3 February 2026

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Lodged electronically

Dear Ms Collyer,

The pricing review: Electricity pricing for a consumer-driven future – Draft Report

Nexa Advisory welcomes the opportunity to respond to the AEMC's *Pricing Review* Draft Report (EPR0097). As outlined in our previous submission[1] and our recent report, *Empowering Consumer Energy*[2], we support consumer-centred reforms that rebuild trust and deliver a more affordable, flexible and competitive energy market.

Nexa is an advisory firm with an unwavering focus to accelerate the clean energy transition in a way that provides secure, reliable, and affordable power for consumers of all types. Nexa Advisory is a team of experienced specialists in the energy market, policy and regulation design, stakeholder engagement, and advocacy. We work with public and private clients including renewable energy developers, investors and climate impact philanthropists to help them get Australia's clean energy transition done.

Nexa supports the AEMC's stated objective of a pricing framework that:

- strengthens retail competition and engagement;
- enables consumers and their agents to access and capture the value of flexibility and consumer energy resources (CER); and
- reduces total system costs over time.

Our earlier submission to the Discussion Paper emphasised that achieving these outcomes requires coordinated reforms across retail competition, consumer protections that can support emerging energy service models and sharper distribution pricing signals that reflect system costs and consumer value[3].

While the Draft Report addresses some of these themes, it leaves material gaps that risk undermining consumer trust and affordability. Nexa has significant concerns with the Draft Report's approach which progresses a suite of proposed recommendations with limited supporting evidence or analysis despite the lengthy consultation throughout the Review. This concern is heightened given that the Pricing Review is a self-initiated review, placing clear onus on the AEMC to demonstrate the necessity, proportionality and consumer benefits of any material change to pricing structures.

[1] Nexa Advisory, Nexa Advisory Submission – AEMC Electricity pricing for a consumer-driven future review, 27 August 2024
[2] Nexa Advisory, Empowering Consumer Energy, 23 June 2025
[3] Nexa Advisory, Nexa Advisory Submission - AEMC Pricing Review Discussion Paper, July 2025

In particular, the Draft's most consequential proposals are Recommendations 5 and 6 - where the AEMC appears to default towards a network pricing end-state dominated by fixed charges, without transparent justification or clear assessment of consumer impacts. The Draft Report signals a clear direction toward network tariffs dominated by fixed charges, with dynamic elements layered on top. While framed as an efficient residual cost recovery approach, this shift creates material and enduring risks for consumers that are not adequately evidenced or mitigated. This represents a network-centric approach that shifts risk onto households, weakens consumer agency, and entrenches regressive outcomes - without a robust evidence base or clear consumer protections.

These reforms go to first principles in a high-CER future - how incentives are set, how costs are allocated and where risk ultimately sits across networks, intermediaries and households. As such, they raise materially larger distributional and consumer-trust implications than the comparatively 'small-ticket' retail measures and warrant a substantially higher evidentiary threshold than is currently demonstrated in the Draft - particularly given the implied direction toward higher fixed network charges.

Our submission focuses on the more consequential consumer outcome risks and evidentiary gaps associated with Recommendations 5 and 6 - particularly the proposed shift toward predominantly fixed network charges where we outline in more detail the following risks:

- **Regressive impacts:** Predominantly fixed network charges shift costs onto low-consumption and vulnerable households, worsening affordability and equity.
- **Loss of consumer control:** Higher fixed charges reduce bill controllability, undermining consumer agency, trust and the value of behavioural or efficiency actions.
- **Weakened transition incentives:** Fixed-dominant pricing dilutes incentives for efficient energy use, flexibility and CER participation, unless dynamic signals are material and effective.
- **Structural, not transitional, harm:** Equity impacts are ongoing and embedded; transitional tools do not address the long-term redistribution of unavoidable costs.
- **Insufficient evidence:** The Draft advances a fixed-charge default without published bill impacts, distributional analysis or real-world evidence of consumer and retailer responses.

