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Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

The Pricing Review: Electricity pricing for a consumer driven future – Discussion Paper

Evoenergy welcomes the opportunity to contribute to the Australian Energy Market Commission (AEMC) review into electricity pricing for a consumer driven future ('the Pricing Review').

Evoenergy owns and operates the electricity network in the Australian Capital Territory (ACT) and the gas network in the ACT and surrounding region. As the ACT's electricity distributor, Evoenergy has significant experience with cost-reflective tariff reforms in a jurisdiction with high rates of uptake of consumer energy resources (CER) and accelerating electrification.

Our submission centres on two of the focus areas in the AEMC's discussion paper: (1) the role of distribution network tariffs; and (2) the interface between network and retail tariffs.

We offer the following key observations and recommendations for consideration as the AEMC progresses its review:

- Network tariff design should prioritise simplicity and cost-effective implementation, especially for residential customers.
- Sophisticated network tariffs should be reserved for those customers with the ability and willingness to engage with them, ideally offered on an opt-in basis, and only where the benefits of introducing complex tariffs outweigh the costs.
- Pricing principles should better reflect the business-to-business nature of network tariffs, and give regard to retailer and distributor implementation, tariff simplicity, as well as efficient allocation of network costs.
- Greater flexibility should be available within regulatory periods for distribution networks to update tariffs in response to material shifts in demand patterns (e.g. adjusting peak pricing times).

We support the AEMC progressing to a directions paper to narrow the scope of reform options and enable more targeted stakeholder feedback ahead of any draft rule changes.

Should you wish to further discuss matters raised in this request, please contact Lev Yulin, Group Manager Regulatory Pricing and Analysis, Economic Regulation at lev.yulin@evoenergy.com.au

Yours sincerely



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1. The role of electricity distribution network tariffs

The AEMC's discussion paper explores the extent to which network tariffs can support customer preferences, enable retailer flexibility, and reduce overall system costs. Evoenergy agrees these are important goals but considers that the role of network tariffs must be evaluated within the broader electricity supply chain and market structure.

As an electricity distributor, Evoenergy primarily operates on a business-to-business model. Except in limited circumstances, we transact with electricity retailers and we do not have a direct market relationship with end-customers.¹ Evoenergy's distribution charges represent just one input into the final retail electricity price, which also includes wholesale electricity costs, retail margins, transmission charges, and jurisdictional scheme costs. In the ACT, network costs (distribution and transmission) comprise approximately 30 per cent of the final retail price. Energy purchase costs account for approximately 50 per cent of retail prices.

Within this cost stack, electricity network costs should not necessarily be expected to determine the final tariff structure of retail offers in the market. In practice, Evoenergy has observed that many of our network tariffs, particularly more complex ones like demand tariffs, are not passed through to end-customers.

Retailers are well placed to determine the final structure of tariffs offered to end-customers. They have full visibility of all cost inputs, direct relationships with customers, and flexibility to develop offers that respond to customer preferences and the competitive pressures in retail markets. Evoenergy's experience is that end-customers generally prefer tariffs that provide simplicity and bill certainty. Retailers' tendency to repackage Evoenergy's network price signals into simpler offers, particularly for residential customers, supports this view. For example, many customers who are on Evoenergy's residential demand tariff, are with retailers that only offer flat or time-of-use (TOU) tariffs for residential customers.

Retailer practices align with broader economic principles, where competitive markets naturally simplify upstream cost structures to reduce transaction costs and better meet customer demand.

From a first-principles perspective, economic regulation exists to address potential market failures arising from natural monopoly distribution services. Therefore, a useful benchmark for regulated tariff design is to consider pricing outcomes observed in competitive markets. In industries like telecommunications, it is common to observe simple, postage-stamp retail pricing, even though underlying infrastructure and supply-chain costs are highly complex and vary by location. Our view is that complex network tariffs do not align with outcomes that would be expected in efficient, competitive markets.

The extent to which network price signals are passed through in retail offers will reflect a range of factors including customer preferences, the level of financial risk retailers are willing to absorb, and the outcomes of competition and innovation in retail product design. Within this value chain, it is important that network tariffs stand on their own merits. They should allocate costs efficiently, while avoiding unnecessary complexity and administrative burden. Crucially, network tariffs should remain neutral to outcomes in end-use markets. It is not the

¹ Some large commercial customers may be served directly by Evoenergy, without the involvement of an intermediary retailer. Evoenergy also provides a range of ancillary services, some of which are provided direct to end-customers.

role of distribution businesses or network regulators to influence retail market offerings or outcomes.

