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Submission to the Australian Energy Market Commission

Re: Proposed Rule Change – Increased Fixed Network Connection Charges

From:

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1. Introduction

This submission responds to the proposed rule change that would substantially increase fixed network connection charges and reduce reliance on volumetric network pricing.

The proposal represents a material shift in how distribution network service providers (DNSPs) recover regulated revenue under Chapter 6 of the National Electricity Rules (NER). It reallocates cost recovery from usage-based charges toward unavoidable daily fixed charges.

This raises concerns regarding cost reflectivity, interaction with AER-approved Tariff Structure Statements (TSS), consistency with AER ring-fencing guidelines, impacts on DER integration and system efficiency, and distributional equity.

2. Cost Reflectivity and Clause 6.18.5

Clause 6.18.5 of the NER requires network tariffs to be based on the long-run marginal cost (LRMC) of providing services and to reflect efficient costs of serving customers.

Distribution network costs are primarily driven by peak coincident demand and capacity constraints rather than customer count alone. A significant increase in fixed daily charges reduces the linkage between customer demand profile and network cost recovery, weakening allocative efficiency.

If cost drivers are predominantly peak demand and capacity-related, tariff reform should prioritise demand-based charges and time-of-use pricing rather than broad fixed charge increases.

3. Tariff Structure Statements (TSS)

DNSPs are required to submit Tariff Structure Statements to the Australian Energy Regulator (AER) demonstrating compliance with pricing principles and consideration of consumer impacts.

A rule change that materially increases fixed charges risks undermining approved tariff transition pathways and creating regulatory inconsistency unless clearly aligned with existing AER determinations.

4. Interaction with AER Ring-Fencing Guidelines

The AER Ring-Fencing Guideline seeks to ensure competitive neutrality between regulated monopoly network services and contestable services.

A pricing reform that reduces incentives for rooftop solar, batteries, demand response and smart EV charging may indirectly distort competitive DER markets. While not a direct breach, this structural effect warrants assessment against the pro-competition intent of the framework.

5. DER Integration and System Efficiency

Efficient DER integration relies on price signals that encourage peak demand reduction, load shifting and distributed storage.

Increasing unavoidable fixed charges reduces the marginal benefit of consumption reduction and peak management, potentially increasing future network augmentation and Regulated Asset Base growth.

6. Equity and the National Electricity Objective

Under the National Electricity Objective, reforms must promote efficient investment and operation for the long-term interests of consumers.

High fixed charges disproportionately impact low-consumption and low-income households and reduce customer ability to manage bills through behavioural change.

7. Conclusion

The proposed rule change weakens cost reflectivity, undermines DER integration, risks inequitable cost allocation, and may increase long-term system costs.

The Commission is urged to retain meaningful volumetric and demand-based pricing signals, avoid excessive fixed charge increases, undertake detailed equity modelling, and ensure alignment with Clause 6.18.5 and AER regulatory frameworks.

Yours sincerely,

Glen Morris

Smart Energy Lab