We are also concerned that the Draft appears to rely on an optimistic assumption that retailers and emerging energy service providers will reliably translate network tariff signals into simpler, better-value consumer products - despite little practical evidence that this would occur or meaningfully improve consumer outcomes

Internationally, regulators are moving in the opposite direction - seeking to reduce unavoidable fixed charges and increase consumer choice and control through more usage-based structures. For example, Ofgem is progressing low/zero standing charge options which shift fixed costs into unit rates[4], and across Europe, ACER is emphasising network tariffs that

[4] Ofgem, Ofgem drives forward plans to introduce zero standing charge tariffs, February 2025

preserve price signals and enable flexibility[5] - which contrasts with the Draft Report's suggested direction of recovering residuals on a fixed basis.

Our recommendations, outlined below, are intended to strengthen the outcome of the Review, calling for clearer evidence and competition-led reforms that meaningfully improve consumer outcomes.

Key recommendations

Nexa recommends the AEMC to:

1. **Publish and consult on a transparent evidence base before locking in direction towards fixed network charges**, including bill and distributional impacts and behavioural responses.
    - Use real-world consumption data across a broad range of customer segments (including low-consumption households, renters, customers in hardship, and CER/non-CER customers), with analysis stratified by meter type, CER ownership (PV/BTM storage), and current retail product.
    - Provide confidence in the bill analysis by verifying sample representativeness / randomisation in any data provided by DNSPs.
    - Leverage upcoming market settings (including the Solar Sharer Offer) as a near-term 'natural experiment' to observe demand shifting and bill outcomes in practice.
2. **Treat 'predominantly fixed' residual recovery as a last resort**, not the default.
    - Undertake a comparative assessment of alternative residual recovery approaches.
    - Specify upfront the consumer risks and mitigants that must accompany any move toward fixed-dominant residual recovery, including protections for customers experiencing vulnerability and guardrails that preserve bill controllability.
    - Recognise that distributional impacts under fixed-dominant tariffs are structural (ongoing) rather than merely transitional, and therefore must be addressed as core design requirements prior to final recommendations.
3. **Preserve customer intelligibility and customer voice in any shift toward ESP-centric tariff design and governance**
    - Any evolution of tariff principles must not weaken expectations around customer impact, customer understanding and consultation without equivalent safeguards and a demonstrated net benefit to end customers.
    - Maintain clear accountability for how tariffs ultimately affect household bills and risk allocation, particularly where intermediaries (retailers/ESPs) are expected to 'translate' network tariff signals into consumer products.
4. **Commit to reforms that neutralise capex bias by moving toward a genuine totex framework** – namely through the related Electricity Network Regulation Review – prior to progressing tariff reform. This will ensure least-cost service delivery is rewarded regardless of whether capex/opex/demand-side solutions are delivered, minimising the residual cost to be recovered through network tariffs.

[5] European Union Agency for the Cooperation of Energy Regulators, Getting the price signals right: ACER's principles for fair and cost-reflective electricity network tariffs, March 2025

The remainder of this submission provides more detail on the more consequential consumer outcome risks and evidentiary gaps associated with Recommendations 5 and 6 - particularly the proposed shift toward predominantly fixed network charges.

Thank you for the opportunity to provide input into the Draft Report. We welcome the opportunity to further discuss any aspect of our submission - please contact either myself or Jordan Ferrari, Director - Policy and Analysis, jordanferrari@nexaadvisory.com.au.

Yours Sincerely

Stephanie Bashir
CEO and Principal
Nexa Advisory

What the AEMC Pricing Review is seeking to achieve

The AEMC state they remain focused on a future where consumer choices, CER and flexible demand play a larger role in lowering system costs and improving outcomes. The Draft Report's themes - harnessing competition, improving comparability, and modernising network price signals - are broadly aligned with a consumer-driven future. The AEMC also states the assessment of the recommendations is based on an overarching objective of delivering a "smarter and fairer" pricing framework that supports lowest overall system cost, meaningful consumer choice, value for money, and appropriate consumer protections, as well as against its Consumer Preference Principles.

Where draft recommendations may help: retail competition

Nexa supports the direction of Draft Recommendations 1-4 to improve consumer outcomes through retail competition and comparability, including:

- reducing loyalty penalties and price discrimination within the same offer;
- exploring mechanisms that improve outcomes for disengaged customers;
- periodic review of whether regulations are supporting good consumer outcomes; and
- strengthening the capability of the Energy Made Easy (or equivalent) comparison function to help consumers choose offers that suit them, including new and emerging CER-linked products.

