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Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

The Pricing Review: Electricity pricing for a consumer driven future – Draft Report

Evoenergy welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) draft report on its review into electricity pricing for a consumer driven future ('the Pricing Review').

Evoenergy owns and operates the electricity network in the Australian Capital Territory (ACT) and the gas network in the ACT and surrounding region. As the ACT's electricity distributor, Evoenergy has significant experience with cost-reflective tariff reforms in a jurisdiction with high rates of uptake of consumer energy resources (CER) and accelerating electrification.

Our submission broadly supports the proposed shift towards designing network tariffs for energy service providers and having tariffs that reflect the fixed-cost nature of electricity network services.

However, we caution against introducing highly sophisticated or dynamic tariff structures, especially for residential customers where implementation costs may outweigh the benefits.

We also consider existing regulatory incentives are sufficient to achieve efficient tariff design, and recommend maintaining alignment of the tariff structure statement (TSS) with the five-year regulatory determination period, while introducing greater flexibility for mid-period tariff adjustments.

Should you wish to further discuss matters raised in this request, please contact Lev Yulin, Group Manager Regulatory Pricing and Analysis, Economic Regulation at lev.yulin@evoenergy.com.au

Yours sincerely



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1. Introduction

Evoenergy’s submission to the AEMC’s June 2025 discussion paper¹ made several recommendations, including:

- Network tariff design should prioritise simplicity and cost-effective implementation, especially for residential customers.
- Sophisticated network tariffs should be reserved for those customers with the ability and willingness to respond.
- Pricing principles should better reflect the business-to-business nature of network tariffs.
- Greater flexibility should be available within regulatory periods for distribution networks to update tariffs in response to changes such as shifting demand patterns.

We stand by these recommendations in our submission to the AEMC’s draft report, while providing further detail and commentary on specific reforms proposed by the AEMC relevant to network tariffs.

Evoenergy’s submission to the AEMC’s draft report is structured to follow the thematic grouping adopted in the draft report, and provides feedback on the AEMC’s proposals under the two key focus areas of network tariff efficiency and tariff design for retailers, set out below.

2. Efficient network tariff design

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

- Do you consider that the proposed tariff 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?

2.1 Structure of an efficient tariff

The AEMC have suggested that an efficient network tariff should have two components:

- a large fixed-cost component that would recover most of a network’s revenue requirement; and
- a dynamic charge component that would be zero most of the time but would deliver rewards for meeting the needs of the network and charges for use that strains the network at a particular time and place.

In principle, a structure of this kind would correspond to the largely fixed nature of network costs. Most distributor expenditure reflects investment in integrated network assets that are not easily attributable to individual users, locations or customer types. Therefore, it makes sense that much of a network’s cost is recovered through fixed charges that are shared across all customers.

¹ AEMC, The Pricing Review Discussion Paper, June 2025.

However, Evoenergy notes that there should still be some flexibility to allocate residual costs outside the fixed charge to help manage bill impacts. Residual costs such as jurisdictional scheme costs can vary significantly between years, and allocating these entirely to the fixed charge may cause customer bills to jump up and down each year. Residual costs should still be able to be allocated to consumption and demand charges to help smooth variability and manage bill impacts.

Evoenergy agrees that variable costs are a smaller component of a network's total costs and should be signalled in a way that promotes efficient use of and investment in the network. However, Evoenergy is concerned about a broad-based introduction of highly complex and dynamic pricing elements within the network tariff structure.

The location of marginal cost drivers is largely determined by network design and growth, which are outside the control of individual customers and therefore not an appropriate basis for granular price signals. It would be inequitable for customers living in one area of the network to pay more or less than customers in another area based solely on the way the network has been designed.

Further, efficient tariff design should recognise simplicity and cost effectiveness in addition to cost-reflectivity. Highly sophisticated or dynamic tariffs can be costly to implement and may have limited impact on network utilisation, for several reasons:

1. **Customer behaviour is not purely financially driven.** While some customers are highly motivated to lower their energy bill by investing in CER and responding to changing price signals, many customers place a higher value on the convenience and bill certainty of using energy when they need it, rather than achieving cost savings by actively engaging with their energy use.
2. **Sharp price signals do not always deliver meaningful bill savings or behavioural changes.** Evoenergy's experience shows that increasing the cost-reflectivity of tariffs can be subject to diminishing returns. For example, moving from a flat tariff to a time-of-use (TOU) tariff often provides an opportunity for reasonable bill savings leading to behavioural changes, while moving from a TOU to demand tariff produces a smaller incremental effect. As an illustration, if a typical residential customer on Evoenergy's highly cost-reflective demand tariff reduced their peak demand by 10 per cent, they might save only around \$2.50 per month in network charges (assuming the tariff is passed through by retailers). For many customers, this is too little to incentivise sustained changes in energy usage. Additional sharpening of network price signals may produce even smaller incremental bill savings and behavioural outcomes. For similar reasons, it is not clear if highly cost-reflective network prices will provide sufficient commercial value for the development of markets for third-party management of residential loads.
3. **Customers find broad TOU pricing to be more approachable than sophisticated or dynamic tariffs.** Since 2017, Evoenergy has had a cost-reflective demand tariff as the default residential tariff for customers with a smart meter. However, despite significant investment in customer engagement and education, levels of understanding of residential demand tariffs remains low. Retailer feedback has also indicated that customers find these tariffs confusing and prefer TOU tariffs or flat tariffs, which tend to be more easily understood. This is reflected in an increasing share of residential smart meter customers opting out of Evoenergy's default demand tariff and into the simpler TOU option.

