

20 February 2026

Drew Butterworth
Project Lead
Australian Energy Market Commission

Dear Mr Butterworth,

**AEMC The pricing review: Electricity pricing for a consumer-driven future
Draft Report (EPR0097)**

Energy Networks Australia (ENA) appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC) Draft Report on *The pricing review: Electricity pricing for a consumer-driven future*.¹

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

This submission focuses on Recommendation 5 and Recommendation 6 in the draft report and the associated transitional issues with a bearing on network tariff design. It does not address matters primarily related to retail competition.

ENA is supportive of Recommendation 5 in principle, to refocus tariff design on efficiency. The recommendation unlocks flexibility for Distribution Network Service Providers (DNSPs) to use short-run marginal cost (SRMC) and long-run marginal cost (LRMC), and indicates a longer-term shift towards a greater fixed component in tariffs. Support is contingent on avoiding prescriptive, highly fixed, near-zero variable tariff requirements during the near-term transition period. Further clarity on how SRMC and LRMC would interact with each other is also needed.

ENA is supportive of Recommendation 6, to design network tariffs for energy service providers, with the current customer impact principle to be replaced by an energy service provider impact principle that still enables innovation. Successful implementation rests on consideration for how DNSP engagement should change. Diversity and consistency in engagement will support unbiased tariff design.

ENA is very supportive of the AEMC undertaking further analysis on bill impacts, keeping equity a key consideration of this review. ENA recommends undertaking cost-benefit analysis of its recommendations, explicit recognition of government intervention risks, and greater use of non-tariff tools alongside tariffs to deliver utilisation and equity outcomes.

For a holistic regulatory framework view, ENA considers tariff-related incentives are best developed through the Electricity Network Regulation Review rather than Small-Scale Incentive

¹ AEMC, The pricing review: Electricity pricing for a consumer-driven future, [Draft Report](#), 11 December 2025.

Scheme (SSIS) measures and should target outcomes DNSPs can influence. Many factors within dynamic tariff uptake and utilisation are out of the control of the DNSP, thus the incentive to change is weak and the ability to change outcomes is limited.

ENA strongly supports maintaining the current five-year tariff structure statement (TSS) period, due to the strong benefits of consistency with the revenue reset period. ENA's rule change request as mentioned in the draft report can deliver greater flexibility, rather than by altering the period itself or through expanding the Australian Energy Regulator's (AER) role in tariff design.

1 Recommendation 5 – Network tariff design focused on efficiency

ENA is supportive in principle of the Commission's recommendation to refocus tariff design on efficiency. An efficiency focus can help lower network costs and, in turn, reduce energy bills for all consumers. It can also support more equitable cost recovery between customers with consumer energy resources (CER) and those without.

1.1 Treatment of marginal and residual costs

ENA supports allowing DNSPs to design tariffs having regard to both SRMC and LRMC. This flexibility is important as networks manage a rapidly changing system and evolving demand and supply patterns. However, further clarity is required on how 'efficiency' will be defined in practice, and how the AER will assess efficient tariff design including an SRMC/LRMC framework.

Enabling DNSPs to draw on either or both SRMC and LRMC in tariff design would improve flexibility and responsiveness as the transition unfolds. TSS's are typically set five years in advance and, at present, rely heavily on LRMC at a single point in time. Allowing explicit consideration of SRMC would support more adaptive use-of-system tariffs within a regulatory period, better reflecting changing network conditions and demand pressures.

Further detail on how the AEMC envisages SRMC and LRMC interacting would be beneficial. It is unclear from the draft report if signals can incorporate both measures at once as SRMC signals congestion at a point in time and LRMC is for signalling future investments.

What the use of SRMC and LRMC would look like in practice and the way they are measured, will differ across DNSPs, reflecting differences in network characteristics, investment needs and customer mix. It is therefore important that the rules provide a clear efficiency objective and assessment framework, while preserving DNSP discretion to choose the most suitable cost signals for their circumstances. This includes discretion over the treatment of residual (non-marginal) costs, so that DNSPs can recover sunk and common costs in a way that promotes equity and supports efficient use of the network.

