Australian Energy Market Commission

AEMC
Australian Energy Market Commission

REVIEW

Draft report

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

11 December 2025

Inquiries

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

E aemc@aemc.gov.au
T (02) 8296 7800

Reference: EPR0097

About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.

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Summary

1 In July 2024, the Australian Energy Market Commission self-initiated a forward-looking review to consider future electricity products and services, and the prices that consumers pay. The review considers the important role that electricity pricing, products, and services will play in supporting the diverse needs of customers and the lowest overall costs for the system. This includes enabling the consumer energy resources (CER) that customers are acquiring as part of the energy transition.

2 The review covers the *offerings of electricity service providers*, including retailers, aggregators and other kinds of providers. It also covers network tariffs, which are incorporated into consumer plans.

3 We want the energy market to work better for consumers. The emergence of technology and customers' enthusiasm for investing in CER behind the meter at their premises means that the future energy system will be different from now. CER such as solar PV and batteries, coupled with other technologies, provide the opportunity to achieve the lowest cost, efficient system for all customers. It also has the potential to provide additional rewards for those who wish to sell energy to other customers. Advancements in technology and real-time data mean that consumers and energy service providers can better access rewards for using electricity when demand is low or providing more energy into the system.

4 This rapid change, with all of its opportunities and challenges, means that the pricing framework that worked well in the past will likely not work as well in the future system. If we do nothing, some consumers would unfairly pay higher shares of network costs, contributing to declining equity, higher overall costs and an increased proliferation of interventions. There is also a significant opportunity to leverage the low-cost, low-emissions energy provided by CER and demand response.

5 We therefore want to put in place arrangements now so that we are set up for success as we continue throughout the transition to the future energy system. Through targeted reforms, we envision a dynamic energy services market that delivers value and meets the preferences of different consumers. It should offer choice of energy service provider, while ensuring lowest overall costs. Trust can be built and maintained through targeted protections. This would help us to realise the opportunities to access low-cost, low-emissions generation from CER and demand response, as well as better utilise networks to match demand and supply locally, providing resilience in an increasingly weather-dependent grid.

6 The purpose of this report is to outline a set of draft recommendations for feedback. Together, these draft recommendations would contribute to a smarter and fairer electricity pricing framework that meets consumers' needs at lowest cost. They are grouped into three themes:

- harness competition to improve outcomes for all consumers
- make it easier for consumers to compare offers that suit them
- reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs.

7 Within these themes, we propose six recommendations. Additionally, we will make recommendations in relation to how we transition to these arrangements. We are interested in feedback on the themes and the draft recommendations proposed within them, to allow us to work together to develop the best set of recommendations to promote the long-term interests of consumers.

Figure 1: Draft Recommendations

Our vision *A dynamic energy services market that delivers value, meets the preferences of different consumers, and offers choice of energy service provider, while ensuring lowest overall costs and building trust through targeted protections.*

We propose six reforms across three themes to achieve our vision.

Theme 1: Harness competition to improve outcomes for all consumers	**1. Require energy service providers to charge all customers on the same plan the same price, to address the 'loyalty tax' on customers who don't switch and ensure every customer is always on the best price**
	2. Introduce a competitive franchise for the cohort of customers who haven't chosen a market offer, so that all customers are on a competitive plan
	3. Periodically review whether regulations are supporting good consumer outcomes in an evolving market
Theme 2: Make it easier for consumers to compare offers that suit them	**4. Provide the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers, including new and emerging types**
Theme 3: Reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs	**5. Amend the rules to focus network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers**
	6. Amend the rules to ensure networks design tariffs for energy service providers, rather than directly for customers, to promote more flexible and innovative retail offers
Transitional reforms	**Consider transitional measures to manage the impact on consumers of these changes**

8 We expect our proposed reforms, collectively, would deliver the following outcomes:

- Energy customers could trust that they would get value from products and services.
- For those customers who wish to, comparing energy service products would be simpler.
- Energy service providers would compete, and compete more strongly, on both price and service, creating more product differentiation in the market to meet customers needs. This would result in downward pressure on prices, and more innovation and variation in product offerings that better match consumer needs and wants.
- Stakeholders could have confidence that consumers receive good outcomes from competition.
- Network costs would be shared more equitably.
- Networks would focus on designing efficient and effective network tariffs.
- Energy service providers would be encouraged to package tariffs into opportunities for consumers to lower their own bills and place downwards pressure on total system costs for all.
- Energy service providers would be better able to design products and services for their customers.
- The costs and risks that energy service providers must manage in relation to delivering services and protecting consumers would be better able to be managed, benefiting customers through simpler offerings.

- Customers would be appropriately rewarded for using energy in ways that contribute to a lower overall cost of energy for all consumers.
- All customers would benefit from a more equitable approach to pricing and service delivery.

9 We want to implement reforms quickly so that the outcomes can be achieved in a timely way, but in a way that is not too disruptive. While it will be possible to implement some reforms quickly, others will take more time. We envisage that the full implementation pathway could take up to 10 years, starting now.

10 We recognise that pricing is only part of the picture. Pricing reforms must work with a range of other critical reforms that are already in train, including reforms to the Default Market Offer (DMO) and introduction of solar sharer, Better Energy Customer Experiences and the CER roadmap workstreams. It also complements and interacts with our upcoming network regulation review. Given this other work underway, or about to commence, our focus is on the 'electricity pricing framework', with these other reforms providing important context.

11 We are grateful for stakeholders' input to our consultation and discussion papers, published in November 2024 and June 2025 respectively. Our Advisory Group and Stakeholder Reference Group members provided valuable input and advice. These groups pressed us to be bold in our vision and to embrace the opportunity to create a future energy market that operates very differently from that of today. In doing so, they reminded us it would be critical to ensure that equity issues are very carefully considered, so customers are not left behind. This input has informed the development of this draft report, and we look forward to ongoing engagement as the review progresses.

12 We are seeking feedback on our draft recommendations by 13 February 2026.

How to read this draft report

13 This draft report is structured in three discrete segments to cater to the different audiences interested in our work. It is necessarily technical in parts to allow industry participants to provide their considered feedback.

14 This executive summary provides an overview of our entire report.

15 If you require a more in-depth discussion of the draft reform agenda, including the background and reasons for our draft recommendations:

- chapter 1 provides context for the draft report
- chapter 2 provides our vision and objectives
- chapter 3 provides the themes, recommendations and expected outcomes
- chapter 4 provides an indication of how the recommendations could be implemented and considerations for the transition to the reforms
- chapter 5 sets out that these solutions best meet the NEO, NERO and our broader assessment framework as set out in earlier papers.

16 Or, if you are an industry participant, market body or expert interested in more details of our proposed reforms and reasons, these are set out in appendices A - F.

17 If you would like a concise overview of our recommendations, we have also produced a short information sheet to accompany this draft report, which is available on our website.

Technological innovation can be harnessed to deliver better outcomes for consumers

18 The emergence of new energy technologies, coupled with consumers' enthusiasm for investing in those technologies, mean the future energy system will be very different from now. Australia is already known for having the highest uptake of solar PV in the world. We are starting to see signs that the battery uptake is now occurring at an even faster rate, accelerating following the introduction of the Cheaper Home Batteries program by the Australian Government in July 2025.

19 Looking forward to 2040, we consider that the consumer electricity landscape will be markedly different than what we see today. By the early 2030s, we will have completed the smart meter rollout and we expect to see a wider uptake of battery technology. By 2040, it is expected that one in every two homes will have solar systems, and one in every four homes will have batteries and electric vehicles. In addition, there will be a proliferation of home energy management systems, and electric vehicles (EVs) that also can facilitate vehicle to grid potential.

20 CER provides a significant opportunity to lower costs for all customers and provide additional rewards for those who wish to use energy more flexibly - for instance by consuming less energy at certain times, or providing excess generation into the system. These changes mean that networks are now experiencing two-way flows. For many customers exporting excess electricity to the grid has become routine.

21 This innovation, new technologies and changing customer expectations create the possibility to make a step-change that delivers better outcomes for customers.

We are articulating a vision for the future energy services market

22 We envision a dynamic energy services market that delivers value, meets the preferences of different consumers, and offers choice of energy service providers, while ensuring lowest overall costs and building trust through targeted protections.

23 Many elements of the existing pricing framework were conceived at a time when electricity flowed in one direction and the adoption of CER and associated technologies were at a more modest scale.

24 The last set of fundamental reforms to the pricing framework were the 2014 'Power of choice' reforms, made at a time when concerns about network overspend in the market and a desire to activate demand response was key. These arrangements have been in place for some time now, and were critical to setting us up for improved prices for consumers over the last decade.

25 However, we are now seeing new challenges with network pricing, exacerbated by the increasing installation of CER and DER. We need further reform to set us up for success.

26 Overall, our draft reform agenda constitutes a potential step on the way to an energy future that may look quite different from what we see today. It is possible that there could be more fundamental shifts in the industry make-up and structure, with new types of service providers potentially disrupting both how customers engage with the market and how energy services are offered. We may also see differences in the future in terms of how we use the grid, and how the grid operates. It is possible, for example, that energy generation and consumption will occur in a more localised, distributed way compared to what we see today.

27 Our draft reform agenda does not exclude such futures. Instead, we have sought to work towards a flexible pricing framework that is robust to changing circumstances, while acknowledging we cannot have perfect foresight about the future.

Opportunities to support better outcomes in the future

28 We consider that acting now is necessary to keep pace with the changing market. We consider that if we do nothing, existing problems may grow, leading to higher costs for all consumers and a widening equity divide:

- **Uneven consumer outcomes and price discrimination** - Energy service providers commonly offer lower-priced plans to new customers, while at the same time allow existing customers to drift onto higher-priced plans, meaning those customers that don't switch plans regularly may pay more over time.
- **Complexity and difficulty choosing products and services -** Despite the apparent diversity of retail offerings, many consumers report that they find it hard to access the plans they want. Existing comparison tools are challenged by a proliferation of new and increasingly complex electricity offerings. Future offerings will likely feature even greater differentiation, and non-price factors will be an increasingly important part of the customer value proposition.
- **Regulations may be limiting innovation and adding costs**. Regulation differs across states and territories within the National Electricity Market (NEM), leading to a compliance burden for energy service providers which flows through as increased costs for consumers. There is no existing process to assess the continuing effectiveness of retail competition and regulations, and trigger changes where these may be found lacking.
- **Network tariffs are not designed for energy service providers and may limit retail offers.** Many consumers cannot access their preferred offerings. Energy service providers often pass through network cost structures to manage risk, which transfers this risk to customers and limits the types of products individual customers can choose.
- **Network tariffs do not allocate shared costs fairly among electricity customers.** Network tariffs currently contribute to an inequitable sharing of network costs where those customers that benefit the most from the use of the network pay the least for it. They also can encourage consumers to ration their use of electricity unnecessarily, and do not sufficiently reward consumers for contributing to reductions in network costs.
- **Network tariffs sometimes charge customers more to use the network at times when it costs no more to do so, and less when it costs no less.** This can reduce rewards to customers if they change their use in a way that reduces network costs and work against wholesale market price signals. The interaction of network tariffs and wholesale price signals can lead to consumption patterns that do not lead to lower network or wholesale costs. A clearer network price signal can improve efficient choices about using electricity, and more equitable outcomes whereby those that use the service pay their fair share.

We are making six draft recommendations to build a future-focused pricing framework

29 This report presents forward-looking draft recommendations to deliver a future-focused, consumer-centric pricing framework that supports our vision.

30 Our proposed reforms are designed to ensure a robust and adaptable future pricing framework that delivers:

- a diverse range of products and services
- meaningful choice for consumers
- the lowest-cost system that meets all consumers' needs.

31 A summary of the recommendations can be found in a list at the end of this executive summary.

We use the terms 'energy service providers' and 'networks' throughout, though we recognise that these are present-day terms and the evolution of the system may likewise evolve these roles.

32 We have grouped our proposed reforms into three themes:

1. harness competition to improve outcomes for all consumers
2. make it easier for consumers to choose offers that suit them
3. reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs.

Theme 1: Harness competition to improve outcomes for all consumers

33 We are considering three recommendations under this theme

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

35 Energy service providers compete to win customers with market offers. Most energy service providers set prices for new market offer customers differently to how they set them for existing customers. This can contribute to customers who have been with them longer paying a 'loyalty tax' - that is, paying more than new customers for the same service.

36 This outcome can require customers to regularly switch offers, and potentially providers, to continue to receive competitive prices. We consider this contributes to a negative consumer experience of the energy system because it creates complexity and time and search costs for consumers. Further, this channels competition to be focussed on the level of introductory prices and away from other types of product differentiation and innovation that could deliver more enduring value for consumers.

37 Our recommendation would require energy service providers to charge all customers on the same plan, the same prices. This would build on recent rule changes that protected customers on contracts with benefits by limiting the price to the standing offer price when benefits end or change, and restricted price increases to once a year.

38 The intention of this reform is to address the 'loyalty tax' so that customers are no longer required to regularly switch plans to maintain access to a competitive price. In addition, we want to change the dynamics of competition and focus it on areas that would deliver meaningful value for consumers.

39 For a given energy service provider, this means that they would:

- Charge all customers on the same plan the same publicly advertised price for that offer, regardless of whether they are an old or a new customer. This would prevent energy service providers from offering a different price to new and existing customers on the same plan. In practice, the effect of this recommendation would be that if an energy service provider wants to attract an additional customer to a plan, it must improve the offer for *all* customers, not just the customer it is seeking to attract.
- Compete for customers with new innovative offers that are meaningfully different and provide different value to customers. This would not necessarily limit the number of plans an energy service provider could have, but providers would have to demonstrate at least one material difference to customers between them. For example, an energy service provider could offer plans with different rates for different times (a family-friendly plan with lower rates for hours after school, a retiree-friendly plan with cheaper rates in the middle of the day, an EV plan with

differentiated rates for charging, and so on). These would be meaningfully different and offer value to specific customers, allowing them to tap into different rewards and potential bill savings.

- Offer these new plans to all customers, new and existing. This would ensure that existing customers could benefit from new innovative products and services from their provider, noting existing customers would need to switch offers to benefit from this requirement.

40 This would result in an energy services market where all customers remain on competitive offers, and switching occurs to obtain and unlock new value and rewards. We consider that this would have benefits for all consumers.

41 Implementing this recommendation would require careful consideration, including how the compliance arrangements for principle-based regulation of meaningfully different plans would operate, and how the transition to such an arrangement could occur.

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

43 Generally, customers on standing offers — after default assignment, contract expiry or retailer failure, or where they choose a standing offer — tend to pay higher prices than customers on market offers.

44 Our recommendation would provide a different, competitive mechanism to determine the prices of standing offers. It would extend the benefits of competition to customers who have not selected an offer in the market by having energy service providers compete to supply these customers, rather than customers having to make this choice.

45 Our recommendation would establish a robust, competitive framework that ensures even those customers who have not actively chosen an offer receive the full benefits of market competition. Energy service providers would actively compete to serve these customers, guaranteeing that competitive pricing and innovative services are accessible to everyone. This approach directly addresses the longstanding issue where disengaged customers are left paying higher prices, by making the advantages of competition—lower costs and improved service—flow to all, especially those who are least likely to engage with the market. There would be a periodic auction to determine who would supply customers on standing offers, revealing the cheapest price to serve these customers.

46 These not to be left behind customers (identified as one of our consumer archetypes earlier in this project), would have their accounts pooled and be assigned to the energy service provider who was successful through this competitive process.

47 Competition among energy service providers for these customers would change the dynamic in the retail sector. This set of customers would benefit from the lowest cost and innovation through competitive rivalry. This would ensure that our not to be left behind archetype customers would also benefit from reforms.

48 We consider that this mechanism could replace, over time, the existing pricing safety nets (of the default market offer and Victorian default offer). In effect, this approach uses competitive dynamics to deliver good outcomes for consumers. Combined with the other recommendations in this draft (such as improvements to the AER's Energy Made Easy comparison website), consumers would likely no longer require the reference price function of the DMO and VDO.

49 Implementing this recommendation would require careful consideration of the law and rules. Initial consideration would focus on factors important for implementation such as:

- what would this mean for the DMO
- the process for determining the franchise for these customers, for example who would run the auction
- what information would be provided to these customers so they understand the operation and outcomes of this process.

  Additional consideration would also be needed for the ongoing operation of this recommendation, for example how information on these customers would be shared between parties.

  This recommendation complements recommendation 1. Both aim to leverage competitive pressure to achieve good outcomes (such as customers being able to access services when they need them, achieving value for money, having meaningful choice through simple engagement and appropriate protections), for customers who regularly engage in the market, and for those who don't. The former addresses the loyalty tax for customers on market offers, while the second would support customers on standing offers.

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

51 We rely on competition, supported by regulations such as information provision and dispute resolution, to deliver good consumer outcomes in most jurisdictions in the NEM.

52 These regulations will need to evolve to meet the needs of consumers as technology continues to disrupt the market. While many regulations provide important protections for consumers, some may become unnecessary over time, and so energy service providers and ultimately consumers may bear unnecessary costs. Ensuring there is a regular opportunity to review the ongoing effectiveness of competition is important as it can lower costs and promote the competitive rivalry that supports customers.

53 The ACCC electricity inquiry that reviews prices, profits and margins in the NEM provides important data, evidence and insights. The recent review into the Prohibiting Energy Market Misconduct (PEMM) has recommended that the AER take on this role going forward.[1] We support the AER taking on this role, and would encourage the transition from the ACCC to the AER to be as seamless as possible to maintain the continuity of time series data.

54 To support this role, our recommendation is that the AEMC periodically – every three years – undertakes a targeted assessment of the effectiveness of competition. This periodic review would examine whether the rules support energy service providers to innovate and compete and drive good outcomes of consumers. This would build on the work of the AER in reviewing prices, profits and margins by specifically considering the role of current regulations in supporting competition.

55 The AEMC periodic review would complement the AER's ongoing monitoring, ideally using the same data, but considering it from the perspective of whether the rules-based framework needs modifications. It would do this by making further assessments on the effectiveness of regulations (such as notifications and information requirements) to support competition and consumer outcomes. We would recommend where enhancements or modifications may be required to contribute to consumers having positive outcomes and reduce unnecessary costs. The AEMC would work closely with the AER in undertaking this task.

56 A report would be published every three years. The review cycle would commence in 2027-28 to

1 DCCEEW (Department of Climate Change, Energy, the Environment and Water), *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper [PDF 1,256 KB]*, DCCEEW, Australian Government, December 2025, p 9.

allow us to consider the implementation of the BECE reforms and recent consumer package rule changes. We would conduct the review in two stages:

1. Stage 1: Draw together the analysis and findings of other bodies to develop a broad assessment of how competition is delivering for consumers
2. Stage 2: Depending on the findings in Stage 1, assess the potential causes of any adverse findings and indicate any necessary further investigations the effectiveness of regulations.

Theme 2: Make it easier for consumers to compare retail offers by increasing the comparability of offers to increase competitive pressure in the market

57 There is one recommendation under this theme.

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

59 Retail products and services are becoming increasingly complex as technology disrupts the market and consumer preferences change. This is the case in both price (eg, how much a customer pays on their bill) and non-price factors (eg, when they can export solar to the grid).

60 To make these decisions, consumers need the *right* information, to compare offers. This is not necessarily *more* information than is currently available on Energy Made Easy and comparison sites.

61 Our recommendation is two-fold and relates to the AER's role in providing retail plan comparison information:

- We support the AER considering the quality and scope of information consumers will need in its review of retail pricing information guidelines. The AER's review represents an opportunity to provide consumers with better quality and simpler information about plans as the retail market changes. We would encourage stakeholders to engage directly with the AER in this process.
- We recommend additional funding for the AER to continue to develop its Energy Made Easy comparison service to make sure that it is fit for purpose for the new services that are emerging. The AER could draw on technological developments, including but not limited to AI, to support its comparison service to provide information to allow consumers to make informed choices through an independent and trusted site.

Theme 3: Reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs

62 There are two recommendations under this theme.

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

64 Consumers are best served where network tariffs are efficient. That is, they send signals to energy service providers that enable a response that rewards customers for behaving in a way that contributes to the lowest overall costs for the system, and ensures a more equitable sharing of costs. This is because efficient network tariff design encourages efficient utilisation of the network, and investment and operation decisions by consumers. Generally, network costs are recovered on a volumetric basis, which means the costs of infrastructure are not shared fairly among electricity consumers. For example, customers with rooftop solar and a battery contribute less to network costs than customers with the same electricity consumption who only use grid power, despite both groups of customers depending on the network.

65 We recommend several reforms to the current framework to support the delivery of more efficient network tariffs, through modifying the network pricing principle rules. These are:

- Allowing networks to design tariffs that provide signals related to the need for infrastructure investment ('long run marginal cost') as well as shorter-term management of network congestion ('short run marginal cost'). We would require networks to consider efficiency over the most appropriate timeframes.
- Setting outcome-based objectives for tariff design to clarify that networks and the AER should focus on progressing tariff reform that improves the efficient use of and investment in networks
- Clarifying how residual costs should be allocated to reduce consumers and energy service providers unnecessarily changing their behaviour in response to poor signals in a way that does not reduce the cost or improve the fair sharing of costs of the system eg, responding to signals to avoid a summer peak in winter, and to contribute to fairer network cost recovery
- Removing a requirement for tariffs to not change significantly between periods (the side constraint). Removing this will allow networks to more rapidly implement efficient tariffs, so that the problems with network tariffs can be addressed sooner.

66 We also consider that incentives for networks to design efficient tariffs and refine them over time as circumstances change during the energy transition could be stronger. We want to test whether obligations, financial rewards or penalties are necessary to help networks design efficient tariffs through the transition. If stronger incentives are required, options that could be considered include:

- a tariff strategy and implementation incentive to encourage a more rapid transition to efficient tariffs. This mechanism could be an obligation or a time limited financial incentive component through the transition to efficient tariffs has sufficiently progressed.
- a dynamic tariff uptake incentive to provide transitional encouragement for networks to design efficient tariffs that energy service providers can cost-effectively package for consumers
- a financial incentive to reward or penalise the efficient use of the network. This could be a permanent mechanism to encourage networks to constantly innovate their tariff strategies.

67 These changes are intended to lead to more efficient tariffs that are predominantly fixed, but with a dynamic element designed to reward consumers for avoiding grid consumption that increases network investment costs. This would support the development of consumer products that reward behaviours that place downward pressure on costs for all consumers.

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

69 Energy service providers are risk managers. They incorporate wholesale electricity and network prices into retail offers. Rather than energy service providers passing through network tariffs that are designed for customer intelligibility, we recommend that network tariffs should be designed for network efficiency and that energy service providers should translate those tariffs (alongside wholesale prices and other costs) into offers that meet their customers' needs.

70 Currently, networks are required to balance multiple objectives, including the impact on end-use customers, and not take into account the ways these tariffs can create complications and increase costs for energy service providers.

71 Energy service providers are the customers of distribution networks, and network tariffs are an important input to electricity retail offers. Network tariffs should support energy service providers

offering products and services that consumers want. We want tariffs to be designed for energy service providers and their customers and break the current nexus of energy service providers directly passing on risks and additional costs arising from network tariff structures to consumers. For efficient network tariffs – as discussed above – to be effective, energy service providers and customers need to be able to respond to them. Networks need to consult with energy service providers, because if an energy service provider can not benefit from or pass on a signal to the customer, then there is no point in providing it.

72 Our recommendation would make energy service providers central to network businesses' consultation on network tariff design. It would require network tariff setting processes to consider the impact on energy service providers eg, IT and billing systems, and the cost to energy service providers of accommodating multiple tariffs across regions.

73 This would require rule changes to the network tariff processes to:

- make energy service providers central to network tariff design consultation by removing the 'customer impact' and 'customer understanding' principles that are creating a focus on the consumer, rather than the energy service providers
- reduce energy service providers compliance costs and support retail innovation by making changes to the timing and / or flexibility of the tariff structure statement.

74 This would result in energy service providers being able to offer better designed products and services. These would see energy service providers and their customers accessing and benefiting from rewards for contributing to the efficient use of the network.

These reforms will make retail markets work better for consumers

75 Our reforms seek to provide a more equitable pricing framework for all consumers. While these reforms are not specifically designed to address the immediate causes of individual vulnerability or hardship, we recognise that market design can create structural barriers that entrench inequities and contribute to vulnerability over time. Through these reforms, we expect that future vulnerabilities will be reduced, supporting all consumers to access and benefit from the energy market.

Implementation will take time and transitional measures will be required

76 We envisage a staged implementation plan spanning approximately 10 years, starting now. We understand that this is a relatively long timeline that may frustrate those who feel that fixes to existing issues cannot come soon enough.

77 The reforms we have outlined are ambitious, and the scale of change is large. It is important that any change is introduced carefully, with appropriate consideration of potential impacts.

78 Stakeholders, including our Advisory and Stakeholder Reference Groups, have emphasised that getting the glide path right is potentially the most significant element of the reform program. A well-designed and well-paced transition will help ensure that the benefits of reform are realised while minimising disruption and unintended consequences.

79 In particular, there is a strong emphasis on making sure that consumers are supported throughout the process and are not left behind as reforms proceed and the system continues to transition. This calls for a considered implementation plan that balances ambition with practicality, ensuring change is both sustainable and inclusive.

80 We recognise that in some reform areas, moving swiftly will make sense - to address existing

problems quickly before they grow worse. In other areas, where customers or other parties could be significantly impacted by rapid changes, a longer-term approach may be warranted that seeks to mitigate the impacts of rapid change.

81 Transitioning to higher fixed network charges may create winners and losers, as some customers end up paying less than they used to, while others may pay more. We recognise that it is essential to ensure that the impacts of any tariff changes are manageable for all consumers.

82 We propose transitional measures to manage the impacts of a move to higher fixed charges from networks and potentially from energy service providers.

83 The primary focus will be on the impacts on end use customers. There are a number of ways to manage this transition fairly; we outline three options below to address the risks arising from reform of network tariffs.

84 In one scenario, reforms at the network level may be sufficient to support energy service providers to support good customer outcomes. However, further reforms where the impact on customers is managed through energy service providers and transitional customer protections may need to be considered. We are interested in stakeholder views on this for the final report.

85 We propose three potential measures to manage these risks at a network level:

- require networks to provide energy service providers with a choice between a basic and a dynamic tariff, to support consumers who want a simple service while creating a commercial incentive for energy service providers to rapidly develop their ability to cost-effectively manage dynamic tariffs
- require networks to consider energy service providers' ability to adapt, so that energy service providers can transition to efficient tariffs in a timely manner
- empower the AER to take a more active role in the tariff setting process and to effectively facilitate the implementation of the tariff reforms between energy service providers and networks.

86 We are interested in stakeholders' views on whether one or more of these should be pursued as a final recommendation, or alternatively, whether a different proposal not listed here may be better. We also seek stakeholder views on how the distributional impacts of a move to predominantly fixed network charges could be mitigated. We will consider whether there are other tools that should be considered and implemented for the Final Report.

Stakeholder insights shaped our recommendations

87 We have developed these reforms in partnership with industry – guided by our advisory and stakeholder reference groups, feedback on our previous publications, and various bilateral meetings. The Advisory Group provided important insight through meetings 23 June and 20 October 2025. The Stakeholder Reference Group provided industry expertise to inform the recommendations, through meetings on 12 June and 9 October 2025.

88 Stakeholder input is critical for the successful advocacy and implementation of the reforms that ultimately will come from this review. We will continue to use our stakeholder groups to enable engagement, feedback, alignment and support from those responsible for executing potential changes in the laws and regulations, and from those who engage with consumers on a day-to-day basis.

89 We thank these parties for their input so far and we are committed to continuing to work together as we refine our recommendations. There are plenty more opportunities to engage with us going

forward:

- We are holding a public forum on 15 December
- Submissions are due on 13 February 2026
- We envisage holding further advisory group and stakeholder reference group meetings in Q1 2026.

We assessed the recommendations against our five criteria as well as consumer archetypes and consumer preference principles

90 Considering the NERO and NEO[2] and the issues explored in the review, the Commission identified five assessment criteria, outlined below, to develop its recommendations. We gathered and analysed stakeholder feedback in relation to these criteria.

91 We are satisfied that the Pricing review draft policy recommendations could, or are likely to, contribute to achieving the National Electricity Objective (NEO) and the National Energy Retail Objective (NERO). The suite of recommendations proposed in this draft report would ensure that households and small businesses have access to a broader range of energy offers at the lowest system cost by promoting competition and innovation, extending the benefits of competition to all customers, and ensuring the best use is made of network assets. By better integrating CER we would further ensure that we reduce emissions and improve reliability outcomes for all customers.

92 The draft recommendations, if implemented, would contribute to achieving the NEO and NERO by:

- **Outcomes for consumers -** the recommendations would improve consumer outcomes by ensuring that more consumers benefit from competitive prices. Through the combination of reforms we are also ensuring that consumers have access to range of products and services. It recognises and builds on the capabilities of technology and consumers to ensure that it effectively delivers outcomes for consumers.
  - The reform package is designed to meet the Consumer Preference Principles (CPPs):
    - The CPPs capture consumers' consistent top priorities as demonstrated by publicly available customer research and have been informed by stakeholder feedback. The CPPs are not intended to be exhaustive. Consumers are diverse, and it is not possible to capture all potential customer preferences in a discrete and manageable framework. Our CPPs therefore, capture what research shows are consumers' top priorities, acknowledging that some consumers may have priorities that are not recognised in the framework. All of our proposed solutions are rooted in the CPPs and collectively work together to achieve them.
  - The reform package also seeks to address the needs of diverse consumers as captured by our Consumer Archetypes:
    - Recognising that no two consumers are the same, we utilise the Consumer Archetypes (also developed and consulted on as part of this review) to show that the reforms serve a broad and diverse range of energy consumers. The Consumer Archetypes represent household and small business personas that vary in terms of both their interest in engaging with the energy market and their opportunities to do so.
- **Principles of good regulatory practice -** the draft recommendations build on, support and are complementary to other reforms underway. A number of the proposed reforms are directly addressing a lack of clarity in the current framework. By doing so we are providing greater

2 Section 7 of the NEL and Section 13 of the NERL.

predictability and direction to energy market participants. To recognise the changing landscape we have also given consideration to an ongoing process to ensure regulations are up-to-date and remain fit-for-purpose. This would ensure that good regulatory practice is maintained going forward and reduce compliance costs that ultimately flow onto consumers bills.

- **Principles of market efficiency -** the draft recommendations promote innovation in products and services by allowing energy service providers to design for customers. This would promote market efficiency by allocating network tariff risk with the party best able to address it, energy service providers. The draft recommendations would also seek to ensure that network tariffs are efficient, ensuring that consumer do not pay more than they need to for the network. Furthermore, the draft recommendations would reduce information asymmetry between energy service providers and consumers through ensuring consumers have the right tools and information where they want to make decisions on products and services. Where consumers do not want to make these decisions, our draft recommendations would ensure that they would still benefit from competitive prices.
- **Innovation and flexibility -** the draft recommendations would promote innovation by allowing energy service providers to design better products and services for customers. By removing and addressing current issues, we are supporting the competitive market to innovate and more flexibly respond to consumers needs.
- **Implementation considerations -** the draft recommendations would build on current processes (such as current rules) reducing costs for energy market participants that will result in minimised costs flowing through to customers.

93 In addition, they would support a transition to net-zero by increasing use and value of lower cost, low emission CER generation. This would support the widespread government commitments to achieve net-zero emissions and the AEMC strategic narrative to achieve a consumer-focused net-zero energy system.

Our draft recommendations are part of broader reforms to drive outcomes for consumers

94 The pricing review is occurring in parallel with other reviews and reform workstreams across the energy sector, and some of these interface with areas that are in scope for this review. We have developed our proposed recommendations with these other agendas in mind as the reforms need to work together to achieve the outcomes we want.

95 Our ambition is to maintain engagement with related reviews to share learnings and avoid duplication of effort. We anticipate that insights emerging from our review may feed into other ongoing workstreams.

96 In particular, we note interactions with the National CER Roadmap (the CER Roadmap) and Implementation Plan that was published in July 2024.[3] The CER Roadmap identifies priority reforms to realise the benefits of CER and sets out a pathway for a range of reform priorities over coming years across four workstreams relating to consumers, technology, markets and power system operations.

97 Other reviews and workstreams relevant to this review include:

- The DMO protects electricity consumers by setting the maximum price of default plans, known as standing offer contracts. The Department of Climate Change, Energy, the

3 DCCEEW, *CER roadmap*, DCCEEW website, 19 July 2024, accessed 4 November 2025.

Environment and Water (DCCEEW) recently reviewed the DMO and has made a number of reform recommendations.

- The Distribution System Market Operator (DSMO) workstream of the CER taskforce sought to define the roles and responsibilities for:
  - distribution level market operation and drive alignment of incentives between market participants for CER integration.
  - power system operation with high CER and drive alignment of incentives between industry actors for CER integration.
- In 2025 DCCEEW commenced a review into consumer protections to ensure that they support customer engagement with the energy market are suitable and effective, considering changes in how people use electricity and gas.
- On 18 December 2025, the AEMC will make a final rule on a rule change request to enable access to real-time data from smart meters. If made, our final rule would benefit consumers who can use real-time data to inform their energy choices, including to help manage their CER and help lower overall system costs.

A final report will follow in early 2026

98 Following this Draft will be a Final Report in Q2 2026. Stakeholder input is critical in shaping the direction of this review. Our final report will provide recommendations. Following our final recommendations, we will work collaboratively to progress the reforms identified, including identifying rule change proponents for some of these reforms.

99 We are committed to working collaboratively with jurisdictions and industry to work through an appropriate implementation plan.

List of recommendations

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

Draft recommendation 2: Introduce a competitive franchise for the cohort of customers who have not chosen a market offer, so that all customers are on a competitive plan

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

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

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

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

List of questions

100 Below is a list of questions related to the recommendations outlined above. Should you wish to make a submission, we would greatly appreciate answers to any of the questions provided below. Submissions can cover all questions, or a selection of those most relevant to you and your organisation. We are particularly interested in understanding stakeholders' feedback on the key features, expected outcomes, challenges and implementation issues for each of the draft recommendations, or if alternative reforms might achieve the same outcomes.

101 Submissions can and should provide any further feedback beyond these questions as appropriate.

Question 1: Remove retail loyalty tax

- Do you consider recommendation 1 would provide a better outcome for market offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

Question 2: Introduce a competitive franchise for the cohort of customers who have not chosen a market offer

- Do you consider recommendation 2 would provide a better outcome for standing offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

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

- Do you support the AEMC periodically assessing the impact of regulations and interventions on competition?

Question 4: Make it easier for consumers to compare offers

- What information should be gathered from energy service providers, as the AER considers its review of the retail guidelines?

- Do you have any suggestions regarding potential improvements to Energy Made Easy to facilitate consumers' ability to compare offers?
- How else can consumers be supported to compare offers in the market?

Question 5: Implement reforms such that network tariff design is focused on efficiency

- Do you consider that the proposed reforms would be effective in delivering more efficient network tariffs and better promote the long-term interests of consumers than the existing rules?
- If not, are there different approaches that would work better?

Question 6: Ensure that network tariffs are developed and designed for energy service providers

- Do you consider that removing or amending the customer impact and customer understanding principles, as outlined, would make energy service providers central to network tariff design? If so, why and what would the preferred option be? If not, are there different approaches that would work better?
- Do you consider that the tariff structure statement timing can be amended to reduce energy service provider compliance costs and support energy service provider innovation? If so, why and what would be the preferred option? If not, are there different approaches that would work better?

Question 7: We are considering transitional measures to manage the impacts of reforms, and will outline these in the final report

- Do you consider the proposed transitional supports would manage the transition effectively and fairly? Are there other options that we have not considered?
- How can the distributional impacts of a move to predominantly fixed charges be assessed and managed so that consumers are transitioned fairly and risks are appropriately managed?

Question 8: An implementation schedule that achieves necessary reform quickly while balancing cost and risk

- Do you consider the reforms could be implemented using current processes outlined above (eg, network reset processes)? Or do you consider that different processes, such as an accelerated implementation approach, would be warranted?
- Are there other considerations that we need to be aware of in implementing these reforms?

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the review. Engaging with stakeholders helps us understand the potential impacts of our recommendations and contributes to well-informed, high quality reforms.

How to make a written submission

Due date: Written submissions responding to this draft report must be lodged with Commission by 13 February 2026.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code EPR0097.[4]

Tips for making submissions are available on our website.[5]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).[6]

Further opportunities for engagement

We will have a public forum on 15 December. Please register to attend the forum here .

We will continue to engage with stakeholders, including through the review's dedicated stakeholder groups, to enable engagement, feedback, alignment, and support from those responsible for executing potential changes in the laws and regulations, and from those who engage with customers on a day-to-day basis. There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions.

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email:	aemc@aemc.gov.au
Telephone:	(02) 8296 7800

4 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

5 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/submission-tips

6 Further information is available here: https://www.aemc.gov.au/contact-us/lodge-submission

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1 The Commission has made draft recommendations

1.1 We initiated this review into how future pricing arrangements can meet the needs of all consumers and the system

The Australian Energy Market Commission (AEMC or Commission) self-initiated this broad, forward-looking review (the review) to consider future electricity products and services, and their associated price structures.

Our terms of reference – which were developed with stakeholder input – provide the overall guidance for this piece of work, noting that some of the timing in this has changed as outlined in this report.[7]

The review's key areas of focus are:

- facilitating consumer choice through market arrangements that provide for a range of appropriate pricing structures, products and services that suit consumers' needs and preferences
- the role of distribution networks in enabling the right incentives, products and services for consumers, and the efficient cost and pricing outcomes that result
- the role of energy service providers (that includes retailers and aggregators) in effectively packaging and pricing electricity products and services to match consumer preferences.

The interface and interactions between these areas are key considerations for the review.[8]

We are conscious that our pricing review intersects with several active streams of retail reform. This provides key insights and context for our work. Importantly, it also means that we can focus on the key areas above, as there is other work underway that is addressing other related aspects of the retail framework. All these crucial reforms need to work together to achieve the outcomes we are after. We discuss these workstreams and the relationship further below in section 1.5.

1.2 This report sets out our draft recommendations for stakeholder feedback

The purpose of this draft report is to outline outcomes that we would like to see. These would come together to contribute to a smarter and fairer electricity pricing framework that meets consumers' needs at lowest cost. Our draft recommendations set out ways we consider these outcomes can be achieved, sometimes including options.

In this sense, the report is higher-level than usual AEMC draft reports. This is because we are interested in stakeholder views on the outcomes, and how they can be achieved, to allow us to work together to make the best set of recommendations to promote the long-term interests of consumers.

Stakeholder input is critical both for the design and the successful implementation of the reforms that will ultimately come from this review. As indicated below, we have benefited greatly from our engagement with interested stakeholders to date on this project - including through our advisory group, stakeholder reference group and bilateral meetings - and we look forward to further engagement on this draft report.

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7 AEMC (Australian Energy Market Commission), *Terms of Reference: The pricing review: Electricity pricing for a consumer-driven future*, AEMC, 7 November 2024.

8 For further details about the scope of our review see: AEMC, *Terms of Reference: The pricing review: Electricity pricing for a consumer-driven future*, p 3.

1.3 Stakeholders' important insights have shaped our thinking

Our draft recommendations are informed by stakeholder input over the course of the review. We received important insights to our discussion paper, published on 3 June 2025, with 47 submissions being received.[9] Similarly, stakeholders provided valuable insights in response to our consultation paper, which we published in November 2024, and received 49 submissions in response.

Engagement on the discussion paper highlighted that:

- the issues identified in the discussion paper are the right focus areas for reforms in this draft report
- the future energy market will look very different, and there is a strong sense of urgency to establish the right framework now to enable innovation and change
- technology is evolving, and it will play a critical role in helping all consumers gain more value from the energy system
- reforms are needed to improve how market participants across the supply chain work together to enable innovation in products and services for consumers
- while the review's scope is broad, pricing is just one component of achieving a consumer-focused future energy system - and the AEMC's focus should be on creating sufficient ambition for a different way that pricing structures work
- the current reform landscape is creating challenges and complexity for participants, with many overlapping reform agendas running concurrently
- the review should deliver a clear direction and vision, but not risk the detail over agreement in the big picture.

In addition to formal submissions to our papers, we have benefited from significant bilateral engagements with parties across the electricity sector. We thank these individuals for spending time with us and helping shape our thinking.

We also engage regularly with our key two forums that we have set up to assist us in driving outcomes, and ensuring we access appropriate expertise and experience:

- The Advisory Group, to engage, collaborate and discuss issues with consumer, market and industry leaders, which met on 23 June and 20 October 2025.
- The Stakeholder Reference Group, to seek ongoing input and expertise from a broad range of relevant stakeholder groups. This includes stakeholders with a commercial interest in the matters this review is considering, stakeholders that represent the lived experience of consumers, stakeholders involved in developing innovative new ideas, and others. This met on 12 June and 9 October 2025.

These groups urged the AEMC to be bold in its vision and to seize the opportunity to create a future energy market that operates significantly differently from today's. In doing so, they reminded us it would be critical to ensure that equity issues are very carefully considered, so customers are not left behind.

9 AEMC, *The pricing review: Electricity pricing for a consumer-driven future*, AEMC website, n.d., accessed 7 December 2025.

1.4 Submissions to this paper are due on 13 February 2026

Stakeholder input is critical for the successful advocacy and implementation of the reforms that ultimately come from this review. We encourage you to make a submission. Stakeholder submissions are due on 13 February 2026.

We will continue to engage with stakeholders, including through the review's dedicated stakeholder groups, to enable engagement, feedback, alignment, and support from those responsible for executing potential changes in the laws and regulations, and from those who engage with customers on a day-to-day basis.

1.5 Our recommendations are part of larger reforms in the retail sector, as we move towards a consumer-focussed net-zero energy system

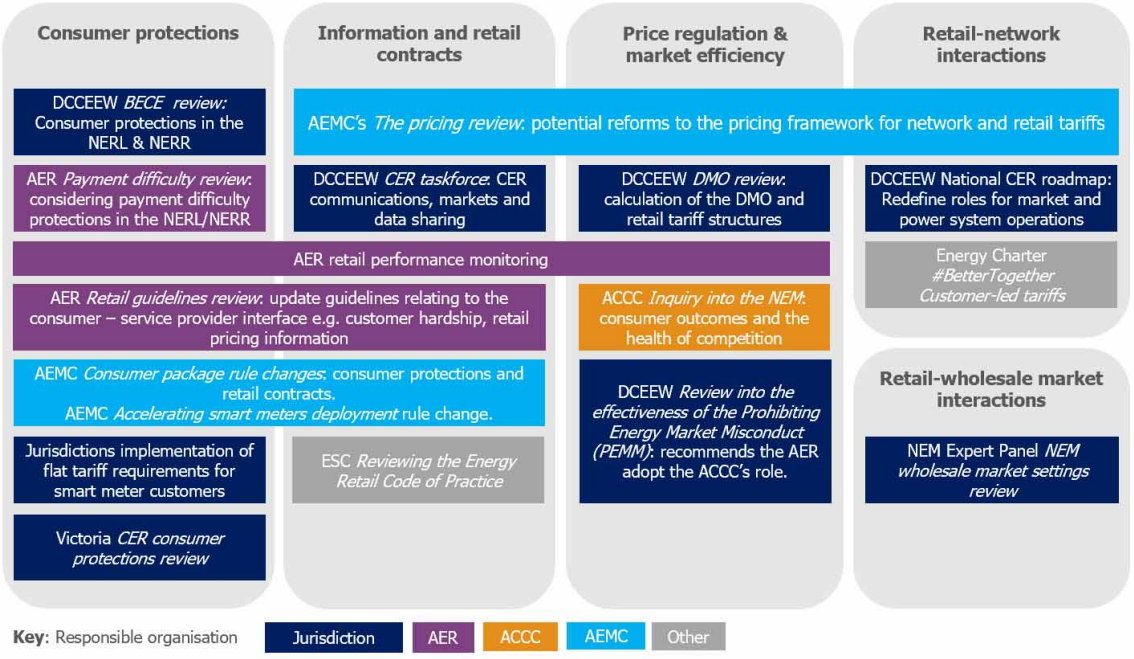
The pricing review intersects with several active streams of retail reform. These encompass the following areas of the retail sector:

- consumer protections
- information and retail contracts
- price regulation and market efficiency
- interactions with networks
- interactions with the wholesale market.

These other reforms provide key insights and context for our work. Importantly, it also means that we can focus on the key areas that are impacted by the pricing framework, as there is other work underway that is addressing other related aspects of the retail framework.

The related reforms are identified and discussed below.

Figure 1.1: Interacting reforms across the retail sector



Source: AEMC

1.5.1 Our reforms interact with others seeking to modernise consumer protections

Several reviews are examining consumer protections. These are seeking to ensure that consumers are appropriately protected from risks. This includes both risks that products and services may put on consumers, as well as to protect specific consumer groups, such as those experiencing hardship.

Our pricing reforms complement these protection reviews. In particular, section 3.1, which is looking at different designs to improve competition. This review isn't focusing on protections for consumers experiencing vulnerability, but on how competition functions and how that could be improved for the benefit of all consumers. Targeted and specific consumer protections, including related to pricing, will remain for those that experience hardship or vulnerability. Reforms to the pricing framework through this will not address these issues.

DCCEEW Better Energy Customer Experience

In 2025, the Department of Climate Change, Energy, Environment and Water (DCCEEW) commenced a review, Better Energy Customer Experience (BECE), into consumer protections to ensure that the frameworks supporting customer engagement with the energy market are suitable and effective, considering changes in how people use electricity and gas.[10]

This work focuses on the National Energy Customer Framework (NECF), the main national regulatory framework providing energy-specific protections to consumers. Consideration will also be given to other related legislation, frameworks and policy settings, including the Australian Consumer Law, state and territory-based legislation, and the New Energy Tech Consumer Code.

The BECE reforms are also considering whether the authorisation framework, which ensures that any business selling energy is suitable to operate, is fit-for-purpose for these newer energy services, including whether the NERL should be broadened to capture businesses and plans that currently sit outside of the NECF.[11]

The approach, structure and regulations around retail tariffs, may impact the corresponding customer protections around those tariffs. Both reviews are seeking to better enable innovative products and services.

The AEMC has been regularly inputting into the BECE process. DCCEEW is expected to release a directions paper in late 2025, with final recommendations made to energy ministers in 2027.

Victorian review of the Energy Retail Code of Practice and CER reforms

The Essential Services Commission (ESC) has been reviewing the Energy Retail Code of Practice to support the ongoing protection of gas and electricity customers in the Victorian retail energy market. In 2025, the ESC made a final decision that aims to address loyalty penalties (high prices paid by customers who are on older contracts with the same energy service providers) in Victoria. The new rule requires retailers to ensure customers on contracts that are four years or older are paying a reasonable price for their energy.[12] It is expected that the Code will be updated again in 2026.[13]

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10 DCCEEW (Department of Climate Change, Energy, the Environment and Water), *Better Energy Customer Experiences*, DCCEEW website, n.d., accessed 4 November 2025.

11 DCCEEW, *Consultation Paper - Better Energy Customer Experiences*, DCCEEW, Australian Government, March 2025, p 7.

12 ESC (Essential Services Commission), *Energy Consumer Reforms Final Decision*, ESC, Victorian Government, 30 September 2025, p 37.

