSP tariff proposals, including our five-yearly TSS, for compliance with these principles, resulting in a customer-focused approach that may differ from retailer-focused reforms outlined in the Discussion Paper.

In addition to the need to satisfy the AER's assessment process, Essential Energy's tariff-setting process is deeply rooted in meeting the needs of our 900,000 customers, with the intent to drive network efficiency and deliver consumer benefits through innovative, customer-focused pricing structures. Below, we outline why and how we prioritise customers in tariff design and the implications of shifting this focus toward retailers, as proposed in the Discussion Paper.

### Why and how DNSPs set tariffs for their end-use customers

Essential Energy places customers at the heart of its tariff-setting process, guided by consumers' values, needs and feedback to develop pricing structures that enhance affordability and network efficiency. The voice of customers is integral to the development of innovation in tariff design over recent years. Essential Energy's Sun Soaker tariff, for example, encourages customers to shift energy use to peak solar

[9] NER Clause 6.18.5

photovoltaic (PV), reducing network stress from solar PV integration and peak demand. This benefits individual customers through potential bill savings and lowers network costs for all. This tariff has received praise from retailers and customers, as recognised by Red Energy and Lumo Energy, in its submission to Essential Energy's draft 2024-29 pricing proposal:

> *Red and Lumo refer to Essential Energy's tariff reassignment proposal as an example of what other networks could adopt due to its simplicity and clarity…This is a clear approach that brings certainty for retailers and for consumers and both can account for it accordingly.*[10]

However, the effectiveness of such tariffs depends on retailers passing these price signals to customers in a manner that reflects the intent of the price signal. When retailers do not fully adopt these structures, consumers may miss out on potential savings, and the investment by DNSPs in tariff development is diminished.

Essential Energy notes that retailers have ample opportunity to engage with DNSPs in their tariff setting processes every five years. However, it must be acknowledged that in practicality for retailers, particularly smaller second-tier parties, engaging with each network in tariff design is time consuming and complex. Consideration needs to be given to how retailer and network engagement may be improved beyond simply the identification and creation of greater opportunity.

Essential Energy is interested to explore further the proposal in the Discussion Paper to shift tariff design by networks from being customer focussed to being designed for retailers which in turn develop products and services consumers want. Nevertheless, doing so would necessitate a review of the network pricing principles within the NER and guidance to manage cultural shifts and practical challenges. We invite the AEMC to collaborate with DNSPs and retailers to explore practical tariff reforms that preserve customer-focused price signals while aligning with retailer operations, ensuring consumers and retailers can engage with such signals.

### Flexibility in tariff setting to meet evolving consumer needs

Essential Energy supports tariff-setting flexibility to enable DNSPs to innovate and adapt to changing technologies, consumer preferences, and cost drivers. The focus of tariff setting flexibility however should be on outcomes that benefits consumers. The Discussion Paper suggests that "different and changing network tariffs present a cost and risk to retailers". However, Essential Energy considers that flexibility in tariff setting is important because:

- Changes in network tariffs allow networks to respond to changes in technologies, consumer demands and cost drivers. The alternative – networks retaining the same tariffs over the long term – means missed opportunities to drive efficiency in network costs, which add to customer bills over time
- Over the past decade, a major driver of networks seeking to change their tariffs has been in response to advice from market bodies, including to introduce time-of-use and demand tariffs, on the basis this would improve efficiency and reduce network costs
- Any risks and costs associated with changing network tariffs are dwarfed by the impact of wholesale market fluctuations, in both frequency and scale, which retailers routinely manage.

[10] Red Energy and Lumo Energy, Submission re Draft Revisions NSW & ACT Electricity Distribution Determinations Ausgrid, Endeavour Energy, Essential Energy and Evoenergy 2024 to 2029 (January 2024), p. 2.

The energy transition is undergoing continuous evolution, within which five years is a long time. Further development of dynamic network operations will provide DNSPs with more tools and more data to drive reductions in network costs. Applying these lessons through greater regulatory flexibility can benefit customers via their retailers, enabling the energy system to better meet their needs. The AER has signalled its broad support for this reform, noting in its *2024 State of the Energy Market* report that "given the pace of the energy transition, a 5-year cycle may no longer be fit for purpose."[11] We encourage the AEMC via the Pricing Review or through a separate rule change process to explore reforms that enhance tariff flexibility, enabling DNSPs and retailers to collaboratively deliver consumer benefits in a dynamic energy market.

### Aligning network tariffs with wholesale market signals

The Discussion Paper notes that "*Network tariffs sometimes send price signals to consumers that unnecessarily work against wholesale market signals*". We acknowledge the complexity of aligning distribution tariffs with volatile wholesale markets, where prices are driven by a range of factors, outside of the control of distributors. However, the risk of managing these input risks is best placed with the retailers which are capable of integrate network and wholesale signals into customer pricing.[12]

Further, standardisation of network tariffs – as proposed by retailers and reflected in the Discussion Paper – would fail to take into account the vast differences in the characteristics of each network and undermine efforts by DNSPs to develop tariffs that provide best outcomes for consumers in their footprints.

As noted in the submission of Energy Networks Australia, there may be a variety of options to manage variable components of network pricing.

