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Australian Energy Market Commission

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Dear Mr Butterworth,

Ausgrid's submission to the pricing review: Electricity pricing for a consumer-driven future Draft Report

Ausgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) Draft Report for the Electricity Pricing for a Consumer-driven Future Review. Ausgrid supports the AEMC's focus on more cost-reflective network pricing and its proposal to better align tariff design and customer-facing responsibilities with the parties best placed to manage them.

Our submission focuses on network tariff design, particularly the AEMC's Draft Recommendations 5 and 6. We note consumer outcomes will depend not only on tariff design, but also on how reforms are implemented, sequenced and translated into practice through retailers and aggregators.

In relation to network tariff design, Ausgrid agrees with the AEMC's articulation of 'what good looks like' in the long term, including the use of dynamic pricing where it can improve network utilisation and lower costs for all electricity consumers. Our submission, supported by bill impact analysis, highlights the importance of avoiding prescriptive end-state tariff structures, particularly for residual cost recovery. This will help to avoid unintended bill impacts, manage transition risks and protect consumers, especially low usage and less engaged customers.

Evidence from Ausgrid's Project Edith trial demonstrates that dynamic pricing can deliver benefits where customers have the capability to respond, while also underscoring the need for targeted application and customer safeguards.

In relation to energy service provider (**ESP**) centred tariff design, Ausgrid agrees that ESPs are best placed to address customer preferences for simplicity, automation and bill stability. Clear accountability and transparency at the Distribution Network Service Provider (**DNSP**) and ESP interface will help ensure that tariff reforms translate into more predictable customer behaviour, improved service delivery, overall bill stability and better consumer outcomes over time.

Ausgrid also cautions against broad incentives linked to outcomes outside DNSP control without clear consumer benefits.

Further details are included in **Appendix A.** Ausgrid appreciates the Commission's engagement throughout this Review and looks forward to continuing to work constructively to refine reforms that deliver robust, consumer-focused outcomes. If you would like to discuss this submission further, please contact Philippe Laspeyres, Economic Regulation Manager, at philippe.laspeyres@ausgrid.com.au.

Yours sincerely,

Timothy Jarratt
Group Executive, External Affairs & and Strategy

Appendix A: Ausgrid's responses on network tariff design Draft Recommendations

Ausgrid's key recommendations for the AEMC's Final Report

- Ausgrid supports the directional intent of Draft Recommendations 5 and 6 and agrees in principle with the AEMC's articulation of 'what good looks like' for network tariffs in the long run.
- Based on customer impact analysis, Ausgrid supports a measured, gradual and targeted implementation rather than prescriptive end-state outcomes, particularly in relation to the balance between fixed and variable charges and the application of dynamic pricing.
- Ausgrid supports the AEMC's vision to design network tariffs for ESPs, rather than for customers, and suggests that the removal of the pricing principle relating to customer impacts currently on DNSPs is replaced by a similar principle applying to ESPs.
- While retailers are responsible for translating network tariffs into customer offers, Ausgrid considers that retaining flexibility in network tariff design is important to enable effective impact management along the value chain.
- Effective engagement between networks and ESPs should be based on defined timeframes and clear accountability.
- Tariffs should consider short-run network congestion where appropriate, and long-run marginal cost should continue to inform signals for future investment decisions.
- Ausgrid cautions against broad incentives linked to outcomes outside DNSP control without clear consumer benefits.
- Ausgrid considers that the success of the proposed reforms will depend on a carefully managed transition and governance arrangements that support clear role allocation and accountabilities, transparency, and a coordinated DNSP-ESP interface.

1. Implementation of the AEMC's vision for efficient network tariffs

The Draft Report sets out the AEMC's vision of a two-part network tariff where a fixed charge recovers most residual network costs, and a dynamic charge (or reward) reflects localised network congestion. Ausgrid agrees that reducing volumetric recovery of residual costs is overall consistent with the objective of minimising distortions, particularly as increasing CER uptake weakens the link between consumption volumes and network residual cost allocation. However, Ausgrid considers that the recovery of most residual costs through fixed charges has the potential to introduce material transition and equity risks if applied inflexibly.[1]

While we understand the AEMC's objective is to address cross-subsidies between CER and non-CER customers, moving too rapidly towards recovering residual costs predominantly through fixed charges risks creating new inequities by disproportionately allocating costs to low-consumption customers, including apartment dwellers, smaller and/or low-income households, even where those customers are not driving network congestion or investment costs. Inevitably, when the recovery mechanism shifts to a flat daily charge, that same customer must pay the same fixed amount as a higher consumption household, which fundamentally changes their per-unit cost of energy.

Preliminary modelling of bill impacts

[1] In this submission, the term 'transition' refers to the pathway to achieve the AEMC's vision set out in the Pricing Review Draft Report.