13 ESC, *Energy Retail Code of Practice review*, ESC website, n.d., accessed 4 November 2025.

AEMC consumer rule changes

On 12 August 2024, the AEMC received a package of rule change requests submitted by Energy Ministers at their meeting on 19 July 2024. The package of consumer-related rule change requests include:

- *Improving consumer confidence in retail energy plans*, which consolidated four rule change requests. The final determination and rule were published on 19 June 2025. The final rule will inform, empower and protect consumers through resolving specific systemic issues relating to energy retail contracts and will:
  - protect customers on contracts with benefits that change or expire from paying more than the standing offer once the benefits end
  - improve protections for customers on existing contracts with unreasonable conditional discounts by requiring the retailer to remove the conditionality of the discount and apply the discount in full
  - protect carry-over customers on deemed customer retail arrangements from disconnection if they are paying their bills
  - restrict retailers from increasing prices in market retail contracts more than once in 12 months
  - prohibit retail fees for vulnerable consumers and limit fees to reasonable costs for all other consumers
  - require retailers to inform their customers about these changes
  - provide retailers with just over 12 months to comply with the rule.
- *Improving the ability to switch to a better offer*, which published a final determination and rule on 11 September 2025. The final rule increases customers' awareness of savings that can be achieved from switching plans with their retailers, increasing the number of customers who switch to lower cost plans, saving them money and improving competition in the retail market.
- *Assisting hardship customers,* which published a final determination and rule on 19 June 2025. The final rule:
  - increases support and improves outcomes for hardship customers so that they are not financially worse off if they do not take up their retailer's deemed better offer. This includes preventing hardship customers from incurring more debt or expenses than is necessary
  - places a stronger onus on retailers to assist hardship customers with deemed better offers, but afford retailers flexibility in delivering these protections and
  - improves the reporting and transparency of the type of offers hardship customers are on and assists the AER with monitoring to ensure retailers comply with the final rule.
- *Improving the application of concessions to bills*, which published a final determination and rule on 25 September 2025. The final rule requires retailers to, whenever entering a contract with a consumer (either at sign-up or when a consumer is switching their contract) to:
  - provide jurisdiction specific information on relevant concessions, rebates and relief schemes - helping consumers understand what is available and how to access it and
  - ask consumers about their eligibility for those programs - prompting consideration and voluntary disclosure while being mindful of the sensitivities about requesting this information.

These rule changes, in particular, the final rule for *Improving consumer confidence in retail energy plans* (ICCIREP) make several changes to market offers that will reduce loyalty penalties, as discussed in appendix A.

AEMC Accelerated deployment of smart meters rule change

The AEMC's final rule for *Accelerating smart meter deployment* came into effect on 1 December 2025.[14] The final rule puts in place arrangements that we will lead to universal uptake of smart meters in the National Electricity Market (NEM) by 2030. This is key for effective implementation of recommendations in this report. Smart meters provide the digital foundation for a modern, connected and efficient energy system. Smart meters:

- help facilitate the efficient integration of Consumer Energy Resources (CER) - such as solar photovoltaic (solar PV) systems, home batteries and electric vehicles (EVs)
- provide consumers with visibility and control of their electricity consumption and costs, and more access to alternative pricing options
- create opportunities for greater data sharing - promoting competition and innovation, and supporting more targeted energy policies
- allow distribution networks to improve their management of the electricity network.

The timely deployment of smart meters is a key enabler for integrating CER into the network as we transition.

The final rule also introduced two important consumer safeguards that will ensure that flat tariffs are available to all consumers:

1. Retailers must obtain a customer's explicit informed consent before changing the customer's retail tariff structure, for two years following a smart meter upgrade
2. Designated retailers must make flat tariff standing offers to customers with a smart meter, subject to implementation by individual jurisdictions.

These protections will support consumer choice by ensuring basic products are widely available to them, and help to minimise any negative impacts from changes to a customer's tariffs.

1.5.2 This review interacts with other reforms that are also examining information and retail contracts

Several processes are underway to update and improve the information that consumers receive, thereby supporting their decision-making. Two are highlighted here as they interact with draft recommendations identified in appendix A.

AER updates to its guidelines

The Australian Energy Regulator (AER) is currently consulting on updates to four of its guidelines:[15]

- the Benefit change notice guidelines, which sets out obligations for retailers in relation to notifying small customers when a benefit provided to them through their market retail contract is expiring or changing
- the Better bills guideline, which sets out obligations for retailers in relation to preparing and issuing bills that make it easy for small customers to understand billing information
- the Customer hardship policy guideline, which sets out obligations for retailers in relation to their customer hardship policies required under the National Energy Retail Law (NERL)
- the Retail pricing information guidelines, which set out obligations for retailers in relation to the presentation of standing and market offer prices to assist small customers to consider and compare standing and market offer prices offered by retailers.

14 AEMC, *Accelerating Smart Meter Deployment, Rule determination*, AEMC, 28 November 2024, pp 27-32.

15 AER (Australian Energy Regulator), *Retail guidelines review, Consultation paper*, AER, Australian Government, November 2025.]

These guidelines collectively influence how retailers present hardship assistance information, billing information and plan and pricing information, including information for the price comparator website Energy Made Easy. Submissions to the consultation paper will close after this draft report is released, on the 23 December 2025. A draft combined guideline is expected in April 2026, with a final combined guideline expected in September 2026.

CER reforms to empower consumers

To deliver priorities under the National CER Roadmap implementation plan, Energy Ministers agreed to establish an expert CER Taskforce. The Australian Government chairs the Taskforce which includes members from governments, the market bodies (including the AEMC), and has previously included academic and consumer representatives.

The CER Taskforce has identified a number of workstreams that seek to improve information and empower consumers. Notably, the following workstreams will provide recommendations in this area and interact with our draft recommendations:[16]

- Identify options and opportunities to align and enhance existing CER information approaches across governments by end of 2026 (C.3.1)
- Design and deliver new approaches to capture new CER information opportunities by end of 2028 (C.3.2)
- Commencing in 2026, develop options to facilitate new market offers and tariff structures to extract greater benefits from CER (M.1.1).

1.5.3 This review interacts with other reforms that are also examining price regulation and market efficiency

There are a number of processes underway to review the related frameworks that support price regulation and market efficiency. Three are highlighted here as they interact with draft recommendations identified in appendix A A and appendix C.

DCCEEW review and AER calculation of the Default Market Offer

The Default Market Offer (DMO) sets the maximum price energy retailers can charge electricity consumers on default plans, known as standing offer contracts. These are contracts consumers find themselves on when they have not actively shopped around or switched to a new plan. The DMO price also acts as a reference price. When promoting offers, retailers must show the price of their offer in comparison to the DMO. This aims to help customers easily compare different electricity plans in the market.

DCCEEW recently reviewed the DMO and has made a number of reform recommendations.[17] These reforms will:

- require the determination of the DMO to be based on the efficient costs of serving those customers and cap the prices payable by those customers
- require the AER to determine a tariff cap for common standing offer tariff types to improve consumer price protections
- maintain the role of the DMO as reference price to help consumers compare electricity plans more easily
- introduce a Solar Sharer Offer (SSO) standing offer.

16 DCCEEW, *National Consumer Energy Resources Roadmap: Implementation Plan Update* [PDF 1,679 KB], Energy and Climate Change Ministerial Council, DCCEEW, Australian Government, August 2025.

17 DCCEEW, *Review Outcomes: 2025 reforms to the Default Market Offer*, DCCEEW, Australian Government, November 2025.

Our recommendations in chapter 3 look to replace several aspects of the DMO / Victorian Default Offer (VDO) by using competitive dynamics to deliver good outcomes for consumers:

- the 'safety net' aspect i.e. a price for people who are on the standing offer - our competitive franchise recommendation suggests that we should do this by way of competition, rather than a regulator determination
- the 'reference price' aspect i.e. for the rest of the market to compare their products to - our recommendations to help address the loyalty tax issue and making it easier for consumers to compare retail offers all go some way to replacing references prices.

In relation to the SSO we consider that the concept is consistent with the direction of our review, albeit the SSO is a regulated solution rather than a competitive one. Our recommendations could help support energy service providers in delivering the SSO. For example, we propose reforming network tariffs to reduce the variable component of the network tariff, which would reduce the risks that energy service providers might face in recovering network costs. It could allow for more innovative products such as the SSO to materialise.

The SSO's value would lie in signalling the need to incentivise discretionary load to be shifted to periods with plentiful, low cost supply. We consider that clear and effective communication with consumers will be essential to maximising the benefits from load shifting. We also consider that standing offers should continue to be a mechanism to drive competitive offers, not replace them.

In the longer term, if reforms considered in this review are progressed and competition in the market improves, these tariffs may no longer be required.

Review into the effectiveness of the Prohibiting Energy Market Misconduct

In June 2025, DCCEEW recommended that the provisions protecting against sharp increases in electricity prices should remain until the market has reached a steadier state.[18] The review identified a number of potential recommendations that interact with our draft recommendations. We have sought to build on this review, in particular the recommendations to:

- transition the Australian Competition and Consumer Commission (ACCC)NEM Inquiry function to the AER before August 2026
- make the retail provision 'symmetrical' – to protect consumers in both periods of cost increases and cost decreases.

The interactions with this review are discussed more in appendix Aand appendix C.

ACCC NEM Inquiry

The ACCC has produced 13 reports into the prices, profits and margins in the supply of electricity in the NEM.[19] The findings from these reports have influenced our recommendations and considerations of appropriate pricing frameworks for the future. We have also included evidence and data from these reports where relevant to support our findings.

1.5.4 This review interacts with other reforms that are also examining the role of networks

Two underway processes interact with the role of networks and testing different network tariffs. These interact with draft recommendations identified in appendix A and appendix C.

18 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025*, DCCEEW, Australian Government, June 2025.

19 ACCC (Australian Competition and Consumer Commission), *Electricity market monitoring inquiry 2018-25*, ACCC website, n.d., accessed 7 December 2025.

Distribution System Market Operator

The *Redefining roles for market and power system operations (M3/P5)* workstream of the CER Taskforce sought to define the roles and responsibilities for:[20]

- distribution level market operation, including consideration of a distribution level market and market operator, and driving alignment of incentives between market participants for CER integration
- power system operation in a high CER future and driving alignment of incentives between industry actors for CER integration.

One topic this workstream considered in itsconsultation paper was the 'off-market' tools and mechanisms available to integrate CER at the distribution level,[21] these include 'dynamic network prices'.[22] The workstream's position on dynamic network prices aligns with our vision for efficient tariffs in that they 'are ideally based on real or near real-time conditions. Distribution Network Service Providers (DNSPs) signal to consumers when the relevant part of their network is becoming constrained'.[23] The Taskforce also raised how the lack of consistency in their tariffs could increase transaction costs for energy service providers.[24]

Energy Charter customer-led tariff initiative

The Energy Charter, since November 2024, has been testing, modelling and co-designing customer-led tariff and retail plan combinations that can support better bill outcomes, smarter grid use and greater uptake of CER, and align with customer preferences.[25] The preliminary findings have informed our recommendations set out in this report. These are:

- Tariffs paired with advanced retail plans delivered the strongest customer and system outcomes
- Energy service providers reduced cost stacks and passed through real savings to customers
- Most tariffs tested supported greater CER uptake and improved grid performance
- Well-designed retail offers were critical to unlocking the full benefits.

Stage two of the project has proposed the following key recommendations:

- Ensure pricing rules and principles are sufficiently flexible for network pricing to be designed for retailers.
- Explore the key retailer impact principles and framework that should be considered in the collaboration process between the network and retailers.
- Review existing regulatory barriers and consider new market mechanisms for subscription-style retail offers.
- Ensure future network tariff designs will improve network utilisation and lower network augmentation costs.[26]

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20 DCCEEW, *National Consumer Energy Resources (CER) Roadmap - Redefine roles for market and power system operations – M3/P5*, DCCEEW website, n.d., accessed 7 December 2025.

21 In the context of the M3/P5 consultation paper, 'off-market' is intended to refer to any services procured outside a 'real-time' market.

22 Department of Climate Change, Energy, the Environment and Water (2025) *Redefining roles and responsibilities for power system and market operations in a high CER future Consultation Paper to progress M3/P5 workstreams of the National CER Roadmap*, p.84.

23 DCCEEW, *Redefining roles and responsibilities for power system and market operations in a high CER future Consultation Paper to progress M3/P5 workstreams of the National CER Roadmap*, Consumer Energy Resources Taskforce, DCCEEW, Australian Government, 2025, p 48.

24 DCCEEW, *Redefining roles and responsibilities for power system and market operations in a high CER future Consultation Paper to progress M3/P5 workstreams of the National CER Roadmap*, p 84.

25 The Energy Charter, *#BetterTogether - Customer-Led Tariffs*, The Energy Charter website, n.d., accessed 4 November 2025.

26 The Energy Charter, *#BetterTogether Customer-Led Tariffs Stage 2 Update Customer-first approach to tariff innovation*, The Energy Charter, December 2025, p 5.

This initiative is demonstrating that consumer advocates, energy service providers and networks can successfully collaborate on designing tariffs that support utilisation of the network, retail innovation and consumer preferences. In particular, it demonstrates that customer value is best realised when energy service providers can package tariffs into products and services.

AEMC *real-time data for consumers* rule change

The AEMC is progressing a rule to enable access to real-time data from smart meters, with a final determination due to be published on 18 December 2025.[27] If made, our final rule will benefit consumers who can use real-time data to inform their energy choices, including helping manage their CER. Real-time data can also be used for other services that would deliver value for consumers now and into the future, such as services that support the integration of CER into the grid and help lower overall system costs.

1.5.5 This review interacts with others that are examining the role of the wholesale market

The wholesale market is not within the scope of the pricing review, however, reforms at the wholesale market will impact network and retail pricing. Our pricing reforms complement reforms that are proposed at the wholesale market. In particular, appendix A, appendix D and appendix Ex E, which is looking at lowering overall system costs and improving efficient use of networks.

NEM wholesale market settings review

In November 2024, the Australian Government announced a review of the NEM wholesale market settings by an independent expert panel supported by the DCCEEW (the Nelson Review).[28] The purpose of the review is to recommend wholesale market settings to promote investment in firmed, renewable generation and storage capacity in the NEM following the conclusion of Capacity Investment Scheme tenders in 2027.

The Nelson Review is making recommendations on the wholesale market settings to promote investment in firmed, renewable generation and storage capacity in the NEM. The Nelson Review draft report recommends, among other things, multi-year fixed-price retail contracts and reforms to network tariff structures, which broadly align with our scope and direction.[29]

1.6 The next step of the review will be a final report

Stakeholder input is critical in shaping the direction of this review. Feedback on our draft recommendations will inform final reform recommendations.

The next step of this review will take the form of a final report with recommendations. We recognise the importance of the Commission advocating for positive change on pricing issues, including raising issues and collaborating on solutions, building collective pressure for change and holding all involved (including ourselves) accountable for better consumer outcomes.

Following our final recommendations, we will work collaboratively to progress the reforms identified. We do not envisage that draft rule change requests will be delivered through this review.

27 AEMC, *Real-time data for consumers*, AEMC website, n.d., accessed 7 December 2025.

28 DCCEEW, *National Electricity Market wholesale market settings review*, DCCEEW website, 20 October 2025, accessed 4 November 2025.

29 T Nelson, P Conboy, A Hancock, P Hirschhorn, *National Electricity Market wholesale market settings review, Draft report*, DCCEEW, Australian Government, August 2025.

Instead, we are committed to working collaboratively with jurisdictions and industry to work through an appropriate implementation plan, including identifying rule change proponents.[30]

30 We note that the CER roadmap states that the taskforce will respond to the findings from our pricing review, including implementation of relevant endorsed reforms and outcomes by the end of 2027. See: DCCEEW, *National Consumer Energy Resources Roadmap: Implementation Plan Update* [PDF 1,679 KB], Energy and Climate Change Ministerial Council, DCCEEW, Australian Government, August 2025.

2 Why we are proposing these ambitious changes

The energy sector in Australia, and around the world is experiencing change at the scale of the Industrial Revolution. Innovations in technology, coupled with customers' and industry participants' investments in that technology, mean that the future energy system will look and feel very different from now. These developments provide the opportunity to deliver a step change in the outcomes for customers.

We want to harness these opportunities and give consumers a better experience of the energy system.

A key enabler for consumer outcomes is the 'pricing frameworks', which create value signals for energy service providers and customers, and so are foundational to our future success.

These opportunities cannot be fully grasped without a fit-for-purpose pricing framework. While the existing pricing framework served us well in the past, we consider that it may not work well into the future due to the changes underway. Without changes, we anticipate existing issues may worsen, leading to a potentially widening equity divide between customers, higher overall costs, and a proliferation of interventions.

2.1 The consumer electricity landscape will be markedly different by 2040

Widespread government commitments to achieve net-zero emissions are accelerating changes to the power system, as are broader technological developments beyond CER. These trends include:

- the accelerated rollout of smart meters to all consumers by 2030, following a rule change by the AEMC in 2024[31], which will allow consumers to access more diverse offerings, more and better information on their energy use, and encouraging innovation by energy service providers
- the AEMC is also progressing a rule change to improve access to real-time data from smart meters, with a final determination due on 18 December 2025,[32] supporting interoperability and portability of innovative service offerings and encouraging innovation
- enhancing network functions and the continuing adoption of new technology to provide the innovation needed to deliver close-to-real-time products that consumers and their representatives to opt into.

While these changes are still occurring, we consider that we can best get a sense of their scale and significance by looking at the uptake of CER in the grid to date.

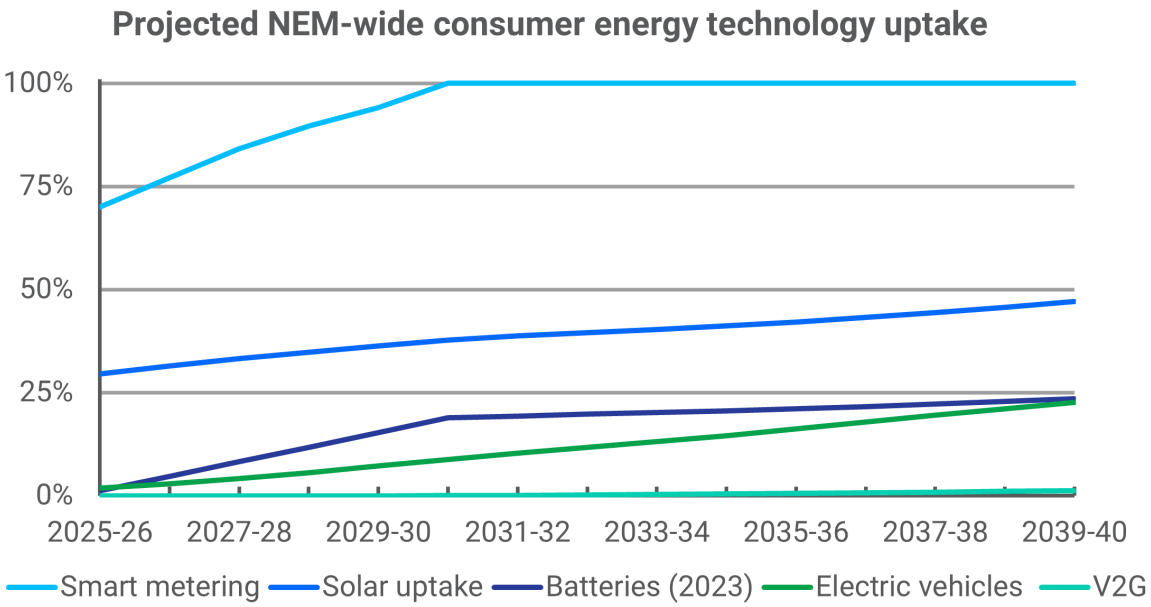
2.1.1 Consumers' adoption of CER is projected to continue increasing at an unprecedented rate

Australian households and small businesses are embracing CER, investing in solar and home batteries at pace, with this driven in part by state and federal government incentives (see Figure 2.1below).

Today, more than three million households and businesses have solar panels and every second household is expected to have them by 2040. More than 100,000 small-scale battery systems have been installed so far this year[33] and 20 million electric vehicles are expected to be in use by 2050.[34]

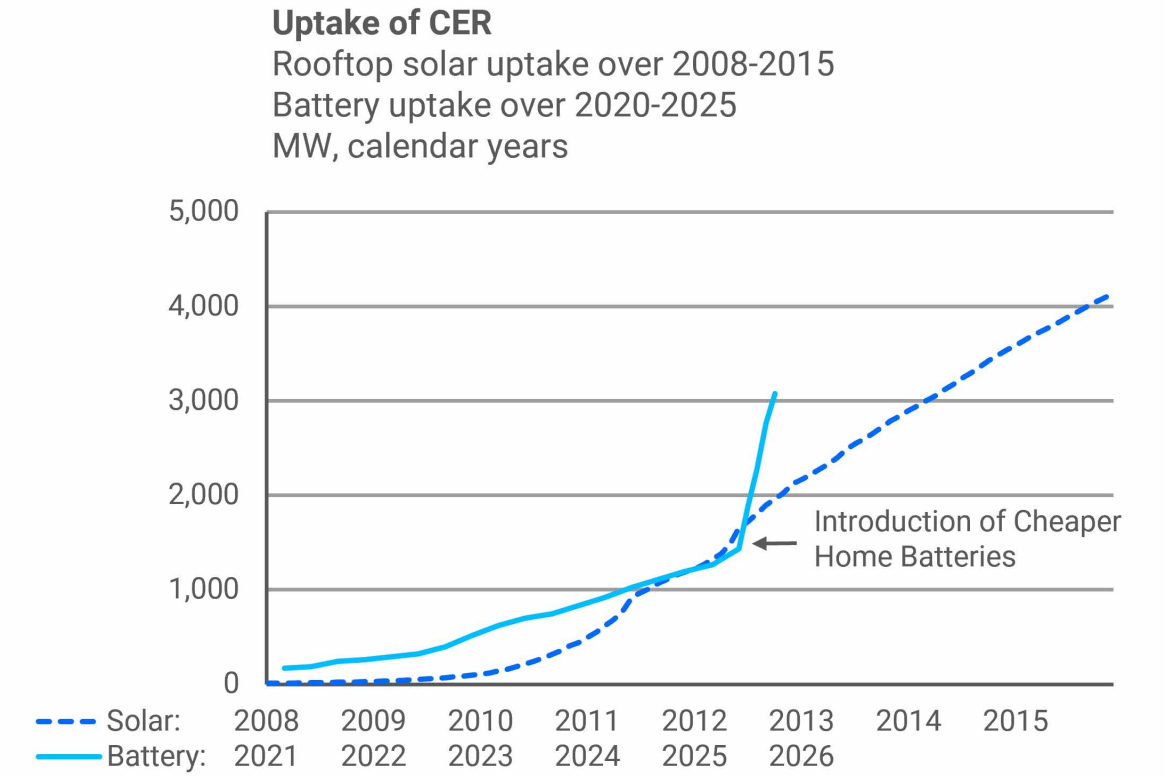
31 AEMC, *Accelerating smart meter deployment*, AEMC website, n.d., accessed 7 December 2025.
32 AEMC, *Real-time data for consumers*, AEMC website, n.d., accessed 7 December 2025.
33 Clean Energy Regulator, *Small-scale installation postcode data*, Clean Energy Regulator website, 14 November 2024, accessed 25 November 2025.
34 AEMO (Australian Energy Market Operator), *AEMO: 2025 IASR EV workbook* [data set], AEMO website, 31 July 2025, accessed 25 November 2025.

Figure 2.1: Projected NEM-wide consumer energy technology uptake



Source: AEMC analysis of AEMO, *2025 Inputs Assumptions and Scenarios Report* [data sets], AEMO website, accessed 8 December 2025; AEMO, 2023 – 24 inputs, assumptions and scenarios [data sets], AEMO website, accessed 8 December 2025; AEMC, *Accelerating Smart Meter Deployment, Rule determination*, AEMC, 28 November 2024.

Figure 2.2: Uptake of consumer energy resources, installed capacity across NEM regions, MW



Source: AEMC analysis of AEMO, *DER Data downloads*, AEMO website, accessed 8 December 2025; Clean Energy Regulator, *Small-scale installation postcode data*, Clean Energy Regulator website, 1 December 2025, accessed 8 December 2025.

Australia is known for having the highest uptake of solar PV in the world. Figure 2.2 above shows that battery uptake is now occurring at an even faster rate. This uptake is accelerating following the introduction of the Cheaper Home Batteries program by the Australian Government in July 2025.

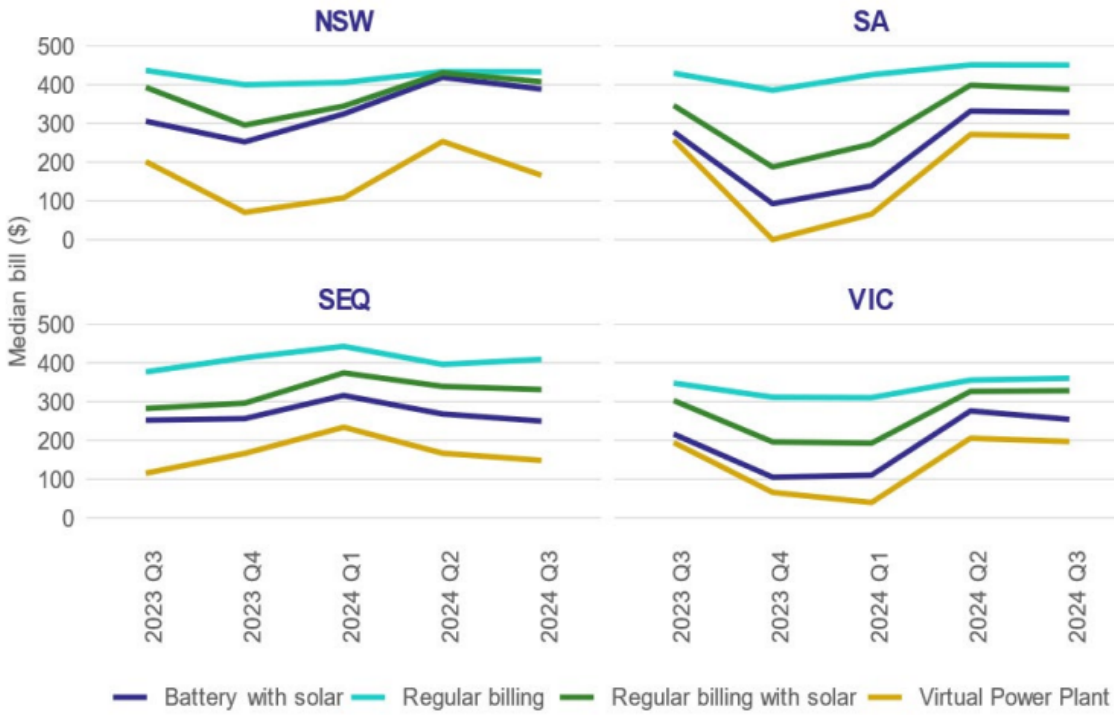
Consumers are also using smart devices to achieve greater control and flexibility with more traditional energy resources, such as hot water systems and air conditioners. Some consumers are engaging energy service providers through virtual power plants and other arrangements to tap into these resources and save money on their bills.[35] The prevalence of batteries will only assist in encouraging the uptake of these technologies, which in turn is creating emerging markets for new energy services.

Figure 2.3 shows that customers with combined solar and battery systems have lower bills than other customers, including those who only have solar. Combined solar and battery systems allow consumers to reduce their electricity usage from the grid, both overall and during peak times. As consumers learn and understand more about the benefits that batteries can bring to them individually, this will reinforce the attractiveness of installing consumer energy resources and engaging with the market, if they can do so.

35 ACCC, *Inquiry into the National Electricity Market*, ACCC, Australian Government, July 2025, p 6.

Figure 2.3: Virtual power plant customers pay lower bills

Median bills paid by virtual power plant and battery customers, by region, quarter 3 of 2023 to quarter 3 of 2024



Source: ACCC, *Inquiry into the National Electricity Market*, ACCC, Australian Government, July 2025, p 7.

In addition, we expect EV uptake to continue to increase. Indeed, it is necessary and critical for us to achieve net zero by 2050.[36]

There are also benefits for customers electrifying their homes and businesses as they reduce their expenditure on petrol, gas and electricity during system peaks. Our 2025 Price Trends work, outlined in the section below, shows that Australian households can reduce their total spending on energy over the next decade through a well-managed transition to electrification.[37] Increasing uptake of EVs could also result in the use of vehicle-to-grid, allowing consumers to send power back to the electricity grid, helping to balance energy supply and demand.

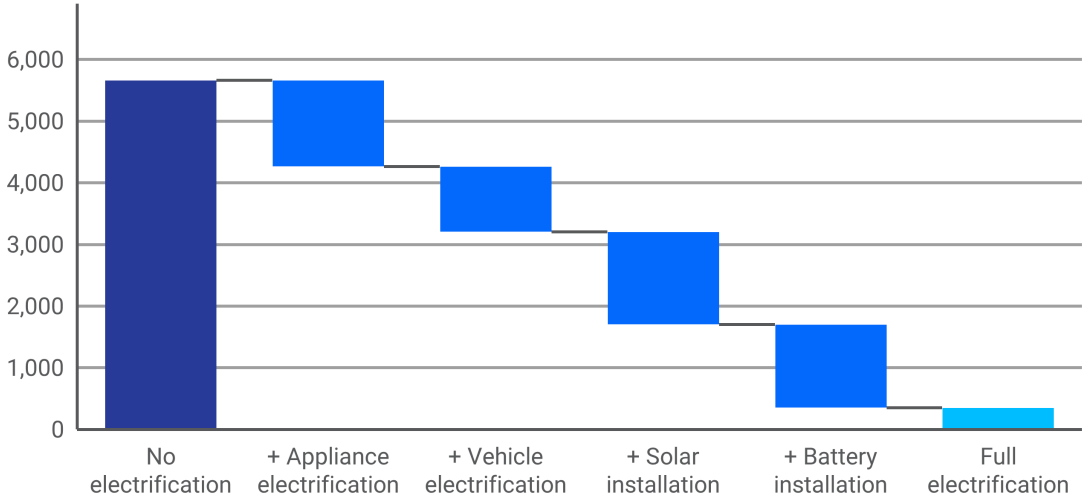
Case study - 2025 Price Trends work

The Energy Wallet analysis suggests that if a household can fully electrify, they could reduce their energy expenditure by as much as 90 per cent per year.

36 DCCEEW, *National Electric Vehicle Strategy*, DCCEEW, Australian Government, 2023, p 7.

37 AEMC, *Residential Electricity Price Trends 2025*, AEMC, December 2025, pp 23-31.

Box 1: A household that electrifies today can save up to 90 per cent in energy costs per year



The figure above starts with a household with 'no electrification', and then shows the modelled savings for a 'typical household' if they:

- Replaced gas appliances (space heaters, water heater, cooktop and oven) with electric equivalents
- Replaced an internal combustion engine (ICE) with an EV, and
- Installed a typical 10kW rooftop solar system and a 15kWh battery system

This analysis projects current network and retail tariff structures and costs forward. It illustrates the magnitude of the opportunity that some customers have to reduce their bills by electrifying and adding CER. Changing network tariff structures, as proposed in this review, could change the benefits an individual customer may experience from electrification. While some benefits may diminish, others could grow, and new opportunities could be created. For example, battery payoffs from reducing a customer's usage during the current network time of use peak period may decrease. However, opportunities to participate in the wholesale market may increase, and new opportunities to relieve network congestion may arise. Importantly, our proposed reforms would better align these payoffs to consumers with system costs, so that individual customer savings do not occur at the expense of other customers, but instead contribute to savings for all customers.

Source: AEMC, *Residential Electricity Price Trends 2025*, AEMC, December 2025.

Note: AEMC's Residential Electricity Price Trends is an annual 10-year outlook for residential electricity prices and energy costs. It models the full electricity cost stack of wholesale, network, retail, and renewable/energy efficiency schemes costs using AEMO's Integrated System Plan (ISP) as a base. To better understand how much households could save through electrification, solar and batteries, Price Trends estimates an 'Energy Wallet' with total annual household energy costs, including electricity, gas and petrol.

Note: Note: Household energy costs are defined as the sum of petrol costs, usage and supply charges for electricity and gas, minus any electricity export revenue. The costs are averaged across all NEM regions and represent a 3-person household with 3-star energy efficiency rating. Price Trends modelled a 10 kW solar and 15 kWh battery size. Savings for an individual household will vary from the above estimate depending on household size, annual energy needs and their stage of electrification.

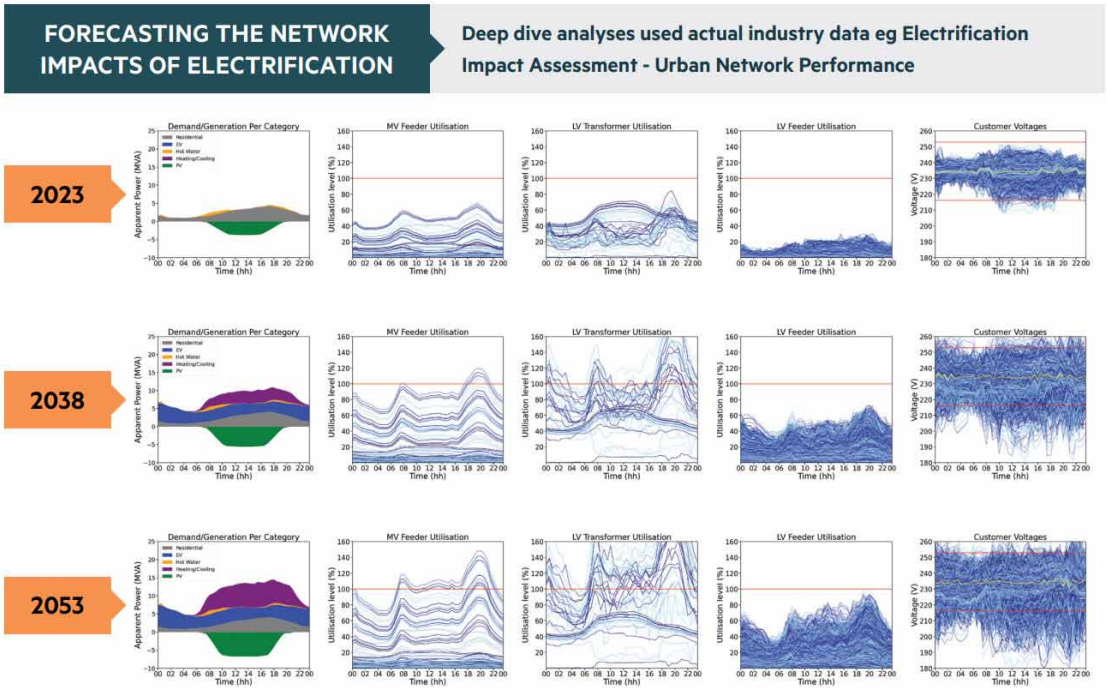
2.1.2 This uptake of CER is changing how the grid operates

Due to these new technologies being installed and consumers adjusting their consumption, electricity is no longer flowing in one direction as it did historically from the sites of large scale generators to businesses and homes. Instead, generation is increasingly occurring at customer premises, and for many customers exporting excess to the grid has become routine. The adoption of EVs and home batteries means customers' homes and businesses are now also increasingly

sites of electricity storage. We want to get ahead of these changes and what they mean for the pricing frameworks before these trends become embedded.

These changes are also impacting networks in terms of how and when this network delivery infrastructure is used, and what the infrastructure is expected to do. Over time, it is expected that networks will provide different types of value to customers, as indicated in Figure 2.4. Networks will need to carefully manage this change. Providing the right signals, through network tariffs, is one important tool that can ensure that we manage this evolution in a way that aligns with achieving lowest overall costs for consumers.

Figure 2.4: Network performance will change with electrification



Source: C4Net, *Enhanced System Planning Project*, C4Net, June 2025, p 38.

2.1.3 This review seeks to evolve existing arrangements from Power of choice, which were designed for a different time

Of course, consumer energy resources are not necessarily new. Australians have been installing solar panels on homes and businesses for some time, and technological change has been a feature of electricity systems globally, requiring ongoing modernisation of supporting governance and pricing frameworks.

The Commission in 2012 made a series of final recommendations for the 'Power of choice' reforms, which were to identify market and regulatory arrangements that would enable the participation of both supply and demand options in achieving an economically efficient demand/supply balance in the electricity market.[38]

The review was to have a broad focus that extends beyond the National Electricity Rules (NER). In undertaking the review, the AEMC considered these key areas:

38 AEMC, *Final Report, Power of choice review - giving consumers options in the way they use electricity*, AEMC, 30 November 2012.

- market frameworks to maximise value to consumers from services enabled by new technologies, such as smart grids
- effectiveness of regulatory arrangements for energy efficiency
- efficient operation of price signals.[39]

These reforms were progressively implemented over the subsequent five years, and included the implementation of the following arrangements:

1. Distribution network pricing arrangements, which introduced the tariff structure statement and updated the pricing principles to focus network prices on efficient design for network costs, with the aim of reducing network build and activating demand.[40]
2. Expanding competition in metering and related services, which created our framework of metering coordinators and metering service providers, focussed on reducing the costs of the smart meter rollout.[41]
3. Improving demand-side participation, which created the Demand Side Information portal, which has helped AEMO to understand price responses.[42]
4. Wholesale demand response mechanism, which has delivered GWhs of demand response, better integrating responsive resources in the market.[43]

These reforms were developed at a time when there were concerns about the level of network overspend in the market, and a lack of activation of demand response:

- there was a forecast $250 billion investment in additional network and generation infrastructure required by 2030, resulting in price increase - otherwise known as 'gold plating'
- meeting peak demand growth as a key issue and common across all proposed network investment programs driving approximately $16 billion in demand driven capital expenditure for distribution networks (44.7 per cent of total expenditure)[44]
- it was considered that broad-based demand side participation that minimises residential peak demand growth could potentially defer a significant number of projects.

Some of these arrangements have now been in place for some time. For example, we are currently in the third round of tariff structure statements. The shift to cost-reflective pricing has been relatively effective at changing some costly behaviours and providing some incentives to move load, however, it is difficult to assess their overall efficacy.

Generally, we would observe that the framework has served us well. Since 2014, we have seen increases in choice and flexibility for consumers, and the changes introduced have delivered system efficiency gains. Peak demand across the electricity system is lower than the peak that occurred in 2008. This has led to improved network utilisation through better infrastructure use, demonstrating that the reforms have achieved important economic benefits for consumers as a whole. This includes downward pressure on consumer bills, compared to what otherwise would have been needed to fund network expansion to satisfy continued peak demand growth.

However, the changes introduced and the ensuing transition to cost reflective network tariffs have created both winners and losers. As the balance between fixed and variable charges has shifted,

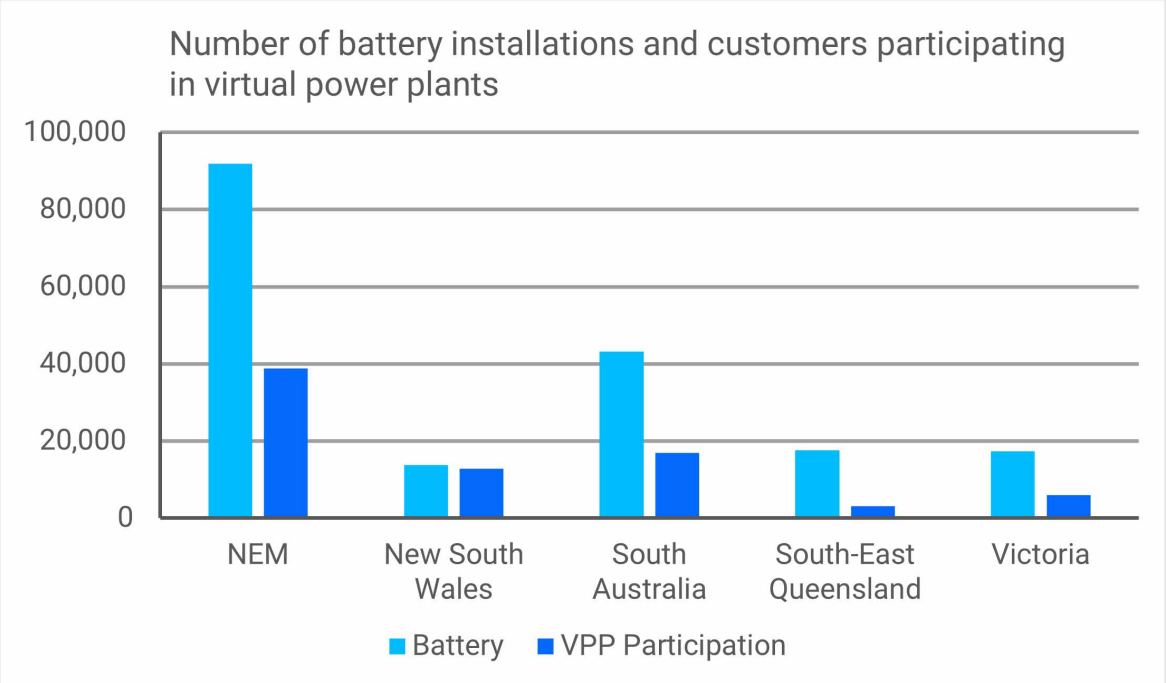
39 AEMC, *Issues paper: Power of choice - giving consumers options in the way they use electricity*, AEMC, 15 July 2011, p 3.
40 AEMC, *Distribution Network Pricing Arrangements*, AEMC website, n.d., accessed 25 November 2025.
41 AEMC, *Expanding competition in metering and related services*, AEMC website, n.d., accessed 25 November 2025.
42 AAEMC, *Improving demand side participation information provided to AEMO by registered participants*, AEMC website, n.d., accessed 25 November..
43 AEMC, *Wholesale demand response mechanism*, n.d., accessed 25 November.
44 Ernst & Young, *AEMC Power of Choice Rational and drivers for DSP in the electricity market - demand and supply of electricity*, report to AEMC, Ernst & Young, 20 December 2011, p 59.

and the complexity of electricity offerings has increased, some consumers have benefited from proactively engaging with price signals, while others have been disadvantaged. It is these challenges we are seeking to overcome though these reforms.

2.1.4 A system that better integrates CER can put downward pressure on costs for everyone

Currently, consumers typically invest in CER devices or projects to help minimise their bills. Few customers' CER are used to engage in energy arbitrage on the wholesale market or relieve network constraints in a focused or flexible manner. This is illustrated in the figure below from the ACCC, which shows that VPP uptake lags that of battery installations across the NEM.

Figure 2.5: Rates of virtual power plant uptake vary by state, but nationally, participation lags total batteries installed



Source: ACCC, *Inquiry into the National Electricity Market*, July 2025, p 6.

If CER was instead operated in a more coordinated manner, for example by responding with generation or consumption at times of system need, these technologies could unlock savings for both the owner of the CER and the system.

Importantly, this could be done by the consumer under either:

- a sophisticated offering where they take on some of the risk and benefit, or
- by the energy service provider, with the customer receiving a simple offering.

This could result in downward pressure on costs for all consumers, including both wholesale and network costs.

Importantly, achieving this outcome may not require all customers to use their CER in this way. Research suggests that if some CER devices can respond to signals some of the time, material cost reductions can be achieved for all consumers.

Energeia's study on the benefits of CER found that a single 10 kWh battery in NSW could save the electricity system over $800 in wholesale, network, and ancillary service costs in a year.[45] This requires the battery to respond to high wholesale costs, FCAS markets and network congestion.

Energeia's work highlights that the current retail offers and network tariffs limit realisation of these benefits by not aligning with underlying costs.[46] This reinforces the importance of the work occurring through this review in enabling offerings that harness the full benefits of CER technologies.

2.2 Our vision for the future energy services market

We set ourselves the challenge of developing a vision for the energy services market in the future. Our vision, outlined below, is ambitious and consumer-centric, and would capitalise on the opportunities we have outlined in this chapter.

Box 2: Our vision for the energy services market

We envision a dynamic energy services market that delivers value, meets the preferences of different consumers, and offers choice of energy service provider, while ensuring lowest overall costs and building trust through targeted protections.

Achieving this vision requires reshaping the electricity market so that it delivers more value and a better experience for consumers. We must evolve market and regulatory frameworks need to evolve to keep pace with changing consumer needs and to better harness consumer investments in energy technologies to achieve bill savings for everyone - including those with and without these technologies.

Under this vision:

- Energy service providers would compete to win and retain customers by innovating and providing the services and products that customers desire. We would expect that energy service providers would be proactive in making sure the best product offers for each customer are available to them.
- Consumers who invest in and use their CER to support the system by selling energy, reducing demand, and alleviating congestion, would benefit through rewards. Those consumers without access to CER would also benefit from this. This is because better harnessing CER puts downward pressure on total system costs through its use and therefore on bills for *all* consumers.
- Energy service providers' and networks' adoption of smart technologies can aggregate and amplify consumers' responses to achieve a more efficient, lowest cost system through avoiding building more poles, wires, and large-scale generation.

We consider that this vision would deliver a more equitable and lowest cost system for all consumers. We consider that effective retail competition, with fit-for-purpose consumer protections, should deliver product and service innovation, value creation, choice and competitive prices. Consumer protections are a permanent feature to ensure that all customers have access to an essential service.

45 Energeia, *Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Final Report*, 26 March 2025, p 34.
46 Energeia, *Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Final Report*, 26 March 2025, p 44.

2.3 A fit-for-purpose pricing framework is necessary to achieve our vision

For consumers, electricity prices fundamentally shape how they engage with the electricity system. They influence consumption decisions, investments in energy appliances and technologies, and their ability to manage household or small business electricity costs. Effective pricing arrangements should enable consumers to make informed choices that suit their needs while ensuring they contribute fairly to the costs incurred to provide the services they receive.

Like those for most goods and services, prices for electricity reflect costs from across the entire supply chain. Understanding how these price components from different parts of the chain work together is essential to ensuring consumers can access preferred service offerings at lowest possible costs:

- **Retail electricity prices** are what consumers directly experience – combining wholesale, network, and retail service costs into what appears on a customer's bill. While the retail market is competitive in most jurisdictions in the NEM, there remain requirements on retail offers - including how offers are presented, and safety net pricing, for example the DMO /VDO.
- **Network tariffs** mostly reflect the cost of building, owning and operating the grid of poles and wires that transport electricity to and from customers. They can also include recovery of jurisdictional scheme costs, and the costs of conveying electricity produced by some consumers with CER to others. But network tariffs can do more than simply recover costs. Applied effectively, and coupled with appropriate technology, they can help contribute to a lowest-cost system for all consumers. They do this by incentivising the use of electricity when the network has spare capacity, and not to use it when there is limited spare capacity.
- **Wholesale prices** reflect the cost of generating electricity at different times. For instance, wholesale electricity prices are commonly cheaper during the day when the sun is shining and solar plants are generating. These price signals, when effectively translated through retail offerings, can also help consumers benefit from abundant lower-cost, renewable generation while avoiding high-cost periods.

When these price layers work together effectively and not in conflict with each other, they create a system where consumers can access electricity products and services that meet their diverse needs at the lowest possible costs. A consumer-centric, efficient pricing framework would support achievement of our vision for the energy services market, by:

- Creating a platform for innovation, so that energy service providers compete to provide lowest-cost electricity offerings that are aligned with what consumers value.
- Targeting rewards for activities that contribute value to the grid, so that consumers' offerings can reward them appropriately for using electricity in ways that benefit themselves and others. This could include, for example, rewards offered for consumers participating in vehicle-to-grid (V2G) arrangements, virtual power plants (VPP), and other innovative offerings.

2.4 Reforms are needed to deliver our vision

Our discussion paper highlighted a range of issues with the current pricing framework, emerging largely due to the changes described earlier in this chapter, along with broader socioeconomic developments. This included:

- **Retail market outcomes for consumers are uneven**. Competition currently relies on either customers switching plans, or energy service providers keeping downward pressure on prices for those who don't switch. Many customers find the retail market complex and confusing and

have difficulty comparing alternative offers and/or energy service providers. Consequently, many consumers do not switch and may be paying more than necessary.