1.2 Proportion of fixed versus variable charges

Australia's energy system is in transition and tariff design must also transition. ENA supports an increase in the share of network charges recovered through fixed components, to help ensure stable recovery of sunk costs and to address inequities that can arise under purely volumetric tariffs as CER uptake grows. Under current volumetric structures, customers with CER can materially reduce their contribution to network cost recovery, leaving customers who cannot access CER exposed to a disproportionate share of costs. CER customers contribute to networks

augmentation costs, yet disproportionately pay less of it due to the ability to reduce charges under volumetric pricing.

At the same time, moving too quickly to highly fixed tariffs risks undermining important behavioural signals. A shift towards a variable charge that is close to zero most of the time would materially weaken DNSPs' ability to design tariffs that would help to encourage efficient load shifting and CER orchestration through price signals, just as variability in demand and two-way flows are increasing. Sudden structural changes also create a risk of bill shock for some customers.

DNSPs currently use a mix of tariff and non-tariff tools, including time-of-use and demand-based tariffs, to encourage customers to move load to periods of high solar generation and away from peak periods. These tools support higher utilisation and can defer network investment. If fixed charges are increased too far or too fast, the effectiveness of these signals will be reduced, potentially increasing long-term costs for all customers.

ENA therefore considers that any increase in the proportion of fixed charges should be progressive, evidence-based and sensitive to distributional impacts. The preferred approach is a gradual rebalancing of fixed and variable components over time, with DNSPs retaining flexibility to determine the most efficient mix in their jurisdiction. Further analysis is needed on how and when higher fixed charges would deliver net benefits for customers, including low-usage and non-CER households, to avoid unintended outcomes from transitioning prematurely to a highly fixed tariff model.

1.3 Incentive mechanisms

The Draft Report outlines three options for tariff-related incentives under the Small-Scale Incentive Scheme (SSIS):

- Option 1: an incentive linked to a DNSP's tariff strategy and implementation.
- Option 2: an incentive based on dynamic tariff uptake.
- Option 3: an incentive that rewards or penalises the efficient use of the network.

ENA supports, in principle, an outcomes-focused incentive mechanism where any financial rewards or penalties are tied to clearly defined, measurable outcomes that a DNSP can influence. Any such scheme must recognise factors outside DNSPs' control (such as retailer product design, weather, and jurisdictional reliability standards) and must sit within a regulatory framework that enables DNSPs to respond effectively to the incentives.

ENA is cautious about utilisation-based incentives, given that utilisation is driven by many factors beyond tariff design, including network planning, reliability standards and exogenous demand patterns. Changing tariff structures alone may not materially shift utilisation outcomes, and a utilisation metric may therefore provide a weak or distorted signal to DNSPs.

ENA is also cautious on incentives based on dynamic tariff uptake, as contemplated under Option 2. DNSPs do not have a direct relationship with end customers and cannot drive uptake of particular retail offers; this is the role of energy service providers. An incentive based on customer uptake of dynamic tariffs is difficult to implement effectively to align with DNSP actions or with the efficiency of the underlying network tariff design, and its customer benefits are unclear.

More broadly, ENA questions the incremental value of additional tariff-specific incentives aimed at improving proposal quality. DNSPs are already strongly incentivised to develop robust tariff proposals because approval determines their ability to recover efficient costs. It is unclear what additional behaviours a further financial incentive would drive, or how this would translate into net benefits for consumers.

Any tariff-related incentive arrangements should be considered as part of the AEMC's forthcoming Electricity Network Regulation Review, rather than being layered onto the existing SSIS. The broader review is better placed to assess the effectiveness, interactions and design of incentive schemes across the regulatory framework, and to ensure that any new incentives promote long-term customer interests without creating additional complexity or conflicting signals.

1.4 Non tariff mechanisms and broader toolkit

ENA supports the Draft Report's stronger emphasis on non-tariff tools and incentives as part of the overall pricing reform package. Building on this, ENA encourages the AEMC to continue giving meaningful weight to mechanisms such as CER orchestration, targeted distributed energy resources (DER) programs and flexible connection or operating arrangements, recognising that these can, in many cases, deliver utilisation, reliability and equity outcomes more effectively when used in concert with tariff reform rather than relying on tariffs alone.