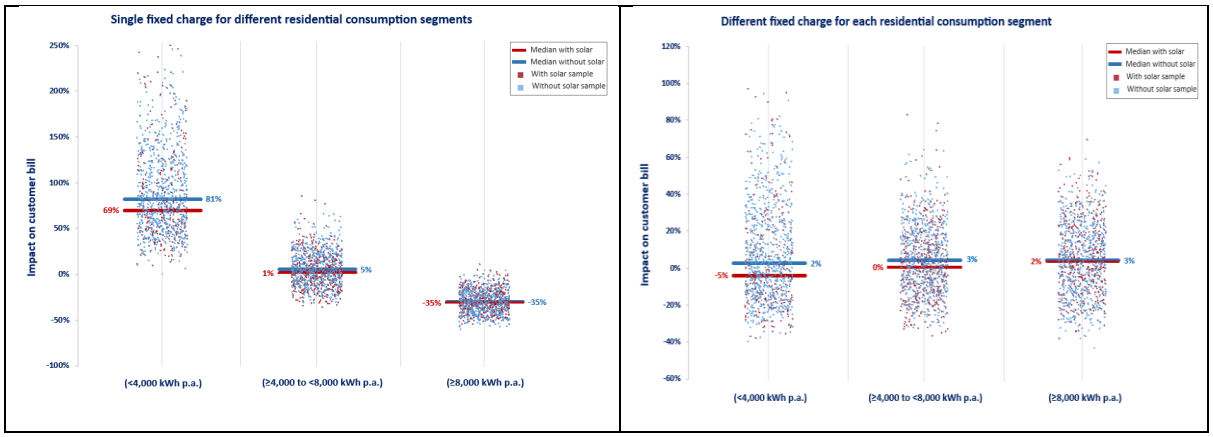
Figures 1 and 2 below present Ausgrid's preliminary modelling of network bill impacts for residential and small business customers, comparing 2025-26 network bills, based on time-of-use energy (**TOU**) tariffs, with a scenario in which 100% of revenue is recovered through the fixed charge component. This network bill impact modelling is based on 3,000 residential customers on the residential TOU tariff (EA025) and 3,000 small business customers on the small business TOU tariff (EA225). Out of the sample of residential customers, 1,068 have solar (36%) and out of the sample of small business customers, 324 have solar (11%).

Customers were divided into three cohorts based on annual consumption. This approach identifies more clearly the group of customers the most (or least) impacted by the fixed charge approach. Bill impacts for customers with solar are represented by red markers while customers without solar are represented by blue markers.

The bill impacts are presented under two scenarios: a single fixed charge for all customer segments (left) and a different fixed charge for each customer segment (right). The segmented fixed charge approach was used to test whether having tiered charges could mitigate the adverse impact a single fixed charge would have on lower-consumption customers. The revenue to be recovered from each segment was converted into fixed charges.[2] It should be noted that the decision to use three segments was arbitrary and illustrative, and is not necessarily Ausgrid's proposed approach.

Under a single fixed charge, lower-consumption residential customers – disproportionally including people living in smaller apartments, and low-income households who may not have the capacity to install solar or batteries to mitigate their cost – experience materially higher average bill increases. Residential customers consuming less than 4 MWh per year would see their annual network bill rise from a median of $472 on a TOU tariff to $844 on a fixed tariff structure (a 79% increase). Under specific fixed charges for each customer segment, the impact between 'winners' and 'losers' is more evenly distributed.

Figure 1– Network bill impact for residential customers on a fixed charge tariff structure



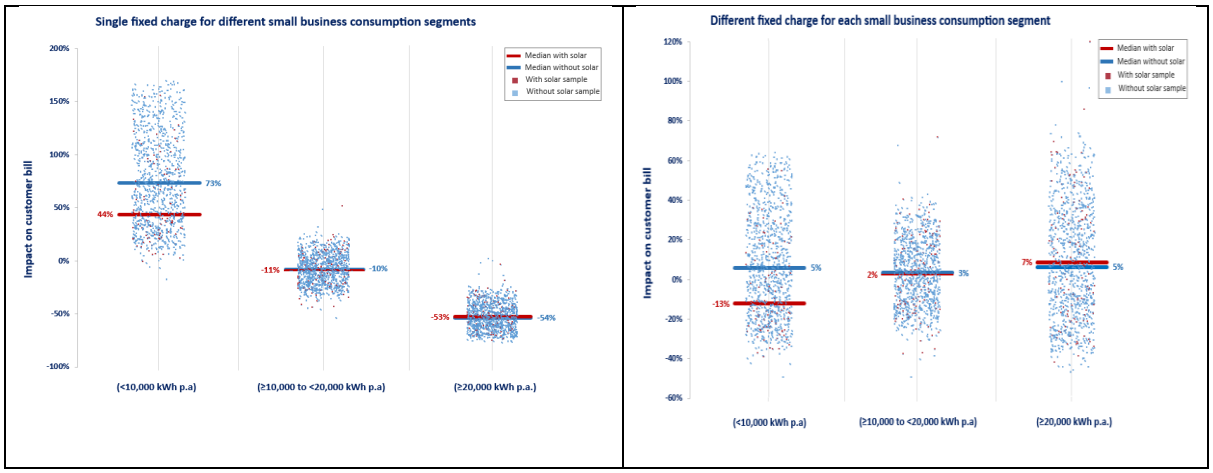
Note: For tiered fixed charges (right), the fixed charge for the residential customer segment with the lowest level of energy consumption would be $473 per year, the fixed charge for the middle tier would be $833 per year, and for customers consuming more than 8 MWh per year would be $1,337 per year.