- **Retail regulations may be limiting innovation and adding costs**. Aspects of retail market regulation – in particular, consumer protections - do not deal adequately with newer energy services. Retail market regulation differs across states, leading to a high compliance burden for energy service providers which flows through to increased costs for consumers.
- **Network tariffs are not designed for energy service providers and may limit retail offers.** For example, network tariffs may discourage energy service providers from offering subscription style products and other product types that are popular in markets outside energy.
- **Network tariffs are not designed for energy service providers and may limit retail offers.** Many consumers cannot access their preferred offerings. Energy service providers often pass through network cost structures to manage risk, which transfers this risk to customers and limits the types of products individual customers can choose.
- **Network tariffs do not allocate shared costs fairly among electricity customers.** Network tariffs currently contribute to an inequitable sharing of network costs where those customers that benefit the most from the use of the network pay the least for it. They also can encourage consumers to ration their use of electricity unnecessarily, and do not sufficiently reward consumers for contributing to reductions in network costs
- **Network tariffs sometimes charge customers more to use the network at times when it costs no more to do so, and less when it costs no less.** This can reduce rewards to customers if they change their use in a way that reduces network costs and work against wholesale market price signals. The interaction of network tariffs and wholesale price signals can lead to consumption patterns that do not lead to lower network or wholesale costs. A clearer network price signal can improve efficient choices about using electricity, and also more equitable outcomes where those that use the service pay their fair share.

Left unchecked, these issues will likely worsen with time as the electricity system and consumers' participation in and expectations of that system continue to evolve. Stakeholders generally supported these issues in their response to our discussion paper.

We consider that reforms to the pricing framework are necessary to ensure it is fit-for-purpose for current and future consumers and contributes to our vision. This would allow us to seize the opportunity presented by new energy technologies and address existing issues that will likely worsen with time.

The reforms that we propose in this draft report help us to create opportunities to access low-cost, low-emissions generation from CER and demand response, as well as better utilising distribution networks to match demand and supply locally, providing resilience in an increasingly weather-dependent grid. By creating a more equitable and least-cost energy system and using the network as a platform to help foster competition among energy service providers, we will help unlock this growing value for consumers.

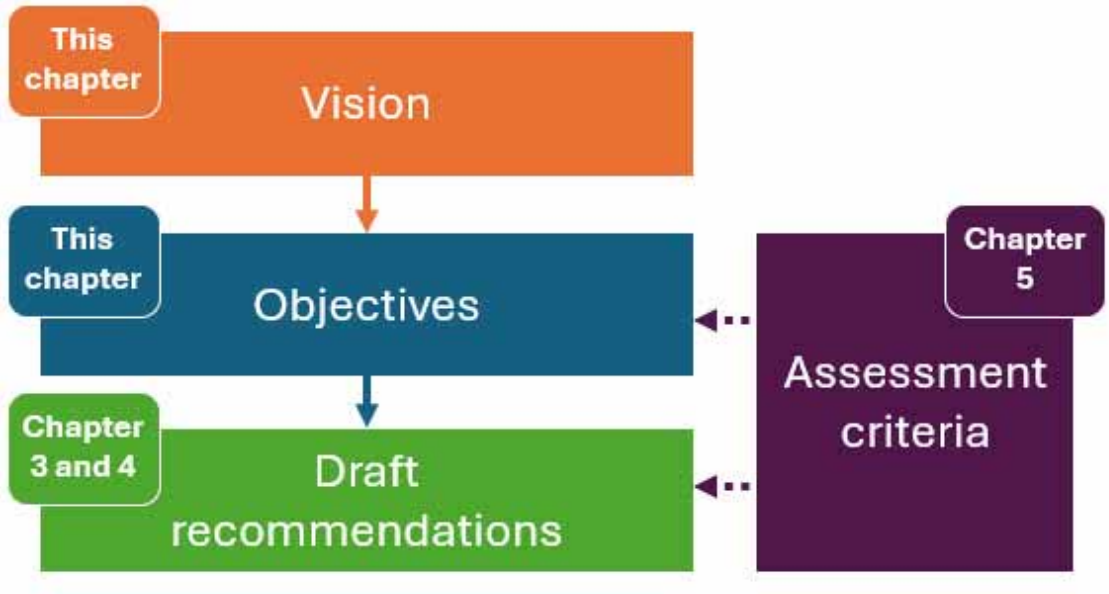
2.5 We have developed a set of objectives to guide the design of pricing framework reforms

We recognise there are many possible pathways to deliver on our vision, and stakeholders' views will likely differ on what the best tools and techniques to apply may be. We have therefore established a set of objectives that seek to translate our vision into more practical objectives of how the pricing framework could best deliver on the vision. These capture:

- the ideal roles of different pricing framework elements, including consumer protections
- the tools we consider preferable for delivering consumer outcomes, such as competition and regulation
- how we think about transitioning from where we are now to the future pricing framework, including equity and implementation issues.

Our draft recommendations are developed from the these objectives and vision, and assessed using the assessment criteria adopted for this review (discussed in chapter 5). How these fit together is outlined in the image below.

Figure 2.6: How our vision, objectives, draft recommendations and assessment criteria fit together



Source: AEMC

Each of our objectives is outlined below in turn. We tested these objectives with our Advisory and Stakeholder Reference Groups in October 2025 in the lead up to publishing this draft report. We have incorporated the feedback from these groups on an earlier set of objectives into the current set. We are also interested in stakeholder views on these.

Our objectives to guide the design of pricing framework reforms are as follows:

- pricing frameworks should:
  - be robust and adaptable to future outcomes such as changing technology and consumer preferences
  - support a diverse range of products and services
  - give consumers meaningful choice
  - deliver the lowest-cost system that meets all consumers' needs.
- effective retail competition, with fit for purpose customer protections, should deliver product and service innovation, value creation, choice and competitive prices
- fit-for-purpose consumer protections should be a permanent feature of the market to ensure that all customers have access to an essential service

- energy service providers should be proactive in making sure the best product offers - be it price or non-price offerings - for each consumer are available to them
- network tariffs should:
  - result in efficient use of the network and efficient investment and operation in the network and CER
  - give consumers the opportunity to signal what they would value from network and CER investment
  - be designed as an input to retail products that bundle together network, wholesale and energy services for consumers
  - allow networks to recover revenue requirements.
- the process to set network tariffs should balance efficiency, effectiveness (which includes energy service providers' capability to respond), and adaptability (to new technologies, capabilities and changing circumstances)
- transitional interventions should ensure that consumers can access many different variations of lots of different contract types as we move to our vision
- transitional issues should be addressed through time limited transition mechanisms to the extent possible
- equity and implementation issues should be considered in the design of transitional mechanisms.

The following chapter summarises our recommendations in light of our vision and these objectives.

3 We propose draft recommendations to achieve a lowest-cost system for all consumers

We are proposing a suite of draft recommendations, grouped under three themes. Together our draft reforms are designed to deliver a smarter and fairer electricity pricing framework that meets consumers' needs at lowest cost.

Our reforms seek to provide a more equitable pricing framework for all consumers. While these reforms are not specifically designed to address the immediate causes of individual vulnerability or hardship, we recognise that market design can create structural barriers that entrench inequities and contribute to vulnerability over time. Through these reforms, we expect that future vulnerabilities will be reduced, supporting all consumers to access and benefit from the energy market.

This chapter outlines our proposed draft reforms, further details can be found in the appendices as signalled throughout this chapter.

3.1 Theme 1: Harness competition to improve outcomes for all consumers

Effective retail market competition should deliver a diverse range of high-quality products and services at competitive prices. The pricing framework should encourage energy service providers to be proactive in ensuring the benefits of competition extend to as many consumers as possible.

Our analysis of stakeholder feedback and consumer experiences have shown that the benefits of competition are not shared equally amongst consumers.[47] Some consumers can find themselves paying generally higher prices than others in two scenarios:

1. where energy service providers gradually increase prices for existing market offer customers who have not recently switched or updated their plan (loyalty tax), or
2. when they are on standing offer contracts.

In addition, ineffectual, redundant regulations can increase the cost to energy service providers to serve their customers, which flows through to consumers' bills. This could be, for example, because of rules that were introduced to address issues that have since resolved, which are now adding administrative burden without corresponding benefits to market participants or consumers.

We are considering three recommendations to address these issues:

1. Require energy service providers to charge all customers on the same plan the same price, to address the 'loyalty tax' on customers who don't switch and ensure every customer is always on the best price
2. Introduce a competitive franchise for the cohort of customers who haven't chosen a market offer, so that all customers are on a competitive plan
3. Periodically review whether regulations are supporting good consumer outcomes in an evolving market

47 DCCEEW, *Consultation Paper - Better Energy Customer Experiences*, DCCEEW, Australian Government, March 2025, p 7.

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

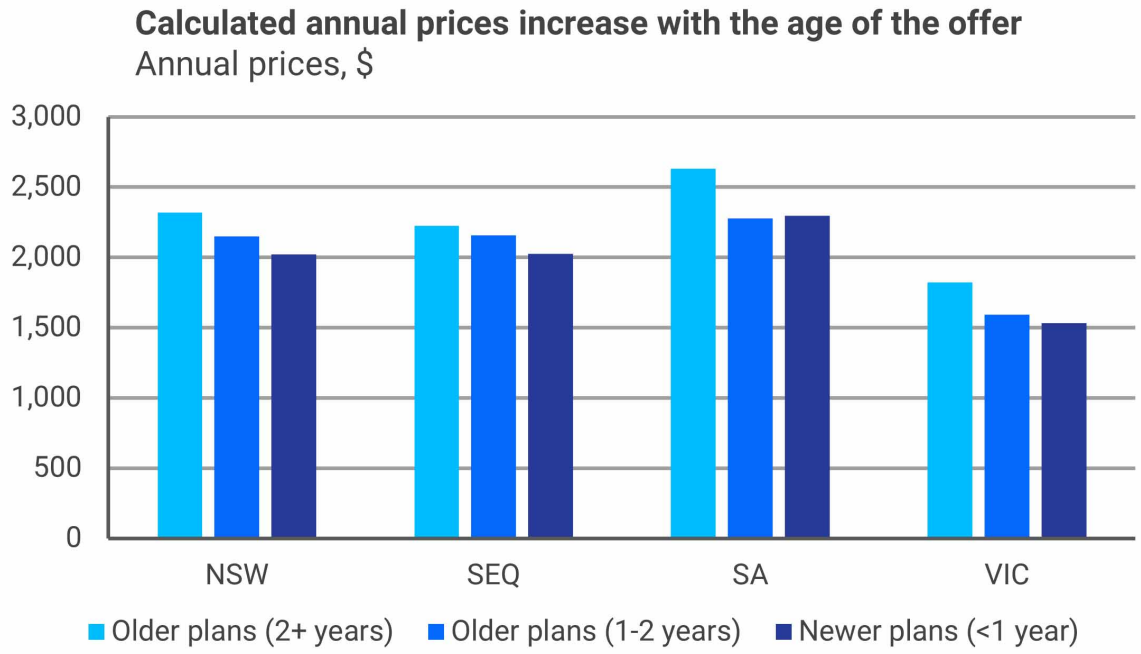
Some customers experience a loyalty tax whereby they pay more than other customers for an equivalent service

Energy service providers compete to win customers with market offers. Most energy service providers set prices for new market offer customers differently to how they set them for existing customers. This can contribute to customers who have been with them longer paying a loyalty tax - that is, paying more than new customers for the same service.

This outcome can require customers to regularly switch offers, and potentially providers, to continue to receive competitive prices.

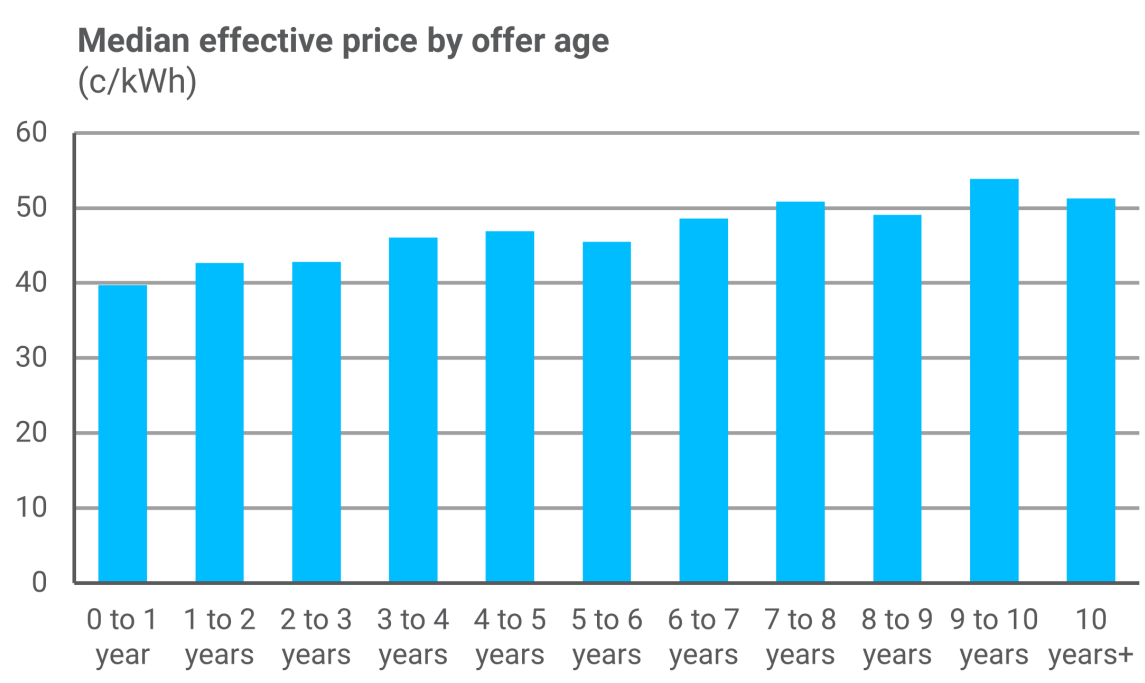
The ACCC and ESC have found customers on older plans tend to pay higher prices than customers who have changed plans or energy service providers recently, as demonstrated in the charts below. Customers are effectively taxed or penalised for displaying loyalty to a single service provider or plan.

Figure 3.1: Prices gradually increase for existing customers over time



Source: ACCC, *Inquiry into the National Electricity Market*, ACCC, Australian Government, December 2024, p 4.

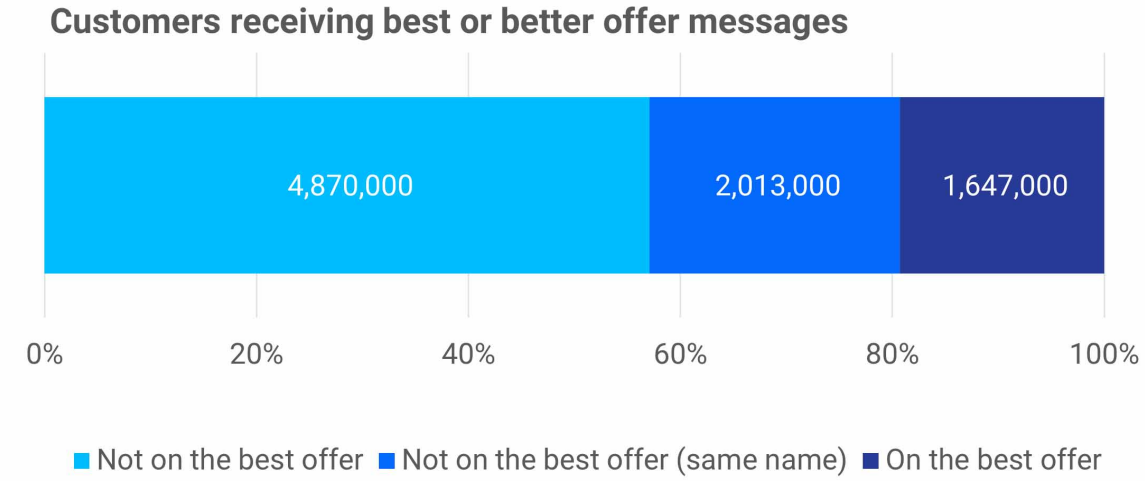
Figure 3.2: Price increases in Victoria



Source: ESC, *Energy Consumer Reforms – Regulatory Impact Statement*, ESC, Victorian Government, 16 May 2025, p 26.

Further evidence of this can be seen in the number of customers that could be on a better offer, but the better offer has the same name as the plan that they are on. ACCC data indicates that over two million customers experienced this in 2024.[48]

Figure 3.3: Duplicate naming indicates the number of customers paying more on plans



Source: ACCC, *Inquiry into the National Electricity Market*, December 2024, p 5.

We consider this contributes to a negative consumer experience of the energy system because it creates complexity and time and search costs for consumers. Further, this channels competition

48 ACCC, *Inquiry into the National Electricity Market*, December 2024, pp 53-55.

to be focused on the level of introductory prices and away from other types of product differentiation and innovation that could deliver more enduring value for consumers.

Recent reforms assist in reducing the loyalty tax, however they may not prevent or fully address it in all circumstances. Such reforms include:

- The AEMCs' *Improving consumer confidence in retail energy plans,* and ESCs' *Energy Consumer reforms,* which will reduce loyalty penalties for some customers on older plans by limiting the price to the standing offer price when benefits end or change, and restricted price increases to once a year. In Victoria reforms were put in place to require retailers to assess the value of older plans.[49]
- The Prohibiting Energy Market Misconduct Act (PEMM) review is also considering outcomes for consumers that do not regularly engage with the market. Its consultation is focusing on whether price increases should also be limited to reflect retailers' underlying costs of procuring electricity.[50]

There is an opportunity to implement enduring reform that addresses the loyalty tax

We consider these issues could be addressed through reforms, so that customers are no longer required to regularly switch plans to maintain access to a competitive price. In addition, we consider there may be value in using regulation to tailor the dynamics of competition to focus on areas where it would be more likely to deliver meaningful value to consumers.

We consider that the root cause of the loyalty tax issue lies in two core features of the electricity market:

1. it is 'set-and-forget' - customers choose a plan (set) and may stay on it for some time absent other actions (forget)
2. participation in the market is not voluntary because electricity is an essential service - this leads to specific energy service providers and consumer behaviours that contribute to poor outcomes including:
    a. consumers not regularly asserting their preferences by choosing a new plan
    b. energy service providers increasing the price a customer might pay over time if they don't change plan.

Our recommendation to address these issues would promote better product differentiation by ensuring market offer customers who don't regularly engage with the market, continue to receive a competitive price over time. Our recommendation would require energy service providers to charge all customers on the same plan, the same prices.

For a given energy service provider, this means that they would:

- Charge all customers on the same plan the same publicly advertised price for that offer, regardless of whether the customer is an existing or new customer. This would prevent the energy service providers from offering a different price to new and existing customers on the same plan. In practice, the effect of this recommendation would be that if an energy service provider wants to attract an additional customer to a plan, it must improve the offer for *all* customers, not just the customer it is seeking to attract.

49 AEMC, *Improving consumer confidence in retail energy plans,* Final determination, 19 June 2025, p. 4; Essential Services Commission Victoria, Reviewing the Energy Retail Code of Practice - Final decision, 30 September 2025, p.37.

50 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper [PDF 1,256 KB]*, DCCEEW, Australian Government, December 2025, p 31.

- Compete for customers with new innovative offers that are meaningfully different and provide different value to customers. This would not necessarily limit the number of plans an energy service provider could have, but providers would have to demonstrate at least one material difference to customers between them. For example, an energy service provider could offer plans with different rates for different times (a family-friendly plan with lower rates for hours after school, a retiree-friendly plan with cheaper rates in the middle of the day, an EV plan with differentiated rates for charging, and so on). These would be meaningfully different and offer value to specific customers, allowing them to tap into different rewards and potential bill savings.
- Offer these new plans to all customers, new and existing. This would ensure that existing customers could benefit from new innovative products and services from their provider, noting existing customers would need to switch offers to benefit from this requirement.

This would result in an energy services market where all customers remain on competitive offers, and switching occurs to obtain and unlock new value and rewards. We consider that this would have benefits for all consumers by changing the dynamics of competition to focus it on areas that would deliver meaningful value for consumers.

Implementing this recommendation would require careful consideration, including how the compliance arrangements for principle-based regulation of meaningfully different plans would operate, and how the transition to such an arrangement could occur.

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

Question 1: Remove retail loyalty tax

- Do you consider recommendation 1 would provide a better outcome for market offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

Appendix A contains a detailed description of this recommendation and initial thoughts on how it could be implemented.

3.1.2 Recommendation 2: Introduce a competitive franchise model for the cohort of customers who have not chosen a market offer, so that all customers are on a competitive plan

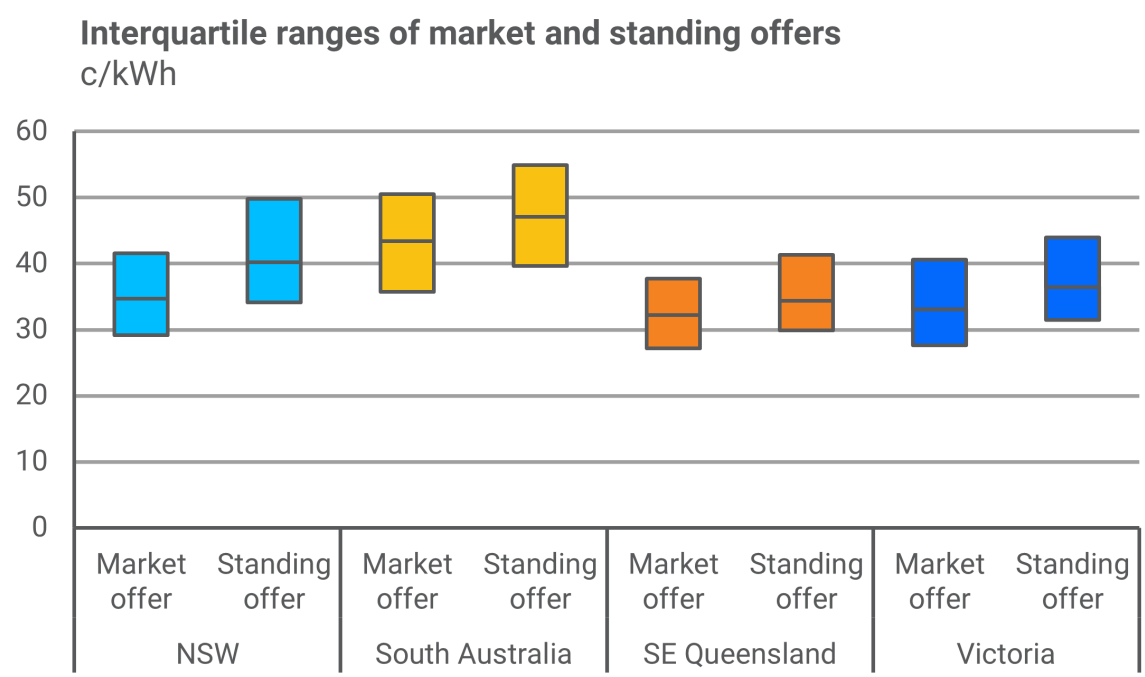
Customers on standing offers typically pay more

Customers are typically assigned to standing offers when they do not actively choose a market offer. This can occur because their market offer has expired, or they move into a new premise and do not select a market offer or standing offer. Standing offers are basic electricity contracts with terms and conditions that are regulated by law.

Customers on standing offers tend to pay higher prices than customers on market offers. However, safety net pricing (the DMO and VDO) protects customers on standing offers by setting

the maximum price energy retailers can charge electricity consumers on standing offer contracts.[51] The ACCC found that the median effective price for customers on standing offers exceeds that for customers on market offers across all NEM regions.[52]

Figure 3.4: Standing offer customers generally pay higher prices than market offer customers



Source: ACCC, *Inquiry into the National Electricity Market,* July 2025, p 41.

The DMO is currently being reviewed and updated. On 4 November 2025, the Australian Government released an Outcomes paper from its DMO review. The Outcomes paper made a number of recommendations, including:

- Establish a new guiding objective for the DMO in the Electricity Retail Code: to protect households and small businesses on standing offers and embedded networks by providing a fair, trusted and reasonably priced electricity option that reflects the costs of supplying an essential service.
- Expand the coverage of the DMO protections to include all small customers on standing offers and small customers in embedded networks.
- Express the DMO as a regulated tariff structure for common standing offer types, but allowing discretion for innovative offers that don't match the DMO tariff structure to be compared against an annual bill amount.
- Introduce a new 'Solar Sharer Offer' (SSO): a regulated standing offer time-of-use tariff with a zero-cost or free-power period for customers who shift load to low-demand periods, with a proposed rollout of 1 July 2026 in DMO jurisdictions.[53]

These steps will improve the calculation and operation of the DMO.

51 DCCEEW, *Default Market Offer*, DCCEEW website, 1 December 2025, accessed 7 December 2025; ESC, *Victorian Default Offer*, ESC website, n.d., accessed 12 November 2025.

52 ACCC, *Inquiry into the NEM,* July 2025, p. 41.

53 DCCEEW, *Review Outcomes: 2025 reforms to the Default Market Offer,* pp 7-10.

Further reform could extend the benefits of competition to standing offer customers

We propose changes to the approach to supporting standing offer customers. If introduced, our reform would provide a different, competitive mechanism to determine the prices of standing offers. It would extend the benefits of competition to customers who have not selected an offer in the market by having energy service providers compete to supply these customers, rather than customers having to make this choice. Furthermore, it would establish a robust, competitive framework that ensures even those customers who have not actively chosen an offer receive the full benefits of market competition.

Under our proposed reform, energy service providers would actively compete to serve these customers, providing for the availability of competitive pricing and innovative services to everyone. This approach directly addresses the longstanding issue whereby disengaged customers are left paying higher prices. It supports the advantages of competition — lower costs and improved service — flowing to all consumers, especially those who are least able or likely to engage with the market.

A periodic auction would be applied to determine which service providers would supply customers on standing offers, and at what price. These customers would have their accounts pooled and be assigned to the energy service provider who was successful through this competitive process.

Competition among energy service providers for these customers would change the dynamic in the retail sector. This set of customers would benefit from innovation and competitive prices through competitive rivalry amongst service providers. We consider that this mechanism could replace, over time, the existing pricing safety nets offered to these customers, being the DMO and VDO. Combined with the other recommendations in this draft (such as improvements to the AER's Energy Made Easy comparison website), consumers would likely no longer require the reference price function of the DMO and VDO.

Implementing this recommendation would require careful consideration of the law and rules across a range of dimensions, such as:

- how this could interact with or potentially replace the need for the DMO and VDO
- the appropriate process to establish a franchise for these customers, for instance which organisation would run the auction
- the information that would be provided to these customers and the regular operation of these functions, for instance how would information on these customers be shared.

This recommendation complements recommendation 1. Both aim to leverage competitive pressure to achieve good outcomes (such as customers being able to access services when they need them, achieving value for money, having meaningful choice through simple engagement and appropriate protections), for customers who regularly engage in the market, and for those who don't. The former addresses the loyalty tax for customers on market offers, while the second would support customers on standing offers.

Draft recommendation 2: Introduce a competitive franchise for the cohort of customers who have not chosen a market offer, so that all customers are on a competitive plan

Question 2: Introduce a competitive franchise for the cohort of customers who have not chosen a market offer

- Do you consider recommendation 2 would provide a better outcome for standing offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

Appendix A contains a detailed description of this recommendation and initial thoughts on how it could be implemented.

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

We rely on competition, supported by regulations such as those governing information provision and dispute resolution, to deliver good consumer outcomes in most jurisdictions in the NEM. These regulations will need to evolve to meet the needs of consumers as technology continues to disrupt the market.

While regulation is necessary to facilitate effective and efficient market operation, govern market participants' conduct, and provide important protections for consumers, technological and behavioural change can render specific regulations unnecessary over time. When this occurs, service providers and ultimately consumers may be left bearing the costs of regulations without corresponding benefits. Ensuring there is a regular opportunity to review the ongoing effectiveness of regulations is important, as it can lower costs and promote the competitive rivalry that supports customers.

The ACCC's *Inquiry into the National Electricity Market* reviews prices, profits and margins in the NEM and provides important data, evidence and insights. The PEMM review has recommended that the AER take on this role going forward.[54]We support the AER taking on this role, and would encourage the transition from the ACCC to the AER to be as seamless as possible to maintain the continuity of time series data so that dynamic trends can continue to be observed.

To support this role, we recommend that the AEMC periodically – every three years – review whether regulations are supporting good consumer outcomes in an evolving market. This periodic review would examine whether the rules support energy service providers to innovate and compete and drive good outcomes of consumers. This would build on the work of the AER in reviewing prices, profits and margins by specifically considering the role of current regulations in supporting competition.

The AEMC periodic review would complement the AER's ongoing monitoring, ideally using the same data, but considering it from the perspective of whether the rules-based framework needs modifications. It would do this by making further assessments on the effectiveness of regulations (such as notifications and information requirements) to support competition and consumer outcomes. We would recommend where enhancements or modifications may be required to contribute to consumers having positive outcomes and reduce unnecessary costs. The AEMC would work closely with the AER in undertaking this task.

54 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper,* p 9.

A report would be published every three years. The review cycle would commence in 2027-28 to allow us to consider the implementation of the BECE reforms and recent consumer package rule changes. We would conduct the review in two stages:

- stage 1: Draw together the analysis and findings of other bodies to develop a broad assessment of how competition is delivering for consumers
- stage 2: Depending on the findings in Stage 1, assess the potential causes of any adverse findings and indicate any necessary further investigations the effectiveness of regulations.

Such a role could:

- provide stakeholders with confidence that consumers receive good outcomes from competition
- improve price transparency and service quality by better incentivising energy service providers to compete more strongly on price, service quality and innovation
- facilitate diagnosis of issues, reducing the costs of compliance and enforcement and putting downward pressure on costs for everyone.

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

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

- Do you support the AEMC periodically assessing the impact of regulations and interventions on competition?

Appendix B contains a detailed description of this recommendation and initial thoughts on how it could be implemented.

3.2 Theme 2: Make it easier for consumers to compare retail offers to increase competitive pressure in the market

Retail products and services are becoming increasingly complex as technology disrupts the market and consumer preferences change. This is the case in both price (eg. how much a customer pays on their bill) and non-price factors (eg. when they can export solar to the grid).

To make compare and decide upon an offer, consumers need the *right* information. This is not necessarily *more* information than is currently available on Energy Made Easy and comparison sites.

Many consumers report that they find the electricity market confusing and have difficulty comparing the breadth of offers available. This results in some consumers missing out on offers that would better suit them. Consumers consistently report dissatisfaction with the complexity of electricity market offers.[55] Many consumers find it difficult to compare alternative offers and

55 AER, *Towards energy equity*, AER, Australian Government, October 2022, p 19.

decide whether to switch offers and/or energy service providers.[56] Practically, this means that some consumers are missing out on the benefits of retail competition.

In response to the discussion paper the Electricity Consumers Australia (ECA) noted that even 'simple' retail electricity plans (ie. common flat tariffs) are not necessarily easy to compare. Fixed and consumption charges can vary materially across energy service providers, 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.[57]

There are some very good online tools designed to help customers work through these complexities and find appropriate retail offers. However, this does not guarantee good customer outcomes:

- Energy Made Easy and Victorian Energy Compare do an excellent job of comparing all retail offers by price, including based on customers' historical electricity consumption. However, they do not compare retailers based on quality metrics and cannot compare some types of retail offers or different home optimisation and asset decision (for example, offers with a wholesale pass-through, demand charges or decision to purchase batteries and participate in VPPs).
- Third-party comparison websites similarly compare retail offers, though there are commercial incentives in play that may limit the utility of the service. Exclusivity agreements with other service providers may require, for example, suggesting particular energy service providers or retail offers and not others. Similarly, search engines may profit from promoting particular energy service providers.[58]

It has been noted these comparison websites struggle with more innovative tariffs and those with a demand component.[59] It is also hard to compare offers on the basis of customer experience, quality, and the availability of any concessions.

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

Our recommendation is two-fold and relates to the AER's role in providing retail plan comparison information:

- We support the AER considering the quality and scope of information consumers will need in its review of the retail guidelines. The AER's review represents an opportunity to provide consumers with better quality and simpler information about plans as the retail market changes. We would encourage stakeholders to engage directly with the AER in this process.[60]
- We recommend providing the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers,including new and emerging types.The AER could draw on technological developments, including but not limited to Artificial Intelligence (AI), to support its comparison service to provide information to allow consumers to make informed choices through an independent and trusted site.

56 ECA (Energy Consumers Australia), *Sentiment Survey, June 2024, Topline Data* [data set], ECA website, 14 June 2024, accessed 7 December 2025.

57 ECA submission to discussion paper, p 10.

58 EWON (Energy & Water Ombudsman NSW), *Do all energy comparison sites give you the best deal?* [media release], EWON, n.d., accessed 7 December 2025.

59 St Vincent de Paul Society, *The NEM Where prices are high and innovation is low, Observations from the Vinnies' Tariff-Tracking Project* [PDF 2.2MB], St Vincent de Paul Society, November 2023, p 27.

60 You can find the AER's consultation paper and how to engage with the retail guidelines review here.

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

Question 4: Make it easier for consumers to compare offers

- What information should be gathered from energy service providers, as the AER considers its review of the retail guidelines?
- Do you have any suggestions regarding potential improvements to Energy Made Easy to facilitate consumers' ability to compare offers?
- How else can consumers be supported to compare offers in the market?

Appendix C contains a detailed description of this recommendation and initial thoughts on how it could be implemented.

3.3 Theme 3: Reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs

We are considering two reforms, which are considered in turn below:

- amend the rules to focus network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers
- amend the rules to ensure networks design tariffs for energy service providers, rather than directly for customers, to promote more flexible and innovative retail offers.

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

Consumers are best served where network tariffs are efficient - that is, network tariffs should reflect underlying costs and send signals to customers that enable a response that rewards customers for behaving in a way that reduces costs and ensures a more equitable sharing of costs. This is because it encourages efficient utilisation of the network, and promotes appropriate investment and operation decisions by consumers. Generally, network costs are recovered on a volumetric basis, which means the costs of infrastructure are not shared fairly among electricity consumers. For example, customers with rooftop solar and a battery contribute less to network costs than customers with the same electricity consumption who only use grid power, despite both groups of customers depending on the network.

Our discussion paper identified that network tariffs currently:

- encourage the transfer of network costs between consumers
- encourage consumers to ration their use of the network and invest time and effort unnecessarily
- do not provide sufficient opportunities to reward consumers for contributing to reductions in network costs
- may be working against wholesale market signals.

In addition, we have identified that networks may lack:

- confidence that they will be able to recover the costs associated with any additional level of effort required to deliver more innovative and efficient tariffs
- incentives to design efficient tariffs and implement them at a pace that best serves consumers.

We propose that consumers are best served where network tariff reform delivers more efficient tariffs. These will ensure network costs are more fairly distributed between consumers while also providing rewards to consumers who contribute to the more efficient use of and investment in networks. The box below explains what we consider efficient tariffs would look like. This explanation is aimed at providing an easy overview. Appendix D provides a more technical description which may be useful to experts familiar with existing approaches and rules arrangements.

Box 3: Network tariffs: What does good look like?

We have worked closely with a range of stakeholders to build a common idea of what a good network tariff would look like.

Stakeholders generally agree that in the future, an efficient network tariff would have two parts:

1. a dynamic charge – a charge or reward that varies depending on network conditions
2. a fixed charge – that is, a fixed amount per fortnight, month, or some other period, that does not vary depending on the amount of electricity consumed.

The dynamic charge

The dynamic charge we envisage in the future would be different from what is common among today's tariffs. The dynamic charges will be zero most of the time.

When there is more demand for network use than it can transport, there will be rewards for meeting the needs of the network (potentially payments for exporting or consuming depending on the nature of the congestion). These rewards will be mirrored with charges for the export or consumption that strain the network at that time and place.

The dynamic charge could be applied based on usage (kWh) or demand (kW) within the defined window. These will reflect the prices needed to ensure the use of the infrastructure stays within its capacity, and contribute to the network revenue requirement.

The fixed charge

The fixed charge will recover most of a network's revenue requirement. We expect the fixed charge will recover more of each network's revenue requirement than it does today.

We like fixed charges because they have a limited impact on customers' decisions. When customers are deciding to heat their home, buy a new television or install solar panels, the fixed charge should not influence their decisions. This helps customers make good decisions.

Fixed charges may vary for different customers. Networks can set fixed charges to reflect different types of customers, avoid customers going off-grid and to attract new and exciting types of customers.

Transitioning towards network tariffs that have a larger fixed charge component will help ensure that consumers can make the best use of network infrastructure to power their homes and businesses and to send power back to the grid. In the longer-term this will create the lowest cost electricity system.

Source: AEMC

The current network tariff design was designed based on the capabilities of the time. It assumes that consumers would respond to price signals in two ways:

- long-term investment decisions – with consumers choosing to purchase, for example, more energy-efficient appliances
- habitual behaviour change – with consumers changing the way they use energy in the home or business, for example by using the washing machine in off-peak periods.[61]

In theory, these more permanent changes in demand would be integrated into reduced network expenditure requirements. As such, this approach was expected to deliver more efficient outcomes, particularly when consumers have limited ability to receive or respond to sharper price signals.[62]

Submissions to the discussion paper highlighted that the current rules, where tariffs are set on a long-run marginal cost (LRMC) basis, could be the wrong approach for the future.[63]

More efficient tariffs that harness improvements in consumer and CER technology could address this limitation. These tariffs could be based more on real-time cost signals, rather than on long-run marginal costs.

We recommend several reforms to the current framework to support the delivery of more efficient network tariffs, through modifying the network pricing principle rules. These are:

- Allowing networks to design tariffs that provide signals related to the need for infrastructure investment (LRMC) as well as shorter-term management of network congestion (short-run marginal cost). We would require networks to consider efficiency over the most appropriate timeframes.
- Setting outcome-based objectives for tariff design to clarify that networks and the AER should focus on progressing tariff reform that improves the use of and efficient investment in networks.
- Clarifying how residual costs should be allocated to reduce consumers and energy service providers unnecessarily changing their behaviour in response to poor signals in a way that does not reduce the cost or improve the fair sharing of costs of the system eg, responding to signals to avoid a summer peak in winter, and to contribute to fairer network cost recovery.
- Removing a requirement for tariffs to not change significantly between periods (the side constraint). Removing this will allow networks to more rapidly implement efficient tariffs, so that the problems with network tariffs can be addressed sooner.

We also consider that incentives for networks to design efficient tariffs could be stronger. These incentives could also better encourage networks to refine tariffs over time as circumstances change during the energy transition. We want to test whether any additional obligations, financial rewards or penalties are necessary to help networks design efficient tariffs through the transition, or whether existing arrangements are sufficient. If stronger incentives are required, options that could be considered include:

- A tariff strategy and implementation incentive to encourage a more rapid transition to efficient tariffs. This mechanism could be an obligation or a time limited financial incentive component through the transition to efficient tariffs has sufficiently progressed.

61 See: AEMC, *Discussion paper: The pricing review,* p 73.

62 AEMC, *Distribution Network Pricing Arrangements, Rule Determination*, AEMC, 27 November 2014, pp 124-125.

63 See: Monash Energy Lab submission to discussion paper; Energy Networks Australia submission to discussion paper, p 4; ECA submission to discussion paper, p 15.

- A dynamic tariff uptake incentive to provide transitional encouragement for networks to design efficient tariffs that energy service providers can cost-effectively package for consumers.
- A financial incentive to reward or penalise the efficient use of the network. This could be a permanent mechanism to encourage networks to constantly innovate their tariff strategies.

These changes are intended to lead to more efficient tariffs that are predominantly fixed, but with a dynamic element designed to reward consumers for avoiding grid consumption that increases network investment costs. This would support the development of consumer offerings, such as retail plans, that reward behaviours that place downward pressure on costs for all consumers.

We expect the outcomes from these reforms would be:

- more equitable sharing of network costs
- networks focus on designing efficient and effective network tariffs
- networks design tariffs to improve value consumers get from the network and to place downwards pressure on future network costs
- customers through energy service providers, would be appropriately rewarded for using energy in ways that contribute to a lower overall cost of energy for all consumers.

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

Question 5: Implement reforms such that network tariff design is focused on efficiency

- Do you consider that the proposed reforms would be effective in delivering more efficient network tariffs and better promote the long-term interests of consumers than the existing rules?
- If not, are there different approaches that would work better?

Appendix D contains a detailed description of this recommendation and initial thoughts on how it could be implemented.

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

Energy service providers are risk managers. They incorporate wholesale electricity prices into retail offers that meet consumers' needs. Rather than energy service providers passing through network tariffs that are designed for customer intelligibility, we propose that:

- network tariffs should be designed for network efficiency
- energy service providers should translate those tariffs, alongside wholesale prices and other costs, into offers that meet their customers' needs.

Currently, networks are required to balance multiple objectives including the impact on customers, and not take into account the ways these tariffs can create complications and increase costs for energy service providers.

Energy service providers submissions to our discussion paper emphasised the need for consistency and stability in network tariffs.[64] We also heard that energy service provider participation in thirteen resets every five-years is a barrier to energy service provider participation in the network tariff setting process.[65]

Energy service providers are the customers of distribution networks, and network tariffs are an important input to electricity retail offers. Network tariffs should support energy service providers offering products and services that consumers want. We want tariffs to be designed for energy service providers and their customers and break the current nexus of energy service providers directly passing on risks and additional costs arising from network tariff structures to consumers. For efficient network tariffs – as discussed above – to be effective, energy service providers and customers need to be able to respond to them. Networks need to consult with energy service providers, because if energy service providers ca not benefit from or pass on a signal to the customer, then there is no point in providing it.

Further to these issues, we consider that the tariff-setting process, which occurs every five years for a given distribution network, may be too rigid for the transition:

- networks suggest that they would like to see greater flexibility to amend a tariff structure statement within the five-year period to ensure that network price signals continue to promote efficient use of and investment in the network
- energy service providers suggest that inconsistency and complexity in tariffs across distribution networks makes it harder for them to develop and maintain billing and quoting systems and ensure compliance, and can result in customer confusion and higher costs to serve customers.

Our recommendation would make energy service providers central to network businesses' consultation on network tariff design. It would require network tariff setting processes to consider the impact on energy service providers' eg, IT and billing systems, and the cost to energy service providers of accommodating multiple tariffs across regions.

This would require rule changes to the network tariff processes to:

- make energy service providers central to network tariff design consultation by potentially removing the 'customer impact' and 'customer understanding' principles that are creating a focus on the consumer, rather than the energy service provider.
- reduce energy service provider compliance costs and support energy service provider innovation by making changes to the timing and / or flexibility of the tariff structure statement

We consider that this would result in energy service providers being able to offer better designed products and services. These would see energy service providers and their customers accessing and benefiting from rewards for contributing to the efficient use of the network. We are interested in whether this would achieve our outcomes, or whether this would result in unintended consequences.

We expect that through this reform energy service providers would:

- be encouraged to package tariffs into opportunities for consumers to lower their own bills and place downwards pressure on total system costs for all
- be better able to design products and services for their customers.

64 Australian Energy Council submission to discussion paper, p 9; Powershop submission to discussion paper, p 4; Red and Lumo Energy submission to discussion paper.

65 Engie submission to discussion paper pp 4-5; Essential Energy submission to discussion paper, p 7; Flow Power submission to discussion paper, p 3; Ausgrid submission to discussion paper, p 9.

We recently received a rule change request from Energy Networks Australia that proposes to increase the level of flexibility available to networks to amend tariff structure statements within a regulatory period. We are yet to initiate this rule change request. Stakeholders may wish to refer to that rule change request in making their submissions to this draft report in the context of flexibility of the TSS process. The rule change request can be found here.

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

Question 6: Ensure that network tariffs are developed and designed for energy service providers

- Do you consider that removing or amending the customer impact and customer understanding principles, as outlined, would make energy service providers central to network tariff design? If so, why and what would the preferred option be? If not, are there different approaches that would work better?
- Do you consider that the tariff structure statement timing can be amended to reduce energy service provider compliance costs and support energy service provider innovation? If so, why and what would be the preferred option? If not, are there different approaches that would work better?

Appendix Econtains a detailed description of this recommendation and initial thoughts on how it could be implemented.

4 We propose to move as swiftly as possible while managing risks

We have outlined a draft reform agenda that is both broad and potentially transformative. We acknowledge that implementation of the reform agenda may be difficult and also disruptive - some of the reforms would see major changes to the way things are done. This could negatively impact market participants, consumers and other stakeholders if we move too quickly.

At the same time, moving too slowly introduces its own risks. Many of the issues our draft reforms seek to address are inhibiting better consumer outcomes already, and there is a strong case to address these urgently.

We aim to strike a balance between ensuring timely implementation and transition to realise benefits as quickly as possible, while minimising costs and risks to consumers and other stakeholders.

4.1 We are considering transitional measures to manage the impacts of these changes on consumers

Transitioning to higher fixed charges may create winners and losers, as some customers end up paying less than they used to, while others may pay more. We recognise that it is essential to ensure that the impacts of any tariff changes are manageable for all consumers.

We propose transitional measures to manage the impacts of a move to higher customer fixed charges from networks and potentially from energy service providers.

The primary focus will be on the impacts on end use customers. There are a number of ways to manage this transition fairly; we outline options below to address the risks arising from reform of network tariffs.

In one scenario, reforms at the network level may be sufficient to support energy service providers to support good customer outcomes. However, further reforms where the impact on customers is managed through energy service providers and transitional customer protections may need to be considered. We are interested in stakeholder views on this for the final report.

4.1.1 Understanding the impacts on consumers

To understand how transitioning to recovering more of network tariffs through a fixed charge could be achieved equitably, we are undertaking more detailed customer impact analysis for the final report. This modelling will use several illustrative fixed charge designs and tariff transition strategies, and will be based on real customer usage data provided to us by networks. The analysis is intended to help us and the broader sector understand more about the potential scale and distribution of bill impacts that could occur for customers if the reforms were to be implemented without arrangements designed to smooth the transition.

We hope our analysis will provide further insights on:

- who the potential 'losers' may be and to what extent they may lose out
- conversely, who the 'winner' may be and to what extent they may win
- the value of different transitional arrangements to manage these impacts.

Recognising the expertise that networks and other industry participants have in these matters, we intend to consult with networks to better understand what our analysis shows ahead of the final

report. We also welcome any stakeholder ideas or data that can help our understanding of this fundamental issue. We would welcome input from energy service providers, including energy service providers, on what these changes could mean for them and what the AEMC should consider as we progress our work towards a final report in 2026.

4.1.2 Managing these impacts with transitional measures

Any transitional reforms we recommend would aim to ensure:

- a network tariff transition that appropriately balances the benefits of rapid implementation with the potential costs and risks of moving quickly
- an equitable transition to predominantly fixed charges.

We outline three options to address the risks arising from reform of network tariffs. We have not included these as draft recommendations at this stage. This recognises that our consideration and analysis of these issues is ongoing, and that the value of and preferences for different options depends on which core reforms may be pursued - which is still subject to stakeholder feedback on this draft report.

We are interested in stakeholders' views on whether one or more of the potential transitional reform options we outline here should be pursued as a final recommendation, or alternately, whether a different proposal not listed here may be better. The three options are;

1. require networks to provide energy service providers with a choice between a basic and a dynamic tariff, to support consumers who want a simple service while creating a commercial incentive for energy service providers to rapidly develop their ability to cost-effectively manage dynamic tariffs
2. require networks to consider energy service providers' ability to adapt, so that energy service providers can transition to efficient tariffs in a timely manner
3. empower the AER to take a more active role in the tariff setting process and to effectively facilitate the implementation of the tariff reforms between energy service providers and networks.

In one scenario, reforms at the network level may be sufficient to support energy service providers to support good customer outcomes. However, further reforms where the impact on customers is managed through energy service providers and transitional customer protections may need to be considered.

We also seek stakeholder views on how the distributional impacts of a move to predominantly fixed network charges can be mitigated. We will consider whether there are other tools that should be considered and implemented for the final report.

Appendix F further outlines how these reforms would operate.

Question 7: We are considering transitional measures to manage the impacts of reforms, and will outline these in the final report

- Do you consider the proposed transitional supports would manage the transition effectively and fairly? Are there other options that we have not considered?
- How can the distributional impacts of a move to predominantly fixed charges be assessed and managed so that consumers are transitioned fairly and risks are appropriately managed?

4.2 We propose a high-level implementation schedule to deliver the core reform agenda

Following stakeholder feedback to this draft report and further consideration by the Commission, we will make a final set of recommendations in H1 of 2026.

