

20 February 2025

Drew Butterworth
Director Networks and technical
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Drew

Re: The pricing review – draft recommendations

TasNetworks welcomes the opportunity to comment on the draft recommendations¹ for the Australian Energy Market Commission's (AEMC) forward-looking review of the prices consumers pay for electricity products and services

TasNetworks' network charges are approximately 40 per cent of the delivered cost of electricity, with all retail customers contributing to the cost of the shared distribution network. As Tasmania's Distribution Network Service Provider (DNSP), TasNetworks has a keen interest in the outcomes of the review, given the potential implications for customers and for the provision of network services. Accordingly, this submission responds only to matters relating to distribution network tariffs and pricing, specifically recommendations five and six.

TasNetworks' key positions in response to the draft recommendations are as follows:

- Cost-reflective pricing remains the most appropriate foundation for network tariffs;
- Any expansion of the AER's role in tariff setting should not undermine DNSP flexibility or accountability;
- Network cost recovery using predominantly fixed charges may weaken efficient price signals;
- Dynamic pricing may have targeted applications but should not be mandated or incentivised prematurely; and
- Network pricing reform should be incremental and aligned with network cost structures and customer readiness.

TasNetworks has made significant progress in reducing historical cross-subsidies through ongoing tariff reform. Flat tariffs have been made obsolete and replaced with pricing

¹ AEMC, *The pricing review - Electricity pricing for a consumer-driven future, Draft report*, 11 December 2025.

structures that better reflect underlying network costs. The existing regulatory framework provides sufficient flexibility to continue this transition without fundamental change.

Response to Recommendation 5

TasNetworks supports retaining the customer understanding principle.

As currently framed, the customer impact principle does not prevent DNSPs from engaging with energy service providers during tariff development. Removing it would primarily benefit retailers rather than end-use customers. TasNetworks has consistently sought retailer input into tariff reform; however, competitive dynamics often constrain broader engagement and can introduce additional complexity for networks operating within specific jurisdictions.

Network tariffs should ultimately reflect how customers use the network and the costs they impose. Designing tariffs primarily to meet retailer objectives risks introducing cross-subsidies, increasing price volatility, and weakening signals for efficient network use. Any of these outcomes would be likely to put upward pressure on network charges for many customers and, therefore, retail electricity prices.

Response to Recommendation 6

Fixed network charges

TasNetworks does not support a policy objective that seeks to recover most network costs through fixed charges, with variable charges applied dynamically.

Relying on fixed network charges to recover most of a network's revenue requirement would significantly weaken any cost-reflective pricing signals that might be able to be sent to energy service providers and end-use customers, including through a dynamic charge set in response to conditions on the network. It would also materially reduce customers' ability to manage their electricity costs through conservation, load shifting, or energy efficiency.

A greater reliance on fixed charges may have regressive distributional impacts, particularly for low-usage and low-income customers. Over a third of residential customers in Tasmania are already in receipt of ongoing State Government concessions to help manage their electricity costs. Increasing fixed network charges would diminish the value of the daily subsidy provided to eligible customers and limit the control these customers have over their bills.

From an economic efficiency standpoint, a reliance on fixed charges would reduce incentives to shift consumption away from peak periods and mean that the customers who drive higher network costs would not pay more for their use of the network. Those who place lower demands on the network would also pay more than they do under the current cost reflective pricing regime.

While the draft report suggests fixed charges could limit cost avoidance by DER or CER owners, TasNetworks considers this issue can be more precisely addressed through volumetric time-of-use pricing, two-way tariffs, and stronger tariff assignment policies. These approaches maintain equity while preserving efficient price signals.

TasNetworks recognises that using predominantly fixed network charges may provide greater simplicity, improved transparency and reduced bill volatility, which could benefit customers, particularly those who find usage-based price signals difficult to understand. However, network pricing involves striking a balance between multiple objectives, only one of which is simplicity. In TasNetworks' view the gains in simplicity from the use of fixed charges would in no way outweigh the regressive distributional impacts that a reliance on fixed network charges would have for many customers.

The distributional impacts of increasing the use of fixed charges for network cost recovery appear to be of concern to the Commission too, noting the draft report's exploration of measures to mitigate or manage these impacts.

Dynamic network charges

TasNetworks recognises that dynamic pricing may have a role in managing specific network constraints. However, the draft report appears to assume that dynamic pricing is primarily a tariff design issue. In practice, implementing dynamic network tariffs would require substantial investment in systems, data, and operational capability, with ongoing costs that would ultimately be borne by consumers.

In a framework where most network revenue is recovered through fixed charges and dynamic charges are set to zero most of the time, it is unclear how these costs would be justified or recovered efficiently.

Even if dynamic pricing were to become more prevalent over time, careful transitional arrangements would be required. A staged approach would allow for system upgrades, retailer integration, customer education and evaluation of measurable benefits before broader implementation. Abrupt or mandated timeframes risk creating confusion, bill volatility and unintended distributional impacts. Transitional settings should preserve DNSP discretion to determine the timing and scope of dynamic tariff offerings, reflecting local network conditions and customer readiness.

DNSPs and customers are at different stages of readiness for dynamic pricing, and desired end-states will vary by jurisdiction. Requiring DNSPs to offer dynamic tariffs, or using them as a transitional measure to offset higher fixed charges, may impose capability demands that many networks and customers are not equipped to meet.

Further, TasNetworks does not support the use of financial incentives to encourage the implementation of dynamic network tariffs. Unless assignment to a particular network tariff is

mandated under a network's tariff assignment policy, or existing network tariffs are made obsolete and abolished, DNSPs generally do not control retailer or consumer adoption of new network tariffs. This means that DNSPs could potentially be incentivised (or penalised) for tariff reform outcomes over which they have limited influence.

TasNetworks also notes that under the incentive-based regulatory framework the cost of any incentive for DNSPs to implement dynamic pricing would ultimately be borne by consumers, without there necessarily being a corresponding benefit. With consumers already funding a number of network efficiency incentives, and networks retaining a share of the benefits, we consider that the incentives applied to network businesses would be better considered as part of the AEMC's upcoming network regulation review.

