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Submission to the AEMC Pricing Review Draft Report

1. Summary

Rewiring Australia exists to accelerate household electrification. We want every Australian household to have access to solar, batteries, efficient electric appliances, and electric vehicles. We believe the electrification of everything is the fastest, cheapest path to decarbonisation and the single most effective thing Australia can do to reduce household energy costs.

We also believe that maximising solar and battery deployment across our cities and suburbs is not just an emissions strategy - it is a network strategy. Every battery that charges from midday solar and discharges into the evening peak is doing work that would otherwise require poles, wires, and substations. Every street where coordinated CER reduces local demand peaks is a street where distribution investment can be deferred. The potential for community-based energy resources to reshape the economics of the distribution network is enormous - but only if the pricing framework makes that value visible and rewards it.

An energy pricing framework that is - and is seen to be - inequitable poses a direct threat to the social licence that the electrification transition depends on. If non-solar households, renters, and low-income consumers come to perceive that they are subsidising the energy choices of wealthier homeowners, the political coalition for

electrification will fracture. We have already seen this dynamic in debates around feed-in tariffs and network cross-subsidies. The risk is not hypothetical.

We therefore welcome the AEMC's recognition that the current pricing framework will not deliver equitable outcomes as consumer energy resources (CER) proliferate. Some advocates have expressed concerns that the draft report's direction toward higher fixed network charges, while correctly identifying the cost-recovery problem, risks replacing one inequity with another - and in doing so, could undermine investment in the very CER technologies that the transition requires.

Rewiring Australia applauds the approach of the AEMC to proactively seek out better solutions that continue to align pricing fairness and incentivise a fairer and faster transition. This submission makes three arguments:

1. **We agree the volumetric assumption is breaking down.** Network cost recovery has historically relied on per-kilowatt-hour charges, which worked when consumption correlated with the demands a household placed on the network. CER adoption is severing that link. Households with solar and batteries are reducing their measured consumption while remaining fully dependent on network capacity during peak demand events - the very events that drive network investment. The current framework increasingly recovers costs from the households least able to reduce their consumption, while under-recovering from those who still impose peak demands on the system.
2. **Lower volumetric rates have important consumer benefits.** Recovering more network costs through progressive fixed charges and less through per-kilowatt-hour rates means households can heat and cool their homes without the meter running in the back of their minds. The current framework forces a domestic trade-off between home comfort and household economics. Explicitly progressive cost recovery is a better tool for managing distributional impacts than high marginal rates that punish consumption.
3. **Flat fixed charges are a blunt instrument.** They can address the important cross-subsidy problem - but do so regressively. A low-income renter in a small apartment would pay the same fixed charge as a wealthy household with a large home, solar, battery and electric vehicle - despite the two households imposing substantially different demands on the network.

As a result, we present an alternative proposal for the AEMC's consideration that we believe can achieve improved **equity and efficiency without slowing the transition**.

We propose

- (a) property-value-scaled fixed charges levied on property owners rather than electricity account holders, combined with
- (b) stronger dynamic network pricing that rewards batteries and flexible loads for genuinely reducing system costs.

Critically, the dynamic pricing component preserves - and in many cases strengthens - the economic case for households to invest in solar, batteries, and electrification.

This is not a submission against CER. It is a submission for a pricing framework that makes the CER investment case *honest* rather than dependent on cost-shifting.

2. The problem: volumetric charges are no longer progressive

For decades, recovering network costs through per-kilowatt-hour charges was a reasonable proxy for fair cost allocation. Wealthier households tended to have larger homes, more appliances, and higher consumption. Higher usage meant a higher contribution to shared infrastructure. The system was not perfectly progressive, but the correlation between consumption and capacity to pay has proven strong enough that volumetric cost recovery served as a workable and broadly fair default.

Consumer energy resources are breaking this assumption. As solar and batteries proliferate, the households reducing their grid consumption fastest are those with the capital and home ownership to invest in CER. These households are progressively reducing their contribution to network cost recovery - while the households left paying the bulk of network costs through per-kilowatt-hour rates are increasingly those who cannot access CER: renters, apartment dwellers, and households without the upfront capital for solar and batteries.

It is important to be precise about where the problem lies. Wholesale energy prices will continue to provide a fair signal for energy efficiency - using less energy when it is expensive to generate is valuable regardless of who does it. The focus of our submission is in the **network cost component**. Network capacity is not built for average demand - it is built for peaks. And a household with solar and a battery,

regardless of how little grid energy it consumes on an average day, will likely remain dependent on the network during the peak demand events - especially the winter heating peak that will soon dominate network planning - that determines how much network infrastructure must be built.