Figure 2 illustrates a similar trend for small business customers on the EA225 tariff. The shift to 100% fixed recovery creates 'winners' and 'losers' based solely on total electricity usage. Under a single fixed charge, high-consumption small businesses benefit from the removal of volumetric charges,

[2] Due to time constraints, the estimates of fixed charges used in this submission have been derived using TOU revenue from the sample dataset. Ausgrid intends to undertake more comprehensive analysis based on full customer base in due course.

whereas lower consumption businesses see their annual network costs rise. Small business customers consuming less than 10 MWh per year would see their annual charge rise from a median $1,188 under a TOU tariff to $2,027 under a fixed tariff structure (a 71% increase). When deriving specific fixed charges for each customer segment, the impact between 'winners' and 'losers' is more evenly distributed for all segments.

Figure 2 - Network bill impact for small business customers on fixed charge tariff structure



Note: For tiered fixed charges (right), the fixed charge for the small business customer segment with the lowest level of energy consumption is expected to be $1,228 per year, the fixed charge for the middle tier $2,318 per year, and customers consuming between 20 MWh and 60 MWh would experience an annual fixed charge of $4,597.

It should be noted that, regardless of whether a single fixed or multiple fixed charges are applied, solar residential and solar small business bill impacts are similar to non-solar customers, although solar customers (as shown by the median red lines in Figure 1 and 2) tend to experience more favourable outcomes in the smaller consumption segment. These observations would suggest that the move to a fully fixed charge is unlikely to totally eliminate the residual cost recovery imbalance between solar and non-solar customers.

On this basis, and considering solar customers on Ausgrid's network tend to use more energy[3], there could be merits in retaining some volumetric cost recovery to ensure residual network costs are adequately recovered from solar users.

Key take-away:

When translating network charges to customer offerings, the move to fixed tariff structures will need to be gradual and carefully managed to avoid creating inequities, particularly for small energy users without CER.

Applying a single fixed charge across all segments can create sharp bill impacts between low- and high-consumption customers. Introducing segment-specific fixed charges can materially reduce the incidence of negative outcomes and produce a more distributed pattern of bill impact across consumption cohorts.

These insights could assist the AEMC in fine-tuning its recommendations for its Final Report.

[3] Our analysis shows that the median solar residential customer uses 6% more energy than a non-solar customer.

Transitional arrangements

Section 4.1.2 of the Draft Report outlines three options for managing the transition of pricing reform, noting the significant impacts it will have on network bills.

Option 1 mandates a choice between a basic and a dynamic tariff. While this structure may have merit as a longer-term market outcome, Ausgrid considers it is not well suited as an immediate transitional measure.

A fixed charge basic tariff raises two key concerns. First, as shown above, fixed network tariffs tend to shift a higher share of costs onto lower-usage customers within the same class, creating equity issues. Second, a fixed-only tariff provides no meaningful price signal. While it may be more efficient for residual cost recovery, it does not support congestion management or provide a pathway for customers to transition toward more efficient network usage.

In practice, most retailers are likely to select the basic tariff option in the near term due to a preference for simplicity and limitations in billing systems for dynamic tariffs. At the same time, customer capability and willingness to respond to price signals varies widely. Some customers prefer fixed charges, while others can respond to a limited number of high-value events each year but are not equipped to engage with frequent dynamic pricing. Transitional arrangements should therefore preserve genuine product choice across a spectrum of engagement levels to support retail innovation, rather than constraining the market to two prescribed options that may exacerbate equity impacts and dilute network signals.

The Draft Report suggests that DNSPs should balance basic and dynamic tariff designs to create a commercial incentive for ESPs to allocate customers to dynamic tariffs. Ausgrid agrees in principle that customers who respond flexibly and help reduce network costs should be rewarded.

However, under a revenue cap framework, setting the dynamic tariff materially lower to create a strong incentive would require remaining revenue to be recovered from other customers. This could increase charges for customers on the basic tariff, including vulnerable cohorts, creating cross-subsidy risks. Conversely, if the price differential is kept modest to mitigate these risks, it may be insufficient to influence retailer commercial decisions.

Ausgrid therefore considers that any differential between basic and dynamic tariffs should, where feasible, reflect genuine differences in the cost to serve. If additional commercial incentives are deemed necessary, these should be considered as part of the AEMC's broader review of network regulation rather than embedded within transitional tariff design.