We see these reforms as complementary to a shift toward a more active role for consumers and their agents (retailers/aggregators) in managing wholesale and network variability.

However, while Recommendations 1-4 are worthwhile - and have attracted most of the early media attention[6] - they are also relatively 'small ticket' reforms, and the focus on them risks drawing scrutiny away from the more consequential network pricing and tariff governance choices in Recommendations 5 and 6. In particular, the AEMC itself acknowledges that key elements of Recommendations 1-2 raise material implementation questions[7]. Similarly, while strengthening comparability is worthwhile, comparison tools are not a stand-alone remedy to the structural problems faced by consumers; Energy Made Easy recorded 1,259,000 plan searches in 2024-25, with 181,000 retailer switches following an NMI-based search[8].

Where the draft recommendations create significant consumer risks: shifting toward predominantly fixed network charges

The AEMC proposes changing network pricing principles to enable more efficient tariffs. Nexa's primary concern is the Draft Report's apparent direction toward network tariffs that are predominantly fixed, with a dynamic component layered on top. Even if this structure can be justified as a residual-cost recovery approach in theory, it can create meaningful risks for consumer outcomes in practice, as explained below.

[6] ABC, Australia's energy rule-maker calls for 'Netflix-like' power charges, 11 December 2025
[7] AEMC, QandA summary - public forum 15 December 2025
[8] Ibid

1. **Increased bill impacts for vulnerable and low-consumption households**

   Predominantly fixed charges tend to be regressive because they represent a higher share of total bills for low-consumption households and can be particularly harmful for energy-poor households whose consumption is already constrained. This is not a theoretical concern; residual-cost recovery analysis previously prepared for the AEMC has explicitly cautioned that a "very large fixed charge" will shift costs from higher-consumption to lower-consumption customers (i.e., low-consumption customers pay more and high-consumption customers pay less), and that such outcomes are often perceived as "unfair" without corrective regulatory solution.[9]

   Consistent with this, the AER's submission to this Pricing Review[10] notes that moving residual recovery "beyond higher fixed charges per connection" can improve predictability but "may disadvantage low-usage households unless tiered or mitigated."

2. **Worsening equity outcomes and reduced agency**

   Fixed charge dominance reduces the share of the bill that is controllable through behaviour. This can undermine consumer agency and trust, particularly in a period of increasing electrification and flexible load participation.

   The Draft Report itself does not provide a strong empirical basis for assuming that retailer or energy service provider innovation will reliably shield consumers from higher fixed network charges – highlighting the risk that Energy Service Providers pass through - rather than manage - higher fixed charges.

   In this context, a shift toward a fixed network tariffs risks reducing the scope for households - especially renters and vulnerable customers with limited capacity to invest in enabling technology - to manage bills through their own actions or through informed choice.

3. **Reduced incentives for efficient energy use, flexibility and CER participation**

   A higher fixed component reduces the marginal savings from actions that reduce net consumption (efficiency) or shift consumption to system-beneficial times (flexibility), unless dynamic charges are sufficiently material and sufficiently targeted.

These risks have consistently been raised throughout this consultation and previous reforms (dating back to 2014). However, the Draft Report still does not provide the necessary analysis to quantify the consumer impact of these changes, or reflect how retail offers and consumer behaviour would change with these reforms.

Why the shift towards fixed charges represents a regressive, poorly substantiated direction from the AEMC

Nexa recognises the AEMC is undertaking further analysis of bill impacts of the proposed tariff reforms. However, the Draft Report's framing indicates that analysis is being undertaken largely within a predetermined direction of travel (i.e., toward higher fixed charges), rather than as a full

[9] Brattle Group (prepared for AEMC), Structure of Electricity Distribution Network Tariffs: Recovery of Residual Costs, Aug 2014

[10] AER, AER submission to AEMC Pricing Review Discussion Paper, July 2025

comparative assessment of alternative residual-recovery approaches. That is, the AEMC signals a clear preference for predominantly fixed charges before having published:

- quantitative customer bill impact modelling;
- distributional analysis across income and housing types; or
- assessment of long-term equity impacts.

