

Ref: JF:HP20260213

13 February 2026

Anna Collyer
Chair
Australian Energy Market Commission
Submitted electronically

Dear Ms Collyer,

ESSENTIAL ENERGY SUBMISSION – PRICING REVIEW DRAFT REPORT EPR0097

Essential Energy welcomes the opportunity to contribute to the Australian Energy Market Commission (AEMC) on its Draft Report of the Pricing Review.

As a distribution network service provider (DNSP), Essential Energy manages over 194,000 km of powerlines, covering 95% of New South Wales (NSW) and parts of southern Queensland, serving more than 900,000 customers, including homes, hospitals, schools, businesses, and community services.

Essential Energy commends the AEMC on its development of the Draft Report, which provides a foundation for reform of the pricing framework within a complex and constantly evolving policy environment. This submission focuses on issues most directly relevant to DNSPs in Recommendations 5 and 6, and responds to Questions 5 through 8 of the Draft Report. While this submission does not provide commentary on Recommendations 1 to 4, Essential Energy supports in-principle the broad policy direction across all recommendations. We highlight some areas where greater clarity is required – such as the scope and timing of some proposed reforms – and call for a greater focus on regional energy consumers, where the benefits of contestability may not always be realised.

Essential Energy encourages the AEMC to strive for meaningful, transformational pricing reforms – in line with the expectations set at the beginning of this Review – to deliver an electricity system that works more efficiently, affordably and equitably for all consumers. This Review could provide a watershed moment for how Australians pay for electricity, delivering them simplicity and consistency in the price they pay for electricity services. Consumers could be given the choice of moving from paying primarily for electrons or kilowatt hours to paying for electricity as a service, as they already do for their mobile phone plans, streaming subscriptions and other services. However, Essential Energy is concerned that the Review has perhaps moved away from this vision, and the narrative to establish social licence for this kind of transformational change is not clear in the Draft Report. The Final Report provides an

opportunity for the AEMC to deliver this message to consumers, highlighting what pricing reform can deliver for them.

There is a risk that, if this Pricing Review does not deliver reforms that meet expectations by providing a reliable pathway to better outcomes for consumers across the short to long term, governments may feel the need to make continued ad hoc interventions to pricing frameworks. These kinds of interventions may be less coordinated or efficient than the cohesive, national pricing reform pathway that the AEMC can and should set out through the Final Report of this Review.

Question 5: Implement reforms such that network tariff design is focused on efficiency

- ▶ Do you consider that the proposed reforms would be effective in delivering more efficient network tariffs and better promote the long-term interests of consumers than the existing rules?
- ▶ If not, are there different approaches that would work better?

A renewed focus on network efficiency is welcome, so long as it is delivered transparently

Reforms to clarify the purpose of network tariffs, including a stronger emphasis on network efficiency in tariff design, are likely to lead to better outcomes for consumers. Essential Energy welcomes the AEMC's recognition that the fundamental purpose of network tariffs is cost recovery, and DNSPs are best placed to recover costs efficiently when this purpose is clear. Allowing networks to integrate short-run signals alongside recovery of long-term investment costs will sharpen the tools at their disposal to deliver network services at lowest cost.

Utilising new and increasingly detailed sources of data, including through Dynamic Operating Envelopes and Consumer Energy Resources (CER), DNSPs will be able to send sharp and targeted dynamic price signals to quickly and effectively address local constraints, and minimise costs over short and long-term horizons. These reforms will also enable DNSPs to embed tariff design at the core of their broader strategies and promote innovation in the development of new functions to respond to changing needs within the energy transition.

However, the benefits to consumers of tariff reforms are likely to take several years to materialise as changes enable reduced distribution network expenditure in future regulatory periods. From consumers' perspectives, the positive impact of network efficiency improvements may be lost amid increasing costs across other elements of their bills, especially with transmission and jurisdictional scheme costs likely to increase substantially over the coming years. If consumers see their bills continuing to rise, support for ongoing pricing reforms will be hard to maintain.

To establish social licence and maintain the trust of consumers over the period of implementing these pricing reforms, the AEMC should mandate greater transparency and detail through retail bills. Consumers should be able to see a simple and complete summary of each cost component and how these costs are changing over time. Only if consumers can understand *how* their bill is changing can they understand *why* pricing reforms are necessary and see the benefits of reform over time.

