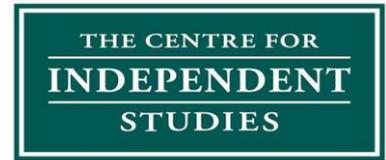


13 Feb 2026

Ms Anna Collyer
Chair
Australian Energy Market Commission
Submitted via www.aemc.gov.au



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RE: Submission to AEMC's Pricing Review Draft Report

Dear Ms Collyer,

The Centre for Independent Studies (CIS) welcomes the opportunity to respond to the AEMC's Pricing Review Discussion Paper.

The CIS is a leading independent public-policy think tank in Australia. It has been a strong advocate for free markets and limited government for 50 years. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

CIS supports the AEMC's proposed network tariff reforms that will shift tariff structures to a fixed charge with a dynamic component. This is a crucial reform that will help ensure an equitable sharing of network costs across consumers that reflects the largely fixed nature of network costs. CIS urges the AEMC to resist pressure from the rooftop solar lobby to pause this important reform. There should be no special privileges for certain customer segments, such as rooftop solar owners. Ultimately, if additions of rooftop solar don't drive overall system costs lower, they cannot bring about lower costs for all electricity users.

Fairly sharing fixed system costs between all electricity users is essential for an equitable system. This may reduce the financial incentives for more solar to be installed. It could prove to be efficient and good for the overall system, if current incentives overcompensate rooftop solar for the value of the energy they deliver, or do not adequately reflect the costs incurred by the system to facilitate this type of generation.

CIS does not support the proposed retail reforms aimed at removing the 'loyalty tax', as these reforms will reduce competition in the market and therefore result in worse outcomes for consumers. Reducing competition will likely result in higher rates of retailers exiting the market, with fewer competitors reducing competitive pressure that would deliver cheaper prices for consumers. The retail market is already highly regulated and difficult to enter. Creating more anti-competitive barriers defeats the purpose of having a retail market in the first place.

Yours sincerely,

Aidan Morrison
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Centre for Independent Studies
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Consumer Energy Resources

Rooftop solar

The AEMC has correctly identified direct government subsidies as a key driver of rooftop solar uptake, stating:

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.¹

However, the AEMC has not mentioned the impact of network tariff cross-subsidies, which is the other key driver of rooftop solar uptake.² Without other consumers paying part of rooftop solar owners' network charges, rooftop solar would be less economically attractive and uptake would therefore slow. The same is true, to a lesser extent, for the cross-subsidies that arise due to rooftop solar demand profiles being more expensive for retailers to serve.³ Elsewhere in the report, the AEMC discusses inequitable sharing of network costs, but this has not been linked to rooftop solar uptake. When discussing the reasons for the current high uptake levels, the AEMC should take an evidence-based approach and clarify that the existing inequitable distribution of network charges is largely responsible for these high levels.

EVs

The AEMC has cited its 2025 Price Trends Report in a misleading way. The AEMC states:

Our 2025 Price Trends work ... shows that Australian households can reduce their total spending on energy over the next decade through a well-managed transition to electrification ... 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.⁴

These statements suggest consumers will save money by electrifying appliances, installing solar and a battery and buying an EV. However, the AEMC excluded the cost of an EV from the energy wallet analysis, which means the overall financial benefits of electrifying have been overestimated.⁵

Home Batteries

The AEMC has suggested coordination of CER, particularly home batteries, can provide benefits for the entire system and lower overall costs:

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 ... This could result in downward pressure on costs for all consumers, including both wholesale and network costs ... 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.⁶

However, the Energeia study cited demonstrates that home batteries used in this way would not be economical for the grid or the owner. GenCost indicates a 10kWh home battery costs \$11,000.⁷ Assuming a 10-year payback period in line with battery warranties, this would require a home battery owner to receive more than \$1,100 a year in bill savings and/or payments to make owning the battery worthwhile. While some battery owners will buy a battery both for the financial benefits and to increase reliability in the event of a blackout, battery owners that relinquish control of their battery to a central operator will expect to make a financial return in exchange for the loss of control.

It is unreasonable to assume battery owners would make a net loss on an asset that is used to benefit the grid rather than their own energy supply. Therefore, the estimated system savings of over \$800 are not sufficient to justify the cost of paying home battery owners over \$1,100 to use their battery to support the grid. Government subsidies for home batteries do not decrease overall system costs but simply force consumers to pay for uneconomic home batteries through their taxes rather than their energy bills.