### The Pricing Review should prioritise equity in CER integration

Essential Energy supports expanding access to CER products and services to customers but emphasises that equity must be a core focus to ensure all consumers benefit, not just those with resources to invest in technologies like solar or batteries. The Discussion Paper's proposal to enable a 'full spectrum' of service offerings for customers will provide innovative options for those customers with CER but risks leaving those incapable of engaging with CER – such as renters and apartment dwellers - with lesser options.

The positive externalities of sharing the benefits of CER should be valued and rewarded. Accordingly, Essential Energy would like to see tariff structures that reward CER users for system-wide benefits, such as community-level trading or participation in Virtual Power Plants (VPPs). These types of initiatives incentivise those with CER to use their assets in a way that lowers costs for themselves *and* others. Users with CER should be compensated for not only their investment but how they use it, including a reward for loss of autonomy through orchestration, participating in VPPs or other community-based trading. The benefits of this orchestration can then be shared among those who cannot invest in CER, providing wider-spread benefits. Locational tariffs may be an essential ingredient for this to work, but retailers should advise what they need from DNSPs to offer these services to consumers. Under the auspices of The Energy Charter, Essential Energy, SA Power Networks and EnergyAustralia are currently exploring network

[11] AER, 2024 State of the Energy Market (November 2024), p. 82.
[12] AER, Retail Electricity Pricing Inquiry – Final Report," April 2018, available at: https://www.aer.gov.au/publications/reports/retail/retail-electricity-pricing-inquiry-final-report-april-2018

tariff options and innovations that would facilitate uptake of CER and broader cost reductions for consumers.

The AEMC-commissioned modelling of flexible CER confirms that approximately 88 per cent of the system-level value is realised through wholesale cost reductions, 11 per cent through avoided distribution investment, with the balance attributed to FCAS[13]. While the network share is smaller, it is still material and depends on customers responding to locational signals that reflect real time congestion. Embedding such signals in export and consumption tariffs therefore remains essential if the network portion of the benefit is to be captured and passed through to all consumers.

Additionally, regulatory changes could empower DNSPs to invest in community assets such as community batteries, needed to facilitate community-level sharing, while also reducing the need for additional network capital expenditure. Essential Energy encourages the Pricing Review to work with DNSPs and retailers to ensure these benefits are passed on to consumers through attractive, simple, accessible pricing packages.

### The limitations of retail competition's role particularly in regional Australia needs consideration

While retail competition can drive innovation in customer offerings, its benefits are limited in regional and remote areas with little or no competition. Leveraging retail competition and removing impediments for retailers to deliver a full spectrum of services to customers will yield minimal benefits in areas with low or no retail competition, including large parts of regional Australia, and may inadvertently exacerbate equity issues.

Similarly, the AEMC should not assume that most consumers *want* to engage more, or that consumer engagement is the only trajectory that should be accommodated. CER has undoubtedly increased the capacity of some consumers to use their time and resources to engage in the market, but consumers' desire to do so is in part driven by the continued increase in consumer bills making this a necessity for many households – particularly against a backdrop of cost-of-living pressures. Lowering consumers' bills on average would reduce the incentive to engage, and many consumers would see this as a good outcome.

Many of Essential Energy's customers have told us they prefer postage stamp pricing.[14] We recognise that this may not be the case in other DNSPs' footprints, but this highlights the need to ensure reforms are not assumed to be one-size-fits-all or even one-size-fits-most. It also reinforces the importance of enabling DNSPs to set network tariffs in line with the preferences of customers within their footprints – even if it is retailers who maintain the primary relationship with customers.

### Real pricing reform requires revisiting core principles

As outlined in this submission, Essential Energy sees opportunities for pricing reforms that could lower costs and bring broad benefits for consumers. However, many of the potential reforms to be considered, such as refocusing network tariffs from end-use customers to retailers, would require a fundamental shift in approach, as set out in the NER, for networks, regulators and retailers alike.

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[13] AEMC, The Pricing Review – Discussion Paper (May 2025), p. 59, citing Energeia, Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Final Report (26 March 2025).
[14] Essential Energy, Planning for the Future: Essential Energy 2024–29 Revised Tariff Structure Explanatory Statement (November 2023), p. 19.

For real pricing reform to shift the focus of tariff setting from consumers to retailers, this would require the AEMC to revisit the fundamental principles of cost-reflectivity, long run marginal cost and customer-centricity, which lay at the heart of how networks set prices currently. Reforms may need to encompass more than changes to the Pricing Principles in the NER, and should include the full settings for TSS processes, 5-yearly pricing proposals and annual pricing determinations.

Even with the support of stakeholders, this kind of major reform may take years to implement, providing no relief to customers in the meantime. As Essential Energy suggested in our submission in response to the Consultation Paper, the AEMC should seek to identify and fast-track simpler, quick-win reforms that can be advanced sooner, in addition to the more substantial, lengthy reform processes.

Essential Energy is committed to engaging in any reforms that serve the long-term interests of consumers, and we look forward to contributing to the next stage of consultation. If you have any questions in relation to this submission, please me via hilary.priest@essentialenergy.com.au or Jon Frazer, Regulatory Strategy Manager via jon.frazer@essentialenergy.com.au.

Yours sincerely,

Hilary Priest
**Head of Regulatory Affairs**