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AEMC

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To whom it may concern,

Re: Climateworks Centre submission to the Australian Energy Market Commission (AEMC) Pricing Review (Draft Report) EPR0097

Climateworks welcomes the opportunity to respond to the AEMC's Pricing Review Draft Report (AEMC, 2025a). This submission draws on Climateworks' least-cost decarbonisation pathways analysis and our work on energy system decarbonisation.

Climateworks bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. Climateworks accelerates ambitious, evidence-based action for net zero in Australia and Southeast Asia.

Climateworks welcomes the review's focus on the important role that electricity pricing, products and services can play in supporting the diverse needs of customers, including enabling consumer energy resources (CER) for the energy transition and to meet national decarbonisation goals. The Pricing Review presents a meaningful opportunity to harness competition and reveal the value of flexibility and demand-side electricity management in ways that are simple, fair and trustworthy.

Strengthening transparency, aligning tariff settings with planning cycles and enabling automation of customer demand response can unlock demand-side resources at scale and support the affordability and reliability of the electricity system. Dependable, flexible demand that reduces peaks and aligns with variable renewable generation is an integral part of cost-effective decarbonisation. It helps defer new transmission and distribution investment, to reduce electricity costs for reliable, clean energy (Climateworks Centre, 2025a, 2025d). We note the complexity around tariff design on fixed and variable pricing and the risks of cost shifting onto vulnerable customers. Our submission recommends improved transparency and information to encourage demand-side energy management and bring costs down.

Informed by this context, Climateworks is responding to Questions 5 and 6 of the Pricing Review Draft Report. Climateworks would welcome the opportunity to discuss this submission and provide additional analysis where helpful.

Submission summary

The recommendations in this submission work together to improve consumer outcomes by strengthening price signals that reflect efficient system use and make visible the value of flexibility and electricity demand-side management.

In summary, Climateworks recommends that the Pricing Review:

- increase transparency of customer pricing structures and reveal the value of flexibility and demand-side electricity management
- build a network tariff framework that promotes efficient system use.
- align processes to adjust tariff settings with Integrated System Plan (ISP) planning cycles and demand-side enablement

Recommendations

The first two recommendations address question 5 of the Draft Report, beginning with the role that clearer pricing and product presentation play in enabling consumer participation and supporting efficient system development.

Recommendation 1: Increase transparency of customer pricing structures and reveal the value of flexibility and demand-side electricity management

Recommendation 2: Build a network tariff framework that promotes efficient system use

The problem to solve: Customers are likely to value simple, predictable electricity offers that clearly communicate potential savings. The power system benefits when flexible electricity demand reduces peak loads, integrates renewable energy and avoids unnecessary augmentation. Clear customer pricing and product presentation bridge these goals by turning pricing signals into transparent offers that support the active participation of customers with VPPs, demand response programs and coordinated use of storage and generation. They can also assist retailers and distribution network service providers to receive value from investments in necessary infrastructure and technologies to support demand-side energy management such as VPPs.

The current network tariff framework does not deliver sufficient information in order to set efficient incentives to deliver an efficient system.

The proposed change: Climateworks supports pricing reforms that increase demand-side participation in a way that accelerates decarbonisation and lowers total system cost. Flexible industrial load, effective use of distributed energy resources and energy efficiency all contribute to a least-cost energy system (Climateworks Centre, 2025c).

Creating a broad suite of clear product options can give electricity consumers confidence and genuine choice. Transparent pricing signals across tariffs and retail offers can help customers see when and how they benefit, which may be via home energy management systems, virtual power plants or managed charging.

Incorporating demand flexibility and aligning tariff and planning cycles with decarbonisation objectives can help the broader decarbonisation trajectory (Climateworks Centre, 2025c). This approach also gives energy service providers clearer parameters within which to design accessible,

consumer-focused products that present value of flexibility and demand-side management in transparent and engaging ways.

The result will be a pricing framework that protects consumers, supports efficient investment and unlocks the full potential of demand-side resources across the transition.

Why this improves outcomes: Clear, consistent pricing information can help customers understand when demand management delivers them savings. Pricing transparency can support trust, boost participation and encourage investment in orchestrated technologies. Stronger signals that encourage flexible electricity demand will reduce times when low-cost, renewable supply is insufficient and lower the system costs with a benefit accruing to distribution network service providers and retailers as well as customers.

Predictable price signals for flexible demand can encourage investment by customers and networks in orchestration, support flexible operations and contribute to reduced peak electricity demand. This in turn reduces network augmentation, lowers reliance on gas-peaking plant and reduces emissions. These outcomes reinforce affordability, improve reliability and support emissions reduction. These changes can be achieved while keeping the existing consumer protections. Automation of customer demand response creates opportunities for households and businesses to play an active role in a more efficient and resilient grid without the burden of directly managing their usage. This directly supports the AEMC's aim to create pricing arrangements that promote consumer engagement and efficient system operation.

The next recommendation addresses question 6, ensuring tariff design creates the right environment for energy service providers (ESPs) to innovate confidently while keeping consumer protections strong and participation simple.

Recommendation 3: Align processes to adjust tariff settings with Integrated System Plan (ISP) planning cycles and demand-side enablement

The problem to solve: Tariff arrangements are most effective when clear consumer protections are paired with confidence for innovation and investment. Today, tariff timing and system planning occur separately, which can limit the ability of energy service providers to confidently invest in new service models (Climateworks Centre 2025b).

The proposed change: Developing a more adaptive regulatory process, sequenced with the ISP, can create a stable and predictable environment for ESPs. As the ISP updates its assessment of system needs, tariff processes can be reviewed in step, ensuring signals reflect the latest understanding of electrification trajectories and demand-side opportunity. This synchronisation supports ESP investment by providing a clear planning horizon and reducing regulatory lag between system need and price incentives.

Aligning tariff-setting processes with the rhythm of the ISP can help pricing evolve with changes in electrification, technology costs and demand-side capability (Climateworks Centre, 2025a).

Coordination with the AER's network tariff approval processes further strengthens regulatory coherence and ensures tariff design and oversight evolve together (AEMC, 2025a).

Why this improves outcomes: Creating a tariff process aligned with the ISP creates clear pathways for flexible demand to support a reliable, affordable and clean energy system. As tariff settings evolve with planning cycles, flexible demand becomes available at the precise times the system benefits most. This will contribute to reduced peaks, smaller augmentation requirements and lower emissions.

This alignment strengthens both sides of the equation: consumers retain protections through clear standards and transparent value-sharing, while ESPs gain clearer signals about when system needs are shifting. Aligning tariff timing with the ISP reduces uncertainty for ESP business models, enabling more strategic development of orchestrated demand and flexible load services.

Synchronisation also offers ESPs a predictable regulatory environment, enabling confident development of new energy-management and flexibility services with reduced administrative complexity. Consumers gain straightforward savings and easier participation, while the power system benefits from a more responsive demand profile that aligns with a modern, resilient energy future.

References

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