Australian Energy Market Commission

AEMC
Australian Energy Market Commission

REVIEW

Draft Terms of Reference

Electricity Network Regulation Review

18 December 2025

1 Electricity Network Regulation Review - Draft Terms of Reference

1.1 Purpose of this document

The Australian Energy Market Commission (AEMC or Commission) is initiating a review to examine the future of electricity network regulation in the NEM. The review will consider the important role of electricity network regulation in providing consumers with a low cost, reliable supply of electricity as the NEM transitions to a net-zero system.

Network costs make up the largest component of power bills so ensuring the regulatory framework remains fit for purpose is critical to achieving outcomes in the long term interest of consumers.

The review will consider the risk-reward package faced by network service providers (NSPs) in the provision of regulated network services and assess where targeted reform is necessary to ensure the regulatory framework remains fit for purpose into the future. The Commission's starting position is that the core of the economic regulatory framework – the ex-ante incentive-based regulatory framework – is largely sound. Our initial position is that we should seek to evolve this approach rather than revolutionise it, but note that this does not rule out material changes within the framework.

We are publishing these draft Terms of Reference (ToR) to inform stakeholders about the Review and to seek your input. We welcome engagement and will facilitate a public forum in Q2 2026 to seek views on these draft ToR. Following stakeholder input, we will finalise the ToR, and the Commission will publish a consultation paper seeking stakeholder views on the suite of issues we intend to consider in the Review.

1.2 A review of network regulation is timely

In the past the Commission has conducted annual reviews of electricity network regulation through our *Electricity network economic regulatory framework* reviews. The last of these reviews was completed in 2020. The Commission has progressed significant reform to targeted aspects of the regulatory framework in recent years but neither the Commission nor an external party has conducted a more comprehensive review of electricity network regulation since 2020.

Australia's electricity system has experienced significant change during this time, driven predominantly by technological developments. One example is the ongoing rapid growth in consumer energy resources (CER), with rooftop solar PV capacity approximately doubling between 2020 and 2025 and the number of battery systems increasing from less than 4,000 to more than 270,000.[1] This development has significant implications for distribution network service providers (DNSPs), including their role in potentially providing a broader range of services and enabling platforms. Energy Ministers are progressing recommendations made by the CER taskforce aimed at unlocking the benefits of CER for all Australians, which includes recommendations to formalise the role of a Distribution System Operator (DSO) in the NEM.[2]

1 Clean Energy Council, *Rooftop solar and storage report: January-June 2025*, September 2025.

2 See the M3/P5 workstream final report for further information Redefining roles for market and power systems operations (M3/P5) final report | energy.gov.au.

At the same time, other key trends are testing the regulatory framework for electricity transmission and distribution as we transition to a net-zero future:

- Retiring thermal plant is reducing the availability of essential system services and inverter-based resources are connecting at transmission level. Under recent changes to the regulatory framework, TNSPs have new obligations to procure system security services to maintain the stability of the grid. This creates new challenges and tests the existing cost recovery frameworks for network service providers.
- CER has led to reduced peak demand, increasing the opportunity for more cost-effective ways of managing networks through better utilisation. This provides opportunities to lower overall system costs, and thus lower costs for consumers.
- At the same time, electrification and data centre growth may lead to a return to growth in peak and average demand at distribution and transmission level. This is testing the regulatory framework, including the arrangements for load connections and augmentations. Relatedly, electrification raises questions around service classification, for example in the context of providing electric vehicle charging infrastructure.
- At both the transmission and distribution level there has been an increase in the amount of controllable load (e.g. storage) connecting to the network, leading to an increased viability of non-network options for providing network services. As a result, questions around incentives for network service providers to deploy non-network options compared to building out the network have gained new importance.

These key trends mean that the lines between what the market delivers and networks deliver are blurring, the balance of network vs. non-network options delivering services is changing, and the role of transmission and distribution in delivering electricity services may need to evolve. At the same time, an increasing number of customers are both a consumer and a supplier of electricity, and there is a growing diversity in what consumers expect and require from the grid.

These developments underscore the need for a review of the interrelated components of the regulatory framework, including the package of services and operations that NSPs are expected to provide, and how they should be appropriately compensated for and incentivised.

1.3 What scope should we look at?

The Commission's starting point is that the review should consider the overall risk-reward framework that determines the provision of regulated services by NSPs. This is expected to include:

- How the regulatory framework remunerates NSPs for their efficient costs, including through:
  - the operating expenditure and capital expenditure components of the building block model
  - the overall incentives of the ex ante framework as well as explicit incentive mechanisms
  - the way the rate of return instrument (the RORI) is set and applied.
- The obligations and minimum service standards that apply to NSPs' provision of network services and system operations.
- The regulatory arrangements that determine how regulated services are separated from contestable services, with flow on implications for the Australian Energy Regulator's (AER) role in service classification and ring-fencing.
- The role of distribution networks in coordinating the operation of both directly connected and behind the meter generation.

Starting with this broader lens, we intend to then identify and focus on priority issues where the Commission's recommendations can make the biggest impact. Key to this assessment will be considering how the current framework is currently being applied in practice and use this as the basis to inform recommendations regarding how and where the framework may need to change.

We are particularly interested in stakeholder views regarding what our focus areas should be for the Review.

We note that the Commission and other bodies have recently looked at individual components of the regulatory framework for electricity transmission and distribution networks. The Commission considers that there is likely limited benefit in considering these areas again. This work has included:

- **Transmission planning and investment review (TPIR) and subsequent rule changes.** The Commission finished the TPIR on 4 May 2023. It thoroughly assessed the electricity transmission planning and investment elements of the regulatory framework and has led to material rule changes since.
- **Pricing for a consumer driven future (the Pricing review)**. The AEMC's Pricing review is considering electricity distribution pricing in detail and has only recently released its draft report and recommendations.
- **Improving security frameworks rule change.** This process thoroughly assessed essential system services, making a number of inclusions and amendments to the National Electricity Rules critical to maintaining overall power system security. These changes are working to better incentivise participants to invest in providing system security in the longer-term.

1.4 We will collaborate with stakeholders in scoping and delivering the Review

The Commission is committed to scoping and delivering the Review in an open, collaborative, and transparent manner. During this scoping phase, we will bilaterally engage with stakeholders and host a public forum. During the delivery of the Review, we will rely on our standard consultation processes, make use of existing AEMC forums plus establish Stakeholder Reference Groups to seek ongoing input from a range of interested stakeholders. Our proposed timeframes for the Review are set out in Table 1.

Table 1.1: Indicative timeframes

Date	Milestone
December 2025	Release of draft ToR
Quarter 1 2026	Bilateral engagement
Quarter 2 2026	Public forum
July 2026	Final ToR and Consultation Paper
Quarter 1 2027	Draft Report
Quarter 4 2027	Final Report