We expect, like the reforms we have recommended in this draft report, that our recommendations would require a range of different implementation pathways. Each would require further processes in order to be fully implemented, such as rule changes or law changes. Some could be implemented more quickly than others.

We would aim to move as swiftly as possible to implement our proposed reforms, while managing risks. We propose to start implementing all final recommended reforms immediately following publication of our final report in this review.

We expect that some reforms could be fully implemented as early as 2027. However, others particularly those that are subject to network tariff reset processes, could take significantly longer. Because of these dependencies, we envisage an initial implementation phase of one to three years for most reforms, with some fully complete within that timeframe, and a longer approximately 10 year implementation pathway for those reforms that depend on processes external to the AEMC and occurring along a fixed five-yearly schedule. In the two following sections we discuss:

- our high-level implementation schedule, based on early estimates of how long processes would likely take and external constraints to implementation
- options we have identified to acceleration implementation of some reforms.

4.2.1 Implementation based on current processes

We offer our views on a high-level implementation schedule with only a moderate level of detail, recognising that:

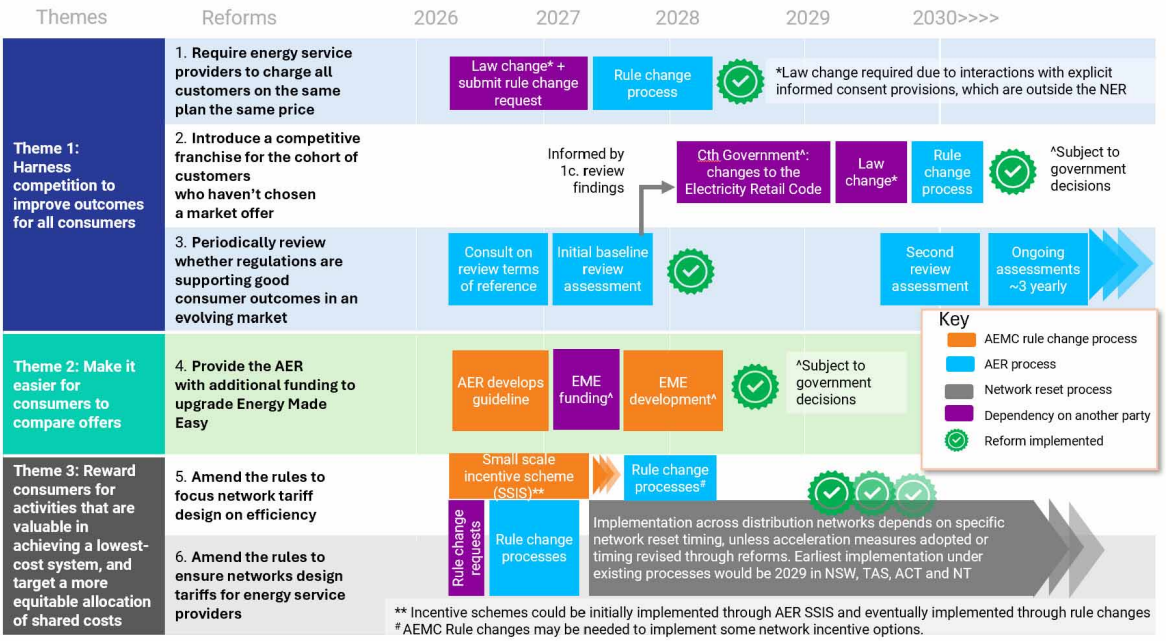
- we are interested in stakeholders' views on the proposed reforms themselves, and any feedback received may influence whether the reforms outlined in this report remain as they are, evolve, or are discarded
- some reforms have sub-options, some of which may be supported in our final report and others potentially not, the timing of different sub-options may be different
- we may advance other reforms in our final report that are not contemplated in this draft report, and indeed we invite stakeholders to propose other reforms if they consider them to be better positioned to address the challenges and opportunities outlined
- specific implementation timing will of course be subject to later decisions and processes and may be different to the high-level estimates outlined here.

The chart below demonstrates a potential high-level implementation schedule to achieve our three objectives. The appendices of this draft report provide further detail on how each specific reform could be implemented.

The Australian Government, through the CER Taskforce, is ensuring that Australians are able to harness the full potential of CER. The CER Taskforce have indicated that they will respond to CER-related findings from this review, including implementation of relevant endorsed reforms and outcomes, by end of 2027.[66] This could be an avenue to consider law changes or initiate rule changes for the recommendations.

66 DCCEEW, *National Consumer Energy Resources Roadmap: Implementation Plan Update*, p 26.

Figure 4.1: Potential implementation timing of reforms



4.2.2 Options we have identified to accelerate implementation of some reforms

The high-level implementation schedule we have outlined is designed to fit in with existing decision processes and to balance the potential costs and risks of implementation. We recognise that many stakeholders may wish for a more rapid implementation, particularly those who consider that the reform program addresses issues that require urgent action. Stakeholder feedback to this review has consistently highlighted the need to move swiftly to address existing issues and get ahead of others that are foreseen.

We have therefore turned our minds to what a faster implementation approach could involve, particularly for reforms to network tariffs, which take longer to work through processes. Below we discuss two options. We would like to hear stakeholder feedback on whether they support these options, assuming they consider an accelerated implementation is warranted.

A transitional rule change could allow early network tariff resets

Network tariff reforms could be accelerated by early network resets, reflecting the updated rules. In practice there are two ways re-open the tariff structure statements:

1. using the existing tariffs structure statement amendment process[67]
2. making a transitional rule that requires early network tariff resets.

As discussed briefly in appendix F.2, the rules allow distribution networks to amend their tariff structure statements. To do so, distribution networks must satisfy the AER that both the event that occurred to warrant an amendment was outside the network's control,[68] and could not have reasonably been foreseen by the network.[69] We have heard from distribution networks that they

67 NER clause 6.18.1B.
68 NER clause 6.18.1B(b)(2)(i).
69 NER clause 6.18.1B(b)(2)(ii).

consider this standard is too high, and they have limited faith that they can meet the standard to the AER's satisfaction.[70] Reflecting this concern, Energy Networks Australia has recently submitted a rule change request to make it easier for distribution networks to amend their tariff structure statements and to add new tariffs.[71]

We have two additional concerns with using the existing tariff structure statement amendment clause:

1. it relies on distribution networks applying to amend their tariff structure statements, if any distribution network does not apply to the AER to amend consumers in their areas will not see the benefits of network tariff reform on the accelerated timeframe
2. we typically do not make rules that would constitute an event that requires amendment, but rather stage implementation to fit with existing processes.[72]

A transitional rule could require either re-opening or replacing tariff structure statements by a certain date. This would ensure early implementation of reforms. The advantage of this process is that it would introduce the reforms across all networks in a timely manner. However, it would also add additional costs to be incurred by the AER and networks, which ultimately flow through to consumers. We included a transitional rule to accelerate the introduction of tariff structure statements in 2014, as discussed in the box below.

Box 4: The separate 2017 tariff structure statement processes

The tariff structure statement was introduced by our 2014 Distribution Network Pricing Arrangements rule change we introduced the tariff structure statement. Our final determination was released in November 2014, days before the AER's draft decisions for New South Wales and Australian Capital Territory distribution networks, and after the AER had received regulatory proposals from Queensland and South Australian distribution networks. Victorian distribution networks were scheduled to submit regulatory proposals 5-months after our final decision. Without transitional arrangements, the tariff structure statement would not be introduced until 2019 in New South Wales and the Australian Capital Territory, 2020 in Queensland and South Australia, and potential 2021 in Victoria.

To allow a faster implementation, we introduced transitional rules to:

- shorten timeframes in Victoria to allow the tariff structure statement to align with its 2016-21 regulatory control period
- create a one-off tariff structure statement process outside the regulatory reset for New South Wales, Australian Capital Territory, Queensland and South Australia.

No transitional arrangements were required for Tasmania, with its next regulatory control period commencing on 1 July 2017. This transitional rule allowed each distribution network to have a tariff structure statement in place by 1 July 2017. We achieved full implementation of these reforms in under three years.

Source: AEMC, *Distribution Network Pricing Arrangements, Rule Determination*, AEMC, 27 November 2014, pp 103-114.

70 Essential Energy submission to discussion paper, p 7; Energy Networks Australia submission to discussion paper, p 3; TasNetworks submission to discussion paper, p 2.

71 Please see the project page for this request here.

72 For example, our 2021 Access, pricing and incentive arrangements for distributed energy resources rule change implemented changes to allow charges for exports between 2024 and 2026 to fit with distribution network tariff reset processes. NER Chapter 11, Part ZZZZQ.

Networks and the AER could commence our major reforms under the existing rules

Distribution networks and the AER could achieve progress towards many of our desired outcomes under existing rules. In particular, today's:

- distribution network pricing principles are consistent with a transition to higher fixed charges[73] and forms of critical peak pricing[74]
- small scale incentive scheme is very flexible and could allow a temporary introduction of our proposed incentive mechanisms.

To help progress towards our desired outcomes, the AER could prepare a guidance note on how we expect distribution networks to interpret the existing pricing principles. This reflects that the network pricing principles have changed since they were first introduced in 2014, and there is no consolidated document that discusses the intention of the pricing principles as a package. A similar approach, though in different regulatory context, the New Zealand Electricity Authority provides guidance to distribution networks on how to best interpret their pricing principles and the best opportunities available to improve network tariff design. The Electricity Authority's approach is discussed briefing in the box below.

Providing guidance and the AER introducing small scale incentive schemes could drive progress towards our desired outcomes before network tariff rule changes are implemented.

Box 5: The New Zealand Electricity Authority's network pricing guidance

The New Zealand Electricity Authority *Te Mana Hiko* is an independent agency that governs the electricity market in New Zealand. They regulate elements of the electricity industry, set market rules, promote market development and conduct operational activities to ensure the electricity system and markets run effectively.

The Electricity Authority revised its distribution pricing principles in 2019. To support distribution networks improving their pricing practices in New Zealand, the Electricity Authority:

- provides a distribution pricing practice note to help distribution networks understand the pricing principles and how to best reflect them in distribution prices
- sends regular letters to distribution networks highlighting key opportunities to improve their pricing in the coming year
- scores the performance of distribution networks in their pricing to reward best practice and encourage better pricing.

Source: Electricity Authority, *Distribution pricing*, Electricity Authority website, n.d., accessed 8 December 2025.

4.2.3 Implementation could vary across jurisdictions

Across the NEM jurisdictions, there are a range of differences that could interact with the implementation of some of the recommendations. We note the following that we are aware of:

- Recommendation 2 and 3, to implement a competitive franchise and assess regulations role on competition effectiveness, may be implemented differently in states and jurisdictions that have regulated retail pricing, such as Tasmania, ACT, and regional Queensland.

73 Appendix D.3.2 highlights that the AER has consistent supported distribution network proposals to increase fixed charges under the existing pricing priciples.

74 AusNet has long offered critical peak demand charges (see AusNet Services, *GoodGrid*, AusNet Services website, n.d., accessed 12 November 2025) and many distribution networks have introduced critical peak pricing in their storage tariffs.

- Recommendation 5, to focus on network tariff efficiency, may need to consider specific regulations and derogations to the NER/National Energy Retail Rules (NERR) such as:
  - the Uniform Tariff Policy ensures that customers of the same tariff class in regional areas pay the same as those in South-East Queensland.[75]
  - the South Australian rules regarding the 'country equalisation scheme' which precludes SAPN from incorporating locational price signals for small customers could have an effect on our recommendations.

We also note that in November 2025, the NSW parliament amended the Energy Supply Act to, among other things, prohibit negative retail solar feed-in charges and tariffs.[76] We recognise that this could impact how energy service providers respond to our proposed network tariff reforms, if these were to be implemented, noting this would of course depend on actual tariff designs by networks and AER approval processes.

Question 8: An implementation schedule that achieves necessary reform quickly while balancing cost and risk

- Do you consider the reforms could be implemented using current processes outlined above (eg, network reset processes)? Or do you consider that different processes, such as an accelerated implementation approach, would be warranted?
- Are there other considerations that we need to be aware of in implementing these reforms?

75 For more information see the Queensland Government website here.

76 Details on the NSW act can be found here.

5 The recommendations would contribute to the energy objectives

The Commission is satisfied that the Pricing review draft policy recommendations would, or are likely to, contribute to achieving the National Electricity Objective (NEO) and the National Energy Retail Objective (NERO). The suite of recommendations proposed in this draft report would ensure that households and small businesses have access to a broader range of energy offers at the lowest system cost by promoting competition and innovation, extending the benefits of competition to all customers, and ensuring the best use is made of network assets.

5.1 The Commission must act in the long-term interests of energy consumers

In conducting reviews, the Commission must have regard to the relevant energy objectives.[77]

For this review, the relevant energy objective(s) are the NEO and NERO:

The NEO is:[78]

> to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system; and
>
> (c) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The NERO is:[79]

> to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to—
>
> (a) price, safety, reliability and security of supply of energy; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO and NERO.[80]

77 Section 32 of the NEL and section 224 of the NERL.
78 Section 7 of the NEL.
79 Section 13 of the NERL.
80 Section 32A(5) of the NEL and Section 224A(5) of the NERL.

5.2 How we have applied the national electricity objectives and national energy retail objectives to our recommendations

We identified the following assessment criteria to help assess the recommendations against the NEO and NERO, with these set out in earlier papers:

- Outcomes for consumers
- Principles of good regulatory practice
- Principles of market efficiency
- Innovation and flexibility
- Implementation considerations.[81]

These assessment criteria reflect the key potential impacts – costs and benefits – of the issues considered in this review. We consider these impacts within the framework of the NEO and NERO.

The Commission has evaluated the impacts of the various policy options against the assessment criteria. These are discussed broadly below and in more detail in each of the policy appendices.

5.2.1 Improving outcomes for all consumers

We consider that the proposed suite of reforms would improve outcomes and opportunities for consumers. The package of reforms as a whole has been explicitly designed to meet consumer needs, as captured by the Consumer Preference Principles, which were consulted on in earlier phases of the review.[82]

Recognising that no two consumers are the same, we utilise the Consumer Archetypes (also developed and consulted on as part of this review) to show that the reforms serve a broad and diverse range of energy consumers. The Consumer Archetypes represent household and small business personas that vary in terms of both their interest in engaging with the energy market and their opportunities to do so.

Application of our Equity Framework indicates that the reforms would help address structural barriers to participation in the energy system and avoid creating or exacerbating vulnerability.

The reform package is designed to meet the Consumer Preference Principles

The Consumer Preference Principles (CPPs) capture consumers' consistent top priorities as demonstrated by publicly available customer research and have been informed by stakeholder feedback. The CPPs are not intended to be exhaustive. Consumers are diverse, and it is not possible to capture all potential customer preferences in a discrete and manageable framework. We acknowledge that some consumers may have priorities that are not recognised in the framework. All of our proposed solutions are rooted in the CPPs and collectively work together to achieve them.

81 AEMC, *Consultation paper, The pricing review: Electricity pricing for a consumer-driven future*, AEMC, 7 November 2024, p 26.

82 AEMC, *Consultation paper, The pricing review: Electricity pricing for a consumer-driven future*, pp 29-31.

Figure 5.1: Consumer Preference Principles

Value for money: The proposed reforms would deliver lowest-cost and innovative retail products to consumers by harnessing the power of competition to better serve customer needs and ensuring that existing network assets are better utilised. In the competitive retail market, increased comparability of offers would make it easier for consumers to engage with the market and to select the most suitable retail offer for their circumstances.

We recognise that not all consumers are able or want to regularly engage with the market. Addressing the loyalty tax and promoting better product differentiation would mean that consumers are no longer required to regularly switch plans to maintain access to a competitive price. It would also change the dynamics of competition and focuses it on areas that would deliver meaningful value for consumers. For those customers on standing offers, a competitive franchise model would have energy service providers competing to serve this cohort of customers who have not chosen an offer. This would provide a different, competitive mechanism to determine the price of standing offers, placing competitive pressure to lower prices for them as a cohort.

In the longer run, we support the AER continuing on the ACCC's role in undertaking an inquiry into prices, profits and margins in the supply of electricity in the NEM. We suggest that the AEMC would undertake a complementary periodic review that focused on considering the role of regulations and interventions in the rules on the effectiveness of competition, and whether changes are required.

On the regulated network side, our recommendations for tariff reforms and new network incentives are both aimed at better targeting rewards (lower bills or increased profits) to the activities that are valuable in the evolving energy system. More efficient tariffs that better align network charges with network costs, would allow for networks to better signal both longer-term infrastructure investment costs and shorter-term congestion management costs. This would put downward pressure on prices, allow for better use of the network when it is cheap to do so, and support new innovative retail products that afford customers more opportunities to save on their energy bills.

Network tariffs that have a larger fixed charge component would help ensure that consumers can make the best use of network infrastructure to power their homes and businesses and to send

power back to the grid. Some customers or energy service providers would choose to face dynamic network tariffs that signal congestion. This would allow them to better respond to wholesale market signals when there is no cost to doing so and to use their CER to manage network congestion in a way that avoids costly network upgrades. This would put downward pressure on costs for all customers and ensure a more equitable outcome for those customers unable to invest in CER. For example, in a recent study on the benefits of CER, Energeia found that a single 10 kWh battery in NSW could save the electricity system over $800 in wholesale, network, and ancillary service costs in a year.[83] Reforms to the tariff-setting process to ensure that network tariffs are designed for energy service providers, would reduce complexity and retail costs, and ultimately result in downward price pressure for customers, alongside valuable new products and services.

We recognise that while there are benefits for all customers in transitioning to a larger share of network fixed charges, this would create winners and losers in the short term. As such, it is essential to ensure that the impacts of any network tariff changes are manageable for all consumers, including those least able to adapt. To inform our recommendations in the Final Report we will be undertaking customer impact analysis using several illustrative network fixed charge designs and tariff transition strategies. This analysis will be based on real customer usage data provided by the networks. We welcome any stakeholder ideas or data that can help our understanding of this fundamental issue.

Availability: Transitional reforms are aimed to ensure that impacts are manageable by customers and that customer choice is preserved. For example, one transitional option would be to require networks to provide energy service providers with a choice between a basic and a dynamic tariff, to support consumers who want a simple service while creating a commercial incentive for energy service providers to rapidly develop their ability to cost-effectively manage dynamic tariffs.

Customers with CER would have more choices in how and when it is controlled as they choose among retail product offers to get their desired mix of control and rewards (acknowledging that some control may be necessary at times for grid security). Tariff reform that better aligns customer costs with system costs will reward those customers with CER who are willing and able to help alleviate congestion, ensuring that electricity is available at the lowest possible system cost.

Meaningful options: Addressing the loyalty tax would refocus retail competition on delivering value for consumers, rather than short-term 'sugar hits'. More efficient and dynamic network tariffs would create opportunities for energy service providers to innovate and create new products and services. Reforms to the tariff-setting process would make it easier for them to do so. Transitional arrangements would preserve and expand on the choices customers have in the short-term.

Simple engagement: All customers would have access to basic, easy to understand retail offerings through transitional prescriptions to network tariffs and retail offers. Changes to the Retail Pricing Information Guidelines and upgrades to Energy Made Easy would make it easier for customers to compare more innovative retail offers and to find and select the offer that best meets a customer's needs.

Appropriate protections: In the short-run transitional protections would be put in place to ensure that customers are able to access the products and services that they desire. For example, the transitional option to require networks to provide energy service providers with a choice between a

83 Energeia, *Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Final Report*, p 34.

basic and a dynamic tariff. The Better Energy Customer Experience (BECE) review being undertaken by DCCEEW aims to ensure that the frameworks supporting customer engagement with the energy market are suitable and effective, considering changes in consumer technologies and preferences.[84] Over time the AEMC proposes to undertake a competition monitoring role. One facet of this would be to both remove unnecessary regulations that add costs with little consumer benefit, while ensuring that any new protections added are fit for purpose.

The proposed reform package will deliver better outcomes for a wide range of consumers and promote a more equitable energy system

We have used the Consumer Archetypes to stress test the potential impacts of the reform package on a range of customers who vary in terms of both their interest in engaging with the energy market and their opportunities to do so. The archetypes represent a customer's situation at a point in time. They are not fixed identities based on demographic information or technology; rather they are personas that represent the variability of consumers across a range of segments and factors. Customers may shift between archetypes over time depending on their financial, social, and personal circumstances. Throughout the appendices, we have provided vignettes that provide examples of how the proposed policy reforms would impact different archetypes.

Embracers: are already highly engaged with the market and energy technology, and welcome new opportunities to be more so. These customers own their homes or premises and have embraced CER technologies such as solar, behind the meter batteries and electric vehicles. They are the most responsive and least risk-averse group. These customers would take advantage of low usage costs when the network is uncongested, and use their batteries, EVs and flexible CER to earn rewards to help relieve congestion when it arises. Although they would have less ability to avoid network charges with solar and batteries than under current network tariffs, they have greater ability to use power when network charges are zero to replace electricity from the grid, petrol and gas consumption in their homes or businesses and reduce their overall energy costs. They can also benefit by earning rewards from responding to periods of high prices, whether this be in the wholesale market or through the dynamic network congestion charge.

Behind barriers: these customers have a willingness to engage in the system to further reduce their energy costs, but are not able to do so for a variety of structural reasons, such as housing or premise type, property ownership, financial constraints, or the nature of their business operations. Increased competition on service quality and innovation would create a wider range of products and services that these customers can engage with. For example, households with insufficient savings or access to credit to afford large investments on CER, may be able to sign up for a monthly subscription product from their energy service providers that bundles together a solar system, battery and electric vehicle, along with any power consumption from the grid for a fixed monthly fee. Customers may have the option to lower this monthly fee by allowing their energy service provider greater control of their CER. Products like this already exist in the market, but by intensifying competition and creating new opportunities, we envisage these products becoming available to a broader range of customers. Similarly, small businesses may benefit from new business models that bundle together services and make it easier for them to run their business, such as new business models for electric vehicle fleet management and charging. Some of these customers would be able to avail themselves of new offers to move beyond barriers, while network tariff reforms will ensure that the remainder would still benefit from the CER in the system, even if they are unable to own or use it themselves. Improving comparison would make it easier for all customers to find suitable offers.

84 DCCEEW, *Better Energy Customer Experiences*.

Full of potential: these customers have the ability to engage with the system, but lack either the interest or trust in the system to do so. They wish to save on their electricity bills, but not at the cost of convenience. These customers would benefit from transitional reforms such as the option to require networks to offer a range of tariffs that ensure that a full range of retail offers, including basic/simple offers are available to them throughout the transition. They would benefit from reforms that put downward pressure on costs for all customers, such as network tariff reforms that help better integrate CER and lower energy service providers costs. As energy service providers continue to innovate and CER and flexible devices become more pervasive in everyday life, they may also benefit from improved comparisons that make it easier for them to select an offer that suits their low engagement needs and lowers energy bills. If they continue not to engage with the system, they would benefit from reforms that harness competition to improve outcomes for customers who don't regularly engage.

Not to be left behind: these customers have low opportunity and interest to engage with the electricity system. For customers who remain disengaged, they would benefit directly from reforms that seek to extend the benefits of competition to all customers. Addressing the loyalty tax would mean that energy service providers would need to lower prices for all customers on an offer, in order to attract new customers. Thus, customers who do not regularly engage with the market will benefit from more engaged customers shopping around and creating price and quality competition, rather than paying a loyalty tax. For customers that do not choose a plan, a competitive franchise would mean that energy service providers would compete to serve these customers as a group (or groups). Competition for the franchise, rather than individual customers, will drive down prices. Other reforms would make it easier to engage with the system and potentially create more accessible opportunities for some of these customers.

Moving towards more efficient tariffs is also a move to more equitable tariffs. Part of the gap between the CER haves and have-nots arises because customers with CER can currently avoid network charges without a corresponding reduction in network costs. More efficient tariffs would create a more equitable sharing of costs and would also ensure that when customers with CER are reducing their own costs, they are also reducing the system cost for all customers. Moving towards a greater share of fixed charges would also provide these customers with more opportunities to use valuable electricity. For example, the usage charge per unit of electricity would be reduced during winter peak periods, allowing consumers better opportunities to heat their homes.

While the proposed reform package would broadly benefit these customers as a group, tariff structure reforms and the move to a higher share of network charges as fixed costs, would negatively impact some of these customers in the short-term. Some of these customers may be experiencing temporary or systematic vulnerability and will be the least adaptive to changing circumstances. As such, adequate measures must be in place to ensure that any bill impacts are manageable and proportionate. We have suggested an approach for testing and developing strategies for managing the tariff transition (see appendix F) and welcome stakeholder feedback on any mitigation strategies, empirical tests, or data that can help us better understand this crucial issue.

The proposed reforms do not target specific customer segments, such as customers experiencing hardship and/or vulnerability – although they will likely assist in better outcomes for these customers. These are multifaceted problems that pricing frameworks are not best placed to address. There are existing regulations that seek to protect these consumers, and we consider

that there is an enduring role for these protections. Stakeholder input to the review supports this view.[85]

5.2.2 Improving outcomes in line with the principles of regulatory practice

The proposed reform package would promote predictability and stability in the regulatory framework by creating long-term incentives to better use network assets, better aligning the tariff setting process with underlying market outcomes and clarifying the network pricing principles. The set of reforms considers and complements the broader direction of other reforms underway (see chapter 3).

In choosing which reforms to implement, we have been guided by an 'intervention hierarchy'[86] that prioritises 'least distortive' solutions, such as competition, and incentives as first-order solutions, with prescription being a last-resort. Prescriptive outcomes are only implemented as transitional measures and the intention is that ongoing retail competition monitoring will ensure that these reforms and other unnecessary regulations can be removed when the market is independently providing consumers with desirable outcomes. How proposed reforms fit into the intervention hierarchy is shown below.

Table 5.1: Intervention hierarchy

	Type of intervention	Proposed reforms
Competitive retail market	Reduce barriers to entry and transaction costs	• Make it easier for consumers to choose offers that suit them through better information and comparison tools • Reforms to reduce complexity and support energy service providers to deliver products and services that consumers want through changes to tariff setting processes
	Focus on market design to better harness the power of competition to better serve consumers	• Harness competition to deliver for all consumers to improve outcomes for all consumers through addressing the loyalty tax and/or a competitive franchise for customers that do not choose a plan • Improve the performance of competition and proactively reduce unnecessary costs by ensuring consumer protections are fit for purpose
	Prescriptions on energy service provider behaviour	• None proposed, relying on existing state prescriptions to ensure all customers have access to a basic retail offer
Regulated networks	Create financial incentives for the business to deliver an outcome that better serves customers	• Create opportunities for valuable activities and provide a more equitable sharing of costs with more efficient and effective network tariffs •

85 ECA (Dragoman) submission to discussion paper, p 8; Powershop submission to discussion paper, p 2; Red and Lumo Energy submission to discussion paper, p 2.

86 AEMC, *Discussion paper: The pricing review,* p 10.

	Type of intervention	Proposed reforms
		• Incentivise networks to design tariffs that make the best use of network assets, including through a potential network utilisation incentive, or development of a long-term tariff strategy
	Prescriptions on network behaviour	• Prescriptive network tariffs to support energy service providers to manage dynamic tariffs for consumers

5.2.3 Creating consumer value by increasing market efficiency

The proposed reforms would promote efficient network utilisation and investments through improved network tariffs and network utilisation incentives. This, combined with our efficient wholesale market design, would ensure that the network infrastructure is the lowest cost to meet consumer needs (productive efficiency) and used whenever the value of doing so exceeds the underlying incremental cost (allocative efficiency). Reforms to reduce complexity and support energy service providers to deliver products and services that consumers want would reduce barriers to competitive entry and better ensure that risks are borne by parties who are best placed to manage them. Improving comparison information and addressing the loyalty tax would increase information transparency and promote competitive prices.

5.2.4 Promoting innovation and flexibility

We consider that the proposed reforms would support innovation in a future electricity market and deliver the benefits of this innovation to consumers. Changes to the tariff setting process would allow energy service providers and networks to work together to create more innovative retail offers. Addressing the loyalty tax would incentivise energy service providers to compete on product quality and overall price and develop more innovative products that better meet consumer needs. Allowing networks to set tariffs based on dynamic elements such as congestion as well as long-run cost signals would create opportunities for new retail products that can save customers money and reduce network capital costs. The package has been designed to be forward-looking for a high-CER world and takes into account and is robust to ongoing policy, technology and market changes.

5.2.5 Practical and expedient implementation that would balance shorter-term consumer impacts with longer-term benefits

We have considered the practicality of developing and implementing proposed recommendations, including how they may interact with other reforms and whether they are manageable for all stakeholders and take into account jurisdictional arrangements. We are aware that there are many implementation issues and considerations that still need to be worked through and considered as detail of these reforms are developed. We are particularly interested in stakeholder views on some of the challenges that would need to be worked through to implement these reforms, which we would take into account in our final recommendations. We have not yet assessed or considered these costs in our consideration of the reforms.

We are also conscious of the need for a careful transition path, so that it is not disruptive. We envisage a 10-year pathway. We want to put in place transitional measures to support networks and energy service providers in the transition to higher fixed charges and are aware of the consumer impacts of moving to new tariff structures and have considered how these can be

managed over time. In particular, appendix F discusses this in more detail. We are particularly interested in stakeholder views on the pathways we have outlined.

A Harnessing the benefits of competition for all consumers

We rely on competition, supported by regulations such as those governing information provision and dispute resolution, to deliver good consumer outcomes in most jurisdictions in the NEM.

An effective retail market is most likely to meet the different and evolving preferences of diverse consumers.

Currently, competition is focused on attracting new customers with introductory prices and away from other types of product differentiation and innovation that could deliver more enduring value for consumers. This contributes to a negative consumer experience of the energy system because it creates complexity, time, and search costs for consumers.

Additionally, customers on standing offers - which are those who have a default assignment, experience their contract expire or retail failure or choose to be on such an offer - tend to pay higher prices than customers on market offers.

We want to move to a dynamic energy services market that delivers value, meets the preferences of different consumers, and provides choice of energy service providers, while ensuring lowest overall costs and building trust through targeted protections.

We propose two complementary reforms to evolve the market and extend the benefits of competition to more consumers. These seek to realign incentives so competition rewards efficiency, innovation and service quality, and away from exploiting consumer inertia in the set and forget market. By making prices more transparent, offers more comparable and competition more evenly distributed, the reforms would deliver a market that works better for all consumers - and over time reduce the need for regulatory intervention, including price protection.

The proposed reforms we have identified are not targeted at a defined group of vulnerable consumers. They aim to correct structural incentives, so competition can work effectively for everyone, including customers on standing and market offers.

A.1 Retail competition is not currently working effectively for all consumers

Our discussion paper outlined two key retail market issues:

1. retail market outcomes for consumers are uneven:
   a. not everyone can access the kinds of plans they want, with a common issue being customers with smart meters unable to access flat retail offers
   b. many consumers do not switch and may be paying more than necessary:
      i. offer complexity and limited comparability constrain customer switching
      ii. customers who do not switch regularly may be paying more.
2. retail regulations may be limiting innovation and adding costs:
   a. safety net pricing and retail price regulation are a particular challenge
   b. customer protections may not be fit for purpose as technological change proceeds.[87]

87 AEMC, *Discussion paper: The pricing review,* pp 39-45.

In response to the discussion paper, stakeholders were split on the approach to address these issues. Some considered that existing arrangements will enable competition and could drive innovation and solve them over time, if regulations are calibrated correctly.[88] Others, however, argued that competition alone is insufficient to meet all customer needs, particularly for vulnerable customers, and suggested competition needs to be supported by consumer protections.[89] Some stakeholders also highlighted the need for a more holistic approach to addressing the challenges in the retail market to ensure it serves all consumers well.[90]

Consumers can find themselves paying generally higher prices than others in two scenarios:

1. where energy service providers gradually increase prices for existing market offer customers who have not recently switched or updated their plan (loyalty tax), or
2. when they are on standing offer contracts, recognising that this is a 'safety net' price and market offers are designed to be lower than this price.

We consider that the root cause of these problems lies in the set-and-forget nature of the market, alongside the fact that participation in the market is not voluntary because electricity is an essential service. This leads to specific energy service provider and consumer behaviours that contribute to poor outcomes including:

- consumers not regularly engaging in the market to express their preferences
- energy service providers price-discriminating between customers without meaningful product differentiation.

A.1.1 Our reform agenda overlaps with other work being developed

The reforms outlined in this appendix aim to ensure the design of the market is focused on delivering the product differentiation that consumers want and ensure that they continue to receive a competitive price over time. We note that solving the issues identified above overlaps with other draft recommendations in this report, as well as in other reviews. Ensuring protections are fit for purpose as technological change proceeds is in the direct remit of Department of Climate Change, Energy, the Environment and Water's (DCCEEW) Better Energy Customer Experiences (BECE) reforms, which are considering which consumer protections are appropriate for newer energy services, as highlighted in chapter 1.

A.1.2 Energy-specific protections support the retail electricity market

Retail market competition alone cannot be relied upon to deliver good outcomes for all consumers. Protections have been and are still required to achieve desired outcomes.[91]

These protections guarantee consumers get fair access to energy, are treated fairly and supported, particularly if they are experiencing vulnerability. This recognises that energy is an essential service, and addresses market failures by establishing standards or thresholds energy

88 ActewAGL submission to discussion paper, p 1; AEC (Australian Energy Council) submission to discussion paper, p 11; AGL submission to discussion paper, p3; Alinta submission to discussion paper, pp 2, 4; ARENA (Australian Renewable Energy Agency) submission to discussion paper, p 3; Clean Energy Council submission to discussion paper, p 2; EnergyAustralia submission to discussion paper, p 3; Engie submission to discussion paper, p 2; Flow Power submission to discussion paper, p 2; Origin submission to discussion paper, p 3; Powershop submission to discussion paper, p 3; SA Power Networks submission to discussion paper, p 2; Tesla submission to discussion paper, p 4..

89 Australian Council of Trade Unions submission to discussion paper, p8; Ausgrid submission to discussion paper, p 2; CitiPower, Powercor and United Energy submission to discussion paper, p 2; ECA submission to discussion paper, p 8; Essential Energy submission to discussion paper, p 9; EUAA (Energy Users Association Australia) submission to discussion paper, p 8; JEC (Justice and Equity Centre) submission to discussion paper, p 9; Momentum Energy submission to discussion paper, p 1; SACOSS (South Australian Council of Social Service) submission to discussion paper, p 7.

90 Alinta submission to discussion paper, p 2; EnergyAustralia submission to discussion paper, p 3; Ron-Ben David submission to discussion paper, p 7; SACOSS submission to discussion paper, p 5; ECA submission to discussion paper, p 8.

91 By energy specific protections we are primarily referring to the legal and regulatory measures that make up the National Energy Customer Framework (NECF): the National Energy Retail Rules (NERR) and National Energy Retail Law (NERL), as well as other codes and guides that govern aspects of the sale of energy.

service providers must meet when serving their customers. Protections cover many aspects of retailers' interactions with consumers, including requiring retailers to:

- obtain explicit informed consent to switch retailers and market offers[92]
- manage the timing (and in some cases level) of price changes in market offers[93]
- compare market offers to the reference price (either the AERs' Default Market Offer (DMO), the ESCs' Victorian Default Offer (VDO), or other jurisdictional schemes)[94]
- make standing offers available to all consumers (these plans have regulated terms, and are given to customers if they do not choose a market offer).[95] These offers also have additional protections, including:
  - a price 'safety net' - a cap on their price (the DMO or VDO)
  - a requirement for a flat structure in some areas.

While all of the NEM exhibits full retail competition, some regions – ACT, Tasmania, and regional Queensland – maintain regulation of retail prices to support competition.

A.2 Addressing the loyalty tax

Energy service providers compete to win customers with market offers. Most energy service providers set prices for new market offer customers differently to how they set them for existing customers. Consumers that regularly switch plans access lower prices. Others that do not switch may pay more over time.[96] These differences do not necessarily stem from consumer vulnerability, but from how the market is structured and how energy service providers respond to incentives. This can contribute to customers who have been with them longer paying a loyalty tax - that is, paying more than new customers for the same service.

This outcome can require customers to regularly switch offers, and potentially providers, to continue to receive competitive prices. We consider this contributes to a negative consumer experience of the energy system because it creates complexity and time and search costs for consumers. Further, this channels competition to be focussed on the level of introductory prices and away from other types of product differentiation and innovation that could deliver more enduring value for consumers.

It is important to note that uneven outcomes flowing from loyalty penalties are not a bad thing *per se*. They are a feature of workably competitive markets - not everyone always gets the absolute best price, a point reiterated by stakeholders.[97] Indeed, recent low margins in the retail markets may indicate competition is driving energy service providers toward efficiency.[98] We also see encouraging signs of retail innovation with VPPs, and EV products proliferating.[99] However, depending on market settings, loyalty tax can become a focus for businesses, potentially at the expense of creating value through innovation and service. The outcome is that prices diverge between consumers, not because of meaningful differences in value, but because of differences in engagement, a point noted by AGL in their submission to the discussion paper.[100]

92 NERL, s39

93 AEMC, *Improving consumer confidence in retail energy plans, Rule determination.*

94 DMO: Regulation 12 of the Competition and consumer (Industry code - Electricity retail) Regulations 2019.

95 NERL, s22. Standing offers are regulated contracts primarily for consumers that have not shopped around or switched to a new plan. Consumers can also select to join a standing offer. All retailers must offer these plans to their customers.

96 ACCC, *Inquiry into the National Electricity Market*, December 2024, p 46.

97 HR Varian, 'Price Discrimination and Social Welfare', *The American Economic Review*, 1985, 75(4):870-75; AGL submission to discussion paper, p 3.

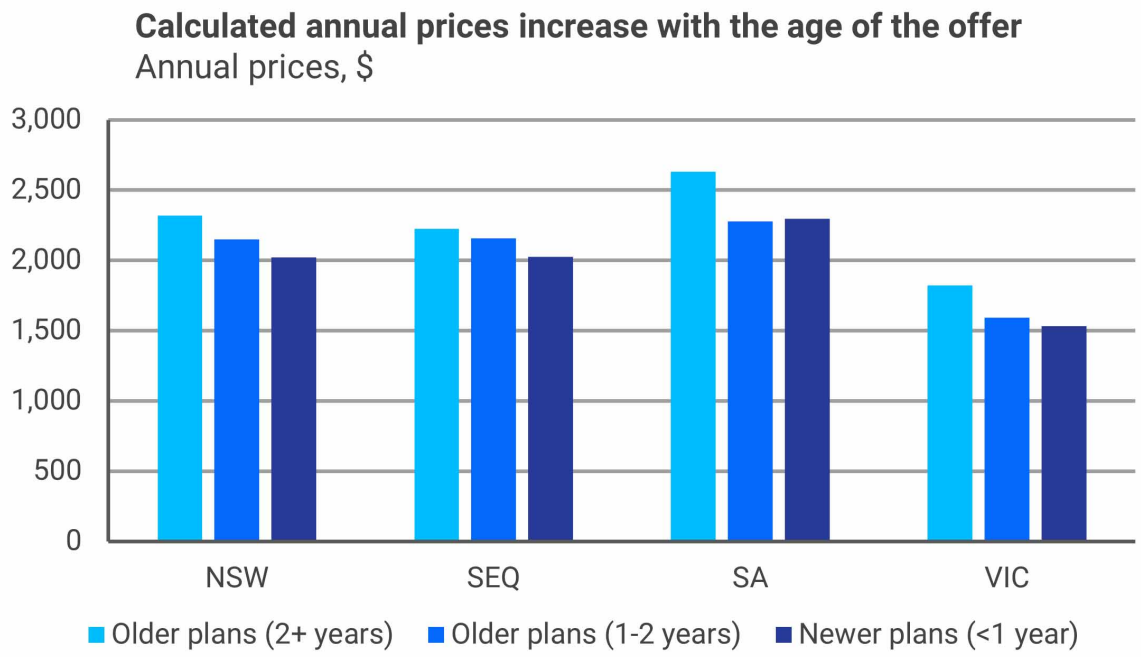
98 ACCC, *Inquiry into the National Electricity Market*, December 2024, p 4; AEMC, *2017 AEMC Retail Energy Competition Review, FINAL*, AEMC, 25 July 2017, p 197.

99 ACCC, *Inquiry into the National Electricity Market,* July 2025, pp 51, 61.

A.2.1 Customers need to regularly switch to continue to receive a competitive price

The ACCC and ESC have found customers on older plans tend to pay higher prices than customers who have changed plans or energy service provider recently, as demonstrated by the graphs below. Customers are effectively taxed or penalised for displaying loyalty to a single service provider or plan.

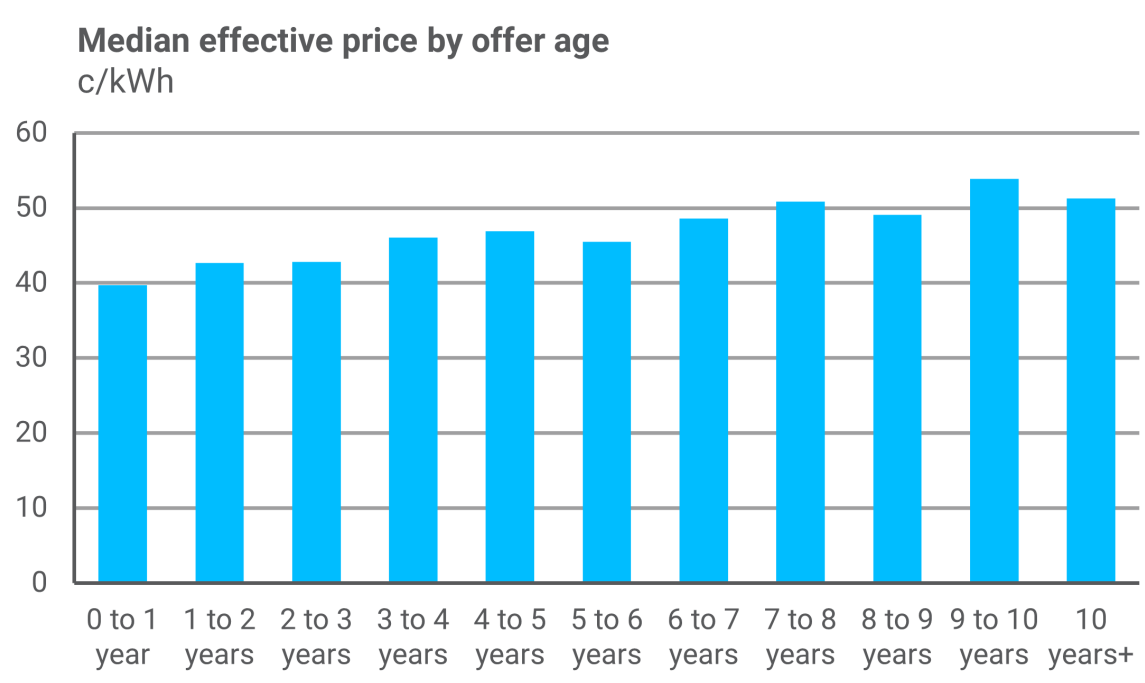
Figure A.1: Prices gradually increase over time for existing customers



Source: ACCC, *Inquiry into the National Electricity Market*, December 2024, p 4.

100 AGL submission to discussion paper, p 3.

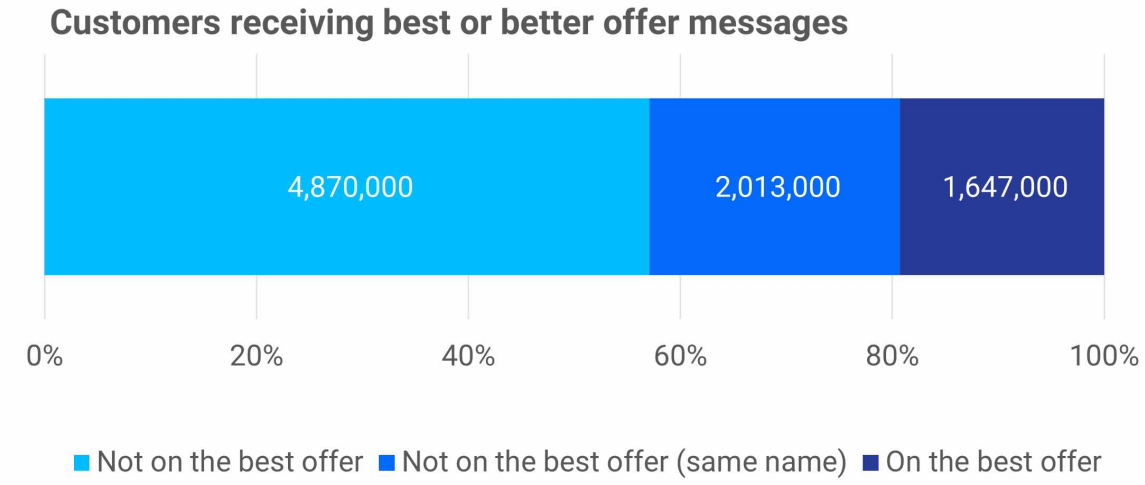
Figure A.2: Price increases in Victoria



Source: ESC, *Energy Consumer Reforms – Regulatory Impact Statement*, p 26.

Further evidence of this can be seen in the number of customers that could be on a better offer, but the better offer has the same name as the plan that they are on. Previous ACCC data indicated that over two million customers had experienced this.[101]

Figure A.3: Duplicate naming indicates the number of customers paying more on plans



Source: ACCC, *Inquiry into the National Electricity Market*, December 2024, p 5.

101 ACCC, *Inquiry into the National Electricity Market*, December 2024, pp 53-55.

A.2.2 Existing consumer protections aim to reduce the loyalty penalty

We consider that existing and incoming reforms, as well as ongoing reviews, are well-placed to mitigate symptoms of the set and forget nature of the retail market to reduce costs for customers who do not regularly review offers in the market. Some of these key reforms and reviews are outlined below.

The AEMCs' *Improving consumer confidence in retail energy plans,* and ESCs' *Energy Consumer reforms,* will reduce loyalty penalties for some customers

The final rule for *Improving consumer confidence in retail energy plans*. This rule change makes several changes to market offers that will reduce loyalty penalties, it will:[102]

- protect customers on contracts with benefits that change or expire from paying more than the standing offer once the benefits end
- restrict energy service providers from increasing prices in market retail contracts more than once in 12 months, typically in July. This does not limit the magnitude of any price change, but will add consistency to the timing of price changes.

The Victorian Essential Services Commission (ESC) has taken a different approach to address loyalty taxes in Victoria. The ESC will require retailers to ensure customers on contracts that are four years or older are paying a reasonable price for their energy.[103] Retailers are responsible for determining a reasonable price - where a customer is not paying a reasonable price for their energy, the retailer must remedy this by:

- lowering a customers' tariffs
- switching the customer to a cheaper plan.

Both the AEMC and ESC reforms will come into effect in mid-2026, and are expected to reduce loyalty penalties by improving the clarity and predictability, and retailer incentives around the pricing of retail energy plans.

The Prohibiting Energy Market Misconduct Act (PEMM) review is also considering outcomes for consumers that do not regularly engage with the market

DCCEEW initiated consultation on recommendations resulting from its review of the PEMM Act.[104]One of the PEMM Acts' aims is to ensure that consumers realise the benefits of reduced supply chain costs, resulting from more effective competition, policy reform, and other factors. It is consulting on how retail market conduct affects vulnerable customers, and customers on legacy contracts.[105]

Already, under the PEMM Act, retailers must pass persistent price decreases through to consumers. DCCEEW are consulting on whether price increases should also be limited to reflect retailers' underlying costs of procuring electricity.[106] If this proposal were to progress, it could reduce the costs of not switching, however, this proposal should be carefully considered against its effect on customer switching. We will continue to engage with DCCEEW as they progress their consultation.

102 AEMC, *Improving consumer confidence in retail energy plans, Rule determination*, p 4.
103 ESC, *Energy Consumer Reforms Final Decision*, p 37.
104 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper.*
105 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper,* p 25.
106 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper,* p 31.

