

Submission on the AEMC Draft Report – EPR0097

Pricing Review – Electricity Pricing for a Consumer-Driven Future Focus: True Cost of Delivery at Low-Voltage (LV) Level

Submitted to: Australian Energy Market Commission

Closing date: 13 February 2026

1. Executive summary

The draft report recognises the need to modernise electricity pricing in response to distributed energy resources (DER), electrification, and consumer participation. However, it remains anchored to an **averaged, legacy cost-recovery framework** that predates real-time measurement, controllability, and flexibility at the low-voltage (LV) network edge.

This submission argues that enduring efficiency, equity, and affordability outcomes require a shift to **true cost-of-delivery pricing**, implemented progressively through **Distribution Locational Marginal Pricing (DLMP)** at LV level. Without this, reforms risk entrenching socialised cross-subsidies, discouraging efficient local investment, and increasing long-run network costs.

Australia's approach will strongly influence New Zealand, which has historically followed similar pricing and regulatory pathways. Getting this right is important for both jurisdictions.

2. Core problem: averaged tariffs mask real network costs

Current network tariffs largely recover costs through:

- fixed daily charges, and
- averaged volumetric or demand-based charges.

These mechanisms:

- obscure **where and when** electricity is expensive to deliver,
- dilute incentives for flexible demand and storage, and
- socialise congestion and augmentation costs across all consumers.

At LV level, the real drivers of cost are **local congestion, voltage constraints, phase imbalance, losses, and asset utilisation**. Averaged tariffs do not reflect these drivers. As DER penetration increases, this mismatch worsens.

3. True cost of delivery at LV level

True cost of delivery means pricing electricity based on the **marginal cost of serving or injecting one additional kilowatt-hour at a specific location and time**, including:

- upstream wholesale energy price,

- marginal losses,
- distribution congestion and constraint costs,
- asset utilisation and deferral value, and
- voltage and power-quality impacts.

At LV level, these costs are highly local and time-dependent. Modern smart meters, inverter telemetry, and network models now make them observable and actionable.

4. DLMP as the enabling framework

Distribution Locational Marginal Pricing (DLMP) extends wholesale LMP concepts into the distribution network.

DLMP:

- provides **granular, cost-reflective price signals**,
- rewards consumers and prosumers who reduce local stress or supply energy at the right place and time,
- discourages inefficient exports or demand that increase local network costs, and
- enables non-network alternatives to compete fairly with capital augmentation.

Importantly, DLMP is **technology-neutral**. It does not mandate batteries, EVs, or solar. It simply allows them to respond to accurate price signals.

5. Why fixed-charge reform alone is insufficient

The draft report places significant emphasis on rebalancing fixed and variable charges. While cost recovery is important, increasing fixed charges:

- weakens price signals for efficient behaviour,
- penalises low-income and low-consumption households,
- reduces incentives for electrification efficiency, and
- locks in sunk-cost thinking rather than enabling system optimisation.

DLMP reduces reliance on blunt fixed charges by **lowering total system cost**, not merely reallocating it.

6. System-wide efficiency and investment outcomes

Adopting true cost-of-delivery pricing at LV level would:

- encourage **generation and storage close to load**,
- prioritise **flexible dispatch over asset duplication**,
- defer or avoid network upgrades where cheaper alternatives exist,
- improve phase balancing and voltage management, and
- reduce long-run network expenditure.

These outcomes benefit all consumers, including those without DER, by lowering the total cost base that networks must recover.

7. Consumer protection and practicality

DLMP does not require exposing consumers to unmanaged volatility.

AEMC-endorsed safeguards could include:

- default hedged retail products built on DLMP signals,
- optional real-time exposure for informed consumers,
- bill protection and smoothing mechanisms, and
- transparent reporting of avoided network costs.

Crucially, **price transparency replaces hidden cross-subsidies with explicit, understandable signals.**

8. Relevance to New Zealand

New Zealand faces similar challenges:

- high fixed network charges,
- growing DER penetration,
- emerging congestion at LV level, and
- increasing affordability concerns.

NZ has already adopted wholesale nodal pricing. Extending cost-reflective principles into distribution is a logical next step. Australian leadership on DLMP would materially shape NZ regulatory evolution.

9. Recommendations

The AEMC should:

1. Explicitly recognise **true cost of delivery at LV level** as a long-term pricing objective.
 2. Incorporate **DLMP-based pricing pathways** into the final report.
 3. Direct DNSPs to develop **DLMP-ready network models and data transparency standards.**
 4. Enable **retail and consumer choice** between averaged and cost-reflective products during transition.
 5. Evaluate network performance on **cost avoidance and congestion reduction**, not asset growth.
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10. Closing statement

Electricity pricing reform should move beyond reallocating legacy costs and focus on **reducing them**. DLMP at LV level aligns consumer behaviour, technology investment, and network planning with physical reality. It is the most direct path to lower long-run costs, higher resilience, and a genuinely consumer-driven electricity system.

Australia has the opportunity to set the benchmark. New Zealand, and others, will follow.

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