

# ARENA response to AEMC's draft report

Pricing for a Consumer-Driven Future Review  
12 February 2026



Australian Government  
Australian Renewable  
Energy Agency

**ARENA**

# Introduction

We congratulate the AEMC and support its endeavour in the [draft report](#) to deal with the problems outlined in the discussion paper and present a concise set of clear recommendations. We also support the AEMC's vision of a dynamic energy services market based on innovation driven by strong competition and customer choice.

## ARENA's role and expertise

The Australian Renewable Energy Agency (ARENA) was established in 2012 by the Australian Government. ARENA's function and objectives are set out in the Australian Renewable Energy Agency Act 2011. It provides financial assistance to support innovation and the commercialisation of renewable energy and enabling technologies by helping to overcome technical and commercial barriers.

A key part of ARENA's role is to collect, store and disseminate knowledge gained from the projects and activities it supports for use by the wider industry and Australia's energy market institutions. ARENA has built up a solid body of knowledge and insights from the variety of projects we've managed that are directly relevant to topics in the review's terms of reference.

Our work to support innovation that accelerates the transition spans small and large scale facilities, demand, generation and storage. Decisions and trade-offs are being made by households and small and large businesses trying to reduce their emissions. Electrification of household, commercial and industrial businesses requires crucial choices concerning large amounts of capital.

Network costs are a significant input into these capital investment decisions being made by households and businesses. Getting those investment decisions right requires efficient price signals that direct the flow of capital to the right places at the right time to meet our emissions reduction targets at lowest cost.

In keeping with this experience, our submission concentrates on **theme 3** that would reward consumers for activities supporting a lowest cost system and associated **transitional reforms** outlined in the AEMC's draft report.

In summary, we have three responses:

1. We support recommendation 5 that would focus network tariff design on efficiency
2. We support recommendation 6 that would drop networks' focus on designing tariffs for customers
3. We suggest the AEMC encourages networks to support the solar sharer tariff by adopting a solar soaker tariff that (at least) covers the hours outlined by the solar sharer by 1 July 2026.

## We support the two recommendations on theme 3

### Response 1: We support recommendation 5 that would focus network tariff design on efficiency

ARENA supports recommendation 5 as it is efficient (and also equitable) to make the shift to fixed charges at this time as consumers can increasingly opt to generate and store electricity in their homes and businesses themselves rather than import all their electricity from the grid. They should be doing so in response to tariffs that far better match the costs they avoid.

Consequently, it is our view that changes to regulations and rules would:

- A. remove administrative constraints and accelerate the shift from volumetric charges to fixed supply-based charges
- B. require networks to adopt congestion management, including dynamic tariffs, as a network alternative unless or until it is more cost effective to augment the network
- C. include direction from the AER (after updating their guidance) for networks on compliance with the pricing principles, which should focus networks attention on avoiding:
  - i. charging connections more than the cost of stand-alone power system
  - ii. charging connections less than the costs a connection imposes on the network

- iii. tariffs that affect customers' behaviour in real time (unless it is to manage congestion actually occurring in real time).

On point B, ARENA's three market integration trials summary reports and the latest [Project Edith Stage 3 Insights Report](#) show that network congestion can be managed under the DOE framework and lead to reduced costs to consumers.

On point C, we wish to finally achieve clarity and equal treatment of standalone batteries with respect to use of system charges, whichever network they are connected to. This issue has been raised by us and many others in the industry during and since the [Integrating Energy Storage Systems rule change](#) was completed over five years ago. Section C.3.4 in AEMC's [final determination](#) acknowledged this was unfinished business and this review is supposed to finish it.

