

Victorian Energy Collaboration Organisation

Submission to the Australian Energy Market Commission

Pricing Review - Electricity Pricing for a Consumer-Driven Future (EPR0097)

Draft Report

February 2026

*Prepared on behalf of 60 Victorian local councils
Collectively representing over 982 GWh of annual electricity consumption
and more than 943,000 tonnes of renewable electricity offsets since 2021*

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1. Introduction

The Victorian Energy Collaboration (VECO) welcomes the opportunity to respond to the Australian Energy Market Commission’s Draft Report for the Pricing Review - Electricity Pricing for a Consumer-Driven Future (EPR0097).

VECO is a collaboration of 60 Victorian councils that collectively procure renewable electricity through a single power purchase agreement (PPA). It represents one of the largest aggregated public-sector energy buying groups in Australia. Since commencement of the contract in 2021, VECO councils have consumed more than 982 GWh of electricity, representing over \$190 million in expenditure and approximately 943,000 tonnes of emissions offset through matched renewable generation.

By aggregating load and entering a long-term renewable PPA, VECO has delivered more than \$14.3 million in collective electricity cost savings for Victorian local government while achieving net zero electricity consumption for participating councils and supporting the development of Victorian renewable energy infrastructure.

Councils operate diverse portfolios of public assets including aquatic centres, community facilities, depots, libraries, sporting facilities, street lighting and civic buildings. As significant electricity users and long-term asset owners, councils are actively investing in electrification, solar photovoltaic systems, battery storage and energy efficiency to manage operating costs and meet community expectations regarding decarbonisation and resilience. Since 2021, VECO councils have exported more than 58 GWh of solar generation to the grid, in addition to substantial on-site solar self-consumption that reduces peak demand and wholesale exposure.

At a national level, the Federal Government has demonstrated a strong policy focus on accelerating renewable energy and storage deployment. The Rewiring the Nation agenda and the Cheaper Home Batteries Program reflect a coordinated direction toward electrification, distributed storage and a high-renewable electricity system. Against this backdrop, pricing reforms that materially increase unavoidable network charges while weakening volumetric and time-based price signals risk diverging from broader Commonwealth policy objectives.

This submission focuses on the practical implications of the Draft Report for councils as public asset owners, long-term infrastructure investors and representatives of local communities.

This submission has been prepared on behalf of VECO to reflect common operational, financial and policy considerations identified across participating councils. While it does not necessarily represent the formal position of each individual council, it captures shared concerns relevant to local government as a sector.



2. Summary of Key Messages

VECO's key messages are as follows:

- ▶ Network cost recovery is important, but reforms must preserve efficient volumetric and time-based price signals.
- ▶ Materially increasing unavoidable network charges risks weakening incentives for solar, batteries and demand flexibility at a critical stage of the energy transition.
- ▶ Councils have invested significant public capital in distributed energy in response to established policy and pricing signals. Retrospective erosion of those signals undermines long-term investment confidence.
- ▶ Pricing reform should align cost recovery with actual system cost drivers, including concentrated industrial loads and electrification-driven demand growth.
- ▶ Distributed solar and storage are increasingly integral to system security. Reform should reinforce, not weaken, distributed participation in a high-renewable grid.
- ▶ Blunt increases in fixed charges may shift investment behaviour toward partial or full grid exit for large sites.

3. Practical Effect of the Draft Proposals

The Draft Report signals a shift away from usage-based network charging toward greater reliance on fixed supply and network charges. Under this approach, a larger portion of electricity bills would become unavoidable, while volumetric charges would play a reduced role over time.

For councils, this reduces the financial benefit of reducing grid consumption through solar generation, battery storage and energy efficiency investments. While network revenue stability may improve, the incentive for active demand management weakens.

In constrained growth corridors and transmission-limited areas, weakened demand signals may compound existing network pressures rather than alleviate them. Pricing reform must therefore carefully assess system-wide behavioural impacts, not only revenue outcomes.





