

Drew Butterworth
Australian Energy Market Commission

Submission made online at www.aemc.gov.au

12 February 2026

Dear Mr Butterworth,

Subject: AEMC Draft Report – The Pricing Review

SA Power Networks (SAPN) welcomes the opportunity to comment on the AEMC’s Draft Report: “The pricing review: electricity pricing for a consumer-driven future” (the Review).

The energy transition is unfolding in a rapidly changing environment. To navigate this unprecedented time and deliver a least-cost energy system, a flexible approach to network pricing is essential, supported by the Network Pricing Objective (NPO), distribution pricing rules and principles in the National Electricity Rules (NER).

In this submission, we outline our network pricing vision aligned with the evolving role of Distribution Network Service Providers (DNSPs) as Distribution System Operators (DSOs). We highlight the need for different approaches in the energy transition (now to 2040) compared to beyond 2040. Informed by empirical analysis and real-world trials, we advocate for adaptable, cost-reflective network tariff designs, combined with non-tariff mechanisms that send signals to incentivise efficient behaviours. We consider the current NPO fit for purpose; however, we believe the distribution pricing rules and principles in the NER may need to be updated to support future tariff designs and non-tariff mechanisms.

Therefore, we ask the AEMC to consider the following points:

- a. Pricing rules and principles must remain flexible to support the evolution of network tariff designs rather than adhering to a prescriptive view of network tariff design.
- b. Non-tariff mechanisms, such as financial incentives and rewards, can play an important role in driving behavioural change.
- c. To increase efficiency, DNSPs should ultimately work towards providing a single cost-reflective network tariff per tariff class.
- d. Additional cost-benefit analysis and empirical evidence are required before we can support several recommendations in the Draft Report.
- e. Reform of the incentives framework could also support increased network utilisation.
- f. Further details on the proposed Energy Service Provider (ESP) impact principle are required.

If you have any queries on matters raised in this letter, please contact Pratib Parthiban, Pricing Manager, at pratiban.parthiban@sapowernetworks.com.au



Jessica Morris
Chief Customer & Strategy Officer

SAPN's Pricing Vision

The role of DNSPs in the National Electricity Market is evolving, driven by technology and the growth of Consumer Energy Resources (CER) connected to distribution networks. No longer do DNSPs need to merely manage the condition of “poles and wires”; there is an evolving need to more actively enable flexible demand management via the role of a DSO. A DSO must actively manage CER flows on the network, embedding CER in its planning and operations to better utilise network capacity and improve network utilisation. According to AEMO's Draft 2026 Integrated System Plan (ISP), in South Australia, approximately 60% of CER are expected to be orchestrated by 2050, more than double the current level of orchestration. Effective and efficient CER integration and orchestration are essential to enable this flexible demand management.

One key enabler of this DSO future is network pricing. In our vision, network pricing comprises network tariffs and non-tariff mechanisms, with pricing signals intended for ESPs. The primary function of the network tariff is to recover revenue by signalling efficient costs. We also consider that a combination of tariff and non-tariff mechanisms can be used to signal efficient costs. Non-tariff mechanisms, such as payments for the procurement of network services and response to network signals, can drive efficient consumer behaviour and improve network utilisation. Such payments would be provided to an ESP acting on behalf of a consumer, in exchange for the management of their CER in response to network signals.

a. Transitioning to 2040

In transition, several factors such as the speed of energy transition, CER uptake, Home Energy Management System (HEMS) adoption and DSO maturity level, are continuously evolving and shifting. Rather than prescribing a single network tariff design, we propose that the framework during this period enables flexible network tariff designs, enabling various options to drive efficient behaviours, such as CER integration, ESP-led CER orchestration and consumer participation. The current NPO enables such flexibility and, in our view, is fit for purpose. However, the current pricing principles may need updating to accommodate a broader range of design options.