Option 2 requires networks to consider the ESPs' ability to adapt to efficient tariffs in a timely manner. Ausgrid does not consider a prescriptive requirement to be the most effective way to manage transition risk. Instead, a flexible approach would better support coordination between networks and ESPs, and allow for bespoke transition pathways that reflect differences in technological maturity and risk-management capability. Applied in this way, Option 2 is more likely to deliver a stable and effective transition consistent with the objectives of the Draft Report.

Option 3 proposes a more active role for the Australian Energy Regulator (**AER**) in facilitating tariff implementation between networks and ESPs. Ausgrid is concerned this approach would result in a centralised, "one-size-fits-all" outcome that lacks the granular insights developed through direct engagement between individual networks and ESPs. This risks overlooking local market conditions and operational realities, potentially undermining tariff efficiency.

While retailers are responsible for translating network tariffs into customer offers, and jurisdictional governments retain policy levers to address equity considerations, Ausgrid considers that retaining flexibility in network tariff design will support retailers to manage the impacts effectively across the value chain. During the transition, DNSPs, ESPs, regulatory bodies and jurisdictional governments

will each need to play an active role and work closely together in a coordinated effort to manage retail and customer impacts, and support durable reform.

In any event, Ausgrid considers that the intent of the customer impact principle should be preserved through a customer impact principle on ESPs in the National Electricity Retail Rules. Such an approach would ensure that customers remain protected from significant bill changes, particularly through the pricing transition.

Key take-away:

Ausgrid does not consider that introducing a prescriptive requirement to account for ESPs' ability to adapt, or materially expanding the AER's role within the Tariff Structure Statement (**TSS**) process is the most effective mechanism to manage transition risk.

Retailers should have a Rule requirement to consider customer impacts in setting tariffs.

2. Role of retailers in supporting efficient tariffs

Allocation of roles and accountabilities

Network tariffs ultimately underpin retail bills, and sharp changes in tariff structure such as significant increased reliance on fixed charges or dynamic elements can still indirectly result in bill impacts that affect consumer confidence in tariff reform. In our previous submission to the AEMC's Discussion Paper, we noted that, by supporting a range of tariff designs, network pricing can play a role in enabling customer choice while also contributing to efficient system use and lower long-term costs.[4]

To date, our on-going discussions with retailers appear to confirm that retailers' decisions and product design are shaped primarily by commercial considerations, customer communication complexity, and prioritisation of mass market offerings rather than network efficiency objectives. These discussions ultimately shape our understanding of how and when network signals reach customers, and the extent to which those signals drive behavioural change.

The Draft Report identifies expected outcomes including improved utilisation of existing network assets and consumers being rewarded (via retailers) for flexible behaviour. Ausgrid agrees these outcomes are achievable where customers have the capability and incentives to respond to dynamic signals. However, feedback from retailers suggests that most residential customers prefer simple, predictable tariffs, with limited responsiveness even to demand or TOU tariffs. In practice, retailers are likely to package network tariffs to prioritise bill stability for most customers, reserving true dynamic exposure for a smaller, more engaged cohort. These observations are supported by the AER in its submission to the AEMC's Discussion Paper, where it noted:

> *Currently few consumers have the tools, information, or confidence to respond optimally to dynamic or seasonal tariffs. However, we recognise that behavioural patterns may change as new technologies, retail products, and service models increasingly automate customer responses and reduce the need for individuals to actively engage with tariff complexity. At the same time, retailers often flatten or repackage network signals to create simpler and more hedgeable retail offers.*[5]

This commercially rational response from retailers may limit the congestion-management benefits expected from dynamic pricing if such tariffs are relied upon as a system-wide mechanism. In these

[4] Ausgrid, Submission to the discussion paper "Electricity pricing for a consumer-driven future" review, 10 July 2025

[5] AER, Submission to the AEMC Pricing Review Discussion Paper, 14 July 2025.

circumstances, residual cost recovery will still shift toward fixed charges without delivering the utilisation benefits anticipated in the Draft Report. This does not undermine the value of dynamic pricing but reinforces the importance of targeted application and realistic assumptions and expectations about the maturity of technology, various levels of engagement, and customer willingness to relinquish control to a third party such as virtual power plants (**VPPs**).

Key take-away:

Expectations on dynamic tariffs should be calibrated in the early stages of the transition to ensure customers are adequately supported and to avoid over-reliance on these tariffs as the primary tool for managing network congestion, particularly in the short run.

Retailer capability and engagement

Ausgrid supports increased engagement between DNSPs and retailers. In practice, early and ongoing engagement with retailers provides a clearer understanding of retailer system capabilities, product design constraints and implementation timelines. This, in turn, allows network tariffs to be designed in ways that are more readily translated into retail offerings, without diluting the underlying efficiency signals in network tariffs. We encourage retailers to consider network tariff structures when creating retail products so that network price signals do ultimately encourage efficient network use.