This is a key concern given the Review has been self-initiated. As such, the Commission should apply a clear burden of proof that any structural reweighting toward fixed residual recovery is necessary, proportionate and delivers net consumer benefit. A major structural shift in network pricing should not be endorsed in principle ahead of transparent, published evidence demonstrating net consumer benefit.

Nexa recommends the AEMC publish transparent analysis of their justification of a 'predominantly fixed' residual recovery approach before finalising this Review.

We also encourage the AEMC to maintain the initial 'future-focus' of this Review throughout this consumer impact analysis. For example, where the AEMC has stated that to inform its consideration of transitional reform options, it is:

> *analysing anonymised customer usage and billing data that has been voluntarily requested from the distribution networks... [including] one year of data for a random sample of 1,000 residential and 1,000 small business customers for each of a flat, time of use and demand tariff.*[11]

Given the rate of technological development, as well as the work of improving CER operation and integration of other reforms – including the NEM Wholesale Market Review and National CER Roadmap – we do not consider that analysis of this dataset alone would provide adequately representative analysis. The AEMC must better consider the numerous combinations of factors which inform consumer behaviour both now, and into the future (when the abovementioned reforms have been implemented). These factors may include meter type, ownership of CER (rooftop PV or behind-the-meter storage), or current retail product. Additionally, given potential impacts for network businesses, the AEMC should verify the randomisation of this data.

Departure from the balanced intent of the 2014 Distribution Network Pricing Arrangements reforms

Nexa considers the Draft Report's apparent default direction toward higher fixed charges represents a departure from the balanced intent of the AEMC's 2014 Distribution Network Pricing Arrangements (DNPA) reforms - despite the underlying economic logic and theory on residual cost recovery remaining substantively unchanged.

The DNPA reforms established a new pricing objective and pricing principles intended to require distribution network prices to better reflect the efficient costs of providing network services, so consumers could make more informed decisions about how they use electricity and what technologies they invest in[12]. These reforms were supported by commissioned economic work that explicitly grappled with the "residual cost recovery" problem - i.e., the

[11] Draft report, p.135

[12] AEMC, Distribution Network Pricing Arrangements

portion of approved network revenue that would not be recovered if tariffs were set only at long run marginal cost (LRMC). The analysis and subsequent academic work highlighted that if efficiency were the only criterion, pricing theory would recover residual costs through a fixed charge. However, this is widely perceived as inequitable, so residual costs have continued to be recovered (at least partly) through variable charges[13].

The DNPA reforms did not adopt a simple 'fixed charge' solution. Instead, the framework required tariffs to be LRMC-based while recognising that residual recovery involves trade-offs and implementation constraints – namely around equity, acceptability and gradualism.

In Nexa's view, the Draft Report elevates higher fixed charges from a theoretically efficient option to a default direction of travel, while simultaneously proposing to remove or weaken customer intelligibility and customer impact constraints through a shift toward an ESP-centric tariff governance model. This change in weighting - rather than any change in underlying theory - is a key departure from the balanced intent of the DNPA reforms.

Tariffs designed for networks and providers, not consumers - customer vs ESP impact principles

We note also the proposal to design network tariffs primarily for energy service providers, rather than customers, given the required customer consultations required by DNSPs in developing tariffs. By design, this approach:

- deprioritises customer intelligibility, weakening consumer trust;
- shifts risk from networks onto consumers indirectly via retail offers, entrenching information asymmetries; and
- assumes competitive markets will always translate complex signals into fair consumer outcomes, reducing transparency in how network costs are recovered.

Although this engagement may be a considerable cost for networks, the AEMC should not give DNSPs a 'free pass' by minimising requirement for consultation.

We recommend that at minimum, developing ESP principles which still include the customer voice and are transparent and understandable for customers is needed.

Why fixed network pricing is a network-centric design that risks undermining consumer outcomes

Nexa supports the AEMC's high-level proposition that network prices should encourage use of spare capacity when networks are unconstrained and target scarcity when/where constraints bind. Nexa also supports the objective of reducing future augmentation costs through better constraint signalling. However, these objectives do not necessitate that a predominantly fixed residual-recovery model is the appropriate default, nor that shifting tariff governance away from customer intelligibility will improve consumer outcomes in practice.