The AEMC's assessment on this issue in the section on page 92 of the draft report represents a significant and important shift in identifying which connections attract use of system (UoS) charges and should be made more prominent and the implications explained. At present, networks use a simple rule of thumb to allocate UoS charges according to a category of connection and that simple rule is to charge consumers UoS costs – not generators. This rule is based on a presumption around the Ramsey/Boiteux 'second-best' pricing principle for monopolies that no longer holds. The principle suggests the allocation of network residual costs should be inversely related to demand elasticity to cover residual fixed costs to maximise welfare. In line with this principle, networks allocate those costs to consumers on the basis they cannot generate and store electricity themselves and are therefore forced to buy it from the grid.

The logic on page 92 opens up a review of this rule of thumb. Given connection categories are now blurry (for instance, what category is a connection with a sizeable solar farm on sheep grazing land?) it is reasonable for the AER to conduct a review and for networks to consider another categorisation or metric to simplify their task of allocating UoS to meet the pricing principles. We suggest the AEMC discusses this in the final report to help guide the industry and the AER on the full implications of the AEMC's recommendation.

Also, we support resolving any ambiguity as to whether networks must recover the costs of jurisdictional schemes via a volumetric charge. Our view is that networks should be able to recover them according to the pricing principles in the rules and any secondary guidance material provided by the AER. Having cost recovery of jurisdictional schemes out of step with this should be clearly set out in the legislation for those schemes.

Finally, concerns that higher fixed charges are regressive are a valid caution based on logic from the old power system, where all consumers had to buy all their electricity from the grid. We note that this is no longer the case now – the share of people generating and storing electricity is already well over a third and increasing all the time. Even if we have not yet reached that point yet, we should anticipate achieving it soon and accept a trade-off between the concerns of home and business owners with solar PV and batteries and those without.

Further, we note that this is one of those situations where it is possible to achieve both efficiency and equity interests. Fixed charges do not have to be the same for all and can be made to be progressive if they were based on income or land value or similar, without compromising the efficiency bounds dictated by the pricing principles. Further and for example, there is no efficiency impediment for calculating the value of the essential service electricity supply provides household connections and having that share of network costs paid for as part of essential council services.

We also note that some stakeholders are opposed to the changes proposed here focussing only on the groups that stand to lose/ We advocate for a more balanced debate, acknowledging the trade-offs and wealth transfers between different groups (i.e. both those that win and lose).

## **Response 2: We support recommendation 6 that would drop network's focus on designing tariffs for customers**

We support amending the rules to drop the requirement for networks to design tariffs for customers to understand rather than requiring them to design tariffs for energy service providers. These requirements

have confused the focus of networks when designing tariffs and the rules required to give effect to recommendation 5 should instead be the focus of networks. In short, this focus should be on avoiding charging connections too much that they decide to stand alone (off grid supply) or too little that they impose costs on other network users, both while avoiding tariff designs that affect customers' behaviour in real time (unless it is to manage congestion).

## We suggest the AEMC considers an interim measure

### **Response 3: We suggest the AEMC encourage networks to support the solar sharer tariff by adopting a solar soaker tariff that (at least) covers the hours outlined by the solar sharer by 1 July 2026**

We appreciate that networks need time to make the change away from volumetric tariffs in support of the transition. However, we note the AEMC's reference to the [DCCEEW's consultation on reforms to the Default Market Offer](#) and the inclusion of a Solar Sharer Offer (SSO) in its proposal. If implemented, this proposal will force retailers to pay networks per unit network charges during the solar sharer offer periods. To lessen this burden and as a form of interim measure, we suggest the AEMC and market bodies encourage networks to support the SSO and adopt a solar soaker tariff that at least covers the hours outlined by the solar sharer offer by, or as soon as possible after, 1 July 2026.

Other than this interim measure, we recommend networks should be required to begin immediately and clearly signal their plan to transition away from LRMC-based volumetric tariffs, taking no longer than ten years. That clear signalling of the plan for this change is vital information consumers need to make good capital investment decisions given the record level of investments they are making in solar and batteries. We think ten years is an appropriate period of time to account for the capital commitments that have been and are being made by households and businesses.



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