Improved engagement also supports standardisation, particularly where multiple DNSPs introduce similar tariff features. Greater consistency in tariff definitions, structures and implementation approaches can reduce duplication of effort for retailers operating across jurisdictions, lower system and compliance costs, and support more timely adoption of tariff reforms. Over time, this consistency can improve transparency for customers and other stakeholders, while preserving DNSPs' ability to reflect local network conditions where necessary.

Ausgrid generally agrees with the AEMC that reform should not be limited by the least innovative ESPs. However, how retailer capability is assessed and engaged with in practice raises important implementation challenges. Drawing distinctions between 'least capable' and 'more capable' retailers is inherently difficult in a competitive and evolving market. Retailer capability exists along a continuum and can change over time as commercial priorities, system investments and organisational focus shift. Even with the best intent, DNSPs may lack the visibility needed to reliably assess retailer capabilities.

Ausgrid's experience to date in engaging retailers on tariffs highlights the importance of tailoring engagement to their specific needs. Group-based retailer forums have proven effective as a channel for early notification, explanation of tariff design intent and implementation timelines. However, given the competitive nature of retail markets, these forums are less suited to eliciting detailed feedback on commercial strategies, system constraints or product design decisions. Bilateral engagement has provided deeper insight into retailer capability and priorities, including the effort required to implement billing changes, align tariff windows and support more complex signals such as export pricing or demand-based charges.

However, the scale and structure of the retail market complicate decentralised engagement. As of the first quarter of 2025-26, there were 43 electricity retailers operating in NSW alone.[6] Bilateral engagement with each participant is resource-intensive and difficult to sustain, while engagement with only a selected subset risks perceptions of favouritism. In practice, DNSPs may find themselves

[6] Australian Energy Regulator, Retail energy market performance update for Quarter 1, 2025–26

repeating similar conversations across retailers, while retailers are required to engage separately with multiple DNSPs on closely related issues, yielding limited incremental insight.

To address this issue, the AEMC proposes, among other things, to expand the AER's role into that of an active facilitator or intermediary between networks and retailers. Ausgrid considers a more effective approach would be to rely on structured, transparent engagement led by DNSPs, with defined timeframes and clear accountability.

Under this model, DNSPs would present proposed tariff reforms through retailer forums and written communications and invite retailers to raise any material capability concerns with supporting evidence through bilateral engagement by a specified date. Bilateral engagement is appropriate where retailers need to discuss system capability, commercial constraints or product design, as these matters may involve competitively sensitive information that cannot be discussed in open forums. If no concerns are raised within the defined consultation period, DNSPs would proceed on the basis that retailers have had a reasonable opportunity to assess the changes and are not materially constrained in implementing them. Objections raised after that point would not be considered grounds for delaying reform, unless supported by demonstrable evidence of material system or consumer risk. To provide regulatory certainty, these roles and responsibilities could be set out through an amendment to the NER to formalise our existing engagement processes. This approach preserves clear accountability: networks remain responsible for tariff design in accordance with the NER, retailers remain responsible for assessing their capability and packaging customer offers and regulators retain oversight of compliance. It avoids creating an open-ended facilitation role and ensures reform is not slowed by retrospective objections from participants who have not engaged during the designated consultation period.

Key take-away:

Ausgrid considers that effective network tariff design requires targeted and flexible DNSP-led engagement with retailers, noting that while bilateral engagement is more effective, it is resource intensive. Accordingly, Ausgrid proposes an alternative approach based on defined timeframes and clear accountability.

Customer pricing interactions

On the basis that ESPs will have the core responsibility for tariff design that suits customer needs and expectations, Ausgrid proposes that ESPs should be responsible for managing retail tariff enquiries from customers, noting that currently retailers refer customers to networks when enquiring about price increases.

Table 1 below summarises volume of customer calls to Ausgrid in relation to retailer enquiries for calendar year 2025. While Ausgrid is able to explain how network tariffs operate, these calls typically conclude with customers being redirected back to their retailer, contributing to customer frustration and inefficient handling across the value chain.

Table 1 - 2024-25 Ausgrid inbound customer calls

Enquiry type	Annual volume (2025)
Tariff enquiries	510
Meter enquiries	3,891
Other retail enquiries	16,801
Total customer calls (retailer related)	21,202

Table 2 below summarises the most common tariff-related enquiry themes raised by customers and the typical clarification provided by Ausgrid during these calls. Common themes raised by customers to Ausgrid include confusion about demand charges, lack of awareness of tariff assignment following meter exchanges, misalignment between network tariff structures and retail plan designs, and requests for tariff changes referred to by retailers. Ausgrid also receives calls from customers wanting to verify the information provided by their retailers. These outcomes reflect a misalignment between tariff design responsibilities, customer communications and accountability at the DNSP-ESP interface.