The Draft Pricing Review's proposed shift toward predominantly fixed network charges represents a fundamental reorientation of network pricing away from consumers and toward

[13] D. Kelly, An Assessment of the Cost-Reflectivity of Proposed Network Tariffs in Australia

network business priorities. While framed as enabling more efficient cost recovery and clearer signals for energy service providers, this approach materially weakens consumer intelligibility, shifts risk onto households, and relies on assumptions about market translation that are not supported by consumer experience.

Nexa does not support an implicit conclusion that the "most efficient" approach necessarily implies a predominantly fixed charging structure. In Nexa's view, the question is not whether residual costs exist, but whether a predominantly fixed recovery mechanism is the appropriate default given distributional impacts, behavioural responses, and the strategic importance of electrification and CER in a least-cost transition.

While the AEMC assumes that retailers or energy service providers will manage this risk on consumers' behalf, fixed charges limit the extent to which providers can meaningfully shield households from unavoidable costs. In practice, risk is embedded into bills rather than actively managed.

Additionally, there is limited analysis of real-world consumption data that would be needed to reflect the consumer benefits of the proposed tariff reforms (as detailed below). Without this analysis, it is unclear how consumers would respond to price signals, which would be weakened by fixed network charges.

Evidence gap: real-world consumer data on consumer flexibility and consumption

The Draft Report's proposed framework places increasing weight on consumer and energy service provider's ability to translate network tariffs into consumer price signals. While academic evidence shows some price elasticity of consumer demand, there remains limited real-world evidence on:

- how much load different household and small business cohorts can practically shift;
- how response varies by tariff structure, technology ownership and enabling devices (e.g., whether a household owns rooftop PV); and
- how take-up and persistence behaves across cohorts (including the extent to which consumers switch into, and remain on, more complex offers).

As such, the AEMC must provide a stronger evidence base to prove the proposed tariff reforms are in the best interests of consumers.

Nexa encourages the AEMC to treat imminent policy reforms as opportunities to build this evidence base. In particular, the Australian Government's recently announced Solar Sharer Offer (SSO) - an opt-in offer requiring retailers in DMO regions to provide households with smart meters at least three hours of free electricity in the middle of the day from 1 July 2026, supported by design principles including a reasonable-use cap - will create a near-term, large-scale natural experiment in load shifting behaviour.

Public commentary has already highlighted the value of establishing an explicit feedback loop. For example, the Grattan Institute has suggested retailers analyse and publish anonymised data on how customers respond, noting that the amount, timing and location of

shifted load will determine bill savings and whether the offer helps or harms the network - and that such data would be feasible to compile, anonymise and publish[14].

Nexa recommends the AEMC work with DCCEEW and the AER to leverage this real-world data once the SSO is in operation – to improve the Commission's understanding of demand flexibility, tariff design, and distributional impacts – before proceeding with any ill-evidenced tariff reforms.

Why fixed network pricing is a structural concern about equity, not a transition issue

The Draft Report treats "winners and losers" largely as a transitional challenge. Nexa considers the equity impacts of predominantly fixed charges are more structural than transitional because they change the ongoing allocation of unavoidable costs and reduce the scope for households to manage bills through consumption and investment decisions.

If the AEMC proceeds toward a predominantly fixed residual-recovery model, Nexa considers the Final Report should specify - and require to be tested through tariff setting processes - a clear package of mitigants to protect customers experiencing vulnerability and to preserve bill controllability.

These mitigants should be treated as core design requirements and consulted on prior to the finalisation of these reforms given the enduring equity effects of higher unavoidable charges.

Predominantly fixed charges are regressive

Regressivity matters in the Australian context because energy expenditure is already highly unequal relative to income. Energy Consumers Australia's Consumer Energy Report Card finds 11% of households report spending more than 6% of their income on energy bills, and 19% meet at least one energy hardship indicator; renters are disproportionately more likely to be vulnerable to, or experiencing, energy hardship across all indicators[15].