A battery that proactively responds to dynamic network price signals - charging from solar or even from the grid when the network is unconstrained and discharging when it is stressed - can actively reduce the peak that drives network investment. If enough batteries behave this way, network augmentation can be deferred or avoided entirely, lowering costs for all consumers.

The pricing framework should be updated so that the progressive intent of cost recovery does not depend on a correlation between consumption and capacity to pay that is rapidly disappearing.

3. Why flat fixed charges are insufficient

We agree with the AEMC that moving toward higher fixed charges addresses the free-rider problem. We agree with Nexa Advisory's submission that the equity impacts are "more structural than transitional." However, we depart from both in believing that flat fixed charges are the wrong instrument.

A flat daily supply charge treats all grid connections as equivalent. They are not. A three-bedroom house in suburban Sydney with ducted air conditioning, an EV charger, and a 100-amp connection imposes fundamentally different network requirements than a one-bedroom apartment in the same suburb.

More importantly, a flat fixed charge falls equally on:

- A low-income renter who cannot choose their dwelling, their appliances, or whether they have solar
- A high-wealth retiree who has actively optimised their energy position

This is not progressive cost recovery, and broadly increasing the fixed component would have regressive impacts.

4. A better alternative: property-based charges + dynamic pricing

Component A: property-value-scaled grid connection charges

We propose that the AEMC consider a model where:

1. **Grid connection charges are levied on property owners**, not electricity account holders. This is a significant administrative departure but better aligns the charge with the party who controls the property's energy infrastructure and benefits from the connection's capitalised value.
2. **Charges scale with property value** (using existing land valuation mechanisms already used for council rates). This makes the charge inherently progressive - larger, more valuable properties in areas with higher network capacity requirements pay more.
3. **Renters are shielded from the fixed component**. While some pass-through is inevitable, charging property owners directly avoids the current situation where renters bear network costs they have no ability to mitigate.

This approach has clear precedents: council rates already fund critical services like garbage collection and shared infrastructure on a property-value basis. The principle that those with greater capacity to pay, and who benefit more from the infrastructure, should contribute more is well-established in Australian public finance.

Component B: dynamic network pricing

We recognise that any reform to fixed charges, taken in isolation, could weaken the business case for household CER investment. This is why the dynamic pricing component of our proposal is not optional - it is essential. Done well, dynamic network pricing does not undermine the case for solar and batteries, it incentivises adoption based on genuine value creation.

Alongside progressive fixed charges, we support stronger dynamic network pricing signals:

1. **Networks should be required to offer opt-in dynamic pricing** that reflects actual network congestion and capacity utilisation, and an incentive to provide power (or absorb it) when it would benefit the system by reducing loads on fixed assets. This pricing would be primarily suited to battery owners or bidirectional vehicle chargers if exposed directly to end customers, or could be used by VPP aggregators.
2. **This makes the battery value proposition honest**. Under current arrangements, batteries earn returns primarily by avoiding costs rather than

providing system services. Under dynamic pricing, batteries earn returns by actually reducing network peaks - through VPP participation, market-exposed retail plans (such as Amber Electric), or direct network support agreements.

3. **This should reduce total system costs**, not merely redistribute them. If batteries respond to genuine network price signals, they will defer or avoid network augmentation. The AEMC's own analysis recognises this potential. Australia is on track to have millions of household batteries deployed over the coming decade. If even a fraction of these are orchestrated to respond to local network conditions - through VPPs, dynamic retail plans, or direct network support - the cumulative impact on distribution investment could be transformative. Pricing this network support correctly is central to making the rollout work for communities, for networks, and for the consumers who are not yet - and may never be - part of it.
4. **The incentive structure shifts from avoidance to contribution.** A household with a battery that participates in a VPP and discharges during network peaks is actively reducing costs for all consumers. That household should be rewarded. A household with a battery that merely minimises its own grid consumption is free-riding on a system it still depends on. The pricing framework should distinguish between these behaviours.

We want to be explicit: under this model, the returns to a well-configured battery system that responds to network signals could be *higher* than under current arrangements, not lower. A household that installs solar, a battery, and efficient electric appliances - and allows those assets to respond to price signals - would see strong financial returns while actively contributing to a lower-cost system for everyone. That is a more durable foundation for the electrification transition than the current model, which relies on cross-subsidies that will inevitably generate a political backlash as CER penetration grows.

Better outcomes for all consumers - not just those with CER

A well-designed pricing framework should also improve outcomes for households that do not have CER - whether by choice, circumstance, or because they simply have other priorities.

Under the current framework, network costs are recovered predominantly through volumetric charges. This means that every time a household turns on the heater or runs the air conditioner, they are paying not just for the energy they consume but for a share

of network infrastructure costs that bear little relationship to that moment of consumption. The result is that home comfort decisions are placed in unnecessary conflict with household economics. People feel anxious about using energy in their own homes. That is a poor outcome, and it falls hardest on those who can least afford it.