4. Distributed Energy Investment and System Value

Councils have invested in distributed energy resources in response to longstanding federal and state policy signals encouraging self-generation, electrification and emissions reduction. Rooftop solar alone now supplies approximately 13 percent of Victorian electricity demand during peak daylight periods. This deployment has been supported through public policy instruments including rebates, grant programs and feed-in tariff arrangements. [Open Electricity NEM Tracker](#)

10 Feb 2025 – 15 Feb 2026

Detailed ▾

	Energy GWh	Contribution to demand	Av.Value \$/MWh
Sources			
Solar (Rooftop)	29,846	13.4%	\$23.95
Solar (Utility)	18,631	8.3%	\$33.48
Wind	35,205	15.8%	\$63.49
Hydro	13,151	5.9%	\$154.15
Battery (Discharging)	1,868	0.8%	\$201.09
Gas (Waste Coal Mine)	320	0.1%	\$81.70
Gas (Reciprocating)	384	0.2%	\$264.52
Gas (OCGT)	2,959	1.3%	\$336.05
Gas (CCGT)	4,925	2.2%	\$178.91
Gas (Steam)	1,073	0.5%	\$257.61
Distillate	17.0	0.008%	\$544.48
Bioenergy (Biomass)	347	0.2%	\$113.71
Coal (Black)	85,107	38.1%	\$106.76
Coal (Brown)	29,687	13.3%	\$89.67
Loads			
Pumps	-2,018	-0.9%	\$9.02
Battery (Charging)	-2,331	-1.0%	\$25.06
Curtailment			
<input type="checkbox"/> Solar (Utility)	4,013	1.8%	
<input type="checkbox"/> Wind	3,713	1.7%	
Net	219,170		
Renewables	97,180	43.5%	

These investments - funded by households, businesses and councils - have materially reduced daytime grid demand, suppressed wholesale prices and improved system resilience. However, as feed-in tariffs have declined toward negligible levels, the system value provided by these assets is increasingly socialised across the market while the direct financial return to asset owners diminishes.

Some framing within the review characterises distributed energy customers as relying on the network primarily as a backup service. While cost recovery is important, this risks understating the material contribution that distributed solar and batteries now make to system supply, wholesale price suppression and peak demand reduction.

Distributed energy resources are increasingly integral components of the power system rather than marginal participants. With appropriate price signals, distributed solar and storage will continue to reduce reliance on thermal generation and manage evening peak demand.

Reforms that materially increase unavoidable network charges while weakening volumetric and time-based signals risk altering the investment calculus for distributed energy. For larger public and commercial sites, this may shift the economic question from optimising grid participation to minimising grid dependence. Such outcomes would reduce the shared customer base and increase long-term system costs for remaining users.

At a residential level, higher fixed charges combined with weaker usage-based signals may reduce households' ability to manage bills through behavioural change and efficiency improvements, while simultaneously weakening incentives for new investment.

The [Power of Choice](#) reforms, implemented from December 2017, were introduced by the AEMC to enhance consumer engagement, tariff choice and retail competition within the National Electricity Market. These reforms were premised on increasing customer control, improving price transparency and enabling retailers to innovate through more cost-reflective and differentiated offerings.

A material shift toward largely unavoidable network charges will reduce the proportion of an energy invoice that retailers can compete. By limiting the share of costs exposed to time-based and usage-based signals, tariff rebalancing risks weakening the competitive dynamics that the Power of Choice framework sought to strengthen.

This creates a potential inconsistency with the long-term regulatory direction established by the commission itself. While network cost recovery is important, reforms that diminish competitive scope risk reversing elements of a policy trajectory that has underpinned successful retail innovation and customer participation for nearly a decade.