Fixed charges intensify this problem because they are, by definition, unavoidable regardless of consumption. While Australian distributional modelling specific to fixed network charge dominance is still limited, it indicates that higher fixed fees are plausible drivers of more regressive electricity cost outcomes; households in areas with low house prices and higher renter shares can become net funders of implicit cross-subsidies under fixed retail tariff structures - an equity risk that becomes more salient as daytime prices fall with solar penetration.[16]

Fixed charges reduce consumer agency and bill control

Predominantly fixed pricing reduces the portion of a consumer's bill that is controllable through behaviour or investment, weakening consumer agency.

---

[14] The Energy, Industry and consumer advocates say Solar Sharer flawed, 26 Jan 2026
[15] Energy Consumers Australia, Consumer Energy Report Card: Understanding and measuring energy hardship in Australia, June 2025
[16] Leslie, G.W., Pourkhanali, A. & Roger, G., *Is the clean energy transition making fixed-rate electricity tariffs regressive?* , 7 September 2023

In practical terms, a larger fixed component means that even substantial changes in consumption (e.g., participation in demand response) have diminishing effects on total bills. This is a persistent feature of the design; a fixed daily charge applies irrespective of usage, and therefore reduces the informational content of prices for consumers and the scope for households to respond to costs through everyday choices[17].

Given existing evidence that many Australian households already constrain consumption due to affordability pressures - and that low-income households use less energy in dollar terms yet face higher energy burdens as a share of income - reducing bill controllability can have outsized impacts on vulnerable cohorts.

Structural inequities arise across consumer cohorts

Fixed charges do not affect all consumers equally. They interact with known and persistent structural factors including:

- housing type and tenancy status (renters vs owner-occupiers);
- appliance stock and electrification capability;
- climate and location; and
- access to capital for CER and energy upgrades.

For example, ACOSS has shown renters face a "double whammy" of high costs and constrained ability to implement efficiency measures[18]. Home ownership and roof space are key assets that enable electrification (including the ability to install solar); households with limited assets can face reinforcing "negative feedback" dynamics that compound energy hardship and make electrification less accessible[19]. This dynamic is particularly true for renters[20].

As such, Nexa considers equity and affordability impacts should be assessed as a core structural design criterion for these cohorts before progressed any network pricing reform.

Transitional tools do not address the root distributional problem

The AEMC has proposed transitional measures such as optional tariff pathways (e.g., basic vs dynamic tariffs), AER facilitation roles and staged implementation. However, these do not alter the structural distribution of costs once fixed charges become dominant.

These mechanisms do not alter the long-run incidence of costs once fixed charges become dominant; they may change the way customers and ESPs experience or present tariffs, but they do not reduce the share of network costs that must be paid irrespective of consumption. For example, transitional tariffs do not reduce the share of network costs that must be paid

[17] Dynamic Analysis, *Network Tariffs and Dynamic Controls: Long term network bill impact to Energex and Ergon customers* (report prepared for Energy Queensland), January 2024
[18] ACOSS, Energy Stressed in Australia, 2018
[19] Chandrashekeran, S., de Bruyn, J., Sullivan, D. & Bryant, D., Electrification and lower-income households in Australia: An integrated analysis of adaptive capacity and hardship, *Energy Research & Social Science*, Vol. 116 (October 2024)
[20] Hammerle, M., White, L. & Sturmberg, B., *How can we involve renters in the renewable energy transition in Australia?* Australian National University (funded by Energy Consumers Australia), June 2022

irrespective of consumption – but simply give consumers a choice in the structure of how those unavoidable costs are presented[21].

As such, Nexa urges the AEMC that transitional mechanisms should not be treated on their own as mitigants against ongoing equity and distributional concerns associated with moving to higher fixed charges.

Addressing the root cause: network economic regulation and incentives are no longer fit for purpose

A fundamental weakness of the Draft Report is that it seeks to address symptoms of rising network costs - through tariff restructuring and increased fixed charges - without first addressing the root cause: that Australia's network economic regulation framework is no longer fit for purpose in a system undergoing rapid technological and behavioural change.