Informing our future network tariff thinking are key projects currently underway, such as SAPN's Energy Masters¹ and the Energy Charter's Customer-Led Tariffs initiative². In the Energy Masters project, our Residential 'Electrify' and 'Diversify' network tariffs are being packaged by retailers and supported by customers with HEMS to more actively manage in-home appliances and respond to sharper and more dynamic network pricing signals. As part of the Energy Charter project, we are exploring several innovative network tariff designs, including network pricing both at a distribution zone substation level³ and at an ESP 'portfolio' level⁴. In addition, we are using an Innovation Fund (approved for the 2025-30 regulatory period) to explore new non-tariff mechanisms such as the 'flexible' marketplace⁵.

b. Beyond 2040

As noted above, the objective of network pricing in the transition state is to drive efficient behaviour. Beyond 2040, the objective of network pricing should evolve to optimise efficient behaviour. By this time, we envision most households can participate in CER orchestration and that it can occur automatically with the help of HEMS and DSO-led signals. In this future, we see a network tariff design with a largely fixed component may be viable when supported by reward-based signals within non-tariff mechanisms.

c. Stakeholder management

A core part of our network pricing vision is stakeholder engagement. Where future network tariffs are designed for ESPs, ESPs will be central to DNSPs' engagement processes. Engagement with ESPs would complement, rather than replace, the current consumer engagement undertaken by DNSPs. We envisage that DNSP consumer engagement processes will evolve to focus more on advocacy to ESPs and ensure DNSPs continue to represent the voice of consumers. In the future, we see consumer engagement evolving from discussions centred on network tariff structures to a more holistic approach, focusing on how a combination of tariff and non-tariff signals can be designed to deliver least-cost outcomes. It is imperative that DNSP's collaboration with ESPs should not replace DNSP consumer engagement processes, nor should it lead ESPs to specify future network tariff structures.

Building on our pricing vision, which emphasises a flexible approach to network tariff design and a combination of network tariff and non-tariff mechanisms to drive efficient behaviour, below we set out our views across three key themes in the Draft Report, focusing on recommendations #5 and #6.

¹ Energy Masters is a project led by SA Power Networks, and supported by industry partners including SA Government, retailers and technology innovators with funding from the Australian Renewable Energy Agency (ARENA) ([Energy Masters | Energy Masters](#))

² Customer-led Tariffs initiative is a project led by SA Power Networks, Essential Energy and EnergyAustralia, with coordination support from The Energy Charter ([Energy Charter – Better Together Tariffs initiative](#))

³ At the distribution zone substation level, charges are based on the maximum or minimum demand at each distribution zone substation. This approach incentivises retailers to manage their demand effectively through CER orchestration.

⁴ At the ESP portfolio level, charges are calculated based on the retailer's entire portfolio (their pool of customers). This enables the creation of innovative retail plans, encourages load management, and ensures retailer flexibility aligns with network cost-reflectivity.

⁵ A flexibility market would consist of a distribution-level market through which ESP can bid for response to network constraints. This could come in the form of payments to reduce load or increase generation during times of peak demand, or responding to minimum demand conditions. Such a model is deployed at scale in the United Kingdom, however, we see an implementation in the NEM furthering this approach to include real-time constraint calculation and publication, followed by automated settlement and dispatch of response across all levels of the network. This would leverage short-run signals to defer network augmentation to such a point in time that the augmentation is the least cost solution for customers.

Theme 1: Harness competition to improve outcomes for all consumers

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.

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.

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

We support approaches that will enhance competition and deliver better outcomes for consumers. The three recommendations proposed in the Draft Report have the potential to improve consumer outcomes and overall competition. We believe these recommendations need to be carefully considered and implemented in the principle-based regulatory environment, and that any consumer protection mechanisms must be designed to ensure they do not adversely impact competitiveness. Therefore, we support the AEMC reviewing outcomes post-implementation to assess how effective the implementation of these recommendations has been in driving a competitive market. We emphasise that competition must be encouraged by regulatory frameworks that foster and enable innovation.

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

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.

We support the AEMC's view that the Energy Made Easy website should be improved, noting the important role that this independent online tool plays in helping consumers compare different retail offers.

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

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.

We support network tariff design that focuses on efficiency and a fairer cost recovery among consumers. However, we do not support the AEMC's vision to narrow the scope of efficient network tariff design to a network tariff with a largely fixed component and a small dynamic component.