Table 2 - tariff-related enquiry themes raised by customers

What customers contact Ausgrid about	What Ausgrid clarifies during the call
Unexpected demand charges on a retail bill	Ausgrid explains how network demand charges operate in plain language; however, the customer's bill outcome ultimately depends on their retail plan design
Customer unaware they are on a demand tariff	Ausgrid confirms the network tariff and metering configuration where relevant, and explains that the retailer manages the customer offer and billing
Requests for a flat-rate tariff	Ausgrid explains the network tariff options available for the customer's connection and that retailers determine how these are packaged into retail plans
Tariff change requests referred to by the retailer	Ausgrid explains the network constraints and processes (what can and cannot be changed) and directs customers back to their retailer for plan or network tariff changes
Time-of-Use (**TOU**) tariff questions or confusion	Ausgrid explains network TOU principles and peak and off-peak times, and why these may not align with the retailer's plan structure

As network tariffs become more operationally and locationally targeted and less directly intelligible to customers, the risk of confusion and inefficient referrals is likely to increase unless governance arrangements evolve in parallel. We suggest that the AEMC's proposed shift toward ESP-centred retail tariff design should equally be strengthened by complementary measures that support clearer responsibility for customer communications and support around retail tariff design. The removal of the customer understanding principles from the National Electricity Rules (NER) should be accompanied by explicit recognition that retailers are responsible for explaining how network tariffs are incorporated into retail offers. Improving role clarity by placing more explicit obligations on ESPs, through the National Energy Retail Rules, to provide customers information about their tariffs would reduce unnecessary customer referrals, and improve the customer experience.

Key take-away:

Ausgrid proposes that ESPs should be responsible for managing tariff enquiries from customers, and this should be enshrined in the Rules.

3. Application of marginal cost signals

Ausgrid supports treating short-run marginal cost (**SRMC**) as a directional principle while maintaining the continued role of LRMC signals in guiding efficient investment over time.

In practice, Ausgrid considers it important that SRMC is treated as a high-level aspirational principle rather than a prescriptive, mechanically applied outcome, particularly during the transition period.

In unconstrained parts of the network, SRMC is zero, or near zero most of the time. Meanwhile, some customers are located in specific areas with high levels of congestion. Applying highly volatile congestion signals risks creating price outcomes that are difficult for customers and retailers to manage, without delivering commensurate efficiency benefits. For instance, residential customers are unlikely to factor network congestion costs into choosing their place of residence. This reinforces the need for staged implementation and appropriate safeguards during the transition.

Ausgrid suggests that further analysis and consultation are required to better understand how SRMC (the value of avoiding congestion today) and long run marginal cost (**LRMC**) (the cost of building capacity to avoid that congestion in the future) interact and complement each other in an industry characterised by "lumpy" investments.

It is important to preserve the role of long run marginal cost LRMC signals, given that small parts of the distribution network may experience congestion in certain conditions and not enough customers can actively respond to dynamic pricing signals, at least in the initial stages of the dynamic tariff transition. Where tariffs incorporate more dynamic or locational elements, DNSPs require a reasonable degree of predictability in aggregate response to determine whether pricing can be relied on as an operational lever, or whether additional operational or investment responses are required.

In its response to the Australian Government's consultation paper on the Solar Sharer Offer scheme, Ausgrid's submission identified that low voltage (**LV**) feeders with a combination of residential and business customers present unique challenges. These feeders already experience midday peaks due to commercial activity. It was found that additional residential load introduced by the Solar Sharing Offer—such as from the use of appliances —could cause LV fuse ratings to be exceeded.[7] Against this backdrop, we consider that a rapid reliance on dynamic tariffs in the early stages of reform may reduce the effectiveness of network tariffs as a practical tool for managing network load, underscoring the importance of a measured and coordinated approach.

Key take-away:

Ausgrid supports treating short-run marginal cost (SRMC) as a directional principle. Further analysis is required to better understand how SRMC and LRMC interact and complement each other in support of efficient capital investments.

4. Incentives

As noted above, Ausgrid supports the AEMC objective of improving network tariff outcomes for consumers and agrees the implementation of any tariff reforms will need to be carefully considered. Any incentive must deliver material incremental benefits to consumers relative to existing regulatory arrangements. We comment on each of the proposed incentive schemes below.

Tariff strategy incentive

The Draft Report proposes a potential incentive linked to tariff strategy and implementation. Ausgrid sees value in strengthening tariff strategy expectations and transparency, however, the existing TSS framework already provides a structured mechanism for scrutiny, engagement, and accountability. Introducing an additional incentive layer in this area risks duplicating existing regulatory processes

[7] Ausgrid's submission to Department of Climate Change, Energy, the Environment and Water on the Solar Sharer Offer Consultation Paper, 28 November 2026.

rather than addressing a clearly identified gap in incentives. There is a risk that an incentive of this nature would primarily reward process, documentation, or presentation, rather than demonstrable improvements in consumer outcomes.