In particular, the Review does not grapple with the long-recognised problem that network regulation remains structurally biased toward capital expenditure (capex). As a result, network costs continue to grow in ways that are weakly connected to actual utilisation, service outcomes or least-cost solutions. Without addressing this underlying incentive problem, shifting cost recovery onto consumers via predominantly fixed charges merely transfers risk, rather than reducing it.

This represents a missed opportunity for the Pricing Review to align pricing reform with modern regulatory best practice and genuine consumer interest.

Capex bias and its consequences for consumers

Under the current regulatory framework, distribution networks earn regulated returns on approved capital investment, while operating expenditure (opex) is treated less favourably. This creates a well-documented incentive to:

- favour capital solutions over non-network or operational alternatives;
- over-build or gold-plate network assets to manage forecast uncertainty; and
- prioritise asset expansion rather than utilisation, flexibility, or demand-side solutions.

For consumers, the consequences are clear:

- network costs become increasingly sunk and irreversible;
- cost recovery pressures intensify regardless of actual usage; and
- consumers are asked to fund assets that may be under-utilised or avoidable.

Rather than correcting these incentives, the Draft Pricing Review implicitly accepts rising network cost bases as given and focuses on how to recover them more "efficiently" through tariff design. This approach locks in the outcomes of capex-biased decisions and socialises the risk, rather than questioning whether those decisions were efficient in the first place.

Fixed charges as a symptom, not a solution

[21] Faruqui, A. (The Brattle Group), Electricity Ratemaking and Equitable Rate Design: A Survey of Best Practices (presentation for the Clean Energy Leadership Institute), 2 June 2021

The proposed move toward predominantly fixed network charges should be understood as a second-order response to first-order regulatory failures. This is because higher fixed charges:

- guarantee revenue recovery for networks, regardless of utilisation;
- protect networks from demand uncertainty and behavioural change; and
- shift the financial consequences of over-investment onto consumers.

In effect, consumers are being asked to insure networks against the risks created by outdated regulatory incentives. This is not efficient risk allocation; it is risk transfer. Critically, this risk transfer is regressive and enduring:

- households cannot avoid fixed charges;
- consumers bear the cost of assets they did not choose; and
- efficiency and flexibility benefits accrue weakly, if at all, to end users.

Absent reform to the underlying economic regulation, tariff reform becomes a mechanism to protect network revenues rather than a tool to deliver consumer value.

The case for a genuine 'totex' approach and fair risk allocation

A more appropriate starting point for pricing reform is a genuine transition to total expenditure (totex) network economic regulation model, in which networks are incentivised to deliver required services at the lowest whole-of-system cost, regardless of whether solutions are capital, operational or demand-side in nature.

Under a true totex framework, network incentives would be realigned to:

- neutralise the long-recognised bias between capex and opex;
- reward efficient utilisation of existing network assets rather than asset expansion;
- encourage non-network alternatives such as demand response, CER and operational solutions; and
- reduce reliance on aggressive cost recovery mechanisms, including predominantly fixed network charges.

From a consumer perspective, this shift is critical. When networks are incentivised to minimise total costs upfront:

- network cost bases are lower and more flexible, reducing pressure on household tariffs;
- risks are managed upstream through better investment and planning decisions, rather than transferred downstream onto consumers through unavoidable charges; and
- efficiency gains are realised before costs are socialised through bills.

Absent a genuine totex approach, consumers face the worst of both worlds: rising network costs driven by the capex bias, combined with reduced agency as a growing share of those costs is recovered through fixed charges that consumers cannot influence.

We note the AEMC has recognised that "consumers would benefit if networks were appropriately motivated to design more efficient tariffs throughout the transition" and is consulting on multiple incentive options – including tariff strategy/implementation, dynamic uptake, and network utilisation incentives.

However, these options should be considered as part of broader reform of the economic regulatory framework within the upcoming Electricity Network Regulation Review[22] - rather than an add-on to the current Pricing Review.

Nexa recommends that instead of defaulting to fixed-charge dominance as the principal residual recovery tool, the AEMC should prioritise regulatory and incentive framework reform through the economic regulatory review, before addressing tariff reforms.

[22] AEMC, Electricity Network Regulation Review