The Draft Report grapples with a key question in the network tariff setting: whether to allocate residual costs by cost type (fixed vs. variable) or by cost drivers (connection, usage, and demand). From the network tariff reform perspective⁶ the Australian Energy Regulator (AER) has generally given greater weight to recovering residual costs based on cost drivers of the network. We consider that cost-reflective network tariffs based on the network's cost drivers provide efficient pricing signals and incentives for CER orchestration.

The AEMC Draft Report suggests that recovering residual costs through largely fixed charges is an efficient approach. However, the report lacks sufficient empirical evidence or system-wide modelling to justify the effectiveness of a largely fixed network tariff in driving efficient behaviour. We ask the AEMC to conduct an analysis to assess whether greater reliance on fixed charges would effectively address the equity concerns outlined in the report and avoid distorting forward-looking cost signals, particularly given the potential scale of these fixed charges.

Our analysis of the 2024-25 residential sample data provided to the AEMC for this Review shows that moving to a 100% fixed charge would result in approximately 62% of customers (CER and non-CER) on our default residential time of use tariff for interval meter paying more in network costs. In addition, this increase is consistent for customers without CER: with approximately 62% paying more under a 100% fixed charge. This analysis challenges the notion that non-CER customers will be beneficiaries of higher fixed charges: largely fixed charge network tariffs will create inequitable outcomes for customers.

In our view, the pricing framework should be flexible and able to accommodate various tariff designs while being cost-reflective. We ask the AEMC to note the effectiveness of alternative cost-reflective network tariff designs outlined in Table 1 below.

⁶ Australian Energy Regulator (AER), *Network tariff reform*, Retrieved 08.02.2026, from <https://www.aer.gov.au/about/strategic-initiatives/network-tariff-reform>

Table 1: Effectiveness of cost-reflective network tariffs

Case studies	Type	Observations
SAPN's controlled load network tariffs	Real-world example	Retailers have responded to pricing signals designed to increase day time demand via controlled load. Refer to Appendix 1.
Energy Charter Better Together Tariff Initiative	Independent modelling analysis	Cost-reflective tariffs, including distribution zone and portfolio tariffs with variable components and sharp pricing signals, provide incentives for retailers to orchestrate CER and are effective at shifting demand.
SAPN's Electrify tariff	Real-world example	An average Residential consumer on SAPN's Electrify ⁷ tariff has a flatter demand curve and responds to price signals by using technology. Refer to Appendix 2.

Both network and wholesale pricing signals create the value stack that drives retailers to orchestrate CER. We note that the AEMC Draft Report and the Discussion Paper make several references to Energeia's modelling work. The AEMC appears to conclude that wholesale signals are more valuable than network signals, and network signals are diluting the wholesale signals. We ask the AEMC to consider the AER's submission to the Discussion Paper, which highlighted possible limitations of such studies using the long-run marginal costs (LRMC) calculation. We support the AER's view that there is value in exploring alternative estimation methods to inform analysis on benefits from CER orchestration driven by network and/or wholesale signals.

Our views on other sub-recommendations within Recommendation #5 are provided below.

1. Marginal cost

We support the pricing rules and principles being sufficiently flexible to accommodate a range of future network tariff designs. We believe that the NPO is fit for purpose, with the focus on efficient costs of service provision. However, we acknowledge that the LRMC pricing principle is not flexible and therefore support amending this principle to allow greater flexibility for networks to consider either LRMC or short-run marginal costs (SRMC).

We believe that each network will likely adopt a different approach to managing short-run constraints. Some DNSPs may find greater value in addressing these constraints through more dynamic tariff signals based on SRMC. However, others, including SAPN, view short-run constraint management as being more effectively achieved through non-tariff mechanisms. We consider it essential that while the AEMC may advocate for increased use of dynamic tariffs, the rules should remain flexible and avoid being overly prescriptive, ensuring that short-run constraint management must not be achieved solely by network tariff signals.

We also note that managing short-run constraints through non-tariff mechanisms may better support uniform "state-wide pricing" imperatives. A long-standing South Australian Government obligation requires SA Power Networks to maintain uniform state-wide pricing for 'small customers', defined as those customers whose annual consumption does not exceed 160 MWh p.a.⁸.