The existing TSS framework can be strengthened through clearer obligations and AER guidance confined to deliverables within DNSPs' direct control, rather than an incentive mechanism.

Network utilisation incentive

Ausgrid understands the intent of the proposed financial incentive to reward or penalise the efficient use of the network. Efficient utilisation of existing assets is an important objective, and well-designed tariffs can play a role in supporting this outcome. However, network utilisation is not determined by tariff settings alone. It also reflects a range of structural, market and behavioural factors that sit beyond the direct control of a DNSP.

Whether and how network utilisation outcomes should be incentivised is more appropriately considered as part of the AEMC's broader review of network regulation, where incentives can be assessed holistically rather than within the scope of the pricing review alone.

Dynamic tariffs take-up incentive

Uptake of dynamic tariffs in practice depends heavily on the actions of ESPs and is influenced by factors such as ESP commercial decisions and billing system capability. For this reason, an incentive framed purely around customer take-up would face similar challenges to a utilisation-based incentive, in that outcomes would largely sit outside the DNSP's control.

Alternatively, Ausgrid proposes exploring a narrowly scoped, transitional incentive focused on dynamic tariff market enablement, rather than uptake itself. Targeting enablement actions within DNSP control can deliver consumer benefits by accelerating product availability and lowering the risk that cost reflective dynamic network tariffs are not offered to consumers due to system constraints rather than consumer preference. The incentive should target actions clearly within the DNSP's control that materially reduce market implementation barriers. This may include providing standardised onboarding and testing arrangements for ESPs to make use of dynamic network tariffs and producing implementation artefacts that reduce billing and operational complexity. Reducing these frictions can support earlier delivery of efficient price signals that place downward pressure on network costs over the long run and wholesale electricity market benefits to customers. Evidence of ESPs successfully completing onboarding may be appropriate as a gating condition to confirm that enablement measures are usable in practice. However, customer enrolment levels should not be used as the primary performance metric as ESPs have primary responsibility and control in driving customer uptake.

If the AEMC's final recommendations include the introduction of a new incentive, any such mechanism should be time-limited, modest in scale, confined to incremental outcomes beyond AER-approved allowances, and subject to review as market capability matures. This will ensure consumers are not funding activities already compensated through regulated revenues and limits the risk of over-rewarding process rather than outcome.

Key take-away:

Ausgrid does not support the AEMC's proposed incentive mechanisms to support the development and uptake of dynamic tariffs because the outcomes would largely sit outside the DNSP's control. However, we propose to explore the potential for a mechanism that looks at dynamic market enablement, rather than tariff uptake.

5. Ausgrid's experience with dynamic tariffs

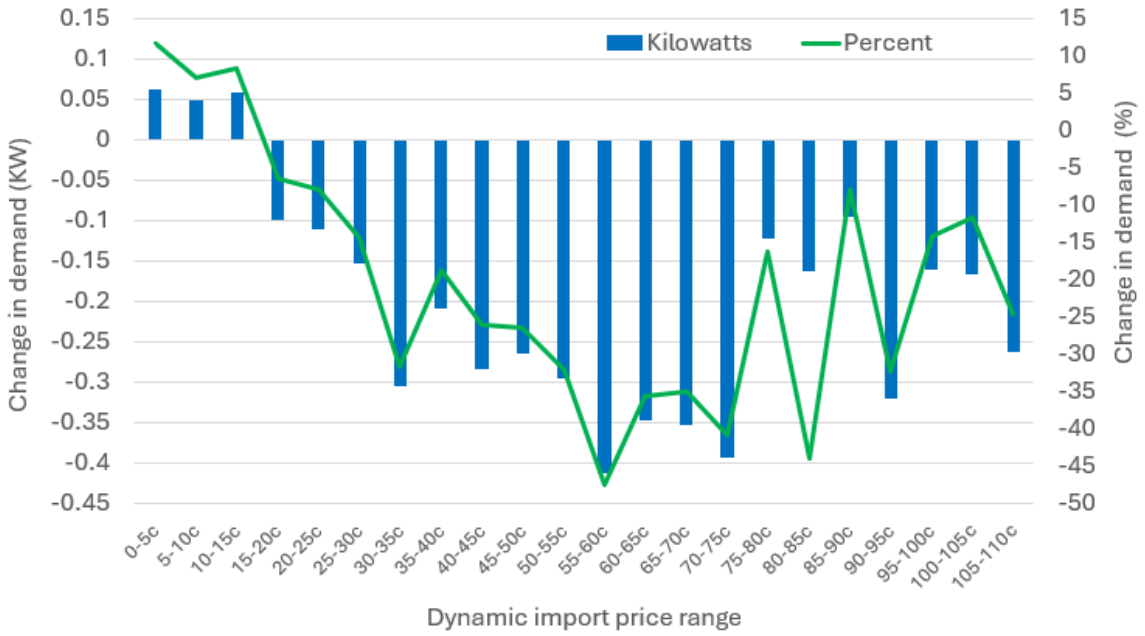
Project Edith is Ausgrid's flagship initiative to introduce dynamic network prices that reflect forecast local network conditions and reward customers for using energy in ways that support the grid. Since an initial 2021 pilot of 200 customers, Project Edith has progressed through staged development, expanding to around 1,200 customers across multiple retailers and is now progressing towards a subthreshold tariff in 2026-27.