Question 6: Ensure that network tariffs are developed and designed for energy service providers

- ▶ Do you consider that removing or amending the customer impact and customer understanding principles, as outlined, would make energy service providers central to network tariff design?
- ▶ If so, why and what would the preferred option be? If not, are there different approaches that would work better?
- ▶ Do you consider that the tariff structure statement timing can be amended to reduce energy service provider compliance costs and support energy service provider innovation? If so, why and what would be the preferred option? If not, are there different approaches that would work better?

Designing tariffs for retailers is sensible, but more detail is required on the process

Essential Energy supports refocusing network tariff design for retailers and other energy service providers, alongside removal of the customer impact and understanding principles in the National Electricity Rules (NER). This reflects how retail electricity pricing should be, with retailers retaining discretion over how they may pass on networks' price signals but clarifies retailers' role as risk managers on behalf of their customers. This would also provide greater clarity for consumers about how their retail products and services are developed, and how their retailers integrate network price signals. DNSPs will remain fundamentally consumer focused and will need to consider and embed consumer perspectives on specific issues and investments through five-yearly tariff structure processes, but consumers will benefit from a clearer understanding of their relationships with DNSPs and retailers respectively. Packaging attractive retail products for energy services for consumers is the natural domain of retailers, who are best capable to manage all risks of the retail cost stack.

Essential Energy welcomes the opportunity to work with retailers and other energy service providers to develop network tariffs that meet the needs of their customers. Price signals developed by DNSPs should be passed on in a way that energy consumers can respond to, and be rewarded for doing so in a way that benefits other consumers. This is likely to become increasingly important as more consumers invest in CER, including home battery systems, and seek to capitalise on their investments through active participation in energy markets or through aggregated orchestration, such as Virtual Power Plants (VPPs).

The Draft Report provides some sense of how this element of tariff reform may take shape. However, ahead of any subsequent rule change processes, it would be helpful for the AEMC to share more of its thinking in the Final Report on:

- ▶ *DNSP-retailer tariff negotiation*: The proposed process for DNSPs to integrate the needs and perspectives of energy service providers in tariff design, including any obligations on participation, engagement and consideration of retailer demands, and how the role of the AER is likely to evolve in observing, mediating or overseeing this process.
- ▶ *Cost impacts for retailers*: The proposed requirement for networks to consider the impacts of tariff design changes on energy service providers' costs appears sensible. The AEMC should detail how

these impacts should be communicated and considered, and the weight DNSPs should place on these impacts relative to other objectives such as minimising network expenditure costs and responding innovatively to changing consumer demands.

- ▶ *Incentive framework*: It would be useful for the AEMC to provide a clearer idea of how the framework to incentivise networks to deliver tariffs that enhance innovation and efficiency would work, the potential metrics used to benchmark outcomes, and how this framework would interact with existing incentive mechanisms such as the Export Service Incentive Scheme, Customer Service Incentive Scheme and Service Target Performance Incentive Scheme. An incentive framework for network tariff design could be a powerful tool for promoting coordination and efficiency if well-designed and integrated with other incentive measures, but could lead to worse outcomes for consumers if not implemented effectively or the wrong benchmarks are used.

Greater flexibility for networks in tariff setting will enhance outcomes for consumers

Essential Energy strongly supports DNSPs having more flexibility in network tariff setting, including how often tariffs can be changed in response to market needs and technological advances. This change would empower DNSPs to play a more active and direct role in enabling the energy transition, promoting innovation and integration of distribution system operator functions to extract value from CER and deliver better outcomes for all consumers.

The *Improving flexibility in the Tariff Structure Statement process* rule change request submitted by Energy Networks Australia (ENA) seeks to address the limitations with the existing tariff framework. Noting the overlap in policy direction between this rule change request and Draft Recommendation 6 in the Draft Report, it would be useful for the AEMC to provide guidance in its Final Report about how these two processes could be aligned and delivery of reforms to increase flexibility in network tariff setting be accelerated.

Question 7: We are considering transitional measures to manage the impacts of reforms, and will outline these in the final report

- ▶ Do you consider the proposed transitional supports would manage the transition effectively and fairly? Are there other options that we have not considered?
- ▶ How can the distributional impacts of a move to predominantly fixed charges be assessed and managed so that consumers are transitioned fairly and risks are appropriately managed?