Therefore, it is wrong for the AEMC to continue to suggest that better harnessing CER, particularly home batteries, will lower system costs and “achieve bill savings for everyone”,⁸ given the cost of paying owners for the use of their CER is higher than the benefits provided to the grid.

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?

CIS does not support Recommendation 1. Requiring energy service providers to charge all customers on the same plan the same price will result in inequitable outcomes for some consumers. It will hurt some of the most vulnerable market-offer customers; particularly those who cannot afford rooftop solar or a home battery and rely on switching to new offers to minimise their bills. Margins are already low in the retail business, as the AEMC has noted, so further constraints on pricing are unlikely to be beneficial for competition and may result in higher rates of retailer exit. Attempts to remove the ‘loyalty tax’ will likely fail as retailers find workarounds, creating even more confusion and limiting comparability of different offers. Even if the proposed reform were to succeed in eliminating the loyalty tax, this largely defeats the purpose of a competitive market.

This recommendation would continue to entrench inequitable outcomes for those without rooftop solar. The demand profile for rooftop solar customers is more expensive for retailers to serve than the demand profile for those without solar. This is because prices are frequently negative at the same time that demand is negative (when a household is exporting power), so a retailer must pay the feed-in tariff to the solar customer, and often pay to offload that power in the wholesale market.⁹ Thus, non-solar customers are not only cross-subsidising the network costs of solar customers but also the added costs arising from their demand profile being costlier to serve. Enacting the proposed recommendation would nationalise the current ill-conceived Victorian legislation that bans retailers from providing different prices to non-solar customers and solar customers. This will guarantee ongoing cross-subsidies and inequitable outcomes for the most vulnerable consumers. Retailers should have the flexibility to accurately reflect the cost of serving a customer’s demand profile and should not be forced to offer the same plans on the same terms to all customers when this will result in the continuation of regressive cross-subsidies.

The AEMC has proposed an additional requirement that new offers are “meaningfully different” to existing offers. This requirement is likely to be difficult to define and therefore difficult to regulate, with the added regulation and lack of clarity likely to result in perverse incentives for retailers. Retailers are likely to respond by including special bonus offers in a way that ensures new customers get a better price than older customers, thus retaining the loyalty tax. For example, inducements such as sign-up credits, gift cards, frequent flyer points, referral bonuses and fee waivers could be used to preserve the existing discount for new customers. Discounting may be outsourced to third-party channels such as comparison sites and affiliates through cashback and ‘exclusive’ codes, with

retailers arguing the plan price is unchanged even though the loyalty tax effectively remains the same.

Superficial plan variations that are technically distinct but immaterial for most customers may be used to get around the ‘meaningfully different’ requirement, e.g., minor tweaks to time-of-use windows or charging periods. The AEMC proposing that plans would not be considered meaningfully different if they have “insignificant differences in time-of-use periods or minor differences in prices” does not clarify things. The AER would have to set somewhat arbitrary limits on what is considered an insignificant or minor difference, such as a minimum of 30-minute time window difference, or 5c/kWh price differences. This will greatly add to the workload of the AER in consulting and setting these limits for each parameter and will create regulatory uncertainty and added costs for retailers, who will be incentivised to find new ways to circumvent the regulations.

Rather than addressing the AEMC’s concern about how “offer complexity and limited comparability constrain customer switching”, this reform is likely to increase offer complexity and make it much harder for consumers to compare offers. The benefits of innovation, which retailers in a competitive market would engage in anyway, are likely to be far outweighed by the confusion and perverse outcomes resulting from the added regulatory burden. Thus, not only is this recommendation unlikely to solve the ‘problem’ of loyalty taxes, but it is also likely to create even worse outcomes for consumers by making it harder for active consumers to choose better plans that suit their needs.

The AEMC has used Netflix’s pricing as an example:

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.¹⁰

However, the areas of competition in electricity markets are vastly different to those of streaming services. Streaming services have very different product offerings, with large variations in the size of content libraries and the types and quality of content between providers. On the other hand, electricity retailers are very restricted in the services they offer. There is no variation in the type or quality of electricity fed into consumers’ homes or businesses. The points of competition are essentially restricted to price and customer service. Even when other products are involved, e.g., plans tailored to rooftop solar, battery or EV users, such offers are simply competing in the arena of price for consumers with different assets — there is still no difference in the quality or availability of the electricity supply itself.

Electricity is also considered an essential service, not a discretionary product in the way that a streaming service is, so retailers do not need to convince customers to buy their service — they simply need to offer better prices than their competitors. It is therefore no surprise that retailers will rely on loyalty taxes to compete in markets for electricity and other essential services, while businesses in other markets rely more on product quality, customisation and operational efficiency to compete.