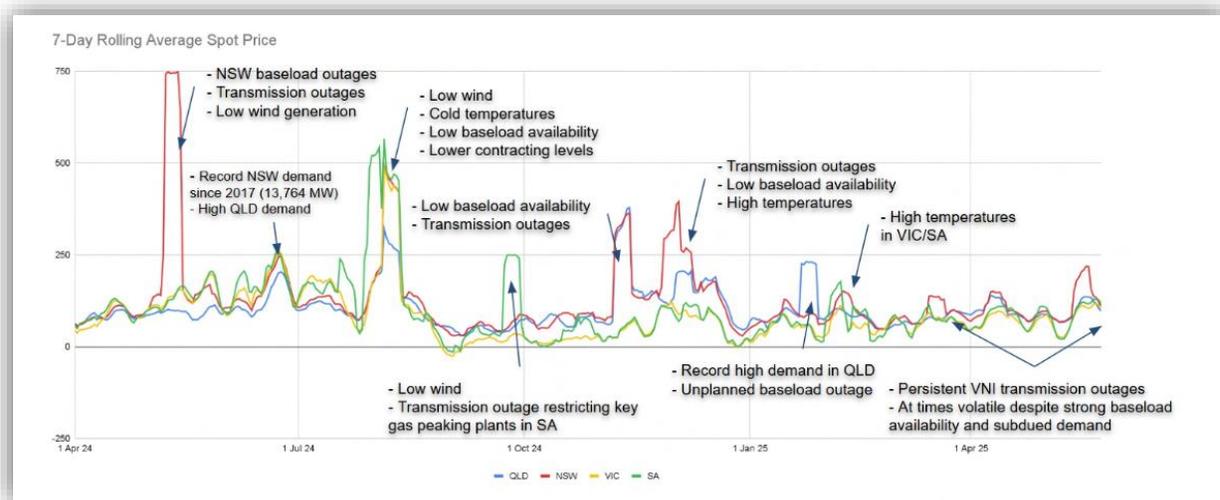
5. Emerging Load Growth, Transmission Constraints and System Firming

The energy transition is unfolding across multiple structural shifts simultaneously. Pricing reform must be evaluated within this broader system context.

Large Concentrated Loads and Regional Network Stress

The rapid development of large, concentrated loads such as data centres introduces material implications for network planning and cost recovery. Individual facilities can add 200–250 MW of demand at a single connection point. Multiple developments within metropolitan Melbourne alone represent a substantial increase in regional load, placing pressure on already constrained transmission corridors.

Recent market events demonstrate how transmission constraints - rather than absolute demand levels - are increasingly driving price volatility. As noted in recent market briefings, binding interconnectors and line outages have caused price spikes even during moderate demand conditions. When key transmission paths are constrained, relatively small drops in solar output have triggered significant price events due to limited ramping capacity.



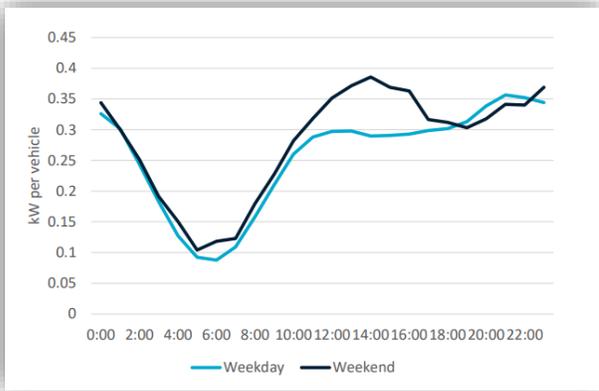
The above chart shows transmission outages have been a key driver of market volatility over the last 12 months. These dynamics indicate that system vulnerability is increasingly linked to transmission capability and localised congestion rather than overall consumption growth. Pricing reform should therefore ensure that cost recovery mechanisms reflect actual drivers of network augmentation and volatility, including concentrated industrial and digital infrastructure loads.

While large industrial users may already participate directly in wholesale markets, tariff rebalancing may have unintended behavioural effects at small and medium commercial scale. As unavoidable network charges increase and exposure to time-based signals declines, the economic case for coordinated demand response and distributed storage may weaken. In response, some sites may favour oversizing on-site assets or private backup generation as a risk mitigation strategy, reducing grid participation rather than supporting coordinated system optimisation. Such a shift would be counterproductive to both emissions objectives and system efficiency.



Electrification of Transport and Demand Growth

In parallel with large industrial loads, electrification of transport is projected to materially increase electricity demand through the 2030s. The CSIRO's 2024 Electric Vehicle Projections for AEMO show a steep growth trajectory consistent with national emissions targets and vehicle standards. Under central scenarios, EV uptake accelerates significantly post-2028, with sales approaching majority market share in the early 2030s.