⁷ The Electrify tariff is a customer choice tariff for customers who predominantly meet their energy needs through electricity but have sufficient flexibility in their appliances. The customer choice tariff provides stronger pricing signals than Residential Time of Use because of its shorter four-hour Peak window.

⁸ National Energy Retail Law (Local Provisions) Regulations 2013 Section 5(2)

2. Clarification on residual cost recovery

In the Draft Report, the AEMC noted that NER 6.18.5(g)(3) may not indicate the right approach to the efficient allocation of residual costs. In our view, residual costs should be recovered in a cost-reflective manner to signal the efficient cost of providing the direct control services. In the current regulatory period, we allocate our recovery across tariff classes and charging parameters, using a cost allocation model set out in our Tariff Structure Statement (TSS). Therefore, we believe that the current distribution revenue recovery methodology using the cost allocation model is fit for purpose.

We would welcome further guidance from the AER on transmission residual cost recovery. Residual cost recovery for Jurisdictional Scheme Obligations (JSO) should be at the DNSP's discretion, reflecting the nature and intent of the JSO and supported by stakeholder preferences.

3. Side constraint mechanism

The Draft Report suggests that the side constraint mechanism could act as a barrier for DNSPs implementing efficient tariffs. This has not been a concern for SAPN. We believe the current side constraints serve an important function in managing price volatility. We would welcome further evidence on this topic from the AEMC.

4. Incentive mechanism

We do not support the proposed options of linking new incentive mechanisms to a DNSP's progress on network tariff reform. We strongly believe there is a need to examine more broadly the potential case for incentives, particularly with respect to the encouragement of improved network utilisation by DNSPs. This is on the basis that:

- regulatory incentives may be more appropriately targeted to the outcome (i.e. improved utilisation) rather than the specific action employed by DNSPs;
- in the case of network utilisation, the outcome of improved utilisation will be influenced by the sum total of the levers chosen/available to a DNSP, which will likely include for example: network tariff signals; non-tariff mechanisms such as use of flexibility market places and other demand management initiatives; connection policies; flexibility management of load and export; and the approach to asset management more broadly;
- as stated above, each DNSP will likely have a different preference (based on their local market conditions and capabilities) as to the extent to which they will rely on dynamic network tariffs as a means of managing short-run constraints; and
- given the broad scope of the topic of network utilisation and how the broader ex-ante incentive-based framework works alongside the promotion of this outcome, our view is that this issue needs a more holistic assessment as part of the AEMC's Electricity Network Regulation Review (scheduled for mid-2026).

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

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

We support designing network tariffs for ESPs. We believe that network tariffs designed for ESPs will enable them to better manage their customers' risk profiles while offering a diverse range of retail offerings.

We consider that collaboration between DNSPs and ESPs is likely to deliver better outcomes for consumers. Key projects such as Energy Charter and Energy Masters are continuously informing our approach to collaboration with ESPs. We emphasise the importance of the consumer collaboration process and, therefore, in our view, more ESP collaboration will complement the consumer engagement process. In the future consumer engagement process, we envision the focus to evolve from network tariff structures to a more holistic discussion of how a combination of tariff and non-tariff signals will deliver the least-cost outcomes. It is imperative that collaboration with ESPs should not replace the DNSP's consumer engagement process, nor should it lead ESPs to specify network tariff structures.

One key area that remains unanswered in the AEMC Draft Report and the review process to date is the diverse range of network tariff models that could be considered if network tariffs are designed for retailers. Currently, network tariffs are set at the National Meter Identification (NMI) level. A key question we wish to raise is whether DNSPs can consider a different hierarchy to the NMI level when network tariffs are designed for retailers. We encourage the AEMC to explore alternative approaches, as recommended by the AER⁹ to consider options such as capacity price or allocation at an ESP portfolio level, allowing ESPs to internalise the cost of network constraints and respond accordingly. One key insight from the Energy Charter Better Together Tariff Initiative is that network tariffs can be designed at the distribution zone or ESP portfolio level. Therefore, we encourage the AEMC to consider whether the principles and rules are sufficiently flexible to accommodate such network tariff designs.

Our views on sub-recommendations within Recommendation #6 are provided below.

1. Customer understanding and customer impact principles

We consider the primary recipients of network pricing signals should be ESPs. We support the AEMC's recommendation to change the rules to remove the customer understanding principle. Removal of this principle is likely to ensure ESPs are at the centre of the network tariff design process.