A.2.3 Recommendation 1 - Require energy service providers to charge all customers on the same plan the same price, to address the 'loyalty tax' on customers who don't switch and ensure every customer is always on the best price

This recommendation would require energy service providers to charge all customers on the same plan, the same prices. This would build on recent rule changes that protect customers on contracts with benefits by limiting the price to the standing offer price when benefits end or change, and restricting price increases to once a year.

The intention of this reform is to address the loyalty tax on customers who do not switch and ensure every customer is always on the best price. In effect, customers would no longer be required to regularly switch plans to maintain access to a competitive price. In addition, we want to change the dynamics of competition and focus it on areas that would deliver meaningful value for consumers.

We want meaningful product differentiation to promote innovation and support the integration of CER, while also providing predictability and transparency for consumers.

For a given energy service provider, this means that they would:

- Charge all customers on the same plan the same publicly advertised price for that offer, regardless of whether they are an old or new customer. This would prevent the energy service providers from offering a different price to new and existing customers on the same plan. In practice, the effect of this recommendation would be that if an energy service provider wants to attract an additional customer to a plan, it must improve the offer for all customers, not just the customer it is seeking to attract.
- Compete for customers with new innovative offers that are meaningfully different and provide different value to customers. This would not necessarily limit the number of plans an energy service provider could have, but providers would have to demonstrate at least one material difference to customers between them. For example, an energy service provider could offer plans with different rates for different times (a family-friendly plan with lower rates for hours after school, a retiree-friendly plan with cheaper rates in the middle of the day, an EV plan with differentiated rates for charging, and so on). These would be meaningfully different and offer value to specific customers, allowing them to tap into different rewards and potential bill savings.
- Offer these new plans to all customers, new and existing. This would ensure that existing customers could benefit from new innovative products and services from their provider, noting existing customers would need to switch offers to benefit from this requirement.

Customers would still be free to shop around between energy service providers and find a plan they liked, and would not be excluded from their energy service providers' best deals. In practice, this would also be similar to other industries. For example, customers that joined Netflix in 2024 pay the same price as customers that join today, while Netflix competes against other streaming services to improve their prices and offerings.

Under this proposal, switching pressure would mean customers would automatically access competitive prices. Energy service providers would have to ensure their entire customer book is price-competitive to attract and retain customers, noting this may require a suitable transition time so that energy service providerss can appropriately hedge their books. Over time this may reduce the need for other price protections, including default prices such as the DMO and VDO. These reforms would address the root issue of the set and forget nature of the market, and likely reduce the need for some current protections, including price protections, by channelling competition to reach more consumers. This aligns with the views of some stakeholders, such as ECA, who

consider the retail market is still not operating in a way that enables consumers of an essential service to achieve good outcomes.[107]

Box 6: Reforms addressing price discrimination in UK markets

Energy acquisition offers in the UK need to be offered to existing customers

In 2022 the UK Office of Gas and Electricity Markets (OFGEM) implemented a Ban on Acquisition-only Tariffs (BAT), which prevents suppliers from offering fixed-term deals exclusively to new customers, meaning that any discounted deals are also available to existing customers.*

This enables existing customers to access their own suppliers' best deals. Initially, this was a temporary measure, but it has been extended several times, most recently until 2026.† OFGEM consider the BAT will reduce the risk of being 'locked out' from the ability to switch to the cheapest deals on the market, if that deal is with their existing energy service provider.‡ OFGEMs' approach may also disincentivise energy service providerss from offering strong acquisition deals, since the benefits could be taken by the energy service providers own customers.

Alone, this proposal would not fully address the issues we have identified. While this approach could change energy service provider discount incentives and allow more customers to access their own energy service provider's best deals, it would not remove loyalty penalty entirely. It still depends on consumers navigating the market and switching to obtain a better deal, meaning some customers may not experience the benefits of competition.

Our proposed approach encompasses the benefits of OFGEM's, but differs from this as customers would not need to switch to maintain a competitive price, extending the benefits of competition to these consumers.

Loyalty penalties in UK insurance have been addressed by customers to remain on advertised rates

The Financial Conduct Authority (FCA) UK has found that the home and motor insurance markets are not working well for all consumers, that many loyal customers are not getting good value.§

The FCA UK has introduced a requirement that a firm must offer a renewal price to a consumer that is no greater than the equivalent new business price that it would offer a new customer.# This is a solution similar to ours outlined above as customers would not need to switch to maintain a competitive price.

The FCA consider price discrimination distorts competition and increases costs for consumers and firms.**

*Ofgem (UK Office of Gas and Electricity Markets), *Decision: Future of the Ban on Acquisition-only Tariffs (BAT) beyond March 2025*, Ofgem, UK Government, 14 December 2024, p 4.

† Ofgem, *Decision: Future of the Ban on Acquisition-only Tariffs (BAT) beyond March 2025*, p 6.

‡ Ofgem, *Decision: Future of the Ban on Acquisition-only Tariffs (BAT) beyond March 2025*, p 6.

§ Financial Conduct Authority (UK), *General insurance pricing practices market study Feedback to CP20/19 and final rules [PDF 1,993 KB]*, Financial Conduct Authority, UK Government, May 2021 p.3.

Financial Conduct Authority, *General insurance pricing practices market study Feedback to CP20/19 and final rules*, p 14.

** Financial Conduct Authority, *General insurance pricing practices market study Feedback to CP20/19 and final rules*, p 5.

This would address the root cause of loyalty penalties - and harness competition for all consumers

This proposal would result in an energy services market where all customers remain on competitive offers, and switching occurs to obtain and unlock new value and rewards. We consider that this would have benefits for all consumers. This proposal would channel competition into delivering clearer, more meaningful consumer benefits. It captures the reforms

107 ECA submission to discussion paper, p 8.

progressed in energy and insurance in the UK, as discussed in the box above, and extends them to materially reshape the way energy service providers compete to benefit consumers.

Energy service providers are currently stuck in a world of competing for those customers who switch with acquisition offers - one energy service provider is unable to stop while others continue, as they will lose market share. This proposal would break the cycle for everyone at once and potentially bring about more product differentiation. Requiring energy service providers to charge both new and existing customers the publicly advertised price for a given offer, and not excluding existing customers from offers, would encourage competition on genuine differentiation in service, product features, and long-term value, rather than tactical and short-term acquisition pricing. This greater transparency could improve consumer outcomes: customers could more easily compare offers, avoid loyalty penalties, and have confidence that remaining with an energy service providers would not expose them to hidden or back-ended price increases. Over time, this may also lead to a more stable market structure in which energy service providers compete on efficiency, innovation, and customer experience instead of churn-driven discounting.

Box 7: Vignette - Removing loyalty penalties means Akansha doesn't need to choose a new plan to get a competitive price

Akansha is *behind barriers*. She is busy raising two kids and working full time. She lives in an apartment in Sydney, and doesn't have much inclination to adjust the timing of their energy consumption. She carefully chose a well priced plan a few years ago. When Akansha investigates plans again, she is pleased to find that their existing plan remains competitive.

She is happy with the service she has received from her energy service provider, and recommends the plan to their friend, who joins at the same price Akansha is on.

A while later, Akansha decides to move to a new offer since her kids have grown up a bit, and her work commitments have changed. She notes the plans available from her energy service provider are all meaningfully different, so the choices are pretty clear, and when she looks at Energy Made Easy, there are a range of different prices and plans from different energy service providers for her to choose from - she decides to switch to a new plan with a new energy service provider.

This proposal would require careful implementation

Implementing this recommendation would require careful consideration, including how the compliance arrangements for principle-based regulation of meaningfully different plans would operate, and how the transition to such an arrangement could occur.

There are many ways this reform could be designed and implemented. We expect that this policy would require a NERR rule change request to require each energy service provider's market offers to remain competitive, be meaningfully different, and be offered to their existing customers. A compliance regime would also need to be developed.

Implementing this reform would require changes to the prices paid by consumers, but not necessarily the structure of their plans. In the same way that prices can be adjusted to create a loyalty penalty, they could potentially be reduced to implement this reform.

If this reform was to be implemented, we would need to work with DCCEEW to understand the potential need for any law changes to support the proposed arrangements. These could potentially be captured with reforms to consumer protections developed through the BECE reforms. There would need to also be corresponding rule changes.

A particular challenge that would need to be considered in implementation is how it would be assessed whether offers are 'meaningfully different'. The AER could provide guidance on what might constitute meaningful differences between offers, or types of prohibited differences, with energy service providers then following these principles. For example, meaningfully different could be defined as plans that have at least one material difference from others offered by an energy service provider, which might include features including extra service features, functionality, or differently priced usage periods.

We would not aim to limit the number of plans a energy service provider could offer, allowing plans such as:

- energy service providers targeting different time of use customers – an energy service provider could have multiple plans with different prices at different times, such as a family plan with cheap hours after school, a plan aimed at retirees with cheap daytime hours, or an EV plan with cheaper energy rates applied to the EV charger
- added perks, such as Netflix subscriptions, Qantas.

Some examples of plans that would likely not be meaningfully different include:

- plans that are priced differently based on the age of contract
- insignificant differences in time of use periods or minor differences in prices.

While establishing and enforcing the reform would involve both upfront and ongoing costs, these costs would be necessary to maintain the integrity of the regime.

Energy service providers would also likely face transitional costs for system and process changes, including updating their marketing and acquisition approaches, and ongoing compliance workflows to ensure customers are always charged the relevant public price, and to ensure plans are offered to their existing customers.

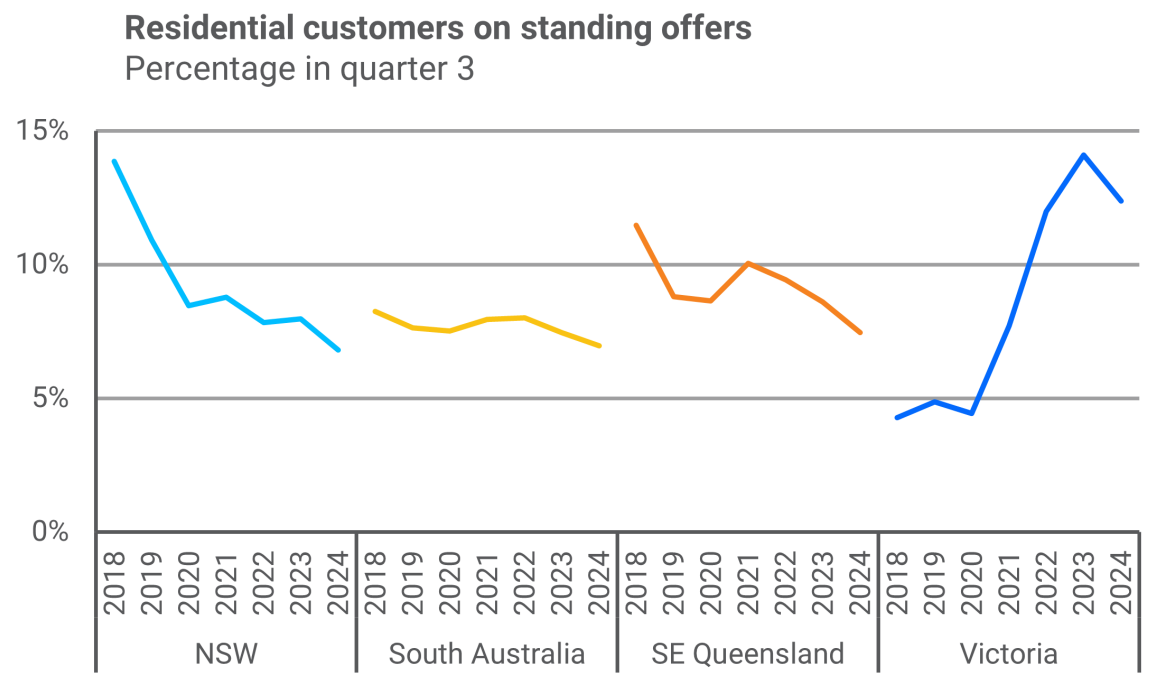
We note that this recommendation could complement and overlap with the recommendation discussed below, as it would ensure that customers remain on better value plans and the benefits of competition would extend to all consumers.

A.3 Introduce a competitive franchise for the cohort of customers who haven't chosen a market offer, so that all customers are on a competitive plan

A.3.1 Customers on standing offers generally pay more

A small proportion of customers are on standing offers after default assignment, contract expiry or retailer failure, or where they choose a standing offer. The chart below identifies the number of customers on standing offers has been reducing over time in NSW, South Australia and South East Queensland.

Figure A.4: The share of customers on standing offers



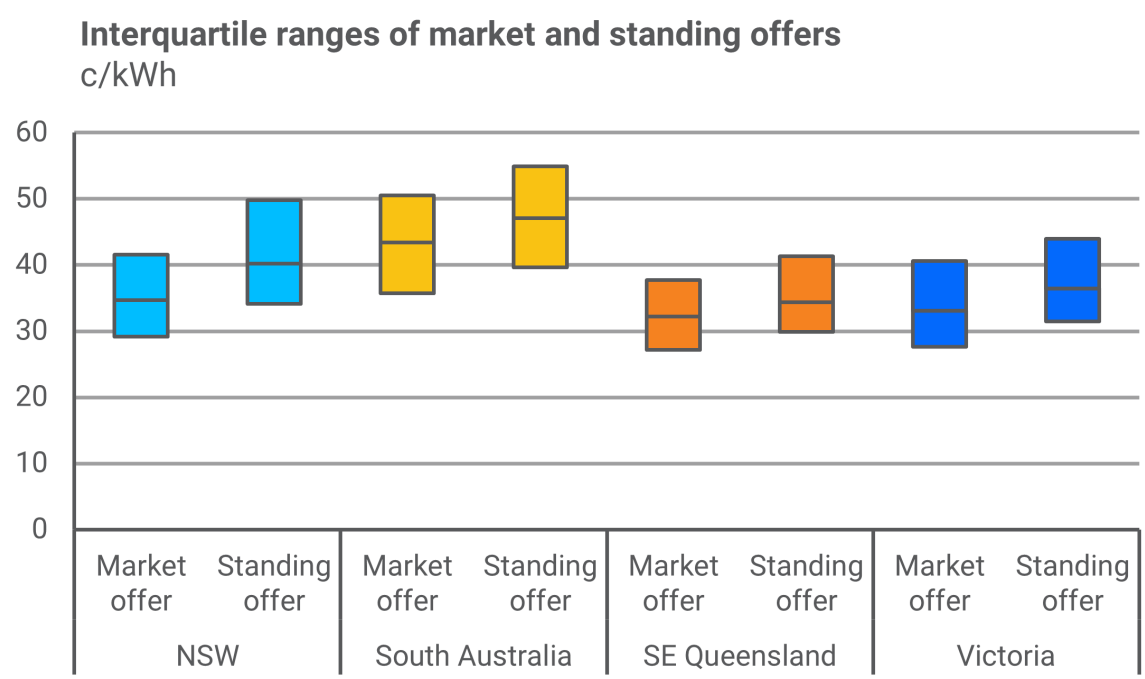
Source: ACCC, *Inquiry into the National Electricity Market*, July 2025.

Customers on standing offers tend to pay higher prices than customers on market offers. However, safety net pricing (the DMO and VDO) protects customers on standing offers by setting the maximum price energy retailers can charge electricity consumers on standing offer contracts.[108] The ACCC has found that the median effective price for customers on standing offers exceeds that for customers on market offers across all NEM regions.[109]

108 DCCEEW, *Default Market Offer*; ESC, *Victorian Default Offer*.

109 ACCC, *Inquiry into the National Electricity Market*, July 2025, ACCC analysis of retailer billing data.

Figure A.5: Customers on market offers tend to pay less than customers on standing offers



Source: ACCC, *Inquiry into the National Electricity Market*, July 2025.

Note: Boxes represent the interquartile range (effective prices at between the 25th and 75th percentiles of the distribution of customers). The slate grey horizontal line in each box is the median effective price.

A.3.2 Safety net pricing protects customers on standing offers

Governments have instituted safety net pricing for standing offers through the DMO and VDO. By limiting the prices that can be charged to customers on standing offers these protections continue to serve as an important safeguard for these customers during this period of change.

The DMO and VDO aim to help consumers who can not or do not shop around for a new electricity deal.[110] They set the maximum price energy retailers can charge electricity consumers on standing offer contracts, as well as a reference price for other offers. Standing offers are contracts consumers find themselves on when they have not actively shopped around or switched to a new plan – consumers can also select to join a standing offer.[111]

However, these protections can create challenges for retailers seeking to offer a wider range of products to customers, and customers on standing offers tend to pay higher prices than customers on market offers, although there is a wide distribution of prices for both.[112]

DCCEEW recently reviewed the DMO and delivered recommendations for improvements to its objectives and functionality. These reforms represent short term changes that could improve the effectiveness and outcomes under the DMO.[113]

While price protections and reference prices may impede innovative offers that provide additional services or additional bill certainty for customers without CER, this is not to say that innovative

110 DCCEEW, *Default Market Offer*; ESC, *Victorian Default Offer*.

111 Customers may be on standing offers if: 1. Their market offer has expired; 2. They have never taken up a market offer since competition was introduced; 3. They have moved to a new property and have not selected a market offer; 4. Customers can also choose a standing offer.

112 ACCC, *Inquiry into the National Electricity Market,* July 2025, p 41.

113 DCCEEW, *2025 Reforms to the Default Market Offer Consultation Paper*, DCCEEW, Australian Government, April 2025, p 24.

products have not emerged since the DMO's introduction. However, we have heard these protections can add regulatory burden, particularly for those more innovative retailers, which could slow the launch and uptake of these products.[114]

DCCEEW has finalised its review of the DMO and recently published an outcomes paper, which contains several changes that will certainly improve the functions of the DMO to support innovation.[115] The AEMC views safety net pricing as a transitional measure - over time its role should be superseded by improvements in retail pricing frameworks, greater integration of CER, and the evolution of consumer protections. Together, these may lessen the need for price protection by extending the benefits of competition to customers that do not regularly choose a new plan.

A.3.3 Recommendation 2 - Introduce a competitive franchise for the cohort of customers who have not chosen a market offer, so that all customers are on a competitive plan

This recommendation would extend the benefits of competition for the cohort of customers who have not chosen a market offer. These customers, who are on standing-offers, would have their accounts pooled and periodically auctioned to energy service providers through a default retail franchise. To improve transparency and ensure the effectiveness of the proposal in serving customers that have not chosen a plan, market offers would be required to be fixed-term – consumers that do not choose a new plan when their existing offer ends would be served by the default retail franchise.[116] This interacts with the rule changes that the AEMC recently made to only allow price changes once a year.[117]

In this scenario:

1. Standing offer customer's accounts would be pooled and periodically auctioned to an energy service providers.
2. Market contracts would be fixed term. This means that all contracts must have an expiry, ensuring that customers that do not choose a market offer at the end of the term would be moved to the standing offer, and would be protected from high prices.
3. Customers would be allowed to switch away from the default energy service provider at any time.

To support this arrangement, the successful energy service provider(s) would have to:

- serve the assigned customers for a fixed term (until the next auction)
- offer a constrained tariff menu, assigning customers to their best fit (for example time of use, flat, or other)
- comply with customer protection standards, such as hardship provisions.

This reform would capture all customers who do not choose a new plan. This would include customers on standing offers, who are currently protected from high prices by the centrally set DMO or VDO.[118] This reform would replace the need to centrally set the price for these customers, as a competitive process would deliver good price outcomes for them. As the market and comparison tools evolve, the need for a reference price may also dissipate. By requiring contracts to be fixed-term this reform would likely extend protections to more consumers, as it would

114 AEC submission to discussion paper, pp 4-6; EnergyAustralia submission to discussion paper, p 9.

115 DCCEEW, *Review Outcomes: 2025 reforms to the Default Market Offer,* pp 7-11.

116 This includes contracts with fixed methods for price changes, such as annual inflation adjustments linked to the official CPI figures.

117 AEMC, *Improving consumer confidence in retail energy plans, Rule determination.*

118 Customers may be on standing offers if: 1. Their market offer has expired; 2. They have never taken up a market offer since competition was introduced; 3. They have moved to a new property and have not selected a market offer; 4. Customers can also choose a standing offer.

remove ongoing or evergreen market offers. Customers on these contracts do not receive the protections of the DMO, and can be exposed to loyalty penalties.

The approach uses competition itself - rather than ongoing regulation through the DMO or VDO - to protect standing offer customers and maintain downward pressure on prices. The auction could specify basic features, such as structure (eg, a flat tariff with a three hour solar soak similar to the Australian Government's recent solar sharer offer proposal).[119] Importantly, protections that currently apply to energy service providers would extend to the retail franchise, and the prices paid by the franchise customers could be used as a comparison for market offers. However, the proposed requirement that market contracts are fixed term would ensure all consumers are afforded price protections. As happens now, consumers would be free to choose a new offer and switch at any time, while energy service providers would compete to serve both market and standing offer customers efficiently. A similar approach has been employed in areas of the US and Italy, as discussed in the box below.

Box 8: Auctions of small consumer energy contracts are undertaken in Italy and the US

Italian and some US authorities have employed a similar approach to that considered above.

Italian regulators run auctions of customer contracts

Concerned with the slow pace at which electricity consumers were leaving the regulated markets and opting for alternative offers available in the free market, Italian regulators organised a set of auctions through which bundles of consumers still in the regulated market were allocated to competing suppliers, which bid discounts with respect to the cost-reflective benchmark defined by the regulator, which they offered to apply for a period of three years.*

The auction applies to customers not experiencing vulnerability, who have not selected a supplier in the free market. The results of the last auctions resulted in savings for consumers who are still in the regulated market of €130 per connection point per year.

In some deregulated areas in the US, customer contracts are auctioned

In areas of the US, the state regulator or utility runs periodic auctions where energy service providers bid to supply default customers.

Winning suppliers provide energy to the consumers at the auction price, which becomes the default tariff.

One example is Pennsylvania, where an independent body manages the auction, and energy service providers bid in rounds to serve relevant customers.†

* Ofgem (UK Office of Gas and Electricity Markets), *Decision: Future of the Ban on Acquisition-only Tariffs (BAT) beyond March 2025*, Ofgem, UK Government, 14 December 2024, p 4.

† Ofgem, *Decision: Future of the Ban on Acquisition-only Tariffs (BAT) beyond March 2025*, p 6.

The competitive franchise would address the root cause of standing offer customers paying more

This option aims to extend the benefits of competition to customers who do not regularly engage in the market, and improves contract transparency and predictability for those that do. By pooling all customers on standing offers and allocating them to energy service providers through a periodic auction, the proposal would introduce competition *for* the market of these customers, and so improve outcomes for them. The auction mechanism channels competition into offering the standing offer customers the lowest sustainable prices set by the market.

119 The Hon Chris Bowen MP, Minister for Climate Change and Energy, *More Australian homes to get access to solar power* [media release], Minister for Climate Change and Energy, Australian Government, 4 November 2025.

The reform also promises several structural benefits to the market to help promote innovation. Removing the requirement for all energy service providers to offer standing offers would reduce regulatory burden and risk, potentially encouraging innovation. The energy service provider that wins the auctions could specialise in serving standing offer customers. The approach also leverages market forces - rather than ongoing price regulation through the DMO/VDO - to protect disengaged customers and ensure efficient price discovery.

However, the proposal also entails significant transitional and administrative costs. It would require a substantial reshape of current market arrangements, introducing new roles and responsibilities for energy service providers, regulators, and market bodies. Energy service providers who wish to participate in the auctions would need system changes to manage auctioned customer cohorts, administer fixed-term contracts, hedge customer contracts for large influxes of customers, and distinguish between franchise and general market customers.

There is also a risk of reduced competition *in* the market if a large portion of the total customer base is captured in the default franchise, potentially weakening incentives at the margin for energy service providers to invest in acquiring or retaining customers outside the default pool. There are also risks if no energy service provider submits a bid to the auction process, if the chosen energy service provider fails or gains general market power. Careful design would be needed to mitigate the risks of each of these outcomes. Customers captured by the auction would also potentially be served by a new energy service provider, and experience changes in their billing and customer service – careful consideration would need to be made for customers experiencing intersectional vulnerability, including those on life support or experiencing family violence.

Box 9: Vignette: Harry's price is competitive, despite not choosing a market offer

Harry is *Not to be left behind*. He is a paramedic who lives outside Adelaide. He works shifts and isn't too interested in the ins and outs of energy plans. He quickly chose a plan a few years ago, noting it would last three years, and the price was locked in for that time. Even though he could change plan any time, it hasn't crossed his mind.

Harry doesn't notice when his plan expires, but in the background, his contract is captured by the auction, and he is now served by the default retail franchise - since the auction is competitive, Harry's bill is lower than before.

A couple of years later, Harry becomes an E*mbracer*. Harry decides to get a battery and a solar panel for his house, he finds a great plan on Energy Made Easy, and switches away from the retail franchise without any fuss.

This recommendation would require changes to the NERL and NERR, and careful implementation

This recommendation would likely involve significant transitional and administrative costs, including introducing new roles and responsibilities for retailers, regulators, and market bodies. There are many ways this could be designed, and the individual decisions could influence consumer outcomes and the implementation approach. Changes to the NERL and NERR would also likely be required to support this option. We consider this option should be progressed following monitoring of the retail market, and assessment of consumer outcomes resulting from the implementation of other reforms.

Implementing the model would require legislative amendments to establish roles around the auction, and to redefine standing-offer obligations to allow the transition of customers between energy service providers via the auction-based default contracts. We envisage working with the

DCCEEW to understand the scope of these potential law changes. We consider these could potentially be progressed with reforms to consumer protections for BECE.

This proposal would likely require detailed rule changes to specify auction design, retail franchise contract requirements, and customer protections. We would work with potential rule change proponents to develop the required features of these arrangements.

Ongoing compliance monitoring by the AER would be essential, and potentially resource intensive, to ensure the franchise operates effectively, auctions are run transparently, and consumer outcomes improve, both within the franchise energy service provider, and the general market.

If implemented, we would expect that a number of guidelines and energy service provider systems would need to be updated. For example, energy service providers would likely need system changes to manage auctioned customer cohorts, administer fixed-term contracts, hedge customer contracts for large influxes of customers, and distinguish between franchise and general market customers.

B Periodically review whether regulations are supporting good consumer outcomes in an evolving market

B.1 Retail competition supports good consumer outcomes

We rely on competition, with supporting regulations such as information provision and dispute resolution, to deliver good consumer outcomes in most jurisdictions in the NEM. With appropriate protections, these outcomes include:

- customers being able to access services when they need them
- achieving value for money from those services, and
- having meaningful choice of service through simple engagement.

Competition stimulates innovation and ensures better quality, lower cost products and services for consumers.

The Australian Energy Regulator (AER) regulates retail energy markets in Queensland, New South Wales, South Australia, Tasmania and the ACT so that energy consumers (particularly residential and small business customers) can participate in these markets and achieve good outcomes. The Essential Services Commission (ESC) undertakes a similar role in Victoria. There are regular reviews and monitoring of retail competition, including the prior AEMC retail competition reviews, the AER's annual state of the market reporting and the Australian Competition and Consumer Commission (ACCC) twice a year Inquiry into the National Electricity Market reports. As identified in the box below, aspects of competition have been improving over time.

Box 10: The AEMC historically reviewed retail competition

Historically, the AEMC undertook annual reviews of retail competition in theNEM. We undertook seven reviews, with the most recent review being completed in 2020. Findings from the earlier reviews (2014 to 2019) consistently found that the state of competition in energy markets for small customers varies across the NEM, reflecting the different pace of market reforms across jurisdictions. We also typically found that the state of competition varies between electricity and gas market due to differences in size, structural and market design features. These reviews also tracked the evolving nature of these markets, with more opportunities for consumers being created and new technologies being taken up. This reflects the continuous, iterative process of retail competition, reflecting that the journey is not always smooth, but the process of discovery and experimentation allows businesses to adapt in order to meet the varying needs of consumers.

Our most recent Retail Competition Review in 2020 concluded that the retail energy market was becoming more competitive year-on-year, with more market participants, improved customer satisfaction and decreasing complaints.[*] However, it also recognised there were several areas where competition could be improved, particularly around the consumer protection frameworks. The review recommended a range of changes including future-proofing the NECF, changes to explicit informed consent, notification of contract changes and dispute resolution for new energy products and services.[†] It also recommended changes to enhance retail market financial resilience in the immediate term and in the long term for future shocks. These recommendations are currently being worked on.

The AEMC no longer undertakes this regular review, Ministers withdrew our terms of reference for this work following an AEMC request.

[*] AEMC, *2020 Retail Energy Competition Review*, AEMC, June 2020, pp xii-xiii.
[†] AEMC, *2020 Retail Energy Competition Review*, pp ix-xi.

Through its twice a year inquiry into the National Electricity Market reports, the ACCC reports on the prices, profits, and margins in the supply of electricity in the NEM.[120]

Recent reports from the ACCC support the findings of the AEMC as described above. For example, in its December 2024 Inquiry into the National Electricity Market report, the ACCC found that retail electricity competition had experienced 'modest improvements in competitive conditions' over the years with increased market entry by energy service providers and an increased spend from smaller energy service providers in customer acquisition costs as they try to grow their retail books.[121]

Similarly, in its July 2025 report, the ACCC also found that consumers are taking up new energy services, such as VPPs, at growing rates and the operators of these services are not the incumbent big three energy service providers. The ACCC found that 75% of VPP customers are being served by smaller providers.[122]

More generally, the ACCC has observed progressive improvements over the past several years. This progress relates to both competition, and also corresponding consumer outcomes such as prices. Table B.1 below highlights the key findings of the ACCC's end of year reports over the last five years. This snapshot of insights that are regularly reported on by the ACCC further support the continuous, iterative process of retail competition, reflecting that the journey is not always smooth and outcomes vary for customers over time, but the process of discovery and experimentation allows businesses to adapt in order to meet the varying needs of consumers.

Table B.1: ACCC's key insights on the state of retail competition in the electricity market

ACCC *Inquiry into the NEM* report edition	Key findings
September 2020	• Consumer retail prices fell over the past year. • The introduction of the DMO and VDO did not appear to adversely affect market offers.
November 2021	• Electricity costs were the lowest they have been in 8 years, with the average cost to supply electricity down 8% across the last 2 financial years, with there being evidence that this was starting to flow through to customers. • Retailers' operating costs decreased across the last 2 years, with both the cost to serve and the cost to acquire and retain customers falling on a per-customer basis.
November 2022	*Note: This report was published following the June 2022 market suspension event and high wholesale market volatility.* • Over the last decade, retail competition has increased as new retailers have entered the market and won market share away from incumbent retailers. The threat smaller retailers pose improves value for consumers and incentivises product innovation. That said, the big 3 retailers retained substantial market

120 See the ACCC's terms of reference here.
121 ACCC, *Inquiry into the National Electricity Market*, December 2024, p 1.
122 ACCC, *Inquiry into the National Electricity Market*, July 2025, p 6.

ACCC *Inquiry into the NEM* report edition	Key findings
	share and continued to have significant cost advantages over smaller retailers. • Analysis indicated that retailers are finding it increasingly difficult to manage their exposure to prices in a volatile spot market. • While retail prices have increased, retailers have limited ability to pass through increased costs in the short term, increasing their liquidity risk. The result is consumers moving from small and very small retailers towards retailers with larger market share, increasing market concentration.
December 2023	• Following the 2022 spot price and market suspension retailers' wholesale costs remained elevated, and retail margins remained lower than before the market suspension event, reflecting the long-term trend of decreasing retailer margins. • Market concentration decreased, and the number of active retailers has increased, demonstrating positive signs for competition in retail electricity. • The ACCC identified that 96 per cent of residential customers are on plans with a price more than 25% above the DMO, highlighting concerns around customer disengagement.
December 2024	• The retail electricity market experienced modest improvements in competitive conditions over the past year, with a net increase in new retailers following several withdrawals after the 2022 energy crisis. • Smaller retailers have substantially increased their spending on acquiring new customers and have made more acquisition offers available, indicating they are making greater efforts to compete for new customers. • Customers who do not switch pay more. • Costs of supply and retail margins have increased overall, but varied greatly between retailers, with the big three retailers collectively having higher margins than the non-big three retailers. However, some smaller retailers were able to achieve high margins in some regions.

Source: ACCC, *Electricity market monitoring inquiry 2018-25*, ACCC website, n.d., accessed 8 December 2025.

B.2 Regulations need to keep pace with the transition

We anticipate that competition in the future will look different from what we see today. We expect more product differentiation, and competition on things other than price.

We are seeing greater complexity in consumer offerings now than historically, and as more consumers adopt CER such as solar panels, batteries and EVs, we may yet see an increasing proliferation of diverse electricity plans and services. There is increasing competition, a trend to digitalisation and diverging consumer preferences. This is testing the boundaries of the current regulations and interventions in the rules that relate to outcomes in the retail market.

As technology and offering innovation continues to disrupt the market, regulations will need to evolve to continue to meet the consumers' needs. Stakeholders agree with us that while many

regulations provide valuable protections for consumers, some may be rendered unnecessary over time, and add costs to doing business, which are ultimately borne by consumers.[123]

This occurs because technologies, services, and customer behaviours change over time, while rules and regulations, absent regular reviews, may not and so may.no longer be fit for purpose. If regulations are not amended in response to evolving circumstances, energy services providers and ultimately consumers may bear unnecessary costs.

Ensuring there are regular opportunities to review the ongoing effectiveness of competition is important as it can lower costs and promote the competitive rivalry that supports customers.

B.3 Monitoring the effectiveness of competition is important

Currently, a number of organisations monitor the effectiveness of competition in the retail electricity market, including both the AER and ACCC. Other organisations and market bodies monitor discrete aspects of the retail energy market.[124]

The ACCC's Inquiry into the National Electricity Market, which reviews prices, profits, and margins in the NEM, has been important in providing data, evidence, and insights on how the market is developing. The ACCC's function is due to expire in June 2026.

Through its PEMM review, DCCEEW examined the effectiveness of the ACCC's role.[125] DCCEEW found that the ACCC's role has benefited consumers and policy makers by increasing the transparency of prices, practices and profits of retailers.[126] To support this continued transparency, DCCEEW recommends extending the ACCC's inquiry function to the AER.[127] This would take effect in August 2026.[128]

We support the AER assuming responsibility for this inquiry. We agree with DCCEEW's findings that the ACCC's function has been useful for industry and policy makers and for supporting consumers.[129] It provides important data, evidence and insights. The Commission considers that continued transparency of prices will incentivise energy services providers to compete more strongly on price, driving down costs to consumers.

Any transfer of functions should be done in a way that minimises the impacts of the transition.[130] Continuity of data collection should be maintained as the ACCC's role ends and the AER commences its own. We also support the AER's proposal to the Treasurer to amend the Competition and Consumer Act (2010) (CCA) to reduce duplication of data gathering and support sharing of the same data the AER would be able to gather under the CCA with other market bodies.[131]

123 AEMC, *Discussion paper: The pricing review,* pp 44-45; ActewAGL submission to discussion paper, p 3; AEC submission to discussion paper, pp 5-6; Alinta submission to discussion paper, pp 1-2; Clean Energy Council submission to discussion paper, pp 2-4; EnergyAustralia submission to discussion paper, p 9; EUAA submission to discussion paper, p 8; Momentum Energy submission to discussion paper, p 1; Nexa Advisory submission to discussion paper, p 4; Poweshop submission to discussion paper, pp 2-3; Tesla submission to discussion paper, pp 1-4; The Energy Charter submission to discussion paper, p 6.

124 For example, Energy Ombudsmen examine complaints and retailer performance, IPART monitors the effectiveness of competition in NSW and the AER does various reporting on retail performance.

125 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025.*

126 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025,* pp 84-85.

127 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025,* p 87.

128 DCCEEW, *Strengthening the Prohibiting Energy Market Misconduct provisions in the Competition and Consumer Act 2010, Consultation Paper,* p 13.

129 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025,* p 87.

130 DCCEEW, *Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth) – Final Report – June 2025,* p 87.

131 AER, *Letter to the Treasurer - Regulatory reform opportunities*, AER, Australian Government, August 2025.

B.4 To complement the AER's inquiry, the AEMC could undertake a periodic review that focuses on whether regulations are supporting good consumer outcomes

We consider that it is important that the retail energy market has targeted regulations that adequately protect consumers, but we would like these regulations and interventions to be implemented in a way that minimises costs to energy services providers, and so consumers.

These regulations and interventions impose costs - both through their creation, implementation, operation and ongoing monitoring of compliance and enforcement. They are also important to protect consumers and enabling effective outcomes. However, given the transition underway, these can quickly become out-dated and not be kept up to date with what is required for consumers. It is also possible that new regulations and/or interventions could be required to address emerging issues.

Therefore, to support the AER's inquiry into prices, profits and margins in the NEM we recommend that the AEMC periodically – every 3 years – review whether regulations are supporting good consumer outcomes in an evolving market. More specifically, this periodic review would examine whether the rules support energy service providers to innovate and compete and drive good outcomes of consumers.

This work would complement the AER's ongoing monitoring. However, the AEMC review would consider the issues from the perspective of whether the rules-based framework needs modification, that is whether the regulations and interventions in the rules still support competition. We would do this by leveraging the findings produced by the AER, and also those of other relevant reviews, to assess the effectiveness of the rules to support competition and consumer outcomes. This could include for example customer notification and information requirements, among others. Our review would indicate where enhancements or modifications may be required to improve consumer outcomes. It could, for example, prompt further rule change or review work by the AEMC. It may also identify similar work to be undertaken by other organisations as relevant.

The AEMC would work closely with the AER in undertaking this task. Ideally, we would use the same data that would be gathered by the AER. However, we recognise that this would likely require a law change to allow this to be utilised, and so we would need to work through the practicalities of this.[132] This role should not seek to gather the same information from industry as the AER would in its future role to avoid duplication. We agree with submissions to the PEMM review outlining that complying with various duplicative information requests can be burdensome and increase costs, and we do not wish to contribute to further burdens in this respect.[133]

The AEMC review would make further assessments on the effectiveness of regulations (such as notifications and information requirements) to support competition and consumer outcomes. We would recommend where enhancements or modifications may be required to contribute to consumers having positive outcomes and reduce unnecessary costs.

We consider that the review would:

132 We note that the billing data the AER would collect under the Competition and Consumer Act could not shared with the AEMC (similar to the arrangements currently in place for the ACCC). Pending any expansion of information sharing, we would be able to examine aggregated data and findings.

133 EnergyAustralia submission to the Review into the effectiveness of the Prohibiting Energy Market Misconduct Act 2019 (PEMM Act), p 3; Law Council of Australia submission to the Review into the effectiveness of the Prohibiting Energy Market Misconduct Act 2019 (PEMM Act), pp 10-11; Origin submission to the Review into the effectiveness of the Prohibiting Energy Market Misconduct Act 2019 (PEMM Act), p 3.

- first be undertaken in 2027-28 to allow us to consider the implementation of the BECE reforms and recent consumer package rule changes that were discussed in section 1.5
- be undertaken every three years, as this would allow sufficient time for observation of sustained trends, recognising that there is natural fluctuation in retail competition over time, as well as avoiding the costs for industry involved with a more frequent review
- involve consultation with stakeholders, in particular working closely with the AER, and
- a publicly available report making recommendations.

Our ambition is to leverage the work performed by other organisations to develop a regular calibration of regulations. We do not consider that a larger, more general review of competition would add value. For example, we do not consider that the AEMC should conduct detailed retail competition reviews as we have done in the past. Furthermore, the AEMC does not have robust information gathering powers such as those possessed by the AER and ACCC, and therefore we are not well positioned to add broader or deeper insights on the general state of competition beyond what these organisations already produce. Instead, our recommendation is focussed on complementing existing work underway.

The AEMC would conduct two stages in this review, as outlined below.

B.4.1 Stage 1: Draw together the analysis and findings of other bodies to develop a broad assessment of how competition is delivering for consumers

Using AER data (if possible) and assessment, we would consider whether the following features of a workably competitive market are being observed in practice. The features of workably competitive market are:

1. prices that trend towards the average cost of providing the electricity services to the customer, including consideration of price dispersion
2. the quality of service matches consumers' expectations - eg, where customers get the products and services they sign up for, and energy services providers that do not deliver what they promise risk losing market share.
3. consumers have choice of products and services consistent with their preferences
4. there are many energy services providers participating in the market, with no sustained market power for an individual firm[134]
5. there is a reasonable amount of consumers switching energy services providers and offers for energy services providers to experience competitive pressures,[135] noting that high switching rates alone do not necessarily indicate good consumer outcomes.

We would consider if and how these features are present in the market over time. To the extent that the AER or other relevant parties has undertaken this work - we would not seek to replicate this. Instead, we would take these findings as our starting point to inform stage 2.

Box 11: We would examine the following outcomes to determine if competition is working effectively

1. The exercise of market choice

134 C Kaysen and DF Turner, *Antitrust policy; an economic and legal analysis,* Harvard University Press, 1959, p 75.

135 ACCC, *Retail Electricity Pricing Inquiry Preliminary report,* ACCC, Australian Government, 22 September 2017, pp 120-121.

- What data do we have on how many consumers are switching and which consumers choose to switch?
- What are the factors that determine why consumers choose to switch or do not choose to switch?

This would inform our consideration in stage 2 on the reasons why consumers switch or don't. This would be informative in considering changes to regulations focussed on helping consumers find the products and services they want.

2. Innovation in the market

- What is the spread of energy service providers in the market and their business models?
- What is the trend of energy service providers entering the market?

This would inform our consideration in stage 2 on whether there are any regulations or interventions that are creating barriers to entry for new providers wanting to enter the market.

- What is the range of products and services on offer to consumers?

This would inform our consideration in stage 2 on whether there are any barriers to the proliferation of a spectrum of products and services on offer to consumers, or whether existing interventions are providing meaningful choice to consumers.

3. Consumer outcomes and experiences

- What is the spread of prices consumers are paying for their services?
- What is the quality of the products/services they are experiencing?
- What are the outcomes for consumers for like products in other industries?

This would inform our consideration in stage 2 as to whether there are modifications required to rules and interventions to better match real consumer experiences with consumer preferences.

These consumer outcomes and experiences would be crucial in informing our considerations in stage 2 of this work.

B.4.2 Stage 2: Depending on the findings in Stage 1, assess the potential causes of any adverse findings and indicate any necessary further investigations the effectiveness of regulations

The outcomes of this assessment function may provide the AEMC and other policy makers insight on whether regulations and interventions in the rules should be enhanced, amended or, if there are creating barriers to good consumer outcomes, removed. The purpose of which is to make sure these regulations and interventions are still fit for purpose as the market transitions.

If we consistently see poor outcomes for consumers or consumers experiencing good outcomes, we may make recommendations or conduct further investigations as part of this function. The potential triggers for the AEMC to commence action would depend on the context of the time. In general, if we see sustained low levels of consumer satisfaction, low amounts of product differentiation or diminished rates of entry in the energy service provider market, we may suggest further investigation and/or make recommendations to improve the function of regulations. The AER, ACCC, and various jurisdictional bodies such as the ESC have various powers under the NECF, CCA and state based legislation to implement our recommendations. If we made recommendations, we would consult on the best course of action as appropriate; for example, if rule or law changes would best resolve an identified issue.

B.5 A role assessing the effectiveness of regulations would support competition and good consumer outcomes

We consider that the combined efforts by the AER on the broader performance of competition and the AEMC's role to review the efficacy of regulations across time would best support energy service providers and consumers in our transforming market. This would include:

- ongoing assessment of regulation and interventions in the rules could facilitate diagnosis of issues, reducing the costs of compliance and enforcement, putting downwards pressure on costs for everyone
- providing opportunities for energy services providers to identify unnecessary or costly obligations
- making sure that regulations relating to transparency of prices and service quality are fit for purpose, encouraging energy services providers to compete more strongly on price, service quality and innovation
- redundent regulations and interventions or those that are creating barriers to entry could be removed, lowering regulatory costs for energy services providers and avoiding consumers incurring these.

We consider these outcomes support the key objectives of the Pricing review by examining the spread of products and services and finding opportunities to deliver a least cost transition. Further, we consider that all of these potential outcomes would address our key objectives under the NEO and NERO.

B.6 This role should begin in 2027-28

This assessment role should commence as soon as practical. We consider that the most appropriate time to commence this role is in 2027-28 to allow reforms underway to take effect and establish a baseline to compare progress against. It would also allow us to consider the implementation of the BECE reforms and recent consumer package rule changes that were discussed in chapter 1. Commencing this role in 2027-28 would provide sufficient time for arrangements to be put in place to set this review up for success eg, entering into data sharing arrangements with the AER.

C Making it easier for consumers to compare retail offers

C.1 A diverse range of retail offerings is currently available

An examination of today's retail electricity market reveals a diverse array of retail offerings. These range from 'basic' tariffs to 'sophisticated' offerings, as well as numerous variations between these extremes.

The ACCC found that in 2024:

- 73 per cent of customers were on a flat-rate retail offer (a 'basic' offer)
- 21 per cent of customers were on a time-of-use retail offer
- 5.6 per cent of customers were on offers with a demand charge (either flat or time-of use).[136]

Despite this variety, most customers' plans are largely undifferentiated, with energy service providers competing almost exclusively on price. Most plans contain a price for a daily supply charge and a volumetric usage charge (with different prices for different times if there is a time of use product), with price discounts and bundled services attached such as Flybuys, internet or Netflix subscriptions. Accordingly, most customers choose a plan based on its price.[137]

Most customers in the NEM remain on accumulation meters (aside from in Victoria) and therefore can only access flat rate offers.[138] This will change in the future as we move towards a universal rollout of smart meters by 2030.[139]

Retail products and services are becoming increasingly complex as technology disrupts the market and consumer preferences change. This is the case in both price (eg, how much a customer pays on their bill) and non-price factors (eg, when they can export solar to the grid). We have observed a proliferation of new electricity plans responding to these new technologies. For example, some plans offer rewards to customers who export energy to the grid or consume only at specific times of the day.

These are positive developments. We consider that these observations signal that competition in the market is functioning to deliver innovative service offerings that make use of new technologies in ways that consumers value. Stakeholders highlighted several innovative products offered by energy service providers in recent years that better serve consumers in the future. These included VPPs, solar power purchase agreements, plans targeted at batteries, and personally tailored offers reflecting individual circumstances.[140] However, we are concerned that this is not occurring at pace, and at consistent outcomes for consumers.

C.1.1 Comparison websites inform consumer choice

Some consumers use comparator websites to explore the range of offers in the market. Examples of these include Energy Made Easy and Victorian Energy Compare, which are government-run price comparator websites that provide information on all retail market offerings.

136 ACCC, *Inquiry into the National Electricity Market*, December 2024, p 15.

137 ECA, *Sentiment Survey, June 2024, Topline Data* [data set].

138 There are an estimated 5 million accumulation meters yet to be replaced. See C Palmer, 'Why the 'smart' meter promise is yet to be delivered', *The Energy,* 3 September 2025, accessed 8 December 2025.

139 See: AEMC, *Accelerating smart meter deployment*.

140 AGL submission to consultation paper, p 5; Energesis submission to consultation paper, p 5; SMA submission to consultation paper, pp 3-4; Energy Networks Australia submission to consultation paper, p 5; Clean Energy Council submission to consultation paper, p 5; Alinta submission to consultation paper, p 4.

Energy Made Easy shows all generally available offers and has a benchmarking tool that allows consumers to compare their electricity use with similar-sized households in their area. It also allows consumers to enter their National Meter Identifier (NMI) to identify more personalised energy offers, supported by metering data from AEMO. Energy Made Easy is available to consumers in jurisdictions that have implemented the National Energy Retail Law (Queensland, NSW, South Australia, Tasmania and the ACT). Victorian Energy Compare provides a comparable service for Victorian consumers.