2. The limitations of cost reflectivity

Cost-reflective network tariffs have been promoted as a means to improve efficient use of the electricity network, and more equitably allocate network costs to those users who impose them. This is embedded in requirements under the National Electricity Rules (NER), including that tariffs should be set by reference to standalone costs, avoidable costs, and long-run marginal costs (LRMC). However, while cost-reflective tariffs have the potential to improve economic efficiency, Evoenergy's experience indicates that customer behavioural responses to these tariffs are often limited. Specifically,

- **Marginal responses to network tariffs diminish with added complexity:** residential customers on TOU tariffs generally reduce usage in peak periods relative to those on flat tariffs. However, the incremental impact of moving from TOU to demand tariffs is small, even when passed through in retail offers. This is likely due to the diminishing customer response from increasing sharpness and complexity of price signals.
- **Many customers are not motivated to change their usage, even under highly cost-reflective price signals:** for example, under Evoenergy's highly cost-reflective demand tariff, a typical residential customer reducing peak demand by 10 per cent might save only around \$2.50 per month in network charges (assuming the tariff is passed through). For many customers, this is too little to incentivise sustained changes in energy usage. Additional sharpening of network price signals may produce even smaller incremental bill savings and behavioural outcomes.
- **Network costs are materially driven by capacity requirements to meet peak demand:** the electricity network must be built to meet peak demand, even if it only occurs on a few days each year. This makes it impractical to precisely align tariffs with the specific times and locations where costs arise. These peaks are infrequent and difficult to predict, and most customers lack the ability to respond, which means that network tariffs necessarily involve a degree of smoothing or averaging price signals.
- **Many network costs are sunk or fixed and shared across all customers:** these costs reflect investments in integrated network assets that are not easily attributable to individual users, locations or customer types. While variable (marginal) costs can be signalled through broad mechanisms like peak-period pricing, it would be prohibitively complex to reflect them precisely in time and location. The location of marginal cost drivers is largely determined by network design and growth, which are beyond the control of individual customers and not an appropriate basis for granular price signals.

We therefore caution against assuming that sophisticated tariffs will materially defer network investment or reduce network costs.

While cost reflective pricing can be theoretically justified, its practical value is often constrained by the nature of network costs, customer behaviour, and the role of network tariffs within the broader energy supply chain. As such, network tariffs should strike a balance between allocating costs efficiently while remaining simple and cost-effective to implement.

3. The role of customers and retailers in tariff design

The Pricing Review discussion paper explores the question of whether network tariffs should be designed for customers or retailers. Evoenergy believes that an effective network tariff framework must recognise the distinct but interconnected roles of customers and retailers. While customers ultimately drive network costs through their usage, it is retailers who implement and manage tariff structures in the retail market. A well-designed framework should support both customer understanding (where appropriate) and retailer implementation (whether or not the structure is ultimately passed through in retail offers).

Clause 6.18.5(i) of the NER contains a binary test for network tariff design: tariffs must either be understandable by customers *or* capable of being passed through (directly or indirectly) by retailers. Evoenergy finds this formulation confusing and unhelpful.

The clause can be read as implying that if a tariff is capable of being passed through, then there is no need for it to be understandable by customers, and vice-versa. This contradicts the intuitive view that tariffs passed through to customers should also be comprehensible to them. The result is confusion about which group (retailers or customers) network tariffs should primarily be designed for. In practice, network tariff design often attempts to target both groups without clear regulatory guidance on how to manage their respective objectives.

The ambiguity under the pricing principles also extends to clause 6.18.5(h), which requires distributors to consider the impacts of tariffs on retail customers. The clause allows for network tariffs to deviate from maximally efficient levels based on customers' ability to choose their assigned tariff, and mitigate bill impacts through their usage choices. However, it overlooks that customer impacts depend not only on the network tariff design but also on whether and how that design is reflected in actual retail offers.

Because network tariffs are set in advance of retail pricing decisions, and because retailers may repackage or ignore network price signals, the direct customer impact of any network tariff is inherently uncertain. Moreover, customers face a wide range of retail offers, and retailers can change their products frequently, while network tariff structures are set in 5-year regulatory determinations. This means that network customer bill impact analysis, which typically assumes full pass through of network tariffs, is likely to be inaccurate and of questionable relevance.

Similar to the framing in the NER, Question 3 in the AEMC's discussion paper also assumes a binary view of the role of network tariffs. It asks whether network tariffs should be designed for retailers *or* customers. Evoenergy considers this is a false dichotomy and that both perspectives matter, but in different ways:

- End-customers drive network costs and ultimately fund network services, and they benefit from understanding how their choices shape network requirements.

- Retailers implement network tariffs and are responsible for translating them into retail offers for end-customers, and they benefit from network tariffs that support these objectives.

When developing its tariff structure statement (TSS), Evoenergy undertakes extensive engagement with *both* retailers and end-customers. Indeed, the NER requires that the tariff design should have regard to consultation with retail customers and retailers (clause 6.18.5(i)).

While Evoenergy supports public understanding of network services and investment needs, it is not practical to expect end-customers to engage with upstream tariff structures that are faced by their retailer. Even when network tariff structures are passed through, retailers are better placed to handle customer engagement on final retail tariffs that reflect the full cost stack, not just upstream network costs.