The impacts of a higher fixed component of network tariffs will need to be carefully managed

An increase in the share of fixed costs in network tariffs for residential customers is likely to be a natural consequence of the AEMC's proposed reforms. As the Draft Report acknowledges, this will create "winners and losers". Those who consume relatively small amounts of electricity from the grid – many of whom will be single-person households, elderly, and/or vulnerable customers – are likely to be hit hardest by this shift. Those who have invested in CER and reduced their demands on the grid are also likely to see an increase in their bills if the fixed component of network tariffs increases. This has the potential to create inequitable outcomes at both ends of the customer engagement spectrum.

Small business customers are a group with diverse needs and load profiles, for some of which a move to a larger share of fixed costs may add to their operational costs while reducing their incentive to invest in CER or to electrify their machinery. The AEMC should ensure the modelling proposed in Appendix F of the Draft Report captures an adequately diverse cross-section of residential and small business customers to reflect the full spectrum of forecast impacts of the proposed pricing reforms.

Essential Energy is concerned about the potential impacts of an increase in fixed costs on customers across regional NSW. Essential Energy's tariffs already include one of the highest proportions of fixed charges in the National Electricity Market (NEM). This is largely a product of the characteristics of Essential Energy's network, with the lowest customer density in the NEM and many thousands of kilometres of assets across remote, bushfire-prone and challenging terrain. If the share of fixed charges within network tariffs increases further, it is likely that many of Essential Energy's regional customers will feel this most acutely.

It will also be important to ensure an increase in fixed costs does not undermine broader efforts to support electrification and the energy transition more broadly. An increase in the share of fixed costs may reduce the incentive for investment in electric vehicle charging infrastructure, both by Charge Point Operators and residential customers, and other forms of CER. Greater flexibility in tariff setting would enable DNSPs to respond to market needs and provide sharper dynamic price signals, but this may be insufficient to overcome an increased burden of fixed charges for some customers.

For commercial and industrial (C&I) customers – a group that has not been the focus of discussion in this Review – there may also be significant impacts from an increase in fixed costs. DNSPs have established relationships with many C&I customers, reflected in more flexible or bespoke tariff arrangements, and there should remain flexibility for DNSPs to continue to work with these customers to meet their needs. Within the broader contexts of electrification and the energy transition, C&I customers are likely to be pivotal in accelerating decarbonisation, shaping load and enabling system services that may come at a higher cost for all consumers if DNSPs cannot work collaboratively with these customers through flexible tariff design.

Getting the settings for C&I customers right could increase utilisation of electricity infrastructure and optimise demand profiles, putting downward pressure on prices for all consumers. In turn, this could incentivise further electrification across all customer groups, thereby putting further downward pressure on energy bills.

Essential Energy urges the AEMC to give consideration to where this Review started, which was to consider how to deliver better pricing of electricity to meet consumer needs and expectations. As it develops the narrative around a shift of network tariffs considers how network fixed costs are recovered from all consumers, the AEMC needs to consider the benefit customers will see in how their electricity services will be priced by their retailer of choice.

The pricing framework should actively counter the risk of consumers disconnecting from the grid

Another potential effect of an increased share of fixed costs is that it may increase the incentive for some consumers to disconnect from the grid. This incentive is likely to be strongest for consumers who have the greatest resources and have invested in CER, supported by taxpayer-funded subsidies.

Investments in solar and batteries have the potential to yield substantial benefits for all consumers, but these assets have no public value if disconnected from the grid. The inequity of mass disconnections would be compounded for those remaining on the grid, who would face a rising share of residual charges and meeting the full cost of the energy transition.

Retail competition will be essential to the development of products and services that keep consumers with CER engaged and connected to the grid, but it is unknown whether the attractiveness of retail products will be sufficient to prevent grid defections if energy bills (and the share of fixed costs) rise further. On the other hand, networks and their consumers have the most to lose from grid disconnections, with those consumers potentially lost for good, along with their capacity to pay their share of residual costs of operating the network. This would have significant implications for the entire industry if even a relatively small proportion of customers decided to permanently 'disconnect'. The AEMC should consider additional measures to mitigate this risk in the Final Report, and ensure this risk is managed by the entities with the greatest capacity and incentives to do so effectively.