In removing the customer impact principle (recommended in our previous submission), we believe consideration should be given to the potential need for a set of ESP impact principles. We support removing the customer impact principle in a phased manner before introducing new ESP impact principles. This reflects the staged approach that could be taken in the transition of network tariffs designed for ESPs. In addition, whilst there is merit in considering the ESP impact principle(s), any new clauses should not serve to allow retailers to simply opt out of receiving an efficient network tariff. This would only serve to weaken the incentives for effective retail market competition.

⁹ Australian Energy Regulator (AER). (2025, July 14). *Submission to the AEMC pricing review*. Retrieved from <https://www.aemc.gov.au/sites/default/files/2025-07/AER%20-%2014%20July.pdf>

2. Timing of the Tariff Structure Statement (TSS)

We disagree that the duration of network tariff structures, outlined in DNSPs' TSS, should be altered. However, we do support allowing greater flexibility for accommodating new tariffs or making changes to the TSS within a regulatory period, under certain circumstances. We support the proposed solution reflected in Energy Networks Australia's rule change proposal ([Improving flexibility in the TSS process](#)).

3. Network tariff options for ESPs

The Draft Report suggests DNSPs provide ESPs with a choice between a basic and a dynamic network tariff. We encourage the AEMC to consider an alternative approach: introducing a single cost-reflective network tariff per tariff class. A single network tariff per tariff class would simplify the numerous network tariffs currently in place for ESPs across multiple DNSPs. This approach would also give ESPs greater flexibility to design their retail offers. Retailers could simplify network charges by presenting them as fixed charges for their customers, passing through network costs directly, or implementing different types of price differentiation to better meet customer needs.

Other considerations:

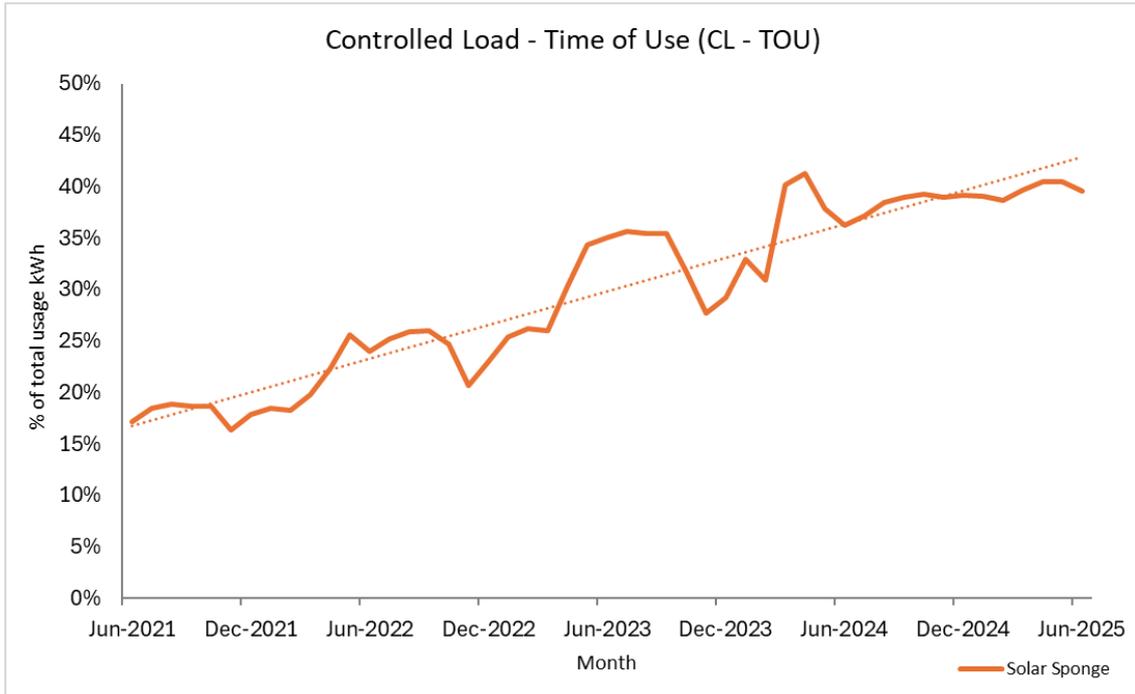
We encourage the AEMC to consider further:

- Several proposed reforms are aimed at delivering greater competition and innovation in retail offers, with heavy reliance on ESPs being able to deliver these outcomes. This should not be assumed.
- The narratives and justifications provided in this Draft Report are largely qualitative and directional in nature. We strongly urge the AEMC to undertake and provide more quantified cost-benefit analysis supported by system-wide modelling and empirical evidence.