For a competitive retail market to function, retailers must have the flexibility to price their products as they see fit. Standing offers and limits of price increases to once per year for market offers already provide sufficient protection from price-gouging for vulnerable consumers. Thus, the ‘loyalty tax’ is a feature of the current market, not a bug to be fixed. Loyalty taxes are common in other markets, e.g., mobile, broadband, mortgage, savings, credit cards and insurance providers.¹¹

If the AEMC wishes to reduce complexity and eliminate time and search costs for consumers, which the AEMC claims contribute to a “negative consumer experience of the energy system”, the only feasible way to do this is to eliminate competition altogether and revert to a state-owned utility for which consumers have oversight in their capacity as voters — a common model in other jurisdictions. Attempting to reduce the ability of retailers to compete in the market will not solve this ‘problem’, as consumers having to compare different products is a feature of competitive markets, as the AEMC has noted. The AEMC’s current attempt to maintain a competitive market, while also limiting competition through increasing regulation, will only ensure consumers experience the worst of both worlds. In this case, the best alternative to Recommendation 1 is to allow competition to continue to drive prices lower by allowing retailers to price their products as they see fit.

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?

The suggested competitive franchise may not be feasible to implement. The pool of standing offer customers is likely to consist of a higher proportion of customers with poor credit ratings than retailers’ broader customer base. Accordingly, in order for retailers participating in the auction to be able to make an informed bid for these customers, customer data on payment history (creditworthiness) and demand profile would need to be shared with all retailers submitting a bid. The sharing of this information may raise privacy issues which would preclude a competitive franchise as an option. There is also a risk that standing offer customers end up paying more than they would have on the DMO, if retailers do not see this customer pool as high value and submit bids with higher charges than the DMO would have offered. This will likely result in more customers failing to pay their bills and further costs being passed onto other consumers.

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?

CIS supports AEMC periodically reviewing the effectiveness of regulations on competition.

Question 4: Make it easier for consumers to compare offers

Before making improvements to the Energy Made Easy website, the AEMC should ensure key reforms of network tariff structures have been enacted, as these will have a material effect on how the website compares plans.

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?

CIS supports the proposed reform that would shift network tariffs from volumetric charges to mostly fixed charges with a dynamic component. Neither existing volumetric flat or time-of-use charges nor the recently introduced demand charges efficiently send a price signal to consumers. The proposed reform is crucial to ensure the current rooftop solar cross-subsidies that unfairly punish those without solar are eliminated and that consumers are only given bill savings when they have demonstrably lowered future network costs. The recommendation fully aligns with recommendations made by CIS in a paper published last year which addressed the question of reforming network tariffs.¹²

CIS supports the proposal for the dynamic charge to be symmetric, and apply only in locations where network demand may exceed capacity and be set at the level necessary to ensure efficient allocation of network capacity. The dynamic charge should be based on the highest kW demand in the given interval (e.g., 5 minutes), as this is what stresses the grid on a second-to-second basis.

CIS supports moving away from the requirements to set tariffs based on the long-run marginal cost. Networks should have the flexibility to design the most efficient tariffs based on the marginal cost of serving their customers, given their particular network conditions, if the structure is mostly fixed with a dynamic component where relevant.

The outcomes for network tariff structures should be primarily based on allocative efficiency, as productive efficiency should arise naturally if it is economically efficient for consumers to innovate in response to higher prices due to network constraints. Innovation does not need to be a goal in and of itself — efficiently delivering the right amount of capacity for each area of the grid based on consumer willingness to pay should be the overarching goal.

Given technology now makes notifying consumers of upcoming periods of network constraints much easier, retailers should not have too much difficulty in packaging dynamic charges alongside fixed charges either as a pass-through for consumers which they can avoid if desired, or as an increase in the fixed charge if the consumer prefers the retailer to smooth over that risk for them.

CIS opposes introducing a utilisation incentive, as this is likely to be distortionary and result in perverse incentives for networks. Utilisation should be improved only insofar as consumers are willing to change their behaviour to avoid the efficient costs of necessary upgrades that would be needed due to existing network usage trends in each area. The price signals from the dynamic

components of tariffs are sufficient to determine where consumers would prefer network upgrades over behavioural changes and vice versa, so adding an incentive is unlikely to have a net benefit. Rewarding networks for increasing the share of network usage that occurs when the network is unconstrained may cause networks to inflate the price of the dynamic component of network tariffs to receive the reward, even when this price exceeds the efficient level required to signal to consumers the cost of upgrades for higher peak demand. This would not be in the interests of consumers. Networks may be incentivised to make dynamic charges lower than the cost of upgrading to deal with increased peak demand to encourage congestion to justify further upgrades. However, this can be prevented by networks demonstrating that dynamic charges are priced to reflect marginal costs of upgrades in each area, which the AER will then need to check and approve.