Retail competition may not be robust enough to deliver good outcomes for many regional consumers

The AEMC's increasing focus on equity as this Pricing Review has progressed is welcome. However, the Draft Report does not offer a specific focus on the needs of regional consumers, and offers no analysis of whether retail competition delivers positive and equitable outcomes in regional areas.

As the Draft Report highlights, retailers are well placed to offer products and services to consumers. The greater delineation of responsibility for meeting customers' needs – with the onus shifting more directly to retailers – is appropriate. However, this Pricing Review continues to take for granted that retail competition is sufficiently robust and sustainable to deliver good outcomes across the NEM. This is not necessarily the case in many regional areas.

While the National Energy Customer Framework and other consumer protections provide a largely effective safety net for regional consumers, these measures will do little to ensure all consumers benefit from the innovative and dynamic retail products and services that will emerge in more competitive markets. This issue has previously been highlighted by the AER in its Review of Consumer Protections for Future Energy Services¹, which provided a series of potential reforms that the AEMC should consider adopting as part of its Final Report.

If this Pricing Review is to provide an effective and long-standing blueprint for better pricing outcomes for energy consumers, it is important to consider not only what retail competition *can* deliver, but what it *must* deliver for all consumers, including those in regional areas.

¹ AER 2023, [Review of Consumer Protections for Future Energy Services](#).

Question 8: An implementation schedule that achieves necessary reform quickly while balancing cost and risk

- ▶ Do you consider the reforms could be implemented using current processes outlined above (e.g. network reset processes)? Or do you consider that different processes, such as an accelerated implementation approach, would be warranted?
- ▶ Are there other considerations that we need to be aware of in implementing these reforms?

Reforms should be delivered as a holistic package to build social licence for change

The suite of reforms outlined in the Draft Report is ambitious and is likely to take years to implement given the scale and complexity of rule changes required. However, there is a risk that if this reform pathway becomes disjointed, the benefits of change may be muddled, momentum lost and consumers confused. This will be particularly challenging if consumers continue to see their bills rise, even if this is not due to factors within the immediate scope of this Pricing Review, such as rising transmission and jurisdictional costs.

The AEMC should provide a clear and implementable long-term reform pathway, with a cohesive narrative supporting the case for change. This should articulate a clear, consumer-driven vision for the future of electricity pricing that has not yet materialised though this process despite being the title of this Pricing Review. Establishing the trust of consumers and maintaining social licence for pricing reforms will be essential to implement reforms that span multiple regulatory periods and political cycles. This pathway should also identify and mitigate risks that are likely to emerge over the time it takes to implement reforms.

Essential Energy supports accelerating reforms that can deliver immediate benefits to consumers. However, the pragmatic approach outlined in Chapter 4 and Appendix F, whereby some elements of reform would be implemented ahead of rule changes and more holistic reform, comes with its own risks and may make the policy environment more complex and fragmented for consumers. For example, if networks have greater flexibility to amend tariffs more often before the customer impact and understanding principles are amended or removed, DNSPs will still need to engage with consumers and illustrate meaningful outcomes to the AER. This engagement would be necessarily hollow as tariffs evolve to be designed for retailers. Hollowed engagement with consumers is likely to undermine trust in DNSPs and weaken the social licence for other pricing reforms, as well as being inefficient.

The Final Report of this Review should lay out a cohesive, continuous and outcome-focused reform pathway. Consumers must have confidence that pricing reforms are heading in the right direction and will deliver tangible benefits to them in the years and decades to come.

Essential Energy appreciates the engagement opportunities on this Review to date and the interest of AEMC in balanced and meaningful reform. We remain committed to engaging in any reforms that serve the long-term interests of consumers, and we look forward to working with the AEMC and other stakeholders to implement the reforms flowing from the Final Report of this Pricing Review.



If you have any questions in relation to this submission, please contact me via hilary.priest@essentialenergy.com.au or Jon Frazer, Regulatory Strategy Senior Specialist via jon.frazer@essentialenergy.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to be "Hilary Priest".

Hilary Priest
Head of Regulatory Affairs