2 Recommendation 6 – Tariffs for energy service providers

ENA supports the AEMC's recommendation to amend the rules so that networks design tariffs for energy service providers rather than directly for customers. This change will allow DNSPs and energy service providers to be more flexible and innovative in tariff design, better reflecting the changing nature of the energy system.

ENA also recommends that the AEMC further consider how customer engagement should evolve to support efficient development of DNSPs' TSS. While energy service providers will appropriately become the primary counterparties for network tariffs, there remains an important role for customer engagement to help ensure that consumers understand, and ultimately benefit from, these changes.

2.1 Removal of the customer impact principles

ENA supports modifying or removing the current customer impact principle from the rules. This would better enable networks to give effect to Recommendation 5 by designing tariffs focused on efficiency, while allowing energy service providers to play a stronger role in shaping tariffs and managing how their impacts are passed through to customers.

ENA supports, in principle, progressing option 2 (sunsetting the customer impact principle) as a transition step, with a subsequent move to option 3 (an energy service provider or retailer impact principle). To support innovation, any new principle should prioritise enabling cost-reflective, efficient tariffs without effectively anchoring networks to the capabilities of the least innovative energy service provider. A staged approach allows networks and energy service providers to adapt in an orderly way, provided expectations around engagement between DNSPs, energy service providers and customers are clearly defined, as discussed in the following section.

2.2 Engagement and TSS scope

Engagement between DNSPs and energy service providers is still developing, and there is no settled practice that can simply be adopted. Early experience shows that participation can be uneven, and diversity in the size, type and capabilities of participating providers is important for robust tariff design.

Traditional customer engagement has allowed open feedback and supported a degree of consensus among consumers. In contrast, competition law constraints mean DNSPs cannot facilitate similar joint discussions among competing energy service providers, which creates a risk that tariff outcomes could be disproportionately shaped by those providers that engage most actively. Larger energy service providers with more resources are likely to engage more frequently and consistently, and network tariffs risk becoming biased towards the larger businesses as a result, weakening the effectiveness of competition in the retail space.

DNSPs should not be expected to offer an expanded range of tariffs to accommodate different preferences, as this would increase complexity and drive higher system and implementation costs.

ENA therefore recommends the development of regulatory principles to guide how DNSPs engage with energy service providers. These principles should encourage and sustain participation from a broad and diverse set of providers, promote greater consistency in engagement approaches across jurisdictions, and clarify how the AER will assess engagement as part of the TSS approval process.

Some DNSPs may still wish to engage directly with customers to inform TSS development. Customer engagement provides direct information on the wants and needs of customers, especially relevant for the uptake of CER. It can also help to identify which network tariffs designed for energy service providers that are too complex, to avoid these tariffs being passed on to household customers in the transition period. ENA considers it important that DNSPs retain the option to undertake such customer engagement where appropriate, even if it is no longer mandated. However, the potential benefits and downsides of removing a formal requirement for customer engagement – including the scope for inconsistent practices between jurisdictions – should be carefully considered.

In this context, ENA supports designing any new impact principle so that it facilitates innovation in cost-reflective tariffs and does not unduly constrain networks by reference to the capabilities or preferences of the least innovative energy service providers.

3 Transitional reforms and timing

3.1 TSS period and flexibility

ENA does not support changing the TSS period away from its current alignment with the five-year revenue determination cycle. Consistent periods for TSS and revenue resets help ensure that tariff strategy, capital expenditure and overall network proposals are developed and assessed as a coherent package. This alignment promotes consistency in regulatory decision-making and supports an integrated approach to planning, investment and pricing.

Concerns that a five-year TSS period is too restrictive are better addressed through improved flexibility within the existing framework, rather than by altering the period itself. ENA's recent rule

change proposal to improve TSS flexibility would lower the threshold for reopening a TSS and introduce a new amendment pathway for minor TSS changes. This approach would allow TSSs to be updated where justified, while preserving the benefits of alignment with revenue resets and avoiding unnecessary complexity.

3.2 Need for additional supporting analysis

ENA supports the AEMC undertaking further analysis of customer bill impacts from the Draft Report's recommendations. Demonstrating that the package of reforms will promote equity and place downward pressure on bills over the long term is central to the objectives of the pricing review. Detailed bill impact analysis will also inform implementation strategies by highlighting customer groups that may require targeted mitigation or more gradual transitions.