A future with lower volumetric rates - enabled by recovering a greater share of network costs through progressive fixed charges - reduces this stress. It means that the marginal cost of turning on the heating or cooling more closely reflects the actual marginal cost of energy, rather than being loaded with infrastructure cost recovery. Households can make comfort and health decisions without the meter running in the back of their minds. The distributional impacts that volumetric charges crudely and regressively attempt to manage are better addressed through explicitly progressive mechanisms - property-scaled charges, targeted hardship provisions, and means-testing that accounts for wealth as well as income.

For households that do invest in CER, the framework should offer a clear choice:

1. **Engage with dynamic pricing** - allow the battery and flexible loads to respond to network price signals, and earn strong financial returns for doing so. These households are actively reducing system costs, and the pricing framework should reward them accordingly.
2. **Opt for stable pricing** - households that prefer to use their battery primarily for blackout protection or energy independence, rather than grid services, should be free to do so. But they will face higher overall costs, because they are not contributing to system cost reduction in the same way. This is not a penalty - it is the absence of a reward.
3. **Do nothing** - households without CER, or without the ability, time or inclination to engage with flexible energy management, should face stable, predictable prices with lower volumetric rates. Their contribution to cost recovery comes through the progressive fixed charge, not through a per-kilowatt-hour rate that makes them second-guess whether to heat their home.

This three-tier consumer experience - stable default, rewarded engagement, and self-reliant independence - respects the diversity of household circumstances and preferences. It does not require every consumer to become an energy market participant to get a fair deal.

5. Distributional analysis and transparency

We note that the AEMC is undertaking customer impact analysis using data from 1,000 residential customers per network. We urge the Commission to ensure this analysis:

- **Cross-tabulates income and wealth**, not income alone. The ABS Survey of Income and Housing provides the framework for this.
- **Models the "asset-rich retiree" archetype explicitly** - low recorded income, high net worth, solar/battery owner, low average consumption but high peak dependency.
- **Models at least three pricing levers**: fixed charges, property-scaled fixed charges, and dynamic pricing with battery incentives.
- **Proactively and meaningfully engages with consumers** across the country to find an equitable and supported pricing framework.

To support this type of analysis, we have developed an interactive modelling tool that allows stakeholders to visualise how different cost recovery models affect different household types. This is available online at <https://rewiringaustralia.org/network-model>.

6. Transition

We acknowledge that any significant change in cost allocation creates winners and losers. We support:

- **Gradual implementation** over the proposed 10-year timeframe
- **Hardship protections** that are means-tested on assets as well as income
- **Clear communication** that the status quo is not equitable - it is being progressively undermined by CER adoption patterns that track wealth, not need

But we caution against treating the status quo as a neutral baseline. Every year that passes, the cross-subsidy from non-CER to CER households grows. Delay is itself a distributional choice - one that favours the asset-rich.

7. Conclusion

The AEMC has correctly identified that the current pricing framework is unsustainable and inequitable. Nonetheless, the network is a common asset from which we all benefit and for which we must share the costs. The question is not whether to reform, but how. We urge the Commission to look beyond the false binary of "status quo versus flat fixed

charges" and consider pricing structures that are both progressive (through property-based charges) and efficient (through dynamic pricing).

As an organisation dedicated to accelerating household electrification, we do not make this submission lightly. We are acutely aware that poorly designed pricing reform could slow the transition we are working to accelerate. But we are equally aware that a transition built on inequitable cost allocation will not survive contact with democratic politics. The households being asked to fund the cross-subsidy today - renters, apartment dwellers, low-wealth consumers without CER - are a growing and increasingly vocal constituency.

Getting the pricing framework right is a fundamental precondition for the electrification transition. Done well - with progressive fixed charges, strong dynamic pricing, and universal access to finance through mechanisms like EELS - it will accelerate the transition by turning every household battery into an active participant in a lower-cost, cleaner grid.

We welcome further discussion and questions regarding this submission. Please contact francis@rewiringaustralia.org.

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About Rewiring Australia

Rewiring Australia is a non-profit research and advocacy organisation dedicated to representing the people, households and communities in the energy system. We deliver practical climate progress by working with government, industry, and communities to electrify everything. Co-founded in 2021 by Dr Saul Griffith and Dan Cass, Rewiring Australia highlights the positive climate and economic outcomes possible for Australia, and the world, with electrification of fossil fuel machines.

In addition to co-founding Rewiring Australia, Saul Griffith is also the co-founder and Chief Scientist of Rewiring America. Rewiring America and Saul worked closely with the Biden Administration in the drafting of the Inflation Reduction Act to drive investment in clean, electric machines and in supporting households and the larger U.S. economy to electrify.