4. **There are practical implementation and forecasting challenges associated with dynamic pricing.** The introduction of sophisticated and dynamic network tariffs would require significant systems investment across the energy supply chain, including in operations and billing system capability. It would also create significant forecasting risk associated with congestion events and distributor revenues, which must be forecast more than a year in advance under the annual network pricing framework.

Evoenergy also observes that retail tariffs are moving towards greater simplification, such as with the introduction of mandatory flat rate offers and the Solar Sharer Offer (SSO) providing three free hours of electricity usage per day. Against this backdrop, greater complexity in residential network tariffs may not achieve meaningful demand-response benefits and could be misaligned with the direction of retail tariff reforms.

Ultimately, there is a risk that tariff design principles focused on sophisticated or dynamic price signalling will result in tariffs that cost more to implement than they deliver in benefits to the network or customers. Instead, Evoenergy considers that variable network costs should continue to be primarily signalled through broad mechanisms like peak-period pricing, which are cost-effective to implement, easily incorporated by retailers, and easily understood by customers.

For the avoidance of doubt, we recognise that some customer cohorts, particularly sophisticated commercial users with the ability and willingness to respond, may desire more dynamic tariffs that can be used to manage their network bills. Some use cases include, for example, electric vehicle charging operators and grid-scale batteries. We do not oppose the availability of complex tariffs for such users, preferably on an opt-in basis, but we do not consider that complex tariffs are appropriate for most residential customers at this time.

Evoenergy encourages the AEMC to adopt a clear stance that opt-in complexity, driven by customer choice and retailer offers, is preferable to mandatory or default complexity in network tariffs, especially for residential and small business customers. Any consideration given to more sophisticated network tariffs should ideally be backed by testing through tariff trials and introduced only where there is strong evidence the tariffs can deliver net benefits to the network and the broader market.

2.2 Incentives for networks to design efficient tariffs

In its draft report, the AEMC considers introducing financial incentives, penalties, or obligations to encourage networks to design efficient tariffs. Evoenergy does not consider additional incentive mechanisms to be appropriate for network tariff design, for several reasons:

1. **Distributors are already encouraged to design efficient tariffs through incentive regulation.** The regulatory framework provides distributors with financial incentives for reducing costs and improving service quality, including through tariffs that improve use of existing infrastructure and reduce the need for network augmentation while maintaining safety and reliability of supply.
2. **The AER already considers tariff efficiency through the regulatory determination process.** In determining the amount of revenue a distributor can recover, the AER already considers network efficiency, including the role of tariffs in managing demand and related capital expenditure.
3. **Additional incentive mechanisms will increase costs for networks and regulators which will ultimately be passed through to consumers.** Evoenergy cautions against

increasing regulation where existing incentive mechanisms are already in place. Additional incentives or obligations around tariff design are unlikely to materially increase network efficiency, as distributors are already operating under such incentives, but could impose additional resourcing requirements on both networks and regulators. This risks increasing costs which are ultimately passed through to consumers and taxpayers.

Evoenergy also cautions against linking incentives with outcomes-based network pricing objectives where those outcomes may be outside the complete control of a network. The time at which customers choose to use or export electricity is heavily influenced by their own lifestyle and preferences, as well as the structure and pricing of retail offers. Similarly, retailer adoption of network tariffs, and the extent to which they are reflected in retail offers, is influenced by the competitive dynamics of retail markets and regulation of retail tariffs. Therefore, while networks can encourage and reward the shifting of loads through tariff price signals, the extent to which networks can be held accountable for tariff outcomes is limited by factors outside of their control.

Ultimately, imposing strict requirements around efficient tariff design, especially where those requirements seek to obligate networks to deliver highly sophisticated or dynamic tariffs, risks increasing network costs with no corresponding improvement in network efficiency or long-term reduction in capital expenditure.

It would be preferable to retain arrangements where networks have flexibility to propose tariffs most suited to their circumstances having regard to the benefits, costs and risks of introducing new tariffs, and the market demand for such tariffs – a decision which should not be distorted by the imposition of additional penalties and rewards.

2.3 Other reforms to pricing principles

Short-run Marginal Cost (SRMC)-based pricing

Network pricing principles currently stipulate that the cost of each tariff must be based on the long-run marginal cost of providing the service to which that tariff relates. The AEMC has proposed that this be expanded so that networks can also design tariffs that provide signals related to ‘shorter-term management of network congestion (short run marginal cost)’.