The challenges outlined in this Review are unlikely to be resolved through a single solution. We emphasise that a combination of network tariff and non-tariff solutions will be necessary to deliver better consumer outcomes and improve system efficiency.

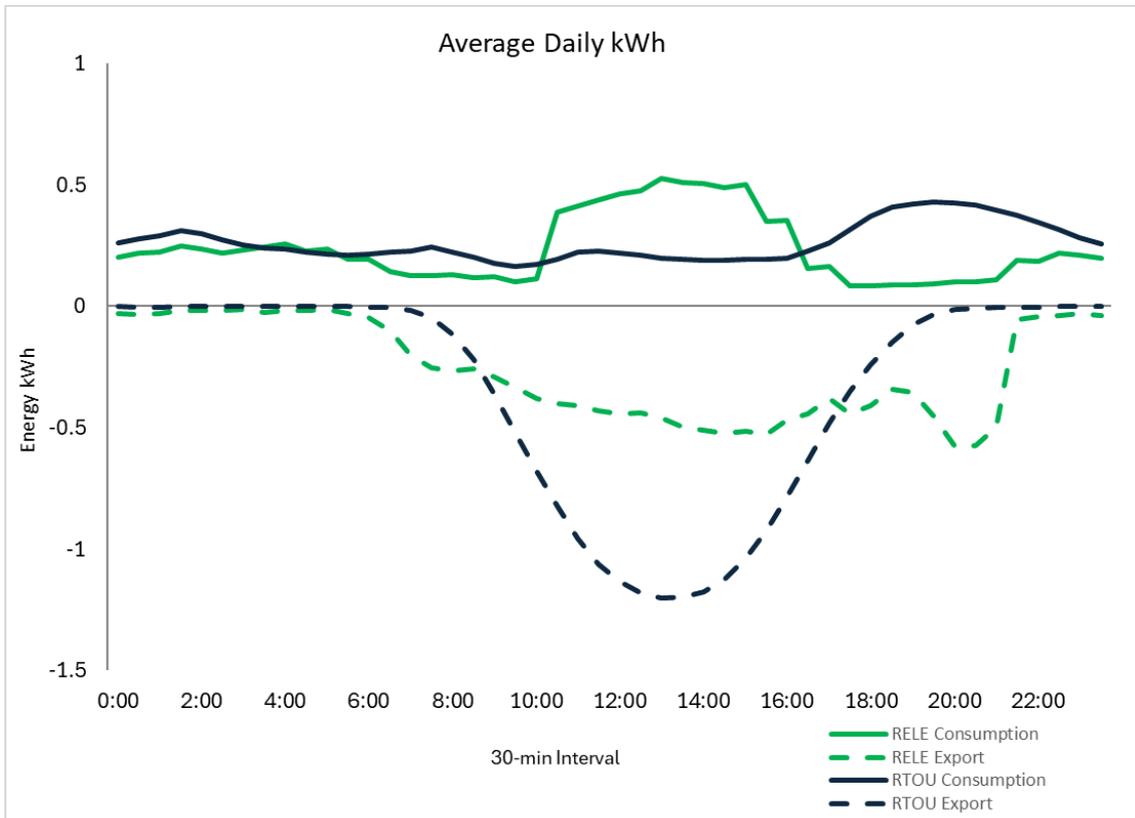
Appendices

Appendix 1: % of controlled load usage kWh within Solar Sponge window



Source: SA Power Networks analysis

Appendix 2: Average Load Profile Residential Time of Use Tariff (RTOU) vs Residential Electrify Tariff (RELE)



Source: SA Power Networks analysis