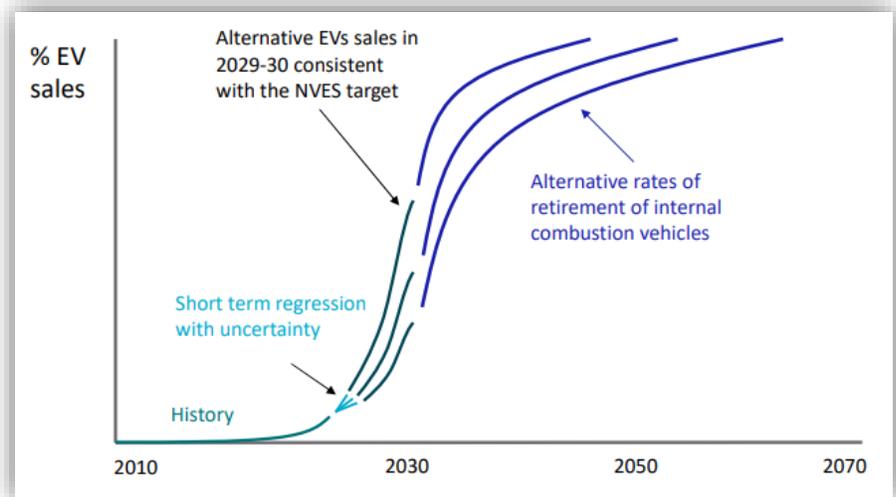
Charging behaviour is critical. CSIRO modelling highlights that unmanaged charging patterns are likely to increase demand during the 5:00 pm to 10:00 pm window - the existing evening peak demand pressure period. Without effective time-based price signals and local storage deployment, EV load growth will compound peak demand pressures.

This transition extends beyond passenger vehicles. Electrification of freight, commercial fleets, rail and municipal services will further increase system load. Local governments are already transitioning heavy vehicle fleets, contributing to concentrated charging demand.

These trends reinforce the importance of preserving time-based and volumetric price signals that encourage smart charging, behind-the-meter battery deployment, local solar integration and demand response participation. Weakening those signals risks discouraging the distributed flexibility required to manage electrification efficiently.

Some submissions have explored more dynamic or surge-based pricing approaches to better reflect real-time system conditions. While such mechanisms require careful consumer protection design, they illustrate that pricing reform can evolve toward sharper system-aligned signals rather than away from them.

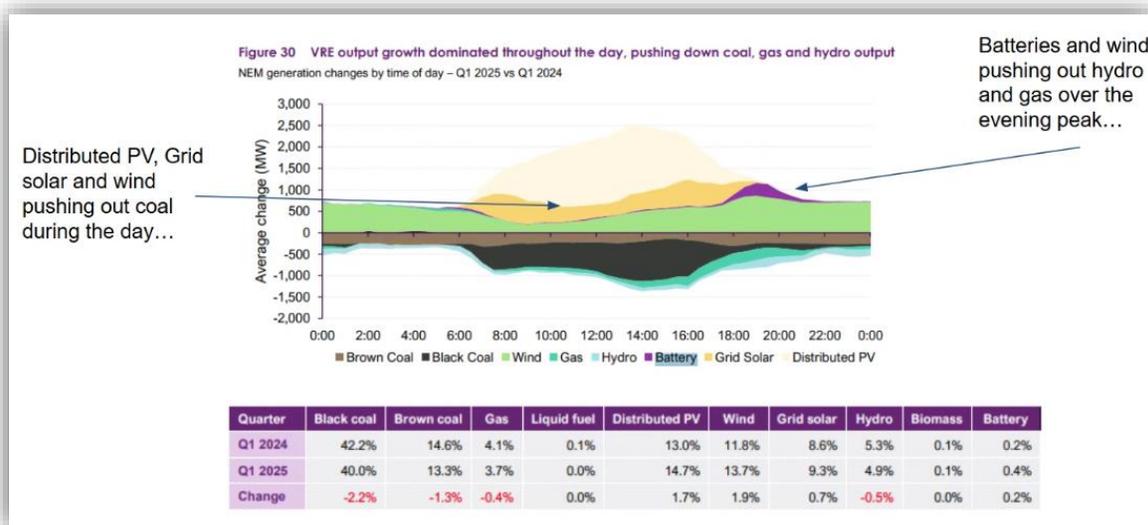
[CSIRO Electric vehicle projections 2024](#)