In terms of how to encourage network service providers to swiftly implement the reform, ideally no more than one or two year's notice should be given for DNSPs to shift all consumers to a fixed network charge (dynamic component optional), potentially with transitional and/or final tariffs being implemented for all consumers at the one-year mark. Given the simplicity of the fixed charge compared to the array of current tariff structures and the fact that DNSPs will not need to vary the TSS amount but merely the allocation, implementing this change in this timeframe should not be technically difficult. The dynamic component may need a longer transitional period to implement, as DNSPs will need to develop systems to notify retailers, and retailers will need to develop systems to notify customers on dynamic plans of upcoming periods of congestion, so they can reduce energy usage in exchange for avoiding an additional charge. Accordingly, DNSPs should be given a longer transitional period of three years to implement this change, with all customers with smart meters having the option of a dynamic component at the end of this period.

Given electricity prices are expected to rise by 24% this year, it is crucial these reforms are implemented swiftly to avoid consumers unnecessarily rationing their use of the network or buying rooftop solar as a way to lower their bills without corresponding system benefits from reduced peak demand.¹³ CIS supports removing the side constraint to allow swifter implementation of the proposed network tariff reform.

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?

The CIS supports removing the requirements of the customer impact and customer understanding principles, and making energy service providers central to network tariff design by replacing these principles with an energy service provider impact principle. This will reduce the consultation burden for networks while encouraging networks to design efficient tariffs. Retailers already package wholesale costs in their offers, and network tariffs should be designed to reflect the true cost of using a part of the network. Consumers can then choose to be exposed to the dynamic component of network tariffs so they can achieve savings through decreasing consumption when they receive notification of an impending peak period, or alternatively they can choose to pay a higher fixed charge and not be exposed to the dynamic component, allowing the retailer to manage the risk on their behalf.

CIS supports moving to a standardised NEM-wide process for tariff design. Greater uniformity of tariff structure across DNSPs should be a key aim, as having a limited set of efficient tariff options that can be priced according to local conditions (e.g., smart meter penetration, rooftop solar penetration, periods and levels of congestion) should be sufficient to provide each DNSP the structures it needs to efficiently price network charges while reducing overheads and complexity for retailers.

¹ Draft Report, p 12.

² Hilton, Zoe, Michael Wu & Aidan Morrison. 2025. 'Rooftop solar: paradise lost'.

<https://www.cis.org.au/publication/rooftop-solar-paradise-lost/>.

³ Blik, Jude. 2025. 'Risky Business. How The Energy Transition Introduces Risks That Raise Retail Costs'.

<https://www.cis.org.au/publication/risky-business-how-the-energy-transition-introduces-risks-that-raise-retail-costs/>.

⁴ Draft Report, p 15.

⁵ AEMC. 2025. 'Residential Electricity Price Trends 2025'. p 27.

https://www.aemc.gov.au/sites/default/files/2025-12/Price%20Trends%202025_Report%20%281%29.pdf.

⁶ Draft Report, p 19-20.

⁷ Graham, Paul & Jenny Hayward. 2025. 'GenCost 2025-26 Consultation Draft'. CSIRO.

<https://www.csiro.au/en/research/technology-space/energy/Electricity-transition/GenCost>. p 40.

⁸ Draft Report, p 20.

⁹ Blik, Jude. 2025. 'Risky Business. How The Energy Transition Introduces Risks That Raise Retail Costs'.

<https://www.cis.org.au/publication/risky-business-how-the-energy-transition-introduces-risks-that-raise-retail-costs/>.

¹⁰ Draft Report, p 63.

¹¹ Etax Accountants. 2025. 'What is Loyalty Tax and How to Avoid Paying It'. <https://www.etax.com.au/loyalty-tax-what-is-it-and-how-to-avoid-paying-it/>.

¹² Hilton, Zoe, Michael Wu & Aidan Morrison. 2025. 'Rooftop solar: paradise lost'.

<https://www.cis.org.au/publication/rooftop-solar-paradise-lost/>.

¹³ Kinsella, Luke. 2026. 'Why electricity bills could jump 24pc this year'. *Australian Financial Review*.

<https://www.afr.com/policy/economy/electricity-bills-could-jump-24pc-this-year-20260123-p5nwnfn>.