Evoenergy recommends that the AEMC consider amendments to the pricing principles in the NER to better reflect the business-to-business nature of network tariffs and the reality that these tariffs are often not passed through in retail offers. Clarifying these principles would help resolve current ambiguities around assessing the customer impacts of network tariffs, and the respective roles of customers and retailers in influencing tariff design.

4. The balance of simplicity and efficiency

Effective tariff design requires a careful balance between economic efficiency and simplicity. While cost-reflective pricing improves the allocation of network costs, it is of limited value if the resulting tariffs are too complex or costly to implement and administer, for either networks or retailers. In Evoenergy's experience, most retailers and end-customers express a strong preference for simpler tariffs.

Evoenergy has been among the nation's leading distributors for introducing cost-reflective tariffs. We were among the first distributors to introduce a residential demand tariff in 2017, and the demand tariff continues to be our default tariff for residential customers with a smart meter. We have also invested significantly in customer engagement and education on cost-reflective pricing. Despite this, our experience shows that levels of understanding and engagement with residential demand tariffs, and other advanced tariff concepts, remains low.

We have also trialled other sophisticated tariff structures, including a residential home-battery tariff trial during the 2019–24 regulatory period. However, despite significant engagement and potential bill savings, no retailers or customers participated in that offer. The main feedback cited was around the complexity and limited benefits of more sophisticated tariffs.

Our key learnings from these experiences have included the importance of tariff simplicity, and our observations on the limited customer understanding, engagement and response to tariffs beyond familiar TOU-like structures.

Evoenergy recommends the AEMC consider introducing a pricing principle that explicitly recognises simplicity and cost-effectiveness as tariff design objectives under the NER. Tariff simplification should also be a legitimate pathway under the TSS framework, alongside the existing provisions that support moving towards more sophisticated, cost-reflective pricing.

We generally support the AEMC's 'bookend' concept of enabling both simple and complex tariff designs for different customer segments, but we consider that most customers (especially residential and small business customers) are suited to the 'simple' end of the spectrum.

We recognise that there can be cases where some customers want and can benefit from more sophisticated pricing signals. For example, from 1 July 2024 Evoenergy introduced highly cost-reflective and sophisticated tariffs for large-scale storage and sub-transmission customers, reflecting their demand for such tariffs.

However, for residential and small business customers, more complex tariffs should only be introduced where they can be definitively shown to deliver net benefits. For the reasons described above, Evoenergy does not support widespread assignment of customers to more sophisticated tariffs contemplated in the pricing review (e.g. locational or dynamic pricing).

More complex tariffs incur additional costs, including:

- distributor billing system and ICT costs
- retailer execution costs (ICT, billing, training, call centre uplift)
- increased regulatory complexity and compliance costs
- customer burden and risk of bill shock.

As part of considering sophisticated tariffs, Evoenergy encourages the AEMC to adopt a clear stance that opt-in complexity, driven by customer choice and retailer offers, is preferable to mandatory or default complexity in network tariffs. Any consideration given to more sophisticated network tariffs, particularly for residential and small business customers, should ideally be backed by testing through tariff trials and introduced only where there is strong evidence the tariffs can deliver net benefits.

5. Network tariff flexibility within periods

As the energy system undergoes a period of significant change, driven by emission reduction policies and shifting customer preferences, there are opportunities to keep existing tariffs better aligned with new usage patterns that emerge within regulatory periods. In the ACT, rapid household electrification is materially reshaping demand profiles, and the network is seeing the emergence of new winter morning peaks. On a winter morning in 2025, Evoenergy recorded its highest-ever peak demand, materially exceeding forecasts used in Evoenergy's 2024–29 regulatory determination. This followed three prior years of consecutive, record-high demand on our network.

As a result, we are now regularly experiencing peak demand occurring during off-peak tariff periods. This trend is expected to continue through the remaining four years of our regulatory period with continued electrification of household gas appliances.

Under the current regulatory framework, distributors have limited flexibility to adjust tariffs within a regulatory period to respond to these types of changes (e.g. modifying the times of peak windows). Evoenergy supports introducing greater within-period flexibility to adjust tariffs where there are significant shifts in demand. One possible approach would be to

introduce a formal mechanism, analogous to a cost pass through application, through which distributors can propose tariff variations via an application to the Australian Energy Regulator (AER). Such applications could be supported by evidence of materiality, consultation with stakeholders, and subject to an AER approval process.

6. Next steps in the AEMC review

We appreciate the broad scope of issues raised in the discussion paper and acknowledge that the AEMC has not yet proposed specific regulatory reforms. Accordingly, our submission provides thematic responses to the issues raised, rather than commenting on specific rule changes.

Evoenergy recommends the AEMC's next step be a direction paper that narrows in on priority areas for reform. This would allow stakeholders to engage more specifically on proposed changes before any draft determinations are made.