Third-party comparison websites, such as those provided by iSelect, GoSwitch and Compare the Market, also provide a similar service. These services often rely on the API from Energy Made Easy to access relevant retail plan information and present it to users. These websites are maintained by commercial organisations and may only show offers of energy service providers affiliated with the site.[141]

Box 12: How comparison on Energy Made Easy works

1. Consumers enter their postcode or suburb, and the site shows all generally available market and standing offers from retailers in that area.
2. Offers are compared based on estimated annual cost, calculated using:
   - the customer's actual usage profile (if bill data or NMI level data is provided), or
   - default usage benchmarks by household type and location.
     - eg, monthly, quarterly or yearly bills and household size.
3. Energy Made Easy shows whether a generally available plan is cheaper or more expensive than the reference price.
   - ranking is purely based on price (lowest estimated annual cost at the top).
4. Each plan includes a Basic Plan Information Document and unique plan code.
5. To take up a plan on Energy Made Easy, customers must:
   - copy the code and follow a link to the retailers website
   - re-enter their details
   - select the plan they wish to choose or copy the code onto their website.

C.2 Consumers consistently report difficulties in comparing plans

While customers value choice, the variety of product structures, discounts and other inducements can make it difficult for energy customers to understand and compare electricity offerings.

Consumers consistently report dissatisfaction with the complexity of electricity market offers.[142] Many consumers find it difficult to compare alternative offers and decide whether to switch offers and/or energy services providers. ECA reports that over a quarter of consumers who tried to switch energy plans but did not, found that:

- they could not find a product that suited them, or
- the process was either:
  - too complicated

141 AER, *State of the energy market 2025*, AER, Australian Government, August 2025, p 233.

142 AER, *Towards energy equity*, p 19.

- too confusing
- too time consuming.[143]

In response to our discussion paper, stakeholders highlighted that the market can be confusing and unpredictable for consumers.[144] ECA noted that even 'simple' retail electricity plans (that is common flat tariffs) are not necessarily easy to compare. Fixed and consumption charges can vary materially across energy services providers, making direct comparisons of offers difficult, as consumers must compare over two dimensions. On top of this challenge, customers with smart meters may need to compare offers across flat and time-varying pricing structures, feed-in tariff rates, and other dimensions.[145]

When smart meter customers engage with the market to search and switch retailer (or contract), they need to consider multiple price components and the times when they use electricity to find the best offer.[146] This increases the complexity of the search and switching process, compared to when the decision was only based on flat-rate offers.[147] ECA found that around 40% of households who did consider switching used a government comparison site, however only around 20% of consumers actually switched retailer or energy plan.[148]

We suspect that these concerns will only increase over time as technology continues to disrupt the market and consumer preferences change, resulting in new offers and plans being made available to consumers.

C.2.1 Comparison tools may not be fit for purpose for new energy services

Energy Made Easy and Victorian Energy Compare do an excellent job of comparing all generally available retail offers by price. It is great that these tools have incorporated customers' historical electricity consumption, leveraging the CDR, to provide useful information to consumers in assisting them with their switching decisions. However, they do not facilitate straightforward comparison of more innovative offering types, such as offerings with a straight wholesale pass-through. They can also make simplifying assumptions that limit comparison - such as assuming consumers use the same amount of electricity per day.[149]

Given the path of technological development and CER adoption, future products and services will likely feature greater differentiation, and non-price factors will be an increasingly important part of the customer value proposition.[150] New energy services are becoming more common, where the business model is tied to services that need a level of control by the service provider, such as optimisation.[151] Service providers will need to establish trust with consumers to access any level of control over consumers' assets. Consumers will want to compare the potential benefits of these offerings across a range of dimensions, such as:

- payback periods/subsidies

143 ECA, *Sentiment Survey, June 2024, Topline Data* [data set]. Survey participants could select multiple options (28% could not find a product that suited them, 25% thought it was too complicated, 27% thought it was too confusing, 25% thought it was too time consuming).

144 AER submission to discussion paper, p 6; ECA submission to discussion paper, p 10; EnergyAustralia submission to discussion paper, p 3; Red and Lumo Energy submission to discussion paper, p 2; Ron Ben-David submission to discussion paper, pp 11-12.

145 ECA submission to discussion paper, p 10.

146 IPART (Independent Pricing and Regulatory Tribunal of NSW), *Monitoring the NSW retail electricity market 2023-24 Annual Report*, IPART, NSW Government, November 2024, p 62; AEMO submission to discussion paper, p 3; Clean Energy Council submission to discussion paper, pp 3-4.

147 IPART, *Monitoring the NSW retail electricity market 2023-24 Annual Report.*

148 ECA, *Sentiment Survey, June 2024, Topline Data* [data set].

149 AEMC, *Discussion paper: The pricing review*, p 42; Energesis submission to consultation paper, p 6; Energy Australia submission to consultation paper, p 7; AEMO submission to discussion paper, p 3; ECA submission to discussion paper, pp 10-11; Tesla submission to discussion paper, p 3.

150 Clean Energy Council submission to discussion paper, pp 3-4; AEMO submission to discussion paper, pp 2-3..

151 Accenture, *Energy as a service, Report*, Accenture, December 2022, pp 18-19.

- required equipment
- level of control over assets
- efficiency
- service quality
- scenario modelling of potential income vs levels of control.[152]

To make these decisions, consumers need the *right* information to compare offers. This is not necessarily *more* information than is currently available on Energy Made Easy and comparison sites. Consumers will be looking for services that feature complex consumption requirements that involve several devices, while at the same time looking for something that is easy to understand and can be compared easily.[153]

C.3 We have identified opportunities to make it easier for consumers to compare products and services

Our recommendation is two-fold, and relates to the AER's role in providing retail plan comparison information:

- We support the AER considering the quality and scope of information consumers will need in its review of the retail guidelines. The AER's review of this guideline represents a great, current opportunity to provide consumers with better quality and simpler information about plans as the retail market changes and newer energy offers emerge. We encourage stakeholders to engage directly with the AER in this process.
- We recommend providing the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers, including new and emerging types. The AER could draw on technological developments, including but not limited to Artificial Intelligence (AI), to support its comparison service to provide information to allow consumers to make informed choices through an independent and trusted site.

These two changes would make it easier for customers to compare offers. It would in turn increase competitive pressure in the market.

C.3.1 We support the AER considering the quality and scope of information consumers will need in its review of the retail guidelines

Retailers are required to provide the AER generally available plan data under the requirements of the Retail Pricing Information Guidelines (RPIG). Bills are required to be presented in ways that conform to the AER's Better Bills Guideline.[154]

The data provided by retailers under the RPIG is an input into the AER's independent online price comparator, Energy Made Easy.[155] We note that the RPIG only applies to authorised retailers recognised under the NERL, therefore it does not apply to aggregators or third-parties that are not authorised retailers.[156]

The plan information uploaded onto Energy Made Easy does not contain all of the information consumers may need to compare some new energy services. The AER is currently reviewing its

152 AEMO, *Project EDGE, Final report*, AEMO, October 2023, p 86.

153 CleanCo submission to the discussion paper, pp 2-3.

154 See the RPIG here and the Better Bills Guideline here.

155 Key pieces of information that retailers must include on basic plan documents include: a) unit usage prices/supply charges/demand charges, b) key fees, c) discounts or incentives, clearly labelled as conditional or guaranteed, d) specific eligibility requirements (eg, senior's discount).

156 See part 5 of the NERL.

retail guidelines, including the RPIG, and aims to provide a publication of the final instrument in quarter 4 of 2026.[157] The last time the RPIG was reviewed was in 2018,[158] and there has been significant product innovation since then.

We consider that improving the quality and scope of information retailers provide the AER and consumers on Energy Made Easy is an essential step in ensuring consumers are able to confidently navigate the market.

Better quality information that expands the scope of comparability would greatly improve outcomes for consumers by allowing consumers to compare more diverse products. It could also enhance competition. The AEMC strongly supports the AER considering these issues through this process in order to support better plan information being made available from energy services provider to consumers.

We encourage stakeholders to provide input into this process and directly engage with the AER.[159] This would help to determine the most effective way to support innovation and provide consumers with the information they need.

The impact of potential improvements would depend on other reviews

We note that the scope of this improvement is currently limited and dependent on Australian Government's BECE reforms.

The AER can only collect plan data from retailers authorised in the NECF, and only for products that involve the sale of electricity from the grid to consumers.[160] This means that plans outside this definition are not presented on Energy Made Easy.

The Australian Government's BECE reforms are considering whether the authorisation framework, which ensures that any business selling energy is suitable to operate, is fit-for-purpose for these newer energy services, including whether the NERL should be broadened to capture businesses and plans that currently sit outside of the NECF.[161]

We consider that the BECE reforms constitute the appropriate vehicle to examine this issue further, and we are an active contributor to this work. We support the BECE reforms examining the authorisation framework and consider this to be a priority action to expand the NECF to cover businesses that provide services relating to two-way flows of energy.

Updating comparison tools would provide better outcomes for consumers

We expect that ensuring retail plan information and comparison tools are fit for purpose would provide better outcomes for consumers by:

- lowering search/transaction costs for consumers when choosing a plan
- improving competition by making services like VPPs more transparent and comparable
- promoting innovation by allowing energy services providers to market and tailor products and services to diverse consumers.

Ultimately, consumers would benefit by being better able to compare and understand a product or service that best meets their preferences.

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157 AER, *Retail guidelines review, Consultation Paper*, AER, Australian Government, November 2025.

158 AER, *AER Retail Pricing Information Guidelines*, Version 5.0, AER, Australian Government, April 2018.

159 You can find the AER's consultation paper and how to engage with retail guidelines review here.

160 NERL, Part 8, Division 2.

161 DCCEEW, *Consultation Paper – Better Energy Customer Experiences*, Energy and Climate Change Ministerial Council, DCCEEW, Australian Government, March 2025, p 7.

Depending on the nature of changes to the retail guidelines, there may be costs on retailers to comply with these changes. However, there may also be opportunities to streamline and simplify information requirements placed on retailers, which could reduce costs over time.

C.3.2 We recommend providing the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers, including new and emerging types

We consider that the framework for providing information to consumers to support simple product and service comparisons largely has the right mechanisms in place. The AER is the central repository of retailer plan data. It has powers to gather data in support of this function. It hosts and operates Energy Made Easy and hosts an API where retail plan data submitted for inclusion in Energy Made Easy can be accessed, including by commercial parties.

While Energy Made Easy is an important enabler to facilitate comparison, we consider that it should evolve to continue to support consumers as plan innovation progresses. A consumer-centric platform should have the functionality to:

- assess the entire market
- use consumer data for tailored advice
- use the latest analytical tools, such as AI to reduce the 'energy literacy' threshold to comprehend offers and
- have streamlined switching interfaces, and
- consumers can trust the service.

The AEMC considers that there is a strong case for additional funding to the AER to improve the functionality of Energy Made Easy now. We recommend that funding be prioritised to the AER for this purpose.

Consumers are continuing to take up CER and CER services at growing rates,[162] and need advanced comparison services to ensure they can receive the right service that matches their needs. The Commission considers that the AER could consider technology to further enhance the functionality of Energy Made Easy such as AI to support its comparison service to provide information to allow consumers to make informed choices through an independent and trusted site.

Improving the functionality of Energy Made Easy would reduce the searching and comparing burden to consumers and ensure dynamic products can be easily compared. Improving the baseline functionality of Energy Made Easy would improve competition by increasing transparency. This would place more competitive pressure on these offers and improve consumer satisfaction and trust with the energy market.

AEMO raised further opportunities to improve comparisons

In its submission to the discussion paper, AEMO highlighted that a critical enabler of more flexible and tailored retail offerings is better visibility of a site's physical energy configuration, such as the size and type of a consumers CER.[163] AEMO holds much of this data through its DER register. AEMO considers that the introduction of a simplified 'site configuration identifier' into AEMO's MSATS platform should be made available to authorised retailers via NMI Discovery.[164]

162 ACCC, *Inquiry into the National Electricity Market,* July 2025, p. 65; AEMO, *DER Data downloads,* AEMO website, accessed 18 November 2025.
163 AEMO submission to the discussion paper, p 2.
164 AEMO submission to the discussion paper, p 2.

It outlines that this sub-set of data could improve the quality of decision-making and reduce mismatches between site capabilities, network tariffs, the customer's energy usage pattern and their chosen retail product.[165]

Furthermore, comparisons could be improved and be more valuable by expanding comparisons beyond historical usage data.[166] This could be done by supplementing historical usage data with forward looking scenarios and simulating different CER configurations with different retail products.[167]

We consider that a sub-set of DER register data could be significantly useful for the AER in developing the functionality of Energy Made Easy. Tesla notes that the UK and US have similar tools available that help consumers accurately identify their usage and technical profile to provide them with the plan that best suits their needs.[168] A customer would not have to provide details about every CER device onto Energy Made Easy. Instead, consumers could simply type in their NMI and get an accurate and simple representation about the CER devices they own and receive advice against different scenarios to better suit their needs. The AEMC supports exploring this option further, however more holistically as part of the CER data sharing workstream under the CER roadmap.[169]

Updates to Energy Made Easy may take time

As noted above, the AER is currently reviewing its retail guidelines, including the RPIG and is aiming to provide a publication of the final instrument in quarter 4 of 2026.[170]

Any potential updates to the retail guidelines would influence future changes to Energy Made Easy, as retail plan data is a major input. Following the finalisation of this review there would be a period of time to implement these changes. Changes to the information requirements would mean that energy services providers would have to update their systems, which may increase the time to implement these changes.

We do not expect there to be a need for law or rule changes to implement changes to the retail guidelines. Therefore, the timing of our recommendations would depend on how large the changes to the retail guidelines could be and the transition time needed to comply with these changes.

We expect the AER would be able to use a potential transition period to make updates to the functionality of Energy Made Easy, in line with its potential recommendations. We have outlined in chapter 4 that this could take two to three years following the final recommendations on the retail guidelines review. However, this would also depend on the AER receiving appropriate funding to undertake these upgrades.

While there would be costs to the AER to update the baseline functionality of Energy Made Easy, we consider that these costs would very likely be outweighed by the benefits to consumers. The Commission considers it a priority action to ensure consumers can compare and understand all energy products and services.

165 AEMO submission to the discussion paper, p 2..

166 AEMO submission to the discussion paper, p 3.

167 AEMO submission to the discussion paper, p 3.

168 Tesla submission to the discussion paper, p 6.

169 See worksteam M.2 of DCCEEW, *National Consumer Energy Resources Roadmap Powering Decarbonised Homes and Communities [PDF 1,141 KB]*, Energy and Climate Change Ministerial Council, DCCEEW, Australian Government, 2024, pp 20-21.

170 AER, *Retail guidelines review, Consultation paper.*

The potential for tailored, consumer-centric advice would expand over time. The potential consumer experience is discussed below in the box below.

Box 13: Vignette: Yara's business could benefit from improvements to Energy Made Easy

Yara is currently *Behind barriers* looking to become an *Embracer.* She runs a café with a roastery attached. She is considering purchasing CER in an effort to save money on her energy bills. Yara is looking for the best plan and the most efficient way to utilise CER for her business.

Information that could help Yara include:

- provide a cost/benefit comparison of the different types of solar and battery systems available
- identify the best value plan and potential offers that provide rewards for different types of participation
- provide advice to optimise her devices and ways to better improve the energy efficiency of premises, tailored specifically to her business.

D Focus network tariff design on efficiency

In this appendix, we outline potential reforms to focus network tariff design on efficiency. We reflect that the current framework was designed at a time when encouraging consumer response required simple predictable signals. The future will be different. This means that the sort of tariffs considered 'efficient' will also be different.

Our proposed reforms would mean networks could appropriately shift to designing tariffs that harness the growing maturity in consumers' technology and responsiveness. This means network tariffs that aim to match supply and demand rather than just reflecting long-run marginal cost (LRMC). We look to remove the permanent barriers that 'side constraints' can place on more rapid transitions to efficient tariffs. We also look to clarify how residual, transmission, and jurisdictional costs should be allocated to consumers.

We also consider whether networks are appropriately motivated to deliver tariff reform for consumers. We raise whether there is a need for potential options to address this, or whether networks could deliver these outcomes without a financial incentive.

D.1 The current approach to network tariff design was introduced in 2014

The NER establishes a framework requiring distribution networks to design and implement tariffs to recover their efficient costs. The key elements informing the current design of network tariffs are the Distribution Pricing Rules and pricing principles contained within them.[171] This framework was introduced in 2014 with the intent to transition networks towards more cost-reflective network pricing, allowing consumers to make more informed decisions about their electricity use.[172]

As part of this process, networks have significant discretion in the design and implementation of tariffs. They must develop and propose tariff structures for AER approval as part of what is known as a 'tariff structure statement', which sets out the structure of network prices. The AER must approve these proposals from networks unless the AER is reasonably satisfied that they *do not* comply with the Rules and pricing principles.[173]

The 2014 framework was designed and implemented at a time when consumers had less ability to receive or respond to unpredictable and dynamically responsive price signals. The work explicitly acknowledged that the final framework was not the most theoretically optimal, but rather best suited to the context at the time. As noted in the final report:

> *The purpose of cost reflective network prices is to send pricing signals to consumers. Consumers are more likely to be able to respond to price signals if those signals are consistent and apply for a reasonable period of time.*[174]

The 2014 reforms resulted in a move away from largely flat network tariffs towards those that focused more on the reduction of demand at typical peak times on networks.[175] However, these reforms were created in a different world where consumers had limited CER (with only around 4

171 NER, Chapter 6, Part I.

172 See: AEMC, *Power of Choice - Stage 3 DSP Review*, AEMC website, n.d., accessed 8 December 2025; AEMC, *Distribution Network Pricing Arrangements*.

173 NER clause 6.12.3 (k).

174 *AEMC, Distribution Network Pricing Arrangements, Rule Determination, p 9.*

175 AER submission to consultation paper, p 2.

GW of rooftop solar[176]) and limited information and data about their usage. As discussed in chapter 2, we are in a different world now where:

- a third of consumers have CER in Australia
- we are targeting 100% roll out of smart meters by 2030
- over 1 gigawatt-hour of additional batteries was installed in households and small businesses in the first three months of the *Cheaper Home Batteries Program*[177]
- energy management technology has vastly improved the ability for consumers and energy services providers to respond to more dynamic signals.

The transition underway suggests there would be value in revisiting the framework for network pricing to make sure it is still fit for purpose.[178] This would provide the opportunity to consider the framework and put in place changes to better suit the current needs of consumers and capitalise on the opportunities presented by new technologies.

D.2 The framework for designing and implementing tariffs should support good consumer outcomes

We consider that the tariffs designed under the current framework are generally not delivering for consumers today. We also consider that these would therefore not be appropriate for the future.[179] Our understanding is that under the current framework nearly all retail customers are assigned to a volumetric network tariff – that is, one that charges the customer based on how much electricity they use. This means that the costs of infrastructure are not shared fairly among electricity consumers. For example, customers with rooftop solar and a battery contribute less to sunk network costs than customers with the same electricity consumption who only use grid power, despite both groups of customers depending on the network.

Currently:

- 62 per cent of customers are on flat tariffs, with the same price applied to consumption for all periods of the day
- 21 per cent are on time-of-use tariffs where the volumetric rate changes over the day
- The remaining 17 per cent are receiving tariffs with a demand charge (which is where consumers are generally charged on the basis of their maximum power draw from the grid each month), typically paired either with flat volumetric or time-of-use volumetric charges.[180]

These tariffs, and particularly their consumption based charging components, have been driving a set of poor outcomes for consumers, such as encouraging consumers to:

- take actions that simply transfer network contributions to other consumers
- unnecessarily ration their use of the network
- unnecessarily invest time and effort responding to signals.

176 We have over 41 GW of rooftop solar today. Australian PV Institute, *Australian PV market since April 2001*, Australian PV Institute website, n.d., accessed 6 November 2025.

177 Clean Energy Regulator, *Cheaper home batteries surpass Australia's biggest battery* [media release], Clean Energy Regulator, Australian Government, 26 September 2025, accessed 8 December 2025.

178 This was supported by stakeholders, for example AER submission to discussion paper, p 2.

179 Submissions to the discussion paper also agreed with this sentiment: ECA submission to discussion paper, pp 16-18; Telsa submission to discussion paper, p 8.

180 AEMC analysis of distribution network service providers' 2023-24 annual reporting regulatory information notices to the AER. The remaining tariffs are demand tariffs. For low voltage business customers, 49 per cent are on flat volumetric tariffs, with 27 per cent on time of use tariffs.

These poor outcomes arise in large part because the current framework is set up to deliver network tariffs that are volumetric in nature, including time of use tariffs.[181] Volumetric tariffs can have the following issues:

- they broadcast uniform price signals to users across the *entirety* of a network, irrespective of the nature and location of capacity constraints[182]
- undercharge – applying peak prices that are too low to ensure efficient allocation of scarce network resources at peak times[183]
- overcharge – applying consumption-based pricing where substantial spare capacity exists and peak demand tariffs that are significantly higher than LRMC estimates.[184]
- do a poor job of reflecting the underlying network costs – the vast majority of network revenues are driven by past investments, and are therefore fixed unavoidable costs. However, the fixed component reflects less that a quarter of most consumer's network charges.[185]

We consider that consumers would be better served where network tariffs evolve from volumetric changes to being focused on producing more efficient tariffs i.e. where the tariffs reflect underlying costs. This is not to say that the current rules are not doing their job - they are, but they were set up for a different time and so evolution is required. The box below provides our view on what we would consider to be more efficient tariffs.

Box 14: Efficient network tariffs: a more technical consideration of what good looks like

We provided a view on what good tariffs might look like in the future in chapter 2. This box provides our view for readers more interested in the details.

Network tariffs need to promote the efficient:

- use of distribution networks
- operation of and investment in the electricity system.

There may be reasons to deviate from purely efficient network tariffs. For example, it may be excessively expensive to improve billing and processing systems to facilitate such tariffs. Deviations from efficient tariffs are, however, costly to society. Poorly designed network tariffs mean network users:

- ration their use of electric appliances when there is no underlying need to do so
- invest in technologies and appliances that create or shift costs system, rather than alleviate them
- pay for unnecessary network upgrades.

Our view is that efficient tariffs are those that raise required network revenues by:

- charging marginal costs when and where usage imposes congestion
- allocating the remaining amount (or 'residual') in a manner that minimises the distortion of tariff recipient behaviour.

In practice, there may not be any such thing as a single perfect efficient tariff across all contexts

181 For further discussion on this issue, see AEMC, *Discussion paper: The pricing review,* pp 54-55.

182 See further consideration of this in the discussion paper, pp 74-75.

183 For further see AEMC, *Discussion paper: The pricing review,* pp 57, 60-61, 78.

184 See our analysis in AEMC, *Discussion paper: The pricing review,* pp 75-77.

185 To form this breakdown of an illustrative consumer's annual network tariff bill, we have used the most common consumption profile in NSW (data received from the three NSW distribution network service providers), the current Ausgrid ResiTOU network tariff structure, and the average of the top 10 time of use offers recommended on EnergyMadeEasy (as of mid-April 2025).

and times. However, we expect the most efficient network tariffs to have the following elements:

1. A dynamic charge component
2. A fixed charge component.

The dynamic charge should:

- Always be symmetric. The reward for exporting should equal the charge for importing in each time and place, and vice versa
- Only apply in locations when and where network demand is likely to exceed network capacity without price responses – for both thermal and voltage constraints
- Be set at the level necessary to ensure efficient allocation of network capacity - that scarce capacity is allocated to the highest value uses of the network
- Be zero or not apply when unconstrained network demand is less than network capacity.

A dynamic charge could be levied in usage (kWh) or demand (kW) terms. However, charges should apply within every interval to ensure congestion signals are always impactful. For example, if the network uses 5-minute intervals there should be distinct charges based on the network's need in each of these intervals. We suspect that eventually aligning with wholesale market periods is likely to lead to the most effective products for consumers.*

Implementation of dynamic charges may need to consider the maturity of energy services provider and market capacity to respond. This may mean a transitional period in which dynamic signals are used with higher levels of anticipation to allow potentially nascent energy services provider and market capacity to develop and effectively respond. For example, the network might start sending initial congestion signals weeks, months, or years ahead of anticipated need to support the market in developing and situating responsive assets and loads in the relevant areas.

Fixed charges:

- should be designed to minimise distortions to consumers' decisions
- are likely to be higher than those that energy services providers experience today, given our observations of current asset and congestion levels.

Networks can use price discrimination to set the fixed charge within the bounds of:

- the fixed charge should not be so low that other customers are paying more for network services than they would if that customer disconnected from the network (avoidable costs)
- the fixed charge should not be so high that customers are better off disconnecting from the network, either to a transmission network or off-grid (standalone costs).

* Energy Efficiency Council submission to discussion paper, p 3.

Achieving a framework that delivers the efficient tariffs we envisage would require some comprehensive changes to the way networks design and energy services providers manage network tariffs. This is not a reform that can be achieved overnight. Indeed, there are already concepts of efficiency in the rules about how network tariffs are to be designed and set. As described above, to make this framework more fit-for-purpose for the future, we consider these concepts need to evolve.

For these to evolve, networks, energy services providers, intermediaries, consumers and the AER would all need time to prepare frameworks, systems and process to implement the reforms. This could include amendments to the rules, followed by changes to tariff designs that would be applied through the network revenue reset process. We have suggested possible ways transition could be managed in this appendix and in appendix F, which would allow for relevant parties to

cost-effectively evolve and manage the reforms and risks they create. We are particularly interested in stakeholder views on these options, or whether there are additional options that should be considered.

Evolving the current framework would enable a clearer focus on networks to deliver efficient tariffs. This would encourage energy service providers to provide consumers offerings that include access to rewards for undertaking activities that would be valuable to the energy system. For example, a customer could use their battery to alleviate local network congestion by discharging its output to reduce the pressure on the network when congestion is occurring. Beyond the benefits or rewards for the individual consumer that undertakes this action, this can also contribute to downwards pressure on network costs for all consumers on the network making everyone better off.

Transitional mechanisms may be required to support energy services providers cost-effectively packaging these tariffs into different offerings for consumers. We discuss such potential mechanisms in appendix F.

We consider that moving to efficient tariffs would better serve all consumer archetypes in both constrained and unconstrained network areas. We outline examples in the boxes below.

Box 15: Vignette - Martina enjoys being rewarded for using her CER to access a variety of revenue streams

Martina is an *Embracer* in a part of the network that experiences congestion. She is always seeking rewards for using her CER, and is sometimes frustrated when her ability to export energy into the grid is constrained. She has chosen a new energy services provider, Sapphire Energy, which allows her to access wholesale market prices. Sapphire has incorporated the local network's dynamic tariff into its product to create two new value streams for Martina. First, the more real-time pricing leads to better allocation of network capacity at times of congestion. This means she is normally able to export her solar generation into the wholesale market even if she pays higher network charges at these times. Second, Martina receives signals that reward her for charging and discharging her battery at times the network is experiencing congestion.

Box 16: Vignette - Rajab likes that electricity bills feel fairer and more simple

Rajab is *Behind barriers* and has been feeling the pinch of rising costs of living. He is a renter in an apartment and has no feasible way of investing in any CER technology. He has been frustrated by stories that the way networks recover their costs means that others with CER have been shifting costs onto consumers like him. For this reason, he was pleased to see new retail offers promising a simple fixed monthly fee that he doesn't need to think about and that more fairly share costs between consumers.

Box 17: Vignette - Sam does not face unnecessary signals to change their energy decisions when the network has spare capacity

Sam is *Full of potential* and wants to 'do their bit' to contribute to the transition. Sam's heard about other consumers being rewarded for responding to network events as part of their retail packages. After approaching one of the energy services providers with more innovative offerings, Sam is told that there is plenty of spare network capacity in their area and that there is unlikely to be any

'network events' to respond to. Sam does not need to feel disappointed, however, as that same energy services provider points out this means that Sam effectively has years of unfettered access to the wholesale market and any other revenue streams that might be on offer. Sam chooses a product that includes a home energy management system (HEMS) programmed to ensure Sam's EV charges and discharges to match their preferences and potential financial benefits. Sam is pleased to see that the HEMS' activity is rewarded by a significant discount line item on their monthly energy bill.

D.2.1 The current framework needs reform to deliver more efficient tariffs

Networks are limited to only using LRMC to design tariffs

The current tariff framework requires networks to set tariffs on a long-run marginal cost (LRMC) basis.[186] The introduction of the LRMC pricing principle under the 2014 reforms reflected the assumption - based on technologies and preferences that existed at the time - that consumers would respond to price signals in two ways:

- through their long-term investment decisions – with consumers choosing to purchase, for example, more energy-efficient appliances or investing in solar panels, and
- through habitual behaviour change – with consumers changing the way they use energy in the home or business, for example by shifting their use of the washing machine to off-peak periods.[187]

In theory, these more permanent changes in demand would be incorporated into network forecasts and reduced network expenditure requirements. As such, this approach was expected to deliver more efficient outcomes, particularly when consumers have limited ability to receive or respond to sharper price signals.[188] The shift to cost-reflective pricing since 2014 has been relatively effective at changing some costly behaviours and providing some incentives to move load as discussed in chapter 2.

However, as we have observed given the core characteristics of consumers, technologies and the network are changing:

- the tariffs emerging from the current framework are causing issues undermining consumer outcomes, such as encouraging consumers to shift costs to others and sending inaccurate signals to consumers[189]
- LRMC-based prices - by definition - do not signal the cost of congestion on the network in real time, which is becoming a more material concept on the network that needs to be managed [190] This generally means tariffs are likely to be higher than they should be[191] at most hours of the day, including during periods of spare capacity, But, tariffs are lower than they should be[192] at times of network congestion in order to signal to consumers that consumption should be avoided at those times.

186 NER clause 6.18.5(f).

187 For further explanation, see AEMC, *Discussion paper: The pricing review,* p 73.

188 AEMC, *Distribution Network Pricing Arrangements, Rule Determination*, pp 124-125.

189 This was supported by the ECA submission to discussion paper, p 16.

190 By way of example, data indicates that over 75 percent of Queensland distribution zone substations maintain at least 40 percent spare capacity relative to historical peak demand. Nevertheless, all customers within these areas receive identical time-of-use pricing signals regardless of actual congestion risk at their specific locations. See AEMC, *Discussion paper: The pricing review,* p 78.

191 That is, above marginal cost, which would be zero

192 That is, the price level required to ensure demand does not exceed network capacity.

- LRMC-based pricing may be restricting networks from setting more efficient tariffs, which would be needed to 'reflect the changing conditions on the distribution network at different points in time'[193]
- consumers and their representatives increasingly have access to different technologies that provide them with the opportunity to respond to price signals in ways that were previously not possible and that mean the relationship between growing demand and network investment may be more complex than in the past.[194] This includes automated responses to more sophisticated price signals.[195]

The current framework is not delivering the tariffs that best serve consumers

As outlined above, the current regulatory framework has resulted in energy service providers being given predominantly volumetric network tariffs to manage. In practice, these network tariff offerings have been directly passed onto consumers, with retail offerings largely reflecting the network tariff structure. Our discussion paper identified that these network tariffs have led to adverse consumer outcomes because they:

- **encourage the transfer of network costs between consumers:** actions that reduce a customer's network charge under volumetric network tariffs are not well linked to potential changes in current or future network costs. This is because reducing consumption between certain hours would provide a reward every day to a consumer who did that, but this may not lead to any changes in future network expenditure.[196]
- **encourage consumers to ration their use of the network unnecessarily:** when volumetric network tariffs do not accurately reflect the marginal cost[197] of using the network at the time of use, they can encourage inefficient consumption and export decisions, including consumers rationing their electricity use when there is no corresponding benefit in doing so. In our discussion paper we show this can occur, for example, where peak demand periods in time of use tariffs have signals higher than calculated LRMC.[198]
- **encourage consumers to invest time and effort unnecessarily:** similarly, consumers invest time, money and effort responding to price signals that are often insufficiently linked to actual network cost drivers. For example, a household might change its routine in response to a time of use signal in winter, when that signal is designed to better manage the fact that the network that experiences peak demand in summer. This household would have invested the time and effort to change their habits for no clear appreciable benefit to network costs.
- **do not provide sufficient opportunities to reward consumers for contributing to reductions in network costs:** the current framework is delivering 'broadcasted' signals about the potential long run impacts of actions. That is, diverse consumers in all parts of the network are receiving the same pricing signals even though their area of the network would receive different values from responses. These signals are therefore poorly linked to actual costs and do not reflect the value of responding to network needs at particular places and times. Signals

193 Monash Energy Lab submission to discussion paper; Energy Networks Australia submission to discussion paper, p 4.

194 AER submission to the discussion paper, pp 3-4; see also AEMC, *Discussion paper: The pricing review,* p 74.

195 For further information see AEMC, *Discussion paper: The pricing review,* p 74.

196 In our discussion paper, we used the following example: imagine a set of consumers who have been responding to long-run pricing signals to reduce their peak demand in the expectation that this will defer a network investment in their part of the network in a decade's time. However, before that point, a new housing development emerges nearby, leading to a large augmentation of that part of the network. In this case, those consumers will have been reducing their peak demand in response to the pricing signal, but in reality, this will have no material impact on network costs due to the new development increasing demand and triggering network investment sooner than expected. Instead, the reduction of one customer's contribution to those revenues could result in others paying more to make up the shortfall.

197 A marginal cost is the incremental cost of an additional unit of supply: Harold Hotelling, 'The General Welfare in Relation to Problems of Taxation and of Railway and Utility Rates', *Econometrica* 6(3):255-256, July 1938.

198 For our analysis see AEMC, *Discussion paper: The pricing review,* pp 75-76.

that better reflect the value of responses in particular places and times would provide rewards to consumers that are proportionate to the value of their actions.[199]

- **may be working against wholesale market signals:** where network price signals (such as those provided by volumetric time of use tariffs) conflict with efficient wholesale market signals, network tariffs may unnecessarily act as a barrier to cost-reducing wholesale market participation by highly responsive network users.[200] This is because a time of use or demand tariff can signal to consumers not to use the network, even in periods when there is no risk of network constraint and a negative wholesale market price. This dynamic can undermine CER's potential to bring down total system costs for all consumers because improving the ability for consumers and their CER to respond to wholesale signals would improve how efficiently the wholesale market operates, to the benefit of all consumers.

The current framework places a barrier on a rapid transition to more efficient tariffs

The current rules contain 'side constraints'. These were intended to slow the pace at which networks can change the proportion of revenue recovered from any particular set of consumers in a 'tariff class'.[201] Side constraints prevent networks from suddenly shifting costs *between* tariff classes. They are intended to prevent the bill shock associated with large year-on-year shifts of consumers' underlying network tariff. However, side constraints do not prevent large increases in bills due to increases in network expenditure and required revenue.[202] One challenge we have identified with the use of the current side constraint rule is that it may impose a barrier by preventing from networks from moving quickly to address issues for customers that arise from cost allocation unfairness or inefficiencies within tariff classes.

The issue can be demonstrated with an extreme and purely hypothetical example. Presume a network has created a specific tariff class solely for data centre proponents and set near zero fixed costs given their ability to flexibly site and connect to the grid. Presume a set of data centres all connect in a year with very little peak demand and pay little to no peak demand or congestion charges. Side constraints would then limit a network's ability to increase fees from these near zero except by 2% plus inflation, regardless of the economic rational of doing so such ensuring the efficient recovery of residual costs across different consumer groups. This could effectively prevent or substantially delay necessary reforms that would be needed over time.

We recognise that side constraints can play an important protection for consumers. However, we consider that the same outcome can be achieved through transitional policies. That is, the same protections can be provided in a more targeted way that avoids the unintended consequences that the current use of side constraints provides. See appendix F for further discussion on this.

The current framework may lack clarity on how residual, transmission, and jurisdictional scheme costs should be recovered

The pricing principles may not provide sufficient clarity on the recovery of residual costs

We consider that the structure of network tariffs should be comprised of two parts:[203]

- revenues raised from tariffs that reflect the marginal cost of using the network

199 For further see AEMC, *Discussion paper: The pricing review,* pp 57, 60-61, 78.

200 For our analysis see AEMC, *Discussion paper: The pricing review,* pp 59-60.

201 NER clause 6.18.6.

202 See NER clauses 6.18.6 (b) and (d) that allow for tariffs to increase, potentially significantly, if accommodating a price control or revenue recovery determination by the AER.

203 For our discussion see AEMC, *Consultation paper, The pricing review: Electricity pricing for a consumer-driven future,* p 20; AEMC, *Discussion paper: The pricing review,* p 82.

- the remaining requirement (the 'residual') to ensure networks recovery their approved revenues.

Economic theory states that using marginal costs is the best way to ensure efficient allocation and size of network because it aligns the cost of using with the costs of providing the next unit of network capacity. Residual costs should be recovered in a manner that minimises distortions to consumptive decisions.[204] This is referred to as 'Ramsey-Boiteux pricing'.

One obvious example of how the residual could be recovered to minimise such distortions is to set them on a fixed basis rather than through usage-based charges. On average, households receiving higher energy costs at certain hours of the day are more likely to change their behaviour than if the same revenue was raised on a fixed daily charge.[205] This outcome has also been observed to raise issues for more flexible loads for whom higher allocations of residual charges do distort their decisions, particularly between decisions to connect at the distribution or transmission levels.[206]

We consider that the current rules may not be appropriately expressing the right approach to the efficient allocation of residual costs. NER clause 6.18.5(g)(3) states that tariffs should be set *'[i]n a way that minimises distortions* to the price signals *for efficient usage of the relevant service […]'.*

This clause focuses on the distortion to the price signal itself. However, Ramsey-Boiteux pricing is not about minimising distortions to *price signals* but rather minimising distortions to the decisions of recipients of those signals, in this case the consumer.

The pricing principles do not capture how transmission and jurisdictional scheme costs should be incorporated into tariffs

A related issue is how non-distribution network costs are recovered from consumers. The overall level of network tariffs for consumers is composed of three inputs:

- distribution use of system charges
- transmission use of system charges
- jurisdictional scheme costs.

Transmission and jurisdictional scheme costs are not incurred directly by the distribution network but instead are incorporated into network tariffs.[207]They are recovered through network tariffs but do not contribute to the forward-looking marginal cost of the network.[208] Consistent with NER clause 6.18.5(g), the prices set to recover the pass-through of transmission and jurisdictional scheme costs in network tariffs should minimise distortions to the underlying efficient price signals for network costs.[209]

However, we consider that there may be ambiguity in the current wording of the NER whether the pricing principles apply to the recovery of transmission and jurisdictional scheme costs through

204 In theory this is achieved by placing differing prices on groups of consumers which are inversely related to their demand elasticity. See, J Fallon, MS Blake and D Kelley, 'Regulatory Objectives and Pricing Principles', *network,* Issue 50, ACCC, Australian Government, March 2014, accessed 8 December 2025.

205 See, AJ Ros, SS Sai, 'Residential rooftop solar demand in the U.S. and the impact of net energy metering and electricity prices', *Energy Economics,* 2023, vol. 118, doi:10.1016/j.eneco.2022.106491; A Rai, L Reedman, PW Graham, 'Price and income elasticities of residential electricity demand: the Australian evidence', *Australian Conference of Economists*, 2014.

206 ENA submission to discussion paper, p 16 of farrierswier's *Economic critique for Energy Networks Australia*.

207 ECA submission to discussion paper, p 6; Energy Networks Australia submission to discussion paper, p 2; Essential Energy submission to discussion paper, pp 2-3.

208 SACOSS submission to discussion paper, pp 4-5.

209 See concerns about incorporating transmission and jurisdictional scheme costs through consumption-based network tariffs is regressive in ECA submission to discussion paper, p 7.

network tariffs.[210] This ambiguity contributes to the inefficiencies of current network tariffs where these costs are incorporated into usage-based tariffs. The combination of the rules and jurisdictional-based legislation may give rise to some inconsistencies in the requirements of how jurisdictional scheme costs are to be recovered. We are interested in stakeholder views on this point.

D.2.2 There are opportunities to improve the current tariff framework

We propose several reforms to the current framework to support the delivery of more efficient tariffs and update the framework to be more consistent with the environment we're operating in today, and what we expect to exist in the future. These are:

- Allowing networks to design tariffs that provide signals related to the need for infrastructure investment ('long-run marginal cost') as well as shorter-term management of network congestion ('short-run marginal cost'). We would require networks to consider efficiency over the most appropriate timeframes.
- Setting outcome-based objectives for tariff design to clarify that networks and the AER should focus on progressing tariff reform that improves the use of and investment in networks.
- Clarifying how residual costs should be allocated to reduce consumers and energy service providers unnecessarily changing their behaviour in response to poor signals in a way that is not helpful to the system eg, responding to signals to avoid a summer peak in winter, and to contribute to fairer network cost recovery.
- Removing a requirement for tariffs to not change significantly between periods (the side constraint). Removing this would allow networks to more rapidly implement efficient tariffs, so that the problems with network tariffs can be addressed sooner.

As a package these changes would result in outcomes where:

- Consumers would not be encouraged to make investments and behaviour changes that simply shift network costs onto others - this would be addressed by ensuring the recovery of residual, transmission and jurisdictional schemes is done in a way that minimises the distortion of decisions. This would mean consumers cannot reduce an appropriate share of network costs through actions such as solar PV investment.
- Consumers would not ration their energy use or invest money and effort responding to unnecessary signals - this would be addressed by encouraging networks to move away from LRMC-based tariffs, which would improve the link between consumer action and network costs, thereby reducing situations in which consumers invest effort or ration their energy use to respond to a signal for no eventual network cost benefit.
- There would be more opportunities for consumers to be rewarded when contributing to improvements in network use and investment - changes to improve network tariffs would lead to more accurate real time signals that intermediaries and energy services providers can pass through or package to consumers interested in engaging responsively.
- Network tariffs work with, instead of against, wholesale market signals - this would be addressed by reducing the recovery of residual costs from consumption based signals which would mean that network tariffs use only potentially work against the wholesale market when the network is actually experiencing constraints.

The framework could allow networks to design tariffs based on the most appropriate form of marginal cost - either long term costs of building infrastructure or more real-time prices to manage network

210 See, in particular, NER clause 6.18.5(g).

congestion

Networks are currently required to design tariffs on an LRMC basis.[211] However, due to technological changes and the increasing two-way flows of energy, we would ideally like efficient tariffs to increasingly be based on real-time cost signals. These would harness the improvements in consumer and CER technology. We consider that the current rules may be requiring networks to use the wrong tools to design more efficient tariffs.[212] One option that could evolve the arrangements to better support networks to deliver these tariffs is to provide networks with more discretion in how they design tariffs.

Networks could move towards more real time reflections of marginal cost

This option would amend the rules to allow networks to use a broader range of 'marginal cost' considerations when designing tariffs.[213] This should advance the reform of network tariffs towards those that support a spectrum of products and place downward pressure on costs for consumers. While implementation of this requires further consideration, our preliminary view is that this could be implemented by refining NER clause 6.18.5(f) to 'each tariff must be based on the marginal cost of providing the service […]'. This approach would have two advantages:

- enabling greater flexibility for networks to implement dynamic or congestion-based tariffs while maintaining the fundamental economic principle of marginal cost pricing
- allowing networks to continue to use their current tools as they manage a cost-effective transition to the systems and processes that facilitate more effective tariffs.[214]

We consider that further guidance could be provided in the rules to encourage networks to consider the marginal costs of both the networks and of users. At times of congestion, both network operators and users (energy services providers, and consumers through retail packages) can take actions to effectively supply additional network capacity for others to use. For example, this might be an energy services provider controlling a consumer's battery to discharge in a part of the network experiencing demand congestion. Reflecting this broader conception of marginal cost would help prices to reflect both the real-time condition of the network and the pricing required at times of congestion to ensure the efficient allocation of scarce network capacity.

This move would mean dynamic network tariffs would be increasing at the times and places the network experiences congestion. Prices would increase until the demand for the network matches the available capacity. This would help consumers to 'self-organise' scarce network capacity going to the highest value uses. These prices would also be symmetrical. This means that in periods of export constraint, for example from too much solar generation, households and businesses with batteries could be rewarded for addressing those constraints by charging their batteries at those times and places.

We would expect these congestion prices could be capped, requiring networks to undertake other interventions to ensure the safe operation of the network. This would be because:

- At some point excessively high prices reasonably suggests that price signals are no longer being effective at allocating scarce resource (that is, imposing a cost without benefit). This may be because of a lack of 'market depth', that is an insufficient number of consumers and their intermediaries in a particular area.

211 NER clause 6.18.5 (f).

212 See: Monash Energy Lab submission to discussion paper; Energy Networks Australia submission to discussion paper, p 4; ECA submission to discussion paper, p 15.

213 ENA submission to discussion paper, p 15 of farrierswier's *Economic critique for Energy Networks Australia*.

214 For examples of these potential costs, see Endeavour Energy submission to discussion paper, pp 3-4.

- Unlimited risk exposure, even if unlikely, will reduce ability for energy services providers and intermediaries to finance new innovative products to manage these risks.
- At some price there will be other tools that could address constraints. The Reliability and Emergency Reserve Trader (RERT) function provides a useful analogy as a tool that AEMO can use when wholesale market signals are no longer providing sufficient levels of reliability and system security.[215]

This approach to tariffs also provides networks and the AER with valuable data on whether consumers would value augmentation of the network. For example, imagine consumers in a particular part of the network are consistently experiencing high dynamic prices. The prices would be working efficiently to ensure that demand does not exceed capacity. However, the consistently high prices would provide a solid indication that these consumers would value additional capacity. Alternatively, the symmetrical prices would mean that consumers and businesses can be rewarded for effectively providing additional network capacity at times of congestion, and this could provide evidence that augmentation is not needed where it might otherwise have appeared necessary.

Making it clear that networks have to consider 'marginal cost' rather than LRMC could raise several challenges that would need to be addressed in order for this recommendation to be effective:

- providing a commonly understood view on how 'marginal cost' - a broad range of interpretations of 'marginal cost' may increase the diversity of tariff offerings for energy services providers to have to expend costs managing
- how the AER would consider a broader range of tariffs - would this add complications for AER assessment by having a broad range of tariffs assessed against the pricing principles
- this change alone does not guarantee that networks will adopt new approaches, instead networks may continue to consider that setting tariffs based on LRMC would be the most appropriate.

As a result of these challenges, this option would need to be coupled with other reform elements, including potentially incentives, the prescription of overarching tariff options, and providing a specific objective for tariff reform.

Long-run marginal cost tariffs are likely not the best way to provide signals for gradual behaviour change

The current framework provides LRMC-based tariffs that are intended to provide predictable signals encouraging consumers to make long-term behavioural or investment changes. Over time, these changes by consumers were expected to lead to lower peak demand and therefore lower infrastructure costs. Moving towards more real-time signals that target areas and times of network constraint may reduce the delivery of these more predictable enduring signals. However, there are reasons to justify moving away from these long-term signals being contained within the network tariff:

1. **Energy services providers are best placed to transform real-time signals into predictable prices where consumers value it** - the wholesale market already provides a clearer signal that is definitively linked to the cost of supplying electricity. Energy services providers are best placed to analyse predictable trends in wholesale market costs and which long-term behaviour change is best to avoid these. As the retail sector innovates and matures it will be able to

215 See: AEMO, *Reliability and Emergency Reserve Trader (RERT)*, AEMO website, n.d., accessed 8 December 2025.

translate wholesale signals into more predictable products and offerings that reward long-run behaviour change that reduces costs for consumers who want such products.

2. **Prices to improve allocative efficiency will support more efficient investment** - moving towards signals that reflect the price required to balance supply and demand at specific locations and times has two key benefits for the efficiency of future investment. First, it provides opportunities to consumers and intermediaries to be rewarded for actions that would help contribute to additional network capacity at times of constraint. Second, these signals can generate meaningful data for planning. Networks and the AER can interpret consumer response to these signals, for example, it can reveal when augmentation would be preferred by consumers. This would better link consumer preferences with the real value of augmentation.
3. **Tariffs to encourage long-run behavioural changes may not be efficient** - as stated in the consultation paper and above in this paper, consumers will invest effort and money in responding to tariff signals that do not necessarily lead to reductions in network expenditure.[216] Given the extent of spare capacity in the distribution networks,[217] it appears unlikely that the aggregate cost to consumers from responding to these signals is justified by the potential savings they create.