ENA also recommends further cost–benefit analysis of key elements of the proposed reforms, particularly the move towards tariffs with a variable charge that is close to zero most of the time. An overly heavy reliance on fixed charges to recover sunk network costs in the near term, could weaken incentives for CER and limit DNSPs' ability to orchestrate CER efficiently. Reduced scope for CER orchestration risks higher long-term costs for all customers, particularly at times of high network demand, and should be carefully assessed before committing to a highly fixed tariff paradigm in the near term.

3.3 Timing of implementation to change to efficient tariffs

ENA supports a requirement for networks to consider the cost impacts of tariff changes on energy service providers and, ultimately, customers. The implementation of the pricing review recommendations is likely to generate a series of system and process changes, and multiple significant tariff changes in a short period could be difficult for energy service providers to manage and communicate. This increases the risk of errors, customer confusion and adverse outcomes. Explicitly considering these implementation costs can help to stage changes and minimise disruption.

Further clarity is needed on how impacts would be assessed in practice and how they would be weighed in regulatory decisions. For example, guidance may be required on when and how DNSPs should engage with retailers as part of a TSS re-opener application. This is particularly relevant if ENA's TSS flexibility rule change is adopted and TSS re-opener applications become more common.

In principle, ENA is open to an ongoing retailer (or energy service provider) impact principle, provided it does not become so prescriptive that it constrains tariff innovation. Well-designed principles could help minimise unnecessary tariff churn and associated costs, but principles that effectively prioritise stability over efficiency would risk undermining the core objectives of the pricing review recommendations.

ENA does not support the option to temporarily empower the AER to take a more active role in tariff setting beyond its existing approval and oversight functions. The AER already plays a central role in assessing and approving tariffs, and the benefits of a more interventionist role are unclear. Expanding the AER's role in tariff design could also blur accountability and interfere with the competitive and innovative role of energy service providers in developing retail offerings for customers.

4 Other considerations for this review

4.1 Consider the impact of government intervention

ENA notes that the Draft Report does not fully address the potential impact of government interventions on the effectiveness of its recommendations. Past examples, such as the Victorian Government's decision to block the automatic transfer of customers to time-of-use tariffs, show how policy decisions can constrain tariff reforms and limit improvements in CER orchestration. Emerging initiatives like the Commonwealth's Solar Sharer offer, which mandates specific retail product structures, further illustrate how government programs can materially shape the pricing environment in ways that interact with, and potentially override network tariff signals.

4.2 Implementation timing considerations

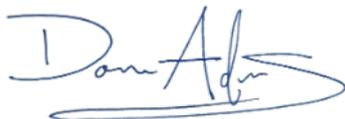
ENA also recommends further consideration of the timing and sequencing of implementing Recommendations 5 and 6. As noted elsewhere, ENA considers that any new tariff-related incentive schemes, including those potentially implemented through the SSIS, are better examined as part of the AEMC's Electricity Network Regulation Review. While this may delay implementation of incentive elements under Recommendation 5, it would not prevent other aspects of that recommendation from progressing.

The AEMC's proposed timeline suggests that elements of Recommendation 5 may take effect before some DNSPs are practically able to implement Recommendation 6, due to the timing of revenue resets. Efficient pricing to end customers depends on DNSPs first being able to price to energy service providers and engage with them on what 'efficient' tariffs look like in practice. ENA asks for consideration on DNSPs ability to implement 'efficient' tariffs for customers before they have the necessary ability and flexibility to price to, and work with, energy service providers under Recommendation 6.

ENA believes recommendation 6 should be accelerated and ENA's rule change request to lower the threshold to reopen TSS' may support DNSPs ability to accelerate recommendation 6 faster, however, there are concerns it would contradict the AEMC's transitional mechanisms to reduce the burden on energy service providers to update systems and resources strain to engage with DNSPs in a short time period.

If you wish to discuss any of the matters raised in this letter further, please contact Russell Pendlebury by email at rpindlebury@energynetworks.com.au.

Yours sincerely,



Dominic Adams

Chief Operating Officer