Batteries Are Already Reducing Peak Stress

Battery deployment is no longer theoretical. Snowy Hydro market analysis comparing Q3 2024 to Q3 2025 shows:

- ▶ Significant increase in battery discharge during morning and evening peaks
- ▶ Reduced hydro and gas generation during peak periods
- ▶ Lower cap returns and reduced volatility across most NEM regions
- ▶ A structural shift toward arbitrage-driven rather than extreme-event-driven revenue.



Battery discharge during evening peaks increased materially year-on-year, directly displacing hydro and gas output. This indicates that storage is already contributing to system firming and volatility reduction.

However, modelling presented in the same analysis indicates that short-duration batteries rely heavily on structural arbitrage and peak price spreads for economic viability. Materially increasing unavoidable network charges while weakening volumetric and time-based signals risks eroding the investment case for both grid-scale and distributed storage.

The AEMO 2025 Transition Plan for System Security emphasises the growing importance of flexible capacity and coordinated distributed participation in maintaining system stability as thermal plant retires.

System Implications for Pricing Reform

Australia's transition requires simultaneous progress across:

- ▶ Transmission expansion
- ▶ Utility-scale generation
- ▶ Distributed solar
- ▶ Distributed storage
- ▶ Flexible demand

Each component is interdependent.

In this context, pricing reform must balance revenue stability with forward-looking investment signals. Network cost recovery is important. However, materially weakening volumetric and time-based price signals, or increasing unavoidable network charges, risks dampening the economic incentives required to deploy distributed solar, storage and flexible demand at scale.

Councils are investing in community batteries and distributed solar to reduce local peak demand, strengthen resilience and manage long-term costs for ratepayers. If pricing reform weakens the economic foundation for these investments, behaviour may shift from active grid participation toward grid minimisation strategies.

A coordinated national approach to system security and decarbonisation requires investment across all layers of the electricity system - transmission infrastructure, utility-scale generation, distributed generation, distributed storage and effective time-based price signals that encourage flexible behaviour.

Pricing reform should therefore reinforce, rather than weaken, distributed participation that is increasingly essential to a secure, high-renewable National Electricity Market.



6. VECO Recommendations

VECO recommends that the Commission:

- ▶ Preserve meaningful volumetric and time-based pricing signals that reward demand reduction, flexibility and distributed investment.
- ▶ Avoid materially increasing unavoidable fixed network charges in a manner that weakens incentives for solar, batteries and demand management.
- ▶ Explicitly assess the impact of pricing reform on public-sector and community-scale distributed energy investments, including councils' electrification and resilience projects.
- ▶ Ensure cost recovery mechanisms reflect actual drivers of network augmentation, including concentrated industrial and digital infrastructure loads.
- ▶ Maintain a competitive retail environment by preserving sufficient bill components over which retailers can innovate and differentiate, consistent with the objectives of the Power of Choice reforms.
- ▶ Align pricing reform with broader national policy settings supporting electrification, storage deployment and a high-renewable electricity system.

7. Conclusion

VECO acknowledges the complexity of designing pricing frameworks in a rapidly evolving energy system. Network cost recovery, equity considerations and revenue stability are legitimate and important objectives. However, pricing reform must also maintain confidence in long-term investment signals and ensure that councils and communities are not penalised for acting early in support of decarbonisation, electrification and system resilience.

Pricing reform should strengthen coordinated system participation across all layers of the market. Reforms that materially increase unavoidable network charges while weakening volumetric and time-based signals risk dampening distributed investment at precisely the moment when flexibility and storage are becoming essential to system security.

VECO and Victoria's local governments support thoughtful, evidence-based reform. However, changes to tariff structures should align with broader national policy objectives, preserve retail competition and reflect actual drivers of network augmentation. Confidence in regulatory direction is critical to maintaining public-sector and private-sector investment.

We welcome continued engagement with the Commission and stakeholders to ensure pricing reform supports a stable, equitable and investment-ready energy transition for communities across Victoria and the National Electricity Market.