The framework could provide clear objectives for tariff reform

The current *network pricing objective* is that network tariffs should reflect the costs of providing network services.[218] This objective may not provide sufficient guidance to networks on the goals or purpose of tariff reform. Stakeholders did suggest that the pricing objective may need to change alongside our broader reforms to design tariffs for energy services providers rather than consumers.[219] A revised objective could incorporate outcomes-focused elements. Reform in line with these outcomes should address problems we have documented arising from current network tariffs and support the provision of a spectrum of products to consumers. For the purposes of consultation, we propose that network tariffs should:

1. encourage electricity consumption when networks are unconstrained and balance demand and network capacity when they are constrained (allocative efficiency)
2. encourage networks, energy services providers and consumers to innovate and respond in ways that reduce network costs over time (productive efficiency).

We have suggested including outcomes for each type of efficiency as goals expressed in purely theoretical terms may not be beneficial in practice. This also provides the AER with outcomes to focus on when evaluating the compliance of proposed tariff structures within a tariff structure statement.

The introduction of this outcomes-based guidance could be achieved in a number of ways, potentially through the overarching objective of the pricing principles (discussed above) or through additional clauses that aid the interpretation of our proposed marginal cost clause.

The AER may also wish to guide networks by developing robust evaluation frameworks for whether tariff proposals meet these goals. This might include:

- quantitative metrics for measuring allocative and dynamic efficiency impacts
- standardised cost-benefit assessment methodologies for implementation considerations

216 ECA, *Analysis: Cost-reflective network tariffs aren't very cost-reflective*, ECA, 27 August 2024.

217 See our analysis of spare network capacity: AEMC, *Discussion paper: The pricing review,* pp 78-79.

218 NER clause 6.18.5 (a) in full reads, 'The network pricing objective is that the tariffs that a Distribution Network Service Provider charges in respect of its provision of direct control services to a retail customer should reflect the Distribution Network Service Provider's efficient costs of providing those services to the retail customer.'

219 See: Energy Networks Australia submission to discussion paper, p 2.

- performance indicators tracking the effectiveness of implemented tariffs.

We have also considered whether networks should be required to consider energy services providers' (and consumers') ability to respond to potential tariff designs. This would ensure tariffs are not simply theoretically efficient but also effective. This could be incorporated into the NER through objectives or requirements in the pricing principles or as a transitional measure. This is discussed further in appendix F.

The framework could be improved by removing permanent rules to manage the transition in tariffs

The current rules framework restricts the extent to which networks can reallocate cost recovery between different types of consumers.[220] These 'side constraints' can therefore place a limit on the pace of tariff reform. This means it may take longer for networks to deliver the tariffs reform necessary to support a spectrum of products and downwards pressure on costs for future consumers. We propose the option of removing this permanent limitation in the rules and instead leave transitional protections.

The removal of side constraints may result in some inequitable outcomes. We discuss how this and other reform proposals may raise this risk in appendix F.1.2.

The framework could clarify how residual, transmission and jurisdictional scheme costs are allocated

The rules could provide clarity on how residual costs should be allocated

We are seeking stakeholder views on whether the rules should be clarified on how residual costs should be allocated. The current rules state that residual costs should be allocated in a way that minimises distortion to the 'price signals for efficient use'.[221] However, the efficient recovery of residual costs (or Ramsey-Boiteux pricing) is not about minimising distortions to price signals but rather minimising distortions to network use.[222]

The importance of this difference emerges when you consider the application of Ramsey-Boiteux pricing to a flexible load about to make a siting decision. This might be, for example, a Battery Energy Storage System (BESS) that is connected to the network.[223] These loads are highly elastic because they can choose between multiple networks including transmission and distribution) about where to site. Ramsey-Boiteux pricing would require that the residual costs allocated to these consumers are related to their 'degree of elasticity' or sensitivity to price signals. Users, or prospective users, who are substantially sensitive to prices should be allocated substantially lower levels of residual costs. Allocating too high a level of residual costs to such users could create a distortion to a decision, such as encouraging a flexible load to site somewhere other than it would ideally choose. This would reflect a distortion to a *consumer decision*, as opposed to a distortion to the *price signal for* efficient usage.

Our broader reforms are intended to achieve outcomes where networks design tariffs as an input to retail products, as opposed to directly for consumers. As a result, the rules should clarify that the allocation of residual costs seek to minimise distortions of tariff recipient decisions. This includes the decisions of both consumers and intermediaries (such as energy services providers).

For the purposes of seeking stakeholder views, we suggest a possible change to the clause 6.18.5(g)(3) requiring that network revenues be recovered:

220 NER clause 6.18.6.

221 NER clause 6.18.5(g)(3).

222 In theory this is achieved by placing differing prices on groups of consumers which are inversely related to their demand elasticity. See: Fallon, et al, 'Regulatory Objectives and Pricing Principles'.

223 For example, see: ENA submission to discussion paper, p 16 of farrierswier's *Economic critique for Energy Networks Australia*.

- replacing 'in a way that minimises distortions to the price signals for efficient usage of the relevant service'
- with 'in a way that minimises distortions to network use'.

The pricing principles could apply to transmission and jurisdictional scheme costs

Network tariffs incorporate transmission and jurisdictional scheme costs. We propose the option that the rules be amended, requiring networks to recover these costs in accordance with the pricing principles, except where otherwise obligated by legislative requirements. This would be most simply addressed by clarifying this requirement in the parts of the NER where these costs are discussed.

For example, the parts of the rules requiring networks to recover:

- transmission costs[224] could include a new clause stating: '*designated charges should be recovered from customers in a way that complies with the pricing principles and objective set out in clause 6.18.5*'
- jurisdictional scheme costs[225] could include a new clause stating: '*to the extent allowed by relevant legislation, jurisdictional scheme costs should be recovered from customers in a way that comply with the pricing principles and objective set out in clause 6.18.5*'.

D.2.3 Improving network tariff efficiency would address the issues arising from the current framework and meet our objectives and assessment criteria

Our recommendations to reform the network tariff framework are all intended to support the conditions under which consumers receive a diversity of retail product offerings while also benefiting from downwards pressure on network costs. We expect that our proposals would deliver more efficient tariffs that:

- better reflect the real time cost of using the network to consumers
- provide an objective that better guides tariff design towards better use of and investment in networks
- are not bound by unnecessary barriers to a more rapid transition
- clarifying how residual, transmission, and jurisdictional costs should be recovered from consumers.

This recommendation would deliver outcomes for consumers by supporting energy services providers in providing *meaningful options* across a spectrum of products to consumers. The movement to more efficient tariffs means that the bulk of the network bill would likely be more fixed. This would make it easier for energy services providers to package this with a 'basic' product. This would likely suit the *Behind barriers* and *Not to be left behind* consumer archetypes, which are discussed in chapter 5. At the same time, the move towards more real time cost signals would create new potential revenue streams and opportunities to fuel innovative and sophisticated products for engaged consumers and intermediaries. These would likely suit the *Embracers* and *Full of potential* consumer archetypes. Responses to these more dynamic signals would improve allocative and productive efficiency for networks, placing downwards pressure on network costs and delivering more *value for money* network tariffs for all consumers.

224 NER clause 6.18.7.
225 NER clause 6.18.7A.

These reforms would improve consumer choices and outcomes

The options we are considering for improving the framework and network motivations are intended to ensure that:

- network would focus on designing tariffs that would be both more efficient (based in sound economic theory) and effective (have real world impacts)
- networks would develop long-term strategies for using tariff to improve the value consumers get from the network and to place downwards pressure on future network costs
- energy services providers would receive signals they can package into opportunities for consumers to lower their own bills and place downwards pressure on total system costs for all.

We considered other options for achieving improvements to the tariff framework

We have considered requiring networks to move directly to designing tariffs exclusively on a short-run marginal cost (SRMC) basis. However, this approach would lack the flexibility to allow networks to determine the most cost-effective pathways for moving towards more real time pricing signals. For example, there may be regions or consumer types for whom the costs of implementing SRMC may be particularly expensive in the near term without commensurate benefits. Our approach provides networks flexibility to evolve from LRMC-based pricing to the more efficient SRMC-based pricing as it becomes cost effective to do so.

We also considered a 'do nothing' approach. However, we considered that the negative consumer impacts arising from the tariffs delivered under the current framework needed to be more directly addressed. Allowing the current issues to continue may be likely to undermine consumers' trust and social licence in the energy sector.[226]

D.2.4 These reforms can be implemented through rule changes

These reforms would represent a change from the current tariff setting process:

- networks could take new approaches to both the marginal cost and residual elements of their tariff proposals
- networks would need to design all tariff proposals against a new objective
- the AER would need to assess all tariff proposals against a new objective
- networks would need to develop the capability to cost-effectively transition from current LRMC-based tariffs to more efficient tariffs approaches that better manage the efficient allocation of scarce network capacity.

Reforms to the pricing principles could be achieved through changes to the rules. A proponent would need to submit a rule change request in order for us to commence the process of potentially making changes to the rules. Any rules made would then be implemented through the five yearly network determinations, which occur on a jurisdiction-by-jurisdiction basis. A more rapid implementation of these changes may require transitional rules that would empower the AER and networks to 'reopen' existing determinations to implement changes to the tariff arrangements. This would require careful planning and design but would not be as substantial as a whole network determination since it would only change *how* networks recover allowed revenue rather than the quantum of those revenues. We note that this approach was taken for the 2014 reforms, which sought to implement the changes to the pricing framework within less than three

226 See: ECA submission to discussion paper, p 15.

years.[227] After considering stakeholder feedback to this paper, we intend to provide a similar jurisdiction-by-jurisdiction implementation breakdown as in the 2014 work.

Prior to new rule changes being implemented, the AER may provide more explicit guidance to networks on how the existing pricing rules should be interpreted in light of changing technology and customer needs. This guidance could be set out in a guidance note in advance of any upcoming TSS and could align with the direction of future reforms set out in this review. This would help ensure that we are able to put downward pressure on costs and bring about more equitable outcomes as soon as possible. Potential guidance could clarify that:

- the proper application of efficient principles would lead to higher fixed network charges, and that in an era of highly responsive CER this would least to distort behaviours and enable better use of the network
- locational prices that signal congestion (even based on LRMC) could help networks avoid future capital expenditure. Customer's with CER (or their energy services providers) would increasingly be able to respond to these signals, benefiting all customers.
- estimates of LRMC in turn should be more locational to facilitate more granular price signals.

Implementing any required rule changes would likely require new guidance from the AER. In the 2014 introduction of the current pricing framework, we had determined that requiring the AER to deliver guidance may impede the ability for networks to develop better tariffs and would also delay implementation. We do not currently have a view on whether requiring guidance would be suitable for the reforms proposed in this review. If AER guidance is beneficial, the AER would need time to appropriately develop, and potentially consult on, that guidance. The AER may also have to commit additional resources to the initial development of tools for assessing proposed tariffs under the new framework.

The transition to new tariffs may introduce implementation costs to networks and energy services providers. Networks may need to invest in the infrastructure and capabilities to design and deliver new tariffs. We may need to consider a mechanism to allow networks to seek amendments to their current revenue determinations to facilitate this expenditure. Energy services providers also may face costs to update systems and processes to manage these new tariffs. There may be a period in which energy services providers are required to manage new efficient tariffs as well as existing tariffs as the reforms are implemented across networks. We have sought to manage these costs by:

1. allowing networks to use both the existing LRMC and more real time approaches to designing tariffs, allowing them to cost-effectively shift to more efficient tariffs
2. considering additional transitional interventions to support consumers receiving a cost-effective transition to a new tariff framework.

D.3 Consumers would benefit if networks were appropriately motivated to design more efficient tariffs throughout the transition

D.3.1 The current framework may not sufficiently motivate networks to design and implement tariffs to support consumers and efficient outcomes

Networks design and implement tariffs for approval by the AER. Networks also have the best information of the demands on their network and the relevant technological capabilities to send and receive dynamic signals. For these reasons, networks are critical to delivering tariff reforms and be fit for purpose in the future.

227 AEMC, *Distribution Network Pricing Arrangements, Rule Determination*, pp 103-117.

Networks are obligated to deliver tariffs that meet the rules under the current tariff framework. Economic theory suggests that compliance-based regulatory approaches can be expected to drive regulated firms to deliver the minimum level of effort and innovation needed to meet the required obligation.[228] Incentives can be used to motivate such firms to undertake these tasks in ways that increase efficiency or innovation.[229]

In addition to not being positively motivated to deliver good tariffs, networks' interests may not be aligned with improving tariff outcomes.[230] Networks may have:

- a lack of confidence that they will be able to recover the costs associated with any additional level of effort required to deliver more innovative and efficient tariffs
- a commercial incentive to design tariffs that drive up (or at least do not drive down) capital costs in the long run, because networks – or their shareholders – may exhibit a preference for growing the regulated asset base.[231] Conversely, designing and implementing tariffs that are demonstrably effective in reducing capital build requirements would be used through the regulatory process to reduce a network's capital expenditure allowance over time.

D.3.2 There are opportunities to better align network motivations with efficient tariff outcomes

Networks design and propose tariffs under the current framework. They can choose the level of effort they invest in the design and innovation of new tariffs. Where there is no positive incentive for networks to invest the 'right' level of effort, networks could be expected to deliver the minimum product that satisfies their compliance requirements. While we observe some networks already innovating and trialling new tariffs,[232] it is difficult to determine whether all networks are appropriately investing in delivering efficient tariffs. This is particularly critical during a period of rapid change when its more important than ever for tariffs need to keep pace with changing consumer preferences and capabilities and to capture the opportunities in the transition to efficiently deliver network services. We are consulting on four possible options:

1. a tariff strategy and implementation incentive to encourage a more rapid transition to efficient tariffs. This mechanism could be an obligation or a time limited financial incentive component through the transition to efficient tariffs has sufficiently progressed
2. a dynamic tariff uptake incentive to provide transitional encouragement for networks to design efficient tariffs that energy services providers can cost-effectively package for consumers
3. an incentive to reward or penalise the efficient use of the network (or a 'network utilisation incentive'), which could be a permanent mechanism to encourage networks to constantly innovative their tariff strategies
4. do not introduce any new incentive mechanisms.

A tariff strategy and implementation incentive could be implemented quickly and directly to motivate networks to deliver good tariff strategies

This incentive could have two components. The first could require networks to develop comprehensive tariff strategies as part of their tariff structure statement (TSS) submissions.

228 P Joskow, 'Incentive Regulation in Theory and Practice: Electricity Distribution and Transmission Networks', *Working Paper EPRG 0511,* Energy Policy Research Group, Cambridge Judge Business School, University of Cambridge, 2006.

229 JJ Laffont and J Tirole, *A Theory of Incentives in Procurement and Regulation,* MIT Press, 1993.

230 AER submission to discussion paper, p 5.

231 For example, see: CEPA (Cambridge Economic Policy Associates Pty Ltd), *Expenditure incentives face by network service providers,* report to AEMC, CEPA, 25 May 2018; KPMG, *Distribution Market Models, Preliminary assessment of supporting frameworks,* report to Australian Energy Council, KPMG, June 2017, p 70.

232 For example, see: F Strauli, N Obadge, G Kuiper and P Faraggi, *Project Edith: Project Overview Report* [PDF 1,007 KB], report to Ausgrid and Reposit, enea consulting, July 2022.

These strategies would need to demonstrate how efficient tariffs will be used to deliver improved consumer outcomes, including addressing utilisation challenges and opportunities to influence future investment. This approach is different from the current requirement that networks submit TSSs as networks could be required to propose short and long term targets and strategies they will employ to meet them those targets. These would be in addition to the current TSS requirements.

A second component of the incentive could be financial. This could be either optional or transitional. This is because the:

- desired outcomes might be achievable through obligations alone
- financial component may not need to be enduring and rather only impactful while networks expend effort to transition to more efficient tariffs.

The financial incentive component could be based on one or a combination of:

- the quality of the proposals
- how challenging the targets were to meet
- rewards and or penalties for meeting or missing these targets.

Some of these elements could involve the AER using qualitative or benchmarking tools to assess and potentially rank network proposals.

Under this option networks would be incentivised to develop efficient tariff designs and long term planning for their implementation. It would align their interests with delivering tariffs that support a spectrum of products and downwards pressure on costs for consumers. It also creates greater accountability for networks to deliver their long term strategies, as they would need to meet outputs and targets that are aligned with improving consumer outcomes.

An advantage of this option is that it could be implemented more rapidly. We envisage that the AER could establish the requirement for a long term strategy and proposal of targets under the explanatory statement aspect of a network's TSS proposal. The second component that rewards or penalised performance against agreed metrics, outputs and targets could be initially established under the Small Scale Incentive Scheme (SSIS).[233] Incentives developed under the SSIS are limited in strength, so this option may not be a permanent solution to implementing a tariff strategy and implementation incentive.

We also consider that this mechanism could be implemented without a financial component attached. This would mean requiring networks to deliver longer term strategies under their TSS proposal, including stronger links between tariff design and network utilisation and investment outcomes. We are keen to hear from stakeholders on this approach to implementing the option.

A dynamic tariff uptake incentive would motivate networks to push for the rapid uptake of efficient tariffs while considering the pragmatic limitations to energy services provider and consumer abilities to receive and respond

This mechanism would be designed to address the lack of positive incentives that may currently reduce networks' propensity to invest the right level of effort to develop and deploy dynamic tariffs that send efficient real-time price signals. Unlike the tariff strategy and implementation incentive, this would specifically reward the uptake of dynamic network tariffs.

233 The SSIS, under NER clause 6.6.4, empowers the AER to create and implement incentive schemes that further the goals of the National Electricity Objective.

Under this incentive, networks would earn bonus payments for higher levels of customer uptake of that tariff. In reality, increasing uptake would most likely be driven by energy services providers appropriately packaging these tariffs into products that meet varying consumer needs. This would encourage networks to both:

- invest effort to design innovative dynamic network tariffs
- ensure the dynamic tariffs were designed to be attractive to consumers and energy services providers, likely by considering their collective abilities to receive and respond to these signals.

A critical component of a dynamic tariff implementation incentive would be setting appropriate criteria that determine the 'dynamic' tariffs eligible under the mechanism. This would likely need to be done through AER guidance to ensure the definitions could evolve over time and balance the theoretically efficient signal structures against physical and commercial limitations.

A utilisation incentive could be a powerful incentive encouraging networks to remove inefficient pricing barriers to consumers using the network

A utilisation incentive could reward networks for improving the use consumers get from the network assets they have and will pay for. Stakeholders raised the importance of designing tariffs to improve network utilisation.[234] The optimal utilisation of an electricity network reflects how much customers want to use the network to consume or export electricity at any given time. It is not necessarily optimal for the network to always operate at 100% of its technical capacity. As an analogy, the Melbourne Cricket Ground operates at its technical capacity during the Boxing Day Test Match. It does not follow, however, that it is optimal for 100,000 people to sit in the stands every day, particularly if there are no events being held.

We have identified two distinct approaches to designing a utilisation incentive:

1. rewarding networks for improvements against a utilisation metric
2. rewarding networks for where tariffs do not constrain demand.

Some utilisation incentive designs create risks that networks respond in perverse ways or are rewarded or penalised for events outside their control

A metric-based utilisation incentive would require first determining a metric of utilisation and then rewarding networks for improvements against this metric. The measure the AER currently uses measures the peak demand and technical capacity of each substation.[235] Others have developed more sophisticated metrics.[236] Designing an incentive around a utilisation metric has a number of risks:

- there is likely to be significant complexity to design a metric that avoids incentivising behaviours that are not linked to improvements of consumer outcomes. For example, networks may be perversely incentivised to 'cherry-pick' locations based on ease of affecting the metric regardless of link to consumer benefits. Such an incentive may also distort the efficient timing and sizing of network upgrades to improve outcomes against a metric. For example, networks may choose to upgrade assets in smaller increments to avoid penalties under the incentive even where doing so is more expensive over the long run.
- networks may be unfairly rewarded or punished for outcomes outside of their control but that impact the metric

234 EnergyAustralia submission to discussion paper, p 2; Institute for Energy Economics and Financial Analysis submission to discussion paper, p 4; Clean Energy Council submission to discussion paper, p 1.

235 AER, *2024 Electricity and gas networks performance report*, AER, Australian Government, 2024.

236 E Langham, I Ibrahim, D Roche and J Rispler, *Reimagining Network Utilisation in the Era of Consumer Energy Resources*, Institute of Sustainable Futures, University of Technology Sydney, December 2024.

- networks may choose to use other tools to achieve improvements against a utilisation incentive rather than designing and implementing more efficient tariffs.

Some measures of network utilisation may appear to be worsening when the network is used for increasing consumption of local generation. An incentive build on such a metric could penalise networks for facilitating this valuable activity. We are keen to hear from stakeholders on the design and application of potential metrics for a utilisation incentive that motivate networks to better meet consumer needs.

An incentive aimed at reducing constraints on demand would likely drive better outcomes for consumers

An alternative utilisation incentive would reward networks for increasing the share of network usage that occurs when the network is unconstrained. We seek stakeholder views on this option. This incentive would reward networks for only constraining demand where necessary. A volumetric price on network access is a constraint on demand. The target for networks under this incentive could be set at a network asset or set of asset level and might be determined by the lesser of:

- customers' unconstrained demand for network access
- 100% of network capacity.

Unconstrained demand for network access would be the level of demand observed when network users access to the network is not constrained by operating limits or prices. This reflects the point where consumers connected to a particular asset or set of assets are deriving maximum benefit from those assets. It also means consumers are not experiencing the harms arising from their responses to tariff signals that are disconnected from real time costs to the network.

Networks could maximise their rewards under this incentive by removing all pricing impediments and technical limits (such as dynamic operating envelopes) to demand when there is spare capacity on the network. They could achieve this reward by setting marginal cost tariffs to zero and not imposing static or dynamic limits on customers except when the network was congested.

Networks would retain incentives to apply prices or limits at times of congestion. They would be incentivised to use pricing and limits to reduce demand only by as much as necessary such that it matches the network assets' technical limits. The use of price signals would help to allocate scarce network capacity to those consumers who most valued that access at those times and places. This outcome would reflect consumers getting the best use of network access.

The existing Service Target Performance Incentive Scheme would provide a counterbalance to the risk that networks would take risks that drive demand to exceed 100% of useable capacity as it penalises networks allowing network overloads and outages.[237]

Introducing a new incentive may not be in the interests of consumers

Customers ultimately bear the direct costs for incentive schemes eg, paying for the rewards; or receiving the benefits if there are penalties. However, they also benefit from the broader indirect benefits of better outcomes being achieved that the incentive scheme is designed to achieve. So the decision made to implement such a scheme should be made on the basis of consideration of these benefits and costs, including any alternatives. For example, networks could also be motivated to deliver better and faster tariff reform through other requirements, such as providing a clearly evidenced tariff strategy to the AER. The use of incentives could also be refined over time

237 AER, *Review of incentives schemes for networks, Final decision*, AER, Australian Government, April 2023, pp 23-24.

as circumstances change during the energy transition. We seek stakeholder views on the value to consumers of introducing a new incentive to align networks' interests with tariff reform.

D.3.3 Appropriately motivating networks to design efficient tariffs will mean consumers can receive the benefits of these tariffs sooner

Our proposals to better align network motivations with consumer outcomes would encourage networks invest the time to design and deliver better tariffs at a faster pace. This means that consumers would receive the benefits from improving the tariff framework sooner.

We do consider that it may be possible to deliver these benefits to consumers without a new financial incentive for networks. This could be by designing elements of the 'tariff strategy and implementation incentive' (see appendix D.3.2 above) to be motivated through obligation rather than financial incentive. It may be possible to achieve better tariffs sooner without an incentive through transitional policies that require networks to offer energy services providers a choice of tariff types. This option is discussed in appendix F.

D.3.4 Options to align network motivations may require different implementation pathways

Network motivations could be addressed in a number of ways. The AER could implement a tariff strategy and implementation incentive in the near term by:

- requiring networks to outline their long term tariff strategy as part of the TSS
- requiring networks to demonstrate how the strategy links to improving consumer outcomes, including by identifying targets to evaluate those outcomes
- implementing an incentive under the Small Scale Incentive Scheme (SSIS) mechanism to reward or penalise networks against those targets.

A dynamic tariff uptake incentive could also be implementable under the SSIS initially, and then through rule changes later.

A utilisation incentive aimed at reducing pricing barriers to efficient network use would need to be developed over time. A version of the incentive might be introduced and trialled through the SSIS. Eventually however this option would need to integrate cohesively with other regulatory mechanisms networks face, such as their incentives to reduce capital and operational expenditure while maintaining service standards. The AEMC might provide this holistic consideration as part of an impending network regulation review on which we are currently undertaking scoping work and intend to commence mid-2026. We expect a tariff strategy and implementation incentive might function to drive change in the near-term with a utilisation incentive encouraging networks to continue innovating and discovering efficiencies after implementation in the early 2030s.

E Ensure networks design tariffs for energy service providers

Energy service providers, including retailers, manage risks on behalf of customers. They package wholesale, network, environmental, and other costs into offers for consumers. Our observation is that while they have consistently demonstrated significant capabilities to manage wholesale electricity prices, which can fluctuate from -$1,000 to $20,300 per MWh (current envelope of prices), on behalf of consumers, they have tended to pass network tariff structures directly through to consumers.

Energy service providers are the customers of distribution networks, and network tariffs are an important input to electricity retail offerings. Network tariffs should therefore support energy service providers offering products and services that consumers want. Currently, as guided by the NER, networks appear to be designing tariffs for customers. We observe that this has had some unintended consequences, which means that while networks may consult with retailers, they may not always be fully taking into account the ways these tariffs can create complications and increase costs for energy service providers.

Rather than energy service providers passing through network tariffs that are designed for customer intelligibility, we recommend that network tariffs should be designed for network efficiency and that energy service providers should translate those tariffs (alongside wholesale prices and other costs) into offers that meet their customers' needs. This would help energy service providers to move from passing through network tariffs to managing them for their customers. For efficient network tariffs – as discussed in the previous appendix – to be effective, energy service providers need the ability to create products that allow them and their customers to respond to them in meaningful ways.

This chapter discusses two potential sets of reforms that would make energy services providers central to network businesses' consultation on network tariff design. It would require network tariff setting processes to consider the impact on energy services providers' eg, IT and billing systems, and the cost to energy services providers of accommodating multiple tariffs across regions.

- Appendix E.1 proposes removing the 'customer impact' and 'customer understanding' principles to make energy services provider consultation more central to network tariff design
- Appendix E.2 proposes changes to the timing of the tariff structure statement to reduce energy services provider compliance costs and support energy services provider flexibility and innovation in energy services provider product design.

Together we consider that these could result in energy service providers offering better-designed products and services to their customers, who would collectively benefit from the lowest cost retail services and more efficient use of the network.

E.1 Networks appear to be designing tariffs for retail customers, creating unnecessary cost and complexity for energy services providers which adds to consumer bills

E.1.1 Network tariffs are an important input to retail offerings

Energy service providers offer retail services and products to small business and residential customers. These offerings package together several electricity costs, including network charges, wholesale and ancillary services market costs, environmental costs, and the energy service

provider's own expenses. Although network tariffs are levied on a per-customer basis, networks bill energy service providers for network services, and the energy service providers are the legal entities responsible for paying these network bills.

Network tariffs are an important input to electricity offerings, comprising between 35 to 50 per cent of a customer's bill.[238] Given their influence on the overall customer bill, the structure of network tariffs - that is, the ways they charge energy service providers for a customer's access to and use of the network - can affect the types of energy products that energy service providers offer to customers, as well as their ability to innovate in product design.

We observe that most retail offers generally follow the same price structure as the network tariffs offered in that location. For example, we analysed all retail offers available in the Energex network and found that all time-varying retail offers directly follow the timing and structure of Energex's three time-of-use and demand network tariffs.[239]

Beyond comprising an important input to an individual customer's bill, network tariffs also create other costs for energy service providers, who must manage network tariffs across up to 13 different DNSPs. These tariffs can and do change over time, further complicating the costs of management. Flow Power noted that 'The number and structure of network tariffs differs between DNSPs, sometimes significantly, and they are reset every five years on a staggered basis. This creates complexity, costs and risks for retailers, energy service providers and large energy users, particularly those who operate across [multiple] network areas.'[240]

E.1.2 The rules currently require that networks design tariffs for consumers, though this may create unintended consequences

The NER set out what networks must consider in designing tariffs. This includes a range of matters covering efficiency of network tariff design[241], customer impact and state obligations,[242] and managing cost allocations between tariff classes [243]. In particular, there are two specific principles in the rules that require consideration of end use consumers:

- A Distribution Network Service Provider must consider the impact on retail customers of changes in tariffs from the previous regulatory year[244]
- The structure of each tariff must be reasonably capable of:
  a. being understood by retail customers that are or may be assigned to that tariff (including in relation to how decisions about usage of services or controls may affect the amounts paid by those customers) or
  b. being directly or indirectly incorporated by retailers or Market Small Generation Aggregators in contract terms offered to those customers,[245]

The latter clause only came into effect in 2021, when the distribution pricing principles were modified to give networks greater flexibility to design tariffs directly for customers or retailers [246]

238 AEMC, *Discussion paper: The pricing review,* p 17.
239 Note this analysis was conducted in the 2024-25 financial year. AEMC, *Discussion paper: The pricing review,* p 50.
240 Flow Power submission to discussion paper, p 3.
241 NER clause 6.18.5(f), NER clause 6.18.5(g) (discussed in more detail in Appendix D.)
242 NER clause 6.18.5(h), NER clause 6.18.5(i), NER clause 6.18.5(j)
243 NER clause 6.18.5(e), NER clause 6.18.6
244 NER clause 6.18.5(h).
245 NER clause 6.18.5(i).
246 NER clause 6.18.5(i)

Despite this change, DNSPs assess the impact of the tariff on customers. We understand that this typically leads to networks testing the impact of tariff changes assuming the energy services provider will directly pass through the change. Without analysing how a energy services provider may package network tariff changes, this process generally results in distribution networks focusing on designing for customers to see, understand and respond to the tariffs. However, these network tariffs are sent to and seen by the energy services provider, not the retail customer.[247] It is the energy services provider we want to manage those risks and translate the tariffs (alongside wholesale prices and other costs) into offers that meet their customers' needs.

One potential unintended consequence of the above is that by designing network tariffs for electricity customers, rather than the energy services providers who need to manage the costs and risks of the total retail offer, networks *may* be foreclosing on opportunities to create more value for consumers. If this occurs, then energy service providers may be hampered in being able to manage network tariffs to create the products that retail customers want. At the extreme, if this were to occur, it could potentially create undue delays in the transition to more efficient network tariffs to the detriment of customers.

Importantly, this does not mean that understanding the impact of network tariff structures on customers is not an important consideration when designing network tariffs. If energy services providers and networks were working together collaboratively, networks would seek to better understand how network tariff structures are incorporated into retail tariff offerings. To the extent that the customer impacts of network tariff structure changes are managed directly by energy services providers, through their retail product offerings or through other retail tariff structure constraints, then networks could be more focused on ensuring that network tariffs provide appropriate price signals to better manage the network over time (as discussed in the appendix Dappendix).

These observations are supported by comments from networks in feedback to this review. For example, in its submission to our discussion paper, Evoenergy noted that assessment of the customer impact principle typically considers a full pass-through of costs, not how it is likely to be reflected in actual retail offers.[248] Similarly, CitiPower, Powercor and United Energy noted their concern that the customer impact principle has not generally considered energy services providers' capabilities to mitigate impacts in Victoria.[249]

SA Power Networks and Energy Networks Australia identified that the customer impact principle may no longer be appropriate if distribution networks are focused on designing network tariffs for energy services providers.[250] We note that the customer impact principle, as currently worded, does not preclude networks or the AER from considering likely actions of energy services providers to mitigate impacts.

E.1.3 Stakeholders made similar observations to us

Distribution networks typically consult intensively with consumers and consumer advocates on network tariff structures as part of the regulatory reset process, alongside other issues such as future costs and reliability, equity and integrating CER as well as other relevant parties (which can include energy services providers). For example, in recent regulatory processes:

247 AEMC, *Discussion paper: The pricing review,* p 49.
248 Evoenergy submission to discussion paper, p 4.
249 CitiPower, Powercor and United Energy submission to discussion paper, p 2.
250 SA Power Networks submission to discussion paper, p 4; Energy Networks Australia submission to discussion paper, p 2.

- Powercor, CitiPower and United Energy consulted with over 9,000 Victorians for their 2026-31 reset[251]
- SA Power Networks consulted with 1,311 customers in workshops for their 2025-30 reset[252]
- TasNetworks directly engaged with 832 people for their 2024-29 reset.[253]

In our discussion paper we observed that energy services provider involvement in network tariff setting seemed to be low. For example:

- only four energy services providers made submissions in the recently completed South Australian and Queensland revenue determinations and tariff structure statements in markets with over 35 active energy services providers
- every distribution business has created consultative bodies to help advise them in developing their tariff structure proposals, but many of these bodies have either limited representation from energy services providers, or at the extreme, no energy services providers.[254]

Retail peak body, the AEC, said that energy services providers do not feel 'really consulted' on network tariff design,[255] while individual energy services providers felt that consultation was often limited to formal submissions or brief webinars,[256] and ineffectual in influencing outcome.[257] Origin said energy services providers have been too passive in signalling their preferences.[258]

Citipower, Powercor and United Energy acknowledged the difficulty of consulting with energy services providers and that the need to consult with energy services providers individually risked accusations of preferential treatment of specific energy services providers.[259] Flow Power said that engaging in each distribution network's tariff reset process can be a time-consuming and complex undertaking.[260] Competition between energy services providers and competition law also presents a challenge to consulting with energy services providers. The AEC notes that energy services providers do not discuss price in front of each other or in public.[261] Furthermore, competition laws restrict the ability of energy services providers to discuss, or come to agreement related to pricing.[262]

Some stakeholders felt that energy services providers were more involved, particularly for tariff trials. The AER noted that distribution network processes include retailers in their stakeholder engagement processes and frequently collaborate on tariff trials.[263] Ausgrid said it consulted extensively with both customers and energy services providers in its reset process and noted a retailer forum recently had 90 online attendees and it is actively partnering with large energy services providers in Project Edith.[264] CleanCo stated it found the recent Victorian TSS process

251 Powercor, *Draft Proposal 2026-2031, Attachment: Customer and Stakeholder Engagement*, Powercor, January 2025, p 6.

252 SSA Power Networks, *Our Customer and Stakeholder Engagement Program, 2025-30 Regulatory Proposal*, SA Power Networks, January 2024, p 22.

253 TasNetworks, *Revised Proposal 2024-2029*, TasNetworks, November 2023, p 13.

254 For example, Ausgrid's Customer Consultative Committee and Pricing Working Group have no retailers, AusNet's Tariff & Pricing panel members has a single retailer member, CitiPower, Powercor and United Energy's Customer Advisory Panel has no retailers, Energy Queensland's Network Pricing Working Group has two retailers (noting one is Ergon Retail), Endeavour Energy's 2021 Regulatory Reference Group and Peak customer and stakeholder committee have no retailers, Essential Energy's Customer Advocacy Group has no retailers, Jemena's Energy Reference Group has no retailers operating in Australia, SA Power Networks' Community Advisory Forum and Reset Advisory Group have no retailers and the Tariff Advisory Group has a single retailer member, and TasNetwork's Reset Advisory Committee has no retailer members and their Policy and Regulatory Working Group has a single retailer member.

255 AEC submission to discussion paper, p 8.

256 Tesla submission to discussion paper, p 7.

257 Engie submission to discussion paper, p 4.

258 Origin submission to discussion paper, p 4.

259 CitiPower, Powercor and United Energy submission to discussion paper, p 2.

260 Flow Power submission to discussion paper, p 3.

261 AEC submission to discussion paper, p 9.

262 Competition and Consumer Act 2010, s 45(1)(c)

263 AER submission to discussion paper, p 7.

involved genuine consultation with retailers.[265] The Justice and Equity Centre argued that energy services providers currently exert significant influence over tariff structures, often behind closed doors and find it to be deleterious to the process and consumer outcomes.[266]

E.1.4 We propose refocusing the rules to better facilitate networks and energy service providers working together to enable retail offers that meet customer needs at lowest cost

We want energy services provider and networks to better work together to ensure energy services providers can package efficient network tariffs into products and services that meet the range of consumer needs - from easy to understand, basic offerings, to more complex or sophisticated offerings. These offers should help customers make the most use of the distribution network where it is cheap to do so and create opportunities for those customers who are able and willing to respond to reduce system costs and save on their bills.

Increasing the efficiency of network tariffs (see appendix D), would create the right signals, but these signals are not going to be effective unless energy services providers have the ability to package them up into offers that meet customer needs. We want tariffs to be designed for energy services providers and their customers and break the current nexus of energy services provider directly passing on network tariffs to consumers.

The process for network tariff design therefore needs to focus on working more effectively with energy services providers to ensure that network tariff structures help energy services providers to create differentiated and cost-saving products for retail customers. We expect that this will be a dynamic process as both energy services provider capability and opportunities improve over time with enhanced and more widespread technology adoption.

We propose two potential reforms in this respect:

- **Remove the customer understanding principle in the rules (clause 6.18.5.(i)(1))** - this would aim to refocus network tariff structure design on understanding how efficient network tariffs can be effectively incorporated by energy services providers into retail offerings. We expect this would lead to networks needing to work closely with energy services providers to understand how alternative network tariff structures would be managed through energy services provider offerings. This in turn should enable an improved transition to more efficient network tariffs, placing downward pressure on network costs and so customer electricity bills.
- **Remove or modify the customer impact principle (clause 6.18.5(h))** - this would encourage networks to work more with energy services providers on network tariff design. Spending less time on consumer consultation on network tariffs would also free up resources to focus on working with energy services providers - the actual recipients of network tariffs. Energy services providers in turn, would need to take more responsibility to ensure that they can manage network tariffs in a way that provides benefits for their customers and mitigates negative impacts. We consider that this could complement the introduction of incentive mechanisms to improve tariff efficiency (as discussed in appendix D) and the guidance we have provided in this draft report. There are three options for how this could be achieved:
  - **Option one is** to completely **remove the customer impact principle from the rules.** We received a submission that supported removing the customer impact principle.[267]

264 Ausgrid submission to discussion paper, pp 5-6.
265 CleanCo submission to discussion paper, p 4.
266 JEC submission to discussion paper, p 10.
267 Centre for Independent Studies submission to discussion paper, p 5.

- **Option two** is to **sunset the customer impact principle.** The customer impact principle may be necessary to protect consumers during a transition to efficient pricing. We expect that with universal smart metering, fast growing uptake of price responsive resources and incentivised distribution networks, networks could complete this transition in the next ten years.[268] We could sunset the customer impact principle to expire after the next two regulatory control periods. This could also support the AER and networks to design a ten-year glide path towards efficient tariff designs.
- **Option three** is to **replace the customer impact principle with a energy services provider impact principle.** Two submissions to the Discussion Paper supported replacing the customer impact principle with an energy services provider impact principle.[269] The energy services provider impact principle is discussed in appendix F.2.4

We consider that these reforms would help networks focus on designing efficient network tariffs, taking into consideration how energy services providers can manage those tariff structures and incorporate them into retail offers eg, considering energy services provider IT and billing systems, cost of accommodating multiple tariffs across the regions they operate within. This would help energy services providers develop products that consumers want creating value for consumers, and also put downward pressure on costs. These reforms would complement the larger reform package aimed at making sure that retail competition delivers better outcomes for consumers.

For the avoidance of doubt, we support continued consumer consultation by networks on issues. We would also expect that in collaborating networks and energy services providers woulds seek to understand what consumers are after. Consumer consultation remains an important part of the regulatory process. The AER notes that consumer consultation in the reset process improves relationships between networks and consumers, builds greater faith from both parties in regulatory processes, and generates new ideas that benefit both customers and networks.[270]

We acknowledge that removing elements of the pricing principles that build social licence and trust could reduce distribution networks' and the AER's ability to progress network tariff reform towards more efficient tariffs. To this end we will be undertaking customer bill impact analysis to inform our proposed reforms on tariff design transition strategies to ensure consumer impacts are manageable. We are also seeking stakeholder feedback on the range of tools that energy services providers can use to manage network tariff transition impacts.

E.1.5 Changing the customer impact principle and customer understanding pathway would benefit consumers

We consider that removing these two elements of the network pricing principles would help ensure that efficient network tariffs are effectively packaged and delivered to customers by energy services providers. We are interested in stakeholder views on whether these changes would assist in achieving this outcome, or whether it would create any unintended consequences. We consider that there may be other options and we want to hear from stakeholders on what options they would like to see.

E.1.6 Our proposed reforms would require rule changes

Removing the customer impact principle and the customer pathway would require that the AEMC undertake a rule change process to change the NER's network pricing principles (as also

268 We note that efficient tariffs are not static and they would likely change over time. The potential customer impacts of these changes may be less than an initial transition from tariffs designed with metering limitations and limited capability for retailers, third parties and consumers to respond to prices.

269 SA Power Networks submission to discussion paper, p 4; Energy Networks Australia submission to discussion paper, p 2.

270 AER, *Better Resets Handbook Towards Consumer Centric Network Proposals*, AER, Australian Government, July 2024.

discussed in appendix D.2.4). If implemented, these reforms would only become operational in practice when networks undertake a tariff-setting process.[271] As such, the rule changes should be undertaken concurrently with other rule changes that aim to improve the network tariff setting objectives and process. These could include:

- the reforms toward more efficient tariffs discussed in appendix D
- changes to the TSS process discussed in appendix E.2

As discussed in appendix D under the normal regulatory reset timelines, these reforms may take a number of years to roll out and some expedited measures may be preferred.

We discuss in chapter 4 two options that could accelerate the implementation:

- a transitional rule that could allow early network tariff resets
- making use of flexibility under the existing rules until rule changes can be implemented.

The latter could be very effective at achieving the outcomes we are after here of having network tariffs designed for energy services providers to better support them providing the products and services that consumers want. For upcoming regulatory resets, the AER could make a clear statement of expectations that they expect distribution networks would:

- Only use the energy services provider incorporation pathway in deciding the extent to which they can depart from efficient network tariff designs, any further departures would not be necessary and therefore inconsistent with the network pricing objective.[272]
- Make it clear to networks that they are expected to work with energy services providers to:
  - Better understand how network tariff structure changes will be packaged by energy services providers for retail customers
  - Design tariff structures that are as efficient as possible, given energy services providers' abilities to package these tariffs into consumer offers that mitigate some of the transitional impacts of tariff changes.[273]

We note that this would not be inconsistent with current AER practices, which in past years have supported changes that promote efficiency, even when there are customer impacts.

E.2 The tariff structure statement could better balance flexibility and stability

E.2.1 The tariff-setting process may be too rigid for the transition

Distribution network tariffs are currently set through a two-step network tariff setting process, which includes:

1. A tariff structure statement that sets out the distribution network's tariff strategy over the regulatory control period. This is part of the distribution network regulatory reset process.
2. Annual pricing proposals and determinations where the AER approves distribution network prices that are consistent with the strategy outlined in the tariff structure statement.

Additionally, distribution networks have in-depth conversations and engagement with smaller groups of representative consumers and consumer advocates.

In their tariff structure statements, each distribution network sets out its tariff strategies for the corresponding five-year regulatory period. The tariff structure statement includes:

271 They will technically bind under the Annual Price Determination, but since this follows the TSS structure, there will be no material impact.
272 NER clause 6.18.5(a).
273 Consistent with NER clause 6.18.5(h)(1).

- the structure of all tariffs that the distribution network will offer within the regulatory period
- which connections are eligible for which network tariffs, and when it is the network or energy services provider's choice to change a connection's network tariff
- the network's strategy for reflecting revenue volatility into annual prices.

Distribution tariffs put forward in the tariff structure statement must comply with the network pricing principles.[274] The network pricing principles require distribution networks to design efficient network tariffs.[275] Distribution networks are then allowed or required to deviate from efficient network tariffs for six reasons:

1. to comply with any jurisdictional pricing obligations[276]
2. to eliminate cross-subsidies between tariff classes[277]
3. to reflect concerns about customer impacts (the customer impact principle)[278]
4. to ensure customers can understand the network tariff (the customer understanding principle)[279]
5. to ensure energy services providers[280]can directly or indirectly incorporate the network tariff into a retail offer (the energy services provider incorporation principle).[281]
6. to ensure the change in total revenue recovered by a tariff class does not exceed the side constraints (limits on year-on-year revenue change).[282]

The AER assesses tariff structure statements (TSS) against the NER pricing principles and other components in the rules. At the draft decision the AER can approve the TSS in full, or require changes. If required to make changes, distribution networks submit a revised TSS with their revised revenue proposal. The AER can approve the TSS in full or modify the TSS. The AER has limited discretion in what modifications it can make to the networks proposed TSS.[283]

Once approved, distribution networks have some flexibility to change network tariffs:

- Through the TSS amendment process.[284] This has never been successfully used.[285]
- Sub-threshold or trial tariffs.[286] The trial tariff threshold is temporarily expanded to allow larger trials.[287] The expanded threshold will expire with the commencement of the fourth round of tariff structure statements.[288]

Each year distribution networks submit annual pricing proposals to the AER. The AER determines price levels based on the proposals. The annual pricing proposal rarely includes any stakeholder engagement.

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274 NER clauses 6.18.5(e) to (j).

275 Defined according to the existing network pricing principles NER clauses 6.18.5(a), 6.18.5(f) and 6.18.5(g). In appendix D we discuss how these principles could better reflect efficiency in the future.

276 NER clause 6.18.5(j).

277 NER clause 6.18.5(e).

278 NER clause 6.18.5(h).

279 NER clause 6.18.5(i)(1).

280 And small resource aggregators.

281 NER clause 6.18.5(i)(2).

282 NER clause 6.18.6.

283 NER clause 6.12.3(l).

284 NER clause 6.18.1B.

285 Ausgrid applied to amend its 2019-24 tariff structure statement in 2020. The AER found that it did not meet the necessary criteria for amendment, that the cause was unpredictable and out of the network's control. Ausgrid had included the desired change in its 2019 revised tariff structure statement. AER, *Determination: Ausgrid Tariff Structure Statement 2019-24, Amendment Proposal*, AER, Australian Government, February 2020, pp 2-4.

286 NER clause 6.18.1C.

287 NER clause 11.141.8.

288 The fourth round of tariff structure statements are expected to apply from 1 July 2029 in New South Wales, Tasmania and the Australian Capital Territory, 1 July 2030 in Queensland and South Australia, and 1 July 2031 in Victoria.

We heard from networks that they would like to see greater flexibility to amend a tariff structure statement within the five-year period to ensure that network price signals continue to promote efficient use of and investment in the network.[289] Stakeholders also noted that the current TSS process was not flexible enough to support innovation during the energy transition.[290]

E.2.2 The tariff setting process may create unnecessary costs for energy service providers

We heard from energy services providers that the current suite of network tariffs creates costs for networks. The Australian Energy Council noted that inconsistency and complexity across distribution networks makes it harder for energy services providers to develop and maintain billing and quoting system and ensure compliance. This results in complexity in retail offers, customer confusion and higher costs to serve customers.[291] Similar sentiments were shared by energy services providers in their submissions.[292]

In addition, while tariff structures are fixed within a five-year regulatory period, network tariff strategies and tariff structures can change quite sharply between periods. This may impose costs on energy services providers to incorporate changes and may make it harder to create innovative retail products. This is most apparent in NSW as shown in the table below.

289 Ausgrid submission to discussion paper, p 6; Evoenergy submission to discussion paper, pp 7-8; Essential Energy submission to discussion paper, p 8.

290 ActewAGL submission to discussion paper, p 2; Ausgrid submission to discussion paper, p 11; Energy Networks Australia submission to discussion paper, p 3; Flow Power submission to discussion paper, p 3; Evoenergy submission to discussion paper, p 2; SA Power Networks submission to discussion paper, p 4; TasNetworks submission to discussion paper, p 3.