Early analysis indicates that dynamic pricing can improve network loading and support the participation of virtual power plants (**VPPs**) in energy markets. However, these benefits are highly context-specific and depend on retailer capability, customer automation and local network conditions.

The Edith tariff structure has evolved over the course of the project in response to stakeholder feedback and improvements in system capability. The current tariff design links dynamic energy prices to forecast local network congestion and is structured to be symmetrical, with each charge having a corresponding reward. When the network is unconstrained, Project Edith applies a low volumetric charge, allowing CER participants to respond primarily to wholesale market signals. Over the course of the project, we have been monitoring the charges incurred by Edith customers on the dynamic tariff relative to their normal static charge. For an average Edith customer, the dynamic charges account for a small proportion of the overall charges, with fixed charges accounting for most revenue.

Currently, Ausgrid is actively exploring practical implementation approaches through Project Edith, including price caps, guardrails to limit the duration of pricing peaks, and opt-out protections. Recent analysis of customer price responsiveness compared Edith customers' load profiles with the load profiles of no-Edith VPP customers (VPP customers from project partners who have not been assigned to the Edith trial) during high import price events (excluding events which have persisted for more than 2 hours). The results are grouped by price points and presented as percentage change relative to baseline in Figure 3 below. When dynamic prices are above 25c, average Edith demand is 27% lower than average non-Edith VPP demand, but there is an inflection point where impact on demand stops increasing as prices rise above 55c/kWh. These findings reinforce the importance of calibration and guardrails, recognising physical constraints such as battery capacity and interaction with wholesale price events. At this stage, the dynamic price caps applied in Project Edith are anchored to LRMC estimates, providing a practical reference point for linking short-term congestion signals to longer-term network investment drivers while approaches to applying SRMC continue to develop.

Figure 3 - Change in demand in kWh and % between Edith and non-Edith VPP customers across different dynamic import price ranges (January - September 2025)



To date, participation has been limited to a defined cohort of customers with compatible CER and engaged retailer or VPP partners, and the use of automation and third-party orchestration is still evolving. The model has not yet been tested across the broader diversity of residential customers. The trial tariff phase starting in FY27 will be critical in validating responsiveness, operational integration, billing processes and customer experience under real market conditions. Further details on Project Edith can be found here in the Project Edith Stage 3 Insights Report.[8]

While initial results are promising, Ausgrid considers that dynamic tariffs are likely to suit customers with automation capability and a high level of engagement as many customers will continue to prefer simpler and more predictable structures. We therefore believe that the tariff framework should support a suite of options that reflect different levels of engagement and risk appetite, rather than assuming uniform participation in dynamic pricing.

Key take-away:

Dynamic tariffs are showing promising results. Currently, Ausgrid is actively exploring practical implementation approaches through the tariff trial process, including price caps, dynamic signals, guardrails to limit the duration of pricing peaks, and opt-out protections.

While we are still in the learning phase in the dynamic tariff development process, participation remains limited. In the interim, we propose offering a suite of tariff options that reflect different levels of engagement and risk appetite, rather than assuming uniform participation in dynamic pricing.

[8] ARENA, Project Edith Stage 3 Insights Report, December 2025

6. Implementation timing of the proposed reform

Section 4.2 of the Draft Report sets out the indicative timing for the implementation of the proposed reforms. Figure 4.1 suggests that the earliest implementation under existing processes would be in 2029 for networks in New South Wales, the Australian Capital Territory, and Tasmania. We note that this would cause significant disruption to the regulatory proposal process for these businesses.

The networks will need to submit their next TSS in January 2028. However, meaningful stakeholder engagement on those tariff structures will need to precede the submission by at least a year, commencing in early 2027. It should be noted that, as part of our engagement, Ausgrid expects to publish a Draft Plan – which will include discussion on network tariffs - in the second half of 2027. To prepare for that engagement, Ausgrid intends to develop a high-level tariff strategy setting out our tariff roadmap during the second half of 2026. Given that the AEMC's Pricing Review is still in the consultation phase, and requires a rule change process after the final paper, the proposed timeframes do not allow time for the necessary technical design and collaborative work required to meet the 2029 timeframe.

Transitional arrangements for the TSS for the 2029-34 regulatory period may need to be considered for the networks on that regulatory cycle.

Key take-away:

Ausgrid is of the view that the timing of the proposed reform will require transitional arrangements for the 2029-34 TSS.