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Drew Butterworth
Director, Australian Energy Market Commission
Submitted online to <http://www.aemc.gov.au/>

Locked Bag 14051
Melbourne City Mail
Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnet.com.au

Dear Drew

AusNet appreciates the opportunity to respond to the AEMC's Draft Report for the Pricing Review. We support the AEMC's objective of improving network pricing arrangements to promote more efficient use of the electricity network and to better reflect the needs of evolving market and technologies. However, we consider that further analysis and refinement are required before progressing to significant framework changes.

Whilst we can offer partial, or in principle, support for the recommendations relating to network tariffs (Recommendations 5 and 6), we do not believe they have been sufficiently described or justified in the Draft Report. The lack of customer impact analysis in the Draft Report is of particular concern. Whilst we understand that analysis will be provided in the Final Report, it will be too late for stakeholders to incorporate into their submissions to the Draft Report.

We also consider that the AEMC should more clearly articulate the scale and impact of the issues it has raised and demonstrate how its recommendations are likely to be effective and implemented in the market. It is important to understand how significant these problems are in practice and whether the costs of implementing proposed reforms may exceed the costs currently associated with these issues in the market. To this end, we support the recommendation from Energy Networks Australia (**ENA**) for a cost-benefit analysis of the AEMC's recommendations.

Further development and consultation on the design of, and operating models for, dynamic pricing is required to support meaningful stakeholder engagement on this recommendation. The AEMC must clarify how its proposed arrangements would function in practice, which would better enable stakeholders to assess implications for customers, retailers (both big and small), and networks. The AEMC should also provide a more detailed assessment of whether the tariff structure statement is the most appropriate mechanism for delivering dynamic price signals, or whether alternative mechanisms (such as those considered within the CER Taskforce workstreams) would be more efficient and effective. The pricing signals may offer more dynamic and flexible arrangements than can be achieved within the current regulatory structure.

We suggest that deeper consultation by the AEMC may be needed to better understand the current appetite, capability, and barriers to responding to more complex or dynamic pricing structures. As noted in our previous submission, there is a risk that reforms may assume a level of customer and retailer readiness that is not yet present across the market. Further detail on the practical implications of delivering the AEMC's recommendations would be welcome.

Notwithstanding the above concerns, we offer qualified support, contingent on further detail and analysis provided by the AEMC, for:

- The introduction of short-run marginal cost as a factor that networks can have regard to when designing tariffs, noting that there is little detail on how this would be implemented in practice
- Designing tariffs for energy service providers, so long the differences in scale/market share between retailers – and the implications for customers and competition arising from those differences – are appropriately accounted for in the reforms
- The removal from the Rules of the customer impact and understanding principles in the event that network tariffs are designed for energy service providers. We recommend that the AEMC provides further detail on how the impact on customers as a result of its proposed reforms will be considered
- Increased flexibility within the current Tariff Structure Statement (**TSS**) framework. To this end, we support the ENA's recent rule change request on this topic.

We do not support:

- The removal of side constraints on annual tariff adjustments, which we consider requires further analysis on the impact on customers and equity
- A move to a high proportion of fixed charges until the AEMC presents analysis on the customer impacts of doing so
- Uncoupling the TSS from revenue determination cycles
- The incentive mechanisms proposed by the AEMC, which in our view are either better considered in the forthcoming Electricity Network Regulation Review (the utilisation incentive), are outside the control of networks to meaningfully influence (dynamic tariff uptake), or are unnecessary and/or not well defined (tariff strategies).

Finally, we support the submission to the Draft Report made by the ENA, which provides a broader network view on the AEMC's recommendations.

Please do not hesitate to contact me (nick.cimdins@ausnetservices.com.au) with any questions related to this submission. We would be pleased to share further data or insights with the AEMC as may be helpful to finalise the review.

Sincerely,



Nick Cimmins
Senior Manager, Energy Transition Policy
AusNet