291 AEC submission to discussion paper, p 13.

292 Momentum Energy submission to discussion paper, pp 1-2; Flow Power submission to discussion paper, pp 3-4; Alinta submission to discussion paper, pp 5-6; Origin submission to discussion paper, p 1; Powershop submission to discussion paper, p 2.

Table E.1: Default residential tariff assignments for NSW distribution networks

TSS period	Ausgrid	Endeavour Energy	Essential Energy
2017-19	1 July 2017-30 June 2018: Flat tariff From 1 July 2018: Seasonal time of use tariff	1 July 2017-30 June 2018: Declining block tariff From 1 July 2018: Time of use tariff	1 July 2017-30 June 2018: Flat tariff From 1 July 2018: Time of use tariff
2019-24	Demand tariff	Demand tariff	Time of use tariff
2024-29	1 July 2024-30 June 2025: Demand tariff with updated peak charging windows. From 1 July 2025:* Demand tariff with export charges and rewards.	1 July 2024-30 June 2025: Time of use tariff† From 1 July 2025:* Time of use tariff with export charges and rewards	1 July 2024- 30 June 2028: Time of use tariff From 1 July 2028: Time of use tariff with updated peak charging window, and export charges and rewards.

Source: AER, Final Decision, Tariff structure statements, Ausgrid, Endeavour and Essential Energy, AER, Australian Government, February 2017, pp 46-51; AER, Final Decision, Ausgrid Distribution Determination 2019 to 2024, Attachment 18 Tariff structure statement, AER, Australian Government, April 2019, p 15; AER, Final Decision, Endeavour Energy Distribution Determination 2019 to 2024, Attachment 18 Tariff structure statement, AER, Australian Government, April 2019, pp 12-16; Essential Energy, Empowering communities to share and use energy for a better tomorrow, 2019-24 Revised Tariff Structure Statement, Essential Energy, January 2019, p 9; Ausgrid, Tariff Structure Statement Compliance Document, Ausgrid, November 2023, pp 30-31; Endeavour Energy, Tariff Structure Statement, 2024-29 Regulatory Control Period, Endeavour Energy, 30 November 2023, pp 31-32, 45; Essential Energy, Planning for the future, Essential Energy 2024-29 Revised Tariff Structure Statement, Essential Energy, November 2023, p 29.

Note: Residential and small business tariff assignment processes are typically very similar.

* The 2021 Access, pricing and incentive arrangements for distributed energy resources rule change did not allow assignment to export charges until 1 July 2025.

† We note that in our Discussion Paper we misrepresented Endeavour Energy's transition period in 2024-29.

Frequent changes in tariff structures and rigid components like static peak windows require updates to energy services providers billing and quoting systems, and drive compliance and verification costs. Stakeholders suggested that the TSS creates unnecessary costs for energy services provider, increasing the cost to serve consumers and reducing energy services provider innovation towards products and services that consumers want.[293]

E.2.3 Stakeholders proposed options to improve the tariff structure statement

Stakeholders suggested options to improve flexibility or reduce energy services provider costs associated with the tariff structure statement. To support flexibility:

- Ausgrid proposed mid-period adjustments[294]
- Evoenergy proposed a cost pass-through style process to allow tariff variations[295]
- Monash University Energy Lab proposed that the administrative tariff setting process should be replaced entirely with a new market-based mechanism.[296]

We consider that flexibility is needed to support networks to:

293 Flow Power submission to discussion paper, p 2, AEC submission to discussion paper, pp 4, 6-7; Alinta submission to discussion paper, pp 4-5; Dragoman report for ECA submission to discussion paper, p 3; Momentum Energy submission to discussion paper, p 2; Origin submission to discussion paper, p 4; Powershop submission to discussion paper, pp 1, 4; Red and Lumo Energy, p 3; Tesla submission to discussion paper, pp 1, 4; AGL submission to discussion paper, p 3; Evie Networks submission to discussion paper, p 2.

294 Ausgrid submission to discussion paper, p 6.

295 Evoenergy submission to discussion paper, pp 7-8.

296 Monash Energy Lab submission to discussion paper, p 14.

- offer new tariffs with different residual cost allocations to new technologies with different levels of price responsiveness
- increase the locational specificity of tariffs as monitoring and billing capability improves
- respond to increasing energy services provider ability and appetite for managing more complex network tariffs that better signal congestion and other costs.

We note that many stakeholder submissions have suggested that flexibility may be needed for new tariff structures or to change peak charging windows. We consider that this would be unnecessary with a well-designed initial tariff structure that is flexible to respond to network congestion. However, if energy services providers are unable to manage such a tariff to produce the desired range of products (basic to sophisticated) that customers desire, then changing structures would be required over time.

To support reducing energy services provider costs associated with the tariff structure:

- Tariff standardisation across the NEM was supported to varying degrees by a wide range of stakeholders.[297] Additionally,
  - EnergyAustralia suggested that standardisation could be supported by the AEMC or AER developing a guideline or set of expectations based on industry experts views.[298]
  - Flow Power suggested there could be a NEM-wide tariff structure statement process every two-years.[299]
  - Institute for Energy Economics and Financial Analysis and Australian Energy Council suggested the standard tariff could be developed by the AER.[300]
  - Tesla suggested there could be nationwide templates to reduce integration overhead and support national product development.[301]
- Several submissions supported mandatory consultation with energy services provider.[302]
- The Australian Energy Council suggested there could be one network tariff for all customers per customer segment.[303]
- Flow Power and Powershop both raised that energy services providers rights to select tariffs should be clarified,[304]where networks tariff assignment policies allow the energy services provider a choice of tariffs at a connection point.

We note that even where tariff structure statements give energy services providers a choice of network tariffs, distribution networks do not always allow energy services providers to exercise this choice. For example, Ausgrid's network pricing guide indicates that it will not process tariff choices provided for in the tariff structure statement if there is not 12 months of energy consumption history or if the customer has been previously reassigned in the last 12 months (including by a different energy services provider).[305]

297 AGL submission to discussion paper, p 4; ARENA submission to discussion paper, p 5; EnergyAustralia submission to discussion paper, p 5; EvieNetworks submission to discussion paper, pp 15, 19; Flow Power submission to discussion paper, p 3; Institute for Energy Economics and Financial Analysis submission to discussion paper, p 4; JEC submission to discussion paper, p 12, Powershop submission to discussion paper, pp 2-3; Tesla submission to discussion paper, p 7.

298 EnergyAustralia submission to discussion paper, p 5.

299 Flow Power submission to discussion paper, p 3.

300 Institute for Energy Economics and Financial Analysis submission to discussion paper, p 4.

301 Tesla submission to discussion paper, p 4.

302 CleanCo submission to discussion paper, p 3; Tesla submission to discussion paper, p 7; Origin submission to discussion paper, p 4.

303 AEC submission to discussion paper, p 13.

304 Flow Power submission to discussion paper, p 4; Powershop submission to discussion paper, pp 2-3.

305 Ausgrid, *ES7 Network Price Guide*, Ausgrid, July 2025, pp 8-9.

E.2.4 We have built on submissions to identify two options to change the timing and/or the flexibility of the tariff structure statement to better accommodate the transition underway

Our first option is to **shorten the tariff structure statement's application to two or three years**. A shorter tariff structure statement would increase the flexibility for networks to respond to new technologies that impact customers' price responsiveness or willingness to connect/disconnect. Multiple networks identified that they see the five-year tariff structure statement as a barrier to tariff reform. A shorter tariff structure statement could pair with the tariff strategy discussed in appendix D. A shorter tariff structure statement would increase flexibility for distribution networks.

Two proposals we received align with this. Ausgrid proposed a mid-period refresh of the tariff structure statement[306]and Flow Power proposed a single NEM-wide tariff structure statement process every two-years, with the AER ensuring NEM-wide tariff consistency.[307]The single NEM-wide tariff structure statement process would help reduce the number of processes where energy services providers would need to participate.

Our second option is to **extend but limit the scope of the tariff structure statement and introduce a network tariff structure negotiation process.** This option would see a ten-year (or two regulatory control period) tariff structure statement for 'default' network tariff structures, alongside a framework for energy services providers or large users to negotiate new tariff structures at any time that benefit both the energy services provider or large user and the network. These new negotiated tariff structures would need to satisfy the network pricing principles, and could then be made available to all energy services providers (or large users) on an opt-in basis.

The default tariff structures in the TSS would be intended to serve as a backstop mechanism that would only be used if negotiated network tariffs fail to emerge. It would only include the basic, default network tariff structures. This would provide energy services providers with longer-term stability on the only tariffs that they must offer to operate within a distribution network's area of operations and the flexibility to help develop or adopt new tariffs as fits their retail model. This could be paired or combined with the tariff strategy discussed in appendix D

This would help reduce compliance costs and the challenges of energy services provider involvement in tariff structure statement processes through:

- creating greater certainty on network tariffs, allowing energy services providers to invest and innovate to manage those network tariffs in retail offers
- reducing the burden and increasing the potential payoff for energy services providers participating in TSS process, by having fewer resets that have a more lasting impact.

We consider that the TSS would not set charging windows or price levels of charges. The NER's pricing principles set appropriate guidance for timing and levels of charges. Networks would have the flexibility to set price levels and timing as necessary to manage network congestion. We consider that the tariff structure statement would need to provide energy services providers with information on how much notice they will have before price changes, the length of pricing intervals and how the network will communicate price levels. We expect this notice period would fall as network and energy services provider capability, and system interoperability improves.[308]

We consider negotiated tariffs would need to satisfy two conditions:

- available to all energy services provider on an opt-in basis

306 Ausgrid submission to discussion paper, p 6.

307 Flow Power submission to discussion paper, p 3.

308 For example, the wholesale electricity market prices update every 5-minutes with no prior notice. This is supported by systems that support energy services providers, generators, consumers and third-parties to receive and respond to price changes.

- offered for the remainder of the TSS period, or until there is no longer demand for the tariff from retailers.

This would help mitigate the reduced flexibility we expect from the expiration of the extended threshold for trial tariffs in the next series of resets. We consider this is a more fit-for-purpose solution to support ongoing flexibility needs.

We consider that the ability to add new optional tariffs would support the development of energy services provider-negotiated network pricing framework. Distribution networks and energy services provider would work together to find win-wins to serve new and emerging customer types. We expect improved engagement would help develop greater partnership in both the default tariffs in the TSS and the optional tariffs supporting it.

We recognise that stakeholders may have alternative and better ideas on how to best balance flexibility and stability in the tariff setting process. We would like to hear stakeholders' ideas and feedback on improving the tariff setting process.

E.2.5 Consulting on ways to better balance flexibility and stability will help us make the best decisions

We consider our two options would likely have different impacts.

Our first option, shortening that TSS process would allow more flexibility. Networks would be able to introduce new tariffs, hopefully using the default tariff structure, to support new customer types and new technologies. However, we are concerned that networks may seek to change tariff structures, as we have seen with the current five-year period. This could increase compliance costs for energy services provider and reduce the incentives to invest in innovative retail offers

Additionally, unless it aligns with Flow Power's suggestion of a single NEM-wide process it would likely create additional barriers to energy services provider participation in tariff structure statement process, with 13 resets every two or three years.

Our second option, lengthening the tariff structure statement but limiting its scope and introducing a negotiated network tariff structure process, would allow more stability. Networks would need to offer at least one basic tariff for each tariff class. This creates stability and reduces both the quantity of tariffs energy services providers need to manage and tariff resets energy services providers need to participate in. The negotiation framework provides the mechanism for innovation and flexibility over time, allowing network tariff structures to adapt to changing circumstances and needs.

We consider that there may be better options and we want to hear from stakeholders on what options they would like to see.

We have eliminated three options:

1. Force energy services providers to participate in the TSS process. We expect networks and energy services providers will work together better in the future.
2. Remove the TSS process. We consider the annual pricing proposal process alone does not allow for sufficient consultation with energy services providers or provide the AER with sufficient opportunity for oversight.
3. Make the increased trial tariff threshold permanent. We consider that the flexibility in our first option or the ability to introduce new optional tariffs in the second option reduce concerns of tariffs being removed without consultation or tariffs being available only to select energy services providers.

E.2.6 Implementing changes to the TSS would require a rule change

Changing the TSS would require that the AEMC undertake a rule change to amend the NER. As discussed above, these reforms would only meaningfully bind when networks undertake a tariff-setting process. As such, the rule changes should be undertaken concurrently with other rule changes that aim to improve the network tariff setting objectives and process. These include:

- the reforms toward more efficient tariffs discussed in appendix D
- changes to the customer impact principle and customer pathway discussed in appendix E.1

As discussed in appendix D under the normal regulatory reset timelines, these reforms may take a number of years to roll out and some expedited measures may be preferred.

We discuss in section 4.2.2section 4.2.2 two options that could accelerate the implementation:

- a transitional rule that could allow early network tariff resets
- making use of flexibility under the existing rules until rule changes can be implemented.

For the latter, the AER could make it more explicit that they will allow networks to amend the TSS, which is allowed under the current rules, but not commonly done.

F We are considering transitional measures to manage the potential impacts of reform

F.1 The tariff reforms we have proposed may raise new risks for consumers

In the longer-run we consider that energy service providers are best placed to manage risks on behalf of customers - including those from network tariffs. This is a change to the current paradigm where energy service providers pass network tariffs - and their risks - directly onto consumers, as discussed in appendix E. This is because energy service providers:

- see the full set of costs that customers face - not just networks, but also wholesale and other costs such as jurisdictional schemes
- have the ability to pool risks across their portfolio of multiple customers and mitigate risks using 'supply side' assets that they either own or contract with including generation, batteries and smart technology
- may offer value or rewards to customers who can help manage risks, such as by offering or providing cheaper rates for customers who are using energy at certain times.

Energy service providers - in particular - have demonstrated their ability to effectively manage these risks through their role in managing wholesale price risks.

Transitioning to higher fixed charges may create winners and losers, as some customers end up paying less than they used to, while others may pay more. We recognise that it is essential to ensure that the impacts of any tariff changes are manageable for all consumers.

We propose transitional measures to manage the impacts of a move to higher customer fixed charges from networks and potentially from energy service providers.

The primary focus will be on the impacts on end use customers. There are a number of ways to manage this transition fairly; we outline three options below to address the risks arising from reform of network tariffs.

Should our draft recommendations be adopted and implemented, we would transition to evolved ways of setting network tariffs and new tariff structures. In the shorter term, this may mean that energy service providers face a different cost profile from networks. They therefore may need to adjust their risk management approaches. There may be constraints or limits on energy service providers' abilities to manage these risks, and what risks they can manage. We would be interested in hearing more about these.

In one scenario, reforms at the network level may be sufficient to support energy service providers to support good customer outcomes. However, further reforms where the impact on customers is managed through energy service providers and transitional customer protections may need to be considered. We are interested in stakeholder views on this for the final report.

Some providers may find passing these risks on to customers to be more profitable than managing these on behalf of consumers, at least in the first instance, as they get more familiar with the arrangements. As such, transitional mechanisms may be warranted to mitigate the risks that consumers could face if we moved to these new arrangements straight away.

Where possible, we would prefer a framework that utilises competitive forces to achieve the outcomes we are after. This is because we consider markets are best able to meet actual consumer needs through diverse and innovative solutions. However, to get to this as an outcome,

we also recognise that we likely need to change market rules or incentives - or at the extreme, intervene - as we transition.

An immediate and ill-considered implementation would raise risks and costs for consumers and so it is important that we avoid this outcome. These costs and risks could arise from:

- the pace of the transition
- the movement towards network tariffs being increasingly fixed in nature.

We discuss each of these two issues further below.

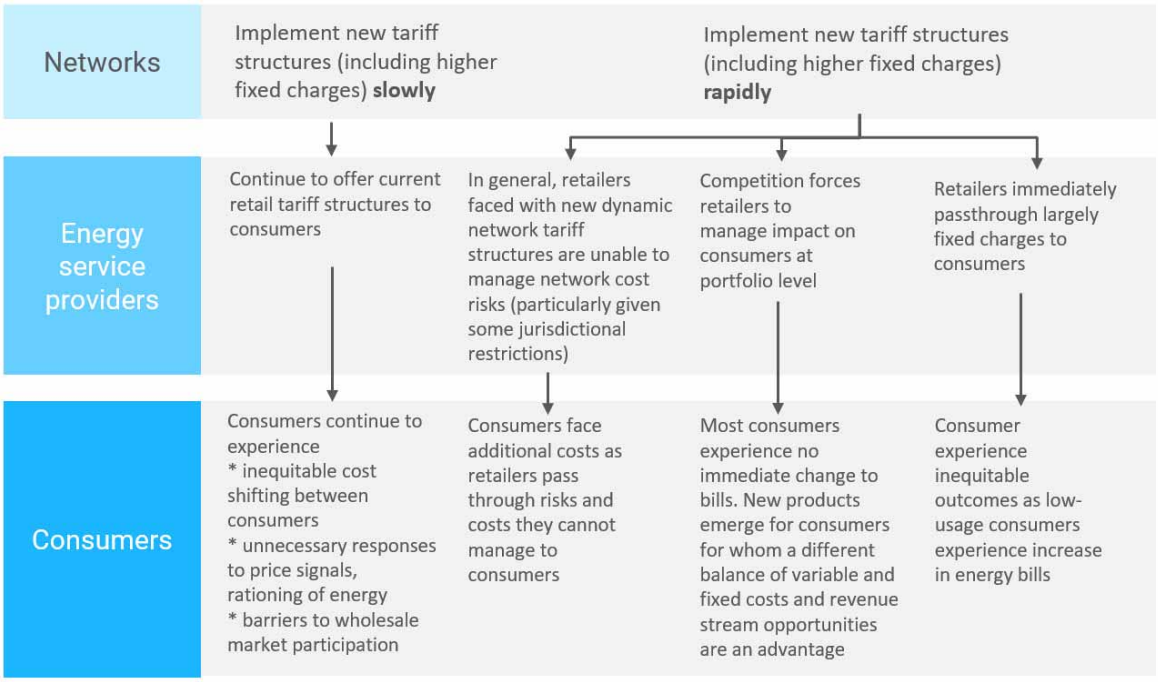
F.1.1 The pace of change raises risks for consumers

An unmanaged transition can create winners and losers amongst consumers and also create additional costs if energy service providers face risks that they cannot cost-effectively manage. For example, if energy service providers simply pass through increasingly complex network tariffs to consumers, those consumers with the ability to respond may benefit, while others may not and could correspondingly face higher bills.

We consider that these risks are largely transitional in nature. Once 'efficient tariffs' (see appendix D) have been fully implemented, we would hope that energy service providers would have the ability to manage tariff risks. Consumers would therefore also have meaningful choices around value for money products. At this point, any mechanisms to manage the transition should no longer be required.

Figure F.1 below shows how a transition to new tariffs that is not appropriately paced could create risks and costs for consumers. Both an excessively *slow* implementation of tariff reform and an excessively *rapid* transition could undermine consumer outcomes, including potentially higher energy service providers prices.

Figure F.1: How consumers could experience the risk of inappropriately paced tariff reform



The current issues facing consumers would be further entrenched if tariff reform is implemented too slowly

The current tariff framework is delivering tariffs that result in poor consumer outcomes. These are discussed in appendix E.

Given these issues, tariff reform is especially necessary at this time of rapid transition to ensure consumers get the products they want while also placing downwards pressure on system costs. We have been consistent on this message, and some stakeholders have also emphasised importance of tariff reform for a successful transition and have warned of the risk of delays to this reform.[309] The longer it takes to deliver tariff reform, consumers would have to:

- endure the current detrimental issues of the framework for longer
- wait longer to experience the benefits of tariff reform, such as:
  - downwards pressure on costs and
  - opportunities to be rewarded for responding to efficient signals.

Consumers would face new risks and costs if the transition to network tariff is excessively rapid

An excessively rapid transition to efficient tariffs could also increase costs and risks for consumers. The tariff reforms suggested in this paper may increase consumer costs where energy service providers:

- are forced to face tariff risks they cannot cost-effectively manage
- face higher compliance costs and are less able to innovate due to managing an inefficient lack of standardisation amongst network tariffs.[310]

Stakeholders have called for considered and slow implementation of tariff reform, as small changes can create significant costs and risks for energy service providers.[311] But energy service providers *will* need to change. They may be required to develop capabilities or invest in technologies to manage these risks, and we recognise that these changes may take time to develop and implement.

There will also be costs to networks rapidly developing the ability to measure and send more efficient tariffs. Consumers will inevitably experience these costs.

F.1.2 The transition to network tariffs becoming increasingly fixed in nature would impact consumers differently

Transitioning to a larger share of fixed charges to recover the costs from networks can accomplish two things:

1. Create better signals for customers and intermediaries about the real-time costs of using the network, including where those marginal costs are near zero.
2. Create a more equitable sharing of network costs amongst consumers. This is because the majority of network costs are sunk or unavoidable, while the majority of network charges are levied based on a customer's electricity usage (volumetric). For time of use (ToU) tariffs, these sunk and unavoidable costs are largely recovered through the peak period volumetric charge. Increasingly, those customers with access to CER (particularly batteries) would be able to avoid these peak period charges. Thus, their contribution to paying for the fixed and unavoidable costs of the network will decrease, even though they have not helped reduce

309 Endeavour Energy submission to consultation paper, p 2; ECA submission to discussion paper, p 16.
310 AEC submission to discussion paper, p 12.
311 AEC submission to discussion paper, pp 13-14.

those costs. Moving to a larger share of fixed charges would mean that these customers continue to contribute to the fixed and unavoidable costs of the network, and that when they do take actions to reduce their bills, this results in lower system costs for all customers.

In the short-term, structural changes to network tariffs may create winners and losers amongst customers, as some customers see their network charges decreasing and others find them increasing. Who these winners and losers are, and the magnitude of any gains or losses would depend on both how the fixed charges are implemented and the tariff transition strategy.

If networks charge energy service providers a higher fixed charge that is the same for all customers in a network tariff class then there are two primary responses. Energy service providers might:

1. maintain their current retail structure and prices, meaning customers would face a risk of changes in price levels:
   - network charges would be likely higher than previously for customers with lower usage, and lower than previously for those customers with higher usage
   - the extent to which these differences balance out for each energy service providers would depend on the make up of the energy service providers' portfolio of customers
   - as energy service providers continue to lose and gain customers through churn over time, their risk profiles may change.
2. largely pass through the network tariff changes, meaning customers could face bill impacts.
   - while energy service providers would be limited to increasing their prices once per year under current arrangements, there is no limit on how much this increase can be, so the increase that individual consumers could experience could be sharp
   - customers whose network charge is materially higher than previously would be exposed to potentially materially higher bills. Even with shopping around, they may not find an offer that compares, price-wise, to the offer they were previously on
   - existing retail protections may assist in insulating some consumers from these impacts, but the extent to which this could occur would need to be further tested through deeper analysis.

Energy service providers may also find innovative ways to take a hybrid approach containing both of these responses to soften customer impacts. For example, if they pass through higher fixed charges to customers, they may also offer these customers deals to help them electrify their appliances and make better use of the network.

It is essential that the magnitude of any such changes faced by customers is manageable. We are undertaking empirical analysis to better understand the potential magnitude of impacts and the range of tariff transition strategies available. This is described in more detail in appendix F.3

F.2 We have considered potential interventions to manage risks to consumers

Consumers will be the winners of tariff reform so long as the reform is implemented in a way that balances the costs and benefits of rapid change. As discussed, consumers would bear the costs of a transition that occurs either too slowly or too quickly. We note that ensuring tariff reform is as fast as it can be while meeting consumer needs without raising unnecessary costs is critical for maintaining social licence for tariff reform throughout the transition.[312]

312 See: Endeavour Energy submission to consultation paper, p 5.

In the sections below we discuss potential ways that we consider these risks could be addressed. We have not articulated these options as draft recommendations. This is because adoption of one or more of these options is contingent on stakeholder feedback on and potential implementation of other recommendations. We are nonetheless interested in stakeholders' views on these options in submissions to this draft report. We are also interested in stakeholder views on whether there are other risks that need to be managed through the transition, and ways in which this can be achieved.

F.2.1 Different risks require different policy responses

Risks and costs can accrue at different points in the supply chain, from networks to energy service providers and intermediaries to consumers. Different mechanisms will be more or less suitable for different potential risks and costs, depending on the particular circumstances. We have therefore developed several policy response options for consideration.

The appropriate policy response would depend on which potential risk is being mitigated and where in the supply chain the issue is best addressed. For an insufficiently rapid transition to network tariffs, we are considering:

- incentivising networks to deliver efficient tariffs
- a transitional requirement on networks to provide energy service providers with a choice between tariffs that support basic and sophisticated products.

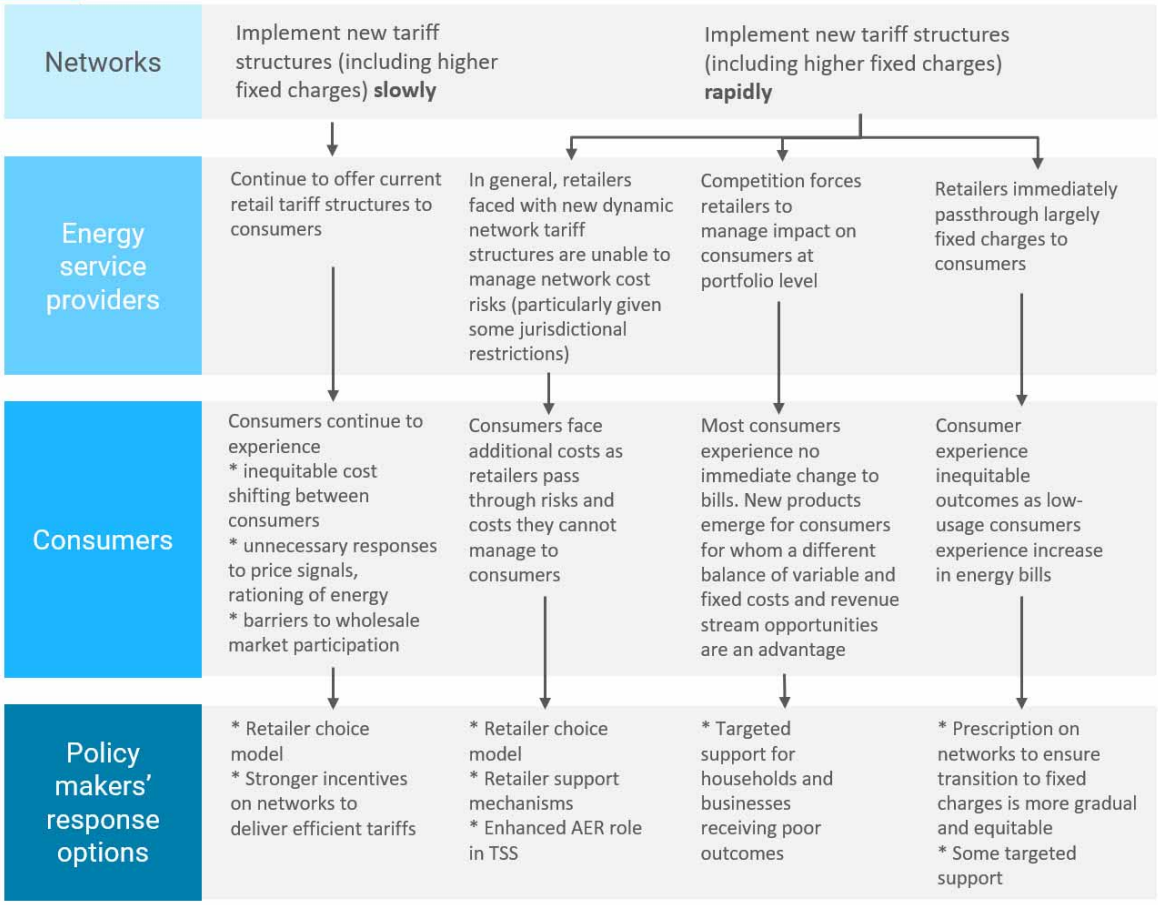
We think that thriving competition between energy service providers is the first best solution to ensuring a rapid but cost-effective transition. The intention of our overall reform package is to empower energy service providers to manage risks on behalf of consumers. Our reforms would create more opportunities for energy service providers to outcompete each other in creating meaningful products for consumers. However, where we assess that competition would not be sufficient to protect all consumers (inequitable outcomes) or that energy service providers cannot cost-effectively manage the risks arising from network tariff reform (inefficient outcomes) we would need to consider other mechanisms.

To protect consumers and energy service providers from an excessively rapid transition to network tariffs, we are considering:

- mechanisms to require networks to consider energy services provider capabilities
- enhancing the AER's role in the tariff structure statement process
- a transitional requirement on networks to provide energy services providers with a choice between tariffs that support basic and sophisticated products.

These options and their connection to the risks arising from the pace of network tariff reform are outlined in Figure F.2 below. They are discussed in more detail below and are not mutually exclusive.

Figure F.2: Flow chart linking risks to policy responses



F.2.2 Transitional mechanisms should ensure that network tariff reform is appropriately paced

There are two primary aspects to ensuring tariff reform is sufficiently paced without introducing unnecessary costs on networks, energy service providers, and consumers. Networks responsible for designing and implementing tariffs need to be:

- driven to deliver efficient tariffs more rapidly
- required to account for energy service providers capabilities in cost-effectively managing these tariffs, so reform is not so rapid it creates additional costs.

F.2.3 Tariff requirements and incentives could address the risk of networks delivering tariff reform too gradually

Networks are obliged to deliver tariffs that meet the rules, but currently have no clear, positive incentive or requirement in the NER framework to invest effort to deliver better tariffs nor to more rapidly implement them.[313] Networks could be incentivised to expend effort to innovate, more efficiently design and more rapidly implement tariff reforms. The options to incentivise networks in this way are discussed in appendix D and would help address the risk that network tariff reform is delivered too slowly.

313 See discussion in appendix D.2.2

Networks could also be guided to deliver more rapid tariff reform by requiring certain outcomes from their tariff design. Below we propose an 'energy services provide choice' model as a potential option to both:

- accelerate the pace of tariff reform and
- also ensure unnecessary costs are not introduced into the 'supply chain' from networks to energy services provider to consumers.

An 'energy service providers choice' model could guide tariff outcomes at an appropriate pace

The energy service providers choice model would require networks to design two tariff structure options for each tariff class. Networks would still need to interpret those requirements and design tariffs that cost-effectively meet their consumers and contexts. Networks would be required to:

- provide a tariff option for energy service providers who are not yet willing or able to cost-effectively manage more dynamic signals (the 'basic' tariff)
- provide a dynamic tariff option to energy service providers who are more willing and able to cost-effectively manage and package these signals into appealing consumer products (the 'dynamic' tariff)
- balance the two designs such that the difference creates an inherent commercial incentive to encourage energy service providers uptake of the dynamic tariff as capabilities and opportunities increase over time
- allow energy service providers, or consumer intermediaries, to switch between tariff allocations.[314]

The design of this mechanism would need to consider whether to place reasonable limitations to energy service providers' ability to switch consumer tariff allocations to prevent potential gaming of the system or excessive technical challenges and costs to networks. This might be, for example, a limitation of the frequency of changes. However, a well-balanced set of tariffs should mitigate the risk that energy service providers can gain undue advantage by switching allocations.

The 'basic tariff' could avoid energy service providers passing costs and risks onto consumers that they cannot cost-effectively manage

The basic network tariff could have an important transitional role in supporting energy service providers who are not able to cost-effectively manage more dynamic signals in the near term. We envisage that this tariff would likely be a fixed charge tariff that energy service providers could incorporate into a broader retail product, which includes consumption-based elements reflecting wholesale market costs. Allowing energy service providers to choose this tariff would avoid the situation where energy service providers would be required to face network risks they cannot cost-effectively manage, with this eventually leading to higher costs or risks for consumers.

The basic tariff would directly support energy service providers in providing the more basic of the spectrum of products to consumers. This helps to avoid the risk raised by stakeholders of the potential consumer harm arising from being 'mismatched' with a retail product that does not meet their needs.[315] It could also support a 'suitable product for most consumers who cannot or choose not to actively engage'.[316]

The 'dynamic tariff' could create opportunities to reward consumers for contributing to efficient network

314 The products consumers can choose between should not be dictated by historic network tariff assignments. Consumers should choose retail products, and energy service providers should choose a tariff that best supports their provision of that retail product.

315 Ron Ben-David submission to discussion paper, p 12.

316 JEC submission to discussion paper, pp 6-7.

use and investment

The dynamic network tariff would provide a basis for more sophisticated consumer offerings. Energy service providers that package or pass this signal through would create products that reward consumers for contributing to downward pressure on overall network costs.

The difference between the basic and dynamic tariff could enhance the development of energy service providers' ability to cost-effectively manage network tariffs

The third component is critical to supporting the evolution of the energy service provider sector. It harnesses the power of competition by encouraging energy service providers to innovate and develop approaches to cost-effectively manage, or procure tools to manage, dynamic tariffs. This is because networks would be required to design the basic and dynamic tariffs such that there was a commercial benefit to energy service providers for assigning their consumers to the dynamic tariff. This difference would reflect the lower cost of serving customers who take on and help manage network cost risks. This may be structured as a difference in price levels or in the form of a rebate to the fixed cost component.

Over time, energy service providers who were better able to package signals and allocate consumers to the dynamic tariff would be more competitive in the market. This would see competitive forces drive the sector to develop the ability to package dynamic tariffs into meaningful consumer products, increasing the uptake of dynamic network tariffs and putting downward pressure on network costs for all customers.

This option would also help to standardise tariffs across networks and jurisdictions, addressing concerns of the impact on costs and innovation of unnecessary tariff diversity.[317]

The energy service provider choice model could protect energy service providers from facing tariffs they cannot cost-effectively manage

Consumers could face additional costs when the rapid development of network tariffs leads to energy service providers exposed to risks they cannot cost-effectively manage. The energy service providers choice model inherently addresses this risk by providing energy service providers with the choice of a basic tariff they are capable of managing. The risk for energy service providers under this model is that they would become less competitive over time compared to other energy service providers that do engage with more dynamic tariffs.

The energy service provider choice model could be designed to expire when the retail sector was sufficiently developed

The energy service provider choice model could also be set out as a transitional mechanism with clear sunset triggers. These triggers could be based on observable metrics around dynamic tariff allocations, such as:

- proportion of energy service providers who have a majority of consumers allocated to a dynamic tariff - for example, the requirement sunsets once a majority of energy service providers have a majority of customers allocated to dynamic tariffs
- total retail consumers allocated to a dynamic tariff.

We expect that once the operation of this potential transitional policy expires, networks would only offer dynamic tariffs and the retail market would be sufficiently mature to manage the subsequent risks without leading to unnecessary cost increases to consumers.

The design of the energy service provider choice model could be set out in the following ways:

317 AEC submission to discussion paper p 12.

- in rules designed by the AEMC
- in guidance provided by the AER through the tariff structure statement, potentially in accordance with reformed pricing principles set out in appendix D
- collectively under a 'consistency framework' as proposed in the draft DSO workstream final report.

A energy service provider choice model could work together with incentives on networks to deliver efficient tariffs

The energy service provider choice model would still leave networks with discretion as to how they interpret the requirements when designing tariffs. They could determine how best to meet the 'dynamic tariff' requirements to cost-effectively match their ability to send signals and energy service providers' ability to help customers respond to them. This would mean that networks with more advanced network monitoring, higher levels of smart meter penetration, and a more mature retail sector could design more sophisticated tariffs. These tariffs would more accurately support the allocation of scarce capacity and signals that reduce network costs over time. Networks operating in contexts less conducive to cost-effectively implementing such tariffs could propose alternative tariff designs as their contexts develop.

Because networks could have this level of discretion under the energy service provider choice model, a well-designed incentive would ensure they are sufficiently motivated to rapidly design and implement more efficient tariffs.

F.2.4 Energy service provider protections, enhancing the AER's role in the TSS process, and tariff requirements could address networks delivering tariff reform too quickly

A different approach to managing the risks of a rapid transition to higher network fixed charges could involve requiring networks to consider energy service providers' ability to manage and respond when designing tariffs. These considerations could be incorporated into the tariff framework in two ways:

- creating a 'retailer impact principle'
- empowering the AER to take a more active role through the tariff setting process and to effectively facilitate the implementation of tariff reforms between retailers and networks.

An energy service provider impact principle could ensure rapid tariff reform does not lead to unnecessary costs for consumers

The retail sector as a whole may not be sufficiently mature to cost-effectively manage increasingly efficient tariffs. While networks have advised us that highly efficient tariffs are not yet possible at scale, these could eventually be:

- highly localised
- highly dynamic
- rare or frequent
- arising at a time that consumers exhibit highly inelastic demand for network use, which means pricing to appropriately allocate scare network capacity can be volatile.

Energy service providers currently manage dynamic and complicated wholesale market pricing using generators as a natural tool to mitigate the risks in the wholesale market. Energy service providers have advised us that currently similar counterparties do not exist to provide tools to manage dynamic network signals.

Under the current tariff framework, networks can deviate from efficient network tariffs if the network or the AER considers that:

- risks of poor customer impacts are greater than the 'desirability' of efficient tariffs[318]
- neither customers could understand network tariffs nor retailers could directly or indirectly incorporate the network tariff into a retail offer.[319]

One option would be to evolve these rules to allow networks to deviate from the tariff requirements and objectives of our proposed pricing principles where not doing so would force energy service providers to face risks they were not capable of cost-effectively packaging into offerings for their customers. This option would effectively slow the pace of a rapid transition to mitigate the risk that consumers experience higher costs as a result of energy service providers passing through risks they cannot cost-effective manage. As energy service providers on the whole became better at cost-effectively managing these risks, networks would reduce how far they deviate from efficient tariffs.

There are two key considerations for implementing this option:

- this option should be designed so that the least innovative energy service providers do not prevent networks from implementing tariffs that more innovative energy service providers can cost-effectively manage
- this option could be implemented as a permanent (not transitional) part of the tariff framework to ensure that networks continue to consider the ability of energy service providers as technology and consumer capabilities continue to evolve.

The AER could be empowered to drive standardisation and an appropriately paced tariff reform through the TSS process

A third option could involve the AER playing a role in addressing the risks described. It could use the TSS process to ensure networks design tariffs that are more standardised and better matched to energy service providers' capabilities to cost effectively manage them.

In driving standardisation of tariffs, the AER would engage with energy service providers on their ability to cost-effectively manage the risks inherent in the new tariffs. The AER would effectively conduct a negotiation between energy service providers and networks through the TSS process to balance the opposing goals of:

- achieving the transition to efficient tariffs
- protecting energy service providers from costs and risks they could not efficiently manage on behalf of consumers.

We envisage that this would be a transitional policy. The AER's more 'muscular' involvement in the tariff design process would only be required for as long as:

- energy service providers were developing capabilities to manage efficient tariffs
- networks were still evolving towards a more standardised set of efficient tariffs.

The rules could be drafted to require the AER to consider the necessity of their intervention, with the presumption that intervention would be justified only when certain criteria were met. These criteria could be designed such that the AER takes an increasingly light to non-existent approach as energy service provider capabilities evolved and networks start implementing a more standardised set of efficient tariffs.

318 NER clause 6.18.5(h).
319 NER clause 6.18.5(i).

F.2.5 We support the CER Taskforce's work on a DSO consistency framework to reduce costs for consumers by addressing unnecessary tariff diversity

The CER Taskforce is undertaking work on how the distribution system should be operated and managed to best support the use of CER.[320] One proposal in that work was to bring additional consistency to network processes, including pricing. This received positive support in the majority of stakeholder submissions to the CER Taskforce's Consultation Paper. We support the CER Taskforce's work in this area, and consider that the outcomes of their work would inform our network tariff reform package.

F.3 We are undertaking further analysis to inform consideration of transitional reform options

To better understand the potential magnitude of impacts and the range of tariff transition strategies available, we are analysing anonymised customer usage and billing data that has been voluntarily requested from the distribution networks. For each distribution network, we requested one year of data for a random sample of 1,000 residential and 1,000 small business customers for each of a flat, time of use and demand tariff.

We will use this data to calculate and explore customer bill impacts under several alternative tariff transition strategies. This may include, for example:

- designing the transition to be rolled out over a number of years
- creating several different levels of fixed charges based on historical usage.

We will be able to see how these impacts differ for CER and non-CER customers, but do not have any socio-economic data at the customer level, only at the level of the customer's postcode. While limited, this analysis will help us to understand the distribution and potential magnitude of bill impacts and will guide our policy recommendations in the Final Report. Once we have further progressed this analysis, we want to talk to distributors directly, to get their feedback and valuable insights. These parties are more experienced than us at considering these impacts and managing for them.

This analysis will be informative but we caution that it will also - deliberately by design - reflect worst-case outcomes. It assumes that energy service providers would pass through rather than manage fixed charges, and that customers will passively receive them rather than undertake any adaptive behaviour. Moreover, it would ignore the benefits to customers that would result from our draft recommendations. These benefits include being able to better use the available network capacity to power their homes and businesses in the shorter-term and a least-cost, more equitable energy system in the longer-term.

F.4 Our proposals would achieve a more cost-effective transition for consumers by meeting our objectives and assessment criteria

F.4.1 Transitional reforms can support better consumer outcomes

The expected outcomes of these proposed transitional mechanisms is a network reform package that ensures an:

- appropriately paced transition balancing speed and cost-effectiveness
- equitable and fair move to a higher share of fixed network charges.

The transition would mean consumers:

320 DCCEEW, *National Consumer Energy Resources (CER) Roadmap - Redefine roles for market and power system operations – M3/P5.*

- receive a spectrum of *meaningful options*
- experience downwards pressure on network costs without inefficient increases in energy service providers costs, supporting *value for money* outcomes
- are not unfairly penalised under a move to more fixed charges.

An appropriately paced transition will deliver for all consumers

Transitional mechanisms to prevent tariff reform being too rapid for energy service providers to cost-effectively manage would protect those *Not to be left behind* and *Behind barriers* customer archetypes from facing undesired complexity and additional costs.[321] Introducing an 'energy service provider impact principle', empowering the AER to effectively negotiate between energy service providers and networks, and the energy services provider choice model all provide these protections.

Transitional mechanisms to prevent an excessively slow tariff reform would address the issues current consumers are already experiencing, and which may worsen as new CER technologies improve and are more widely deployed. They would also support *Embracers* and *Full of potential* consumer archetypes being able to opt into products that reward their contributions to improving the efficient use of and investment in networks.

Introducing sufficient incentives or the energy service provider choice model support a more rapid transition. These mechanisms could work together. Incentive mechanisms may not be transitional, but we would expect their strength and structure to change in the periods before and after a transition to more efficient tariffs.

A more equitable transition to fixed tariffs will benefit all customers

We expect that the outcomes of a move to fixed tariffs would:

- address the additional costs non-CER households and businesses have had to pay as network contributions have been shifted to them under the current tariff framework
- reduce a pricing barrier to accessing the network for valuable energy consumption
- improve consumers' link to the wholesale market and other potential revenue streams - in which their voluntary participation should not only offer them appropriate rewards but reduce total system costs for all consumers.

F.4.2 It is possible that transitional mechanisms may not be required

It is also possible that energy service providers may manage the transition such that consumers are not adversely impacted, and none of these transitional mechanisms may be required. This would be the case where our improvements to the pricing principles empower both networks and the AER to drive tariff reform at an appropriate pace. An incentive mechanism could contribute to this outcome. We are interested in stakeholder views on this potential approach.

F.4.3 We considered other options for protecting consumers from risks arising from network tariff reform

We have considered other options to support an appropriately paced network tariff transition.

321 Further information on the consumer archetypes is available in chapter 5.

Prescribing a suite of tariffs approach

We considered requiring networks to meet detailed specifications of a suite of network tariffs that must be offered to all energy service providers. This has similarities to the energy service provider choice model, except networks would have less discretion regarding the design of the dynamic tariff(s). Under a more heavily prescriptive approach, networks may be restricted from designing tariffs that best reflect the unique characteristics of their network. These characteristics may include:

- billing systems
- relative progression of smart meter roll-out
- network topology
- maturity and competitiveness of relevant energy service provider sector
- customer preferences.

We did not include this option given the potential drawbacks. Prescribing a required suite of tariffs does not promote a principles-based approach preferred under good regulatory practice. It also does not allow for innovation and flexibility, as changes to technology and consumer preferences might not be met by changes in tariff structure without a time-consuming rule change process.

Addressing the root cause of risks

A rapid transition to network tariffs may mean the additional costs and risks faced by energy service providers are eventually imposed upon certain users. These are likely to be those matching the *Not to be left behind* and *Behind barriers* customer archetypes. There is an argument that if the problem is experienced at the consumer point in the supply chain by specific consumers then the solution should also target these consumers. We considered developing options derived from this argument. However, we did not proceed with these as:

- Providing specific targeted support to consumers is complex, and identifying those who are harmed by the specific risks and costs arising from a rapid implementation of network tariff reform would be difficult.
- Rapid network tariff reform implementation may create additional costs to those experienced if the reforms were implemented at a more appropriate pace. For example, a rapid transition of all networks and energy service providers to efficient tariffs may be more overall more expensive than allowing networks and energy service providers to transition more gradually and targeted at locations and devices from which more value could be obtained.

F.5 Transitional reforms could be implemented alongside other reforms to the pricing framework

The transitional reform options discussed above could be implemented through rule changes. These could be considered simultaneously with the tariff reform changes raised in appendix D to ensure they are:

- designed to meet the risks arising from the particular reforms implemented
- implemented immediately alongside those reforms.

For example, if the energy service provider choice model were implemented it would need to follow the implementation pathway of the tariff design framework reforms. Where those reforms are gradually implemented as each jurisdiction sets their next TSS, then the energy service provider choice model could be implemented on a jurisdiction-by-jurisdiction basis. However, if

each network determination is 'reopened' to allow for more immediate implementation, then the appropriate transition mechanism could also be implemented more immediately.

Some of the potential reforms require networks to account for energy service providers' ability to cost-effectively manage network tariffs. These need to be designed so that the lowest performing energy service providers do not unnecessarily slow the progress of tariff reform. The desired pace of change in tariffs and the energy service providers sector means it is likely more suitable to tackle this issue with AER guidelines rather than rules. This guidance may need to set out how networks and the AER should consider a 'notional' energy service provider based on combination of factors such as abilities the more innovative energy service providers and overall market structure.

Abbreviations and defined terms

ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AI	Artificial intelligence
BECE	Better Energy Customer Experiences
BESS	Battery Energy Storage System
BPID	Basic Plan Information Data
CCA	Competition and Consumer Act (2010)
CDR	Consumer Data Right
CER	Consumer Energy Resources
Commission	See AEMC
CPP	Consumer Preference Principle
DCCEEW	Department of Climate Change, Energy, the Environment and Water (Commonwealth)
DER	Distributed Energy Resources
DMO	Default Market Offer
DSMO	Distribution System Market Operator
ESC	Essential Services Commission Victoria
EV	Electric Vehicle
HEMS	Home Energy Management System
ICCIREP	Improving consumer confidence in retail energy plans
ICE	Internal Combustion Engine
ISP	Integrated System Plan
kW	Kilowatt
kWh	Kilowatt hour
LRMC	Long-Run Marginal Cost
NECF	National Energy Customer Framework
NEL	National Electricity Law
NEM	National Energy Market
NEO	National Electricity Objective
NER	National Electricity Rules
NERL	National Energy Retail Law
NERO	National Energy Retail Objective
NERR	National Energy Retail Rules
NGL	National Gas Laws
NGO	National Gas Objective
NGR	National Gas Rules
NMI	National Metering Identifier

PEMM	Prohibiting Energy Market Misconduct Act 2019
RERT	Reliability and Emergency Reserve Trader
RPIG	Retail pricing information guidelines
Solar PV	Solar photovoltaic
SRMC	Short-Run Marginal Cost
SSIS	Small Scale Incentive Scheme
SSO	Solar Sharer Offer
STPIS	Service Target Performance Incentive Scheme
TSS	Tariff Structure Statement
VDO	Victorian Default Offer