There is a limit to the extent that SRMC can practically be reflected in network tariff structures. As detailed earlier in this submission, dynamic tariff structures which vary by time and location present issues around equity and cost-effectiveness, requiring significant systems investment while many customers and retailers may be unable or unwilling to respond. Further, network demand peaks are infrequent and difficult to predict, which makes it difficult to attempt to reflect SRMC in tariff price signals.

It is also worth noting that management of a distribution network necessarily requires a high degree of long-term planning, especially with data centres and other large users connecting to the network. Much of a distributor’s costs are related to long-term investments in the network which will occur regardless of whether demand-side management helps ease peaky loads at a particular point in time.

The definition of SRMC would also need to be more precisely defined before it could be incorporated into tariff design frameworks, including over what period SRMC is to be considered, the types of short-run costs that are captured, and how the SRMC period interrelates with the five-yearly regulatory review process.

We are concerned by the suggestion in the draft report that, under a dynamic tariff, “prices would increase until the demand for the network matches available capacity”.² In Evoenergy’s view, this would depart from well-established cost-reflective pricing principles and instead creates a punitive pricing regime where customers are penalised unless they conform to a desired behavioural outcome. There are also significant practical considerations surrounding if and how customers and retailers can be aware of, and meaningfully respond to, a rapidly escalating network price signal in a short period of time. Electricity is an essential service relied upon to meet the basic daily needs of households and businesses, a consideration that must be balanced against theoretical economic pricing approaches that could create inequity and consumer harm.

A core foundation of cost-reflective pricing is that customers’ response to prices, or lack thereof, signals their willingness to pay for network services, and the level of investment that a network should undertake in delivering those services. Therefore, if it were to be implemented, SRMC should only capture the actual costs that a distributor practically faces in the short-run in response to network congestion or high demand. Evoenergy does not consider these costs to be sufficiently well-defined to be incorporated in a network tariff.

In our view, it is preferable to manage short-run grid-instability events through operational mechanisms, such as non-network demand management solutions (e.g. use of mobile batteries) or the emergency backstop mechanism.

Removal of the side constraint

Evoenergy supports the removal of the side constraint. As noted in the AEMC’s draft report, the side constraint requirement acts as a barrier to distributors’ ability to quickly respond to cost allocation inefficiencies. Removing the side constraint will allow greater flexibility for distributors to respond to changes in demand profiles and costs as they arise, rather than having to gradually implement changes over several years to avoid breaching the side constraint.

² AEMC, The Pricing Review – Electricity pricing for a consumer-driven future Draft Report, 11 December 2025, p 99.

3. Designing network tariffs for retailers rather than end customers

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?

Evoenergy supports a shift towards retailers as the primary target of network tariff design by removing the customer understanding and customer impact principles in the National Energy Rules (NER).

While Evoenergy supports public understanding of network services and investment needs, it is often impractical to expect end-customers to engage with upstream tariff structures that are faced by their retailer and that form only a portion of their overall electricity bill. Further, distributors are not well-placed to analyse customer bill impacts when there is uncertainty around the extent to which network tariff structures will be passed through to customers. Even when passed through in full, retailers are better positioned to handle customer engagement on final retail tariffs that reflect the full cost faced by customers, not just upstream network costs.

The AEMC’s proposal to remove the customer understanding and customer impact principles in the NER will streamline the TSS process by recognising the business-to-business nature of network tariffs and facilitating closer collaboration between networks and retailers.

However, in shifting the focus of tariff design to retailers, there would need to be clear principles guiding what it means for a tariff to be retailer-focused. For example, principles could include the need to consider implementation costs, expected tariff uptake, and demand responses.

While network tariffs should be designed in a way that can easily be adopted and incorporated by retailers, the overriding principle of tariff design should still be what is best for the promotion of efficient network investment over the long term. Furthermore, there would need to be principles guiding how networks should engage with retailers, given retailers operate in a competitive environment where collective engagement would not be appropriate or effective.

3.1 Timing and flexibility of the TSS

The AEMC have put forward two options to balance flexibility and stability in the tariff structure statement (TSS) process. These are:

1. shorten the TSS’s application to two or three years to increase the ability of networks to implement tariff reform.
2. extend the application of the TSS to ten years and introduce a framework for energy service providers or large users to negotiate new tariff structures at any time.

Evoenergy does not support any changes to the application of the TSS that would cause it to differ in timing from the five-year regulatory determination process. Aligning the TSS with regulatory determinations creates synergies between tariff design and other parts of a distributor's proposal, including expenditure proposals and demand forecasts. This allows both networks and the AER to plan, consider and make decisions on tariff design in conjunction with the efficiency and needs of the network.

Instead, Evoenergy considers that the AEMC's objective of flexibility is better achieved through a change to the NER to allow distributor's greater flexibility to request tariff changes within a regulatory period, as per the ENA's rule change request of 3 December 2025. This would increase flexibility and allow distributors to respond to changes in demand or technology throughout a regulatory period, without requiring that the TSS be separated from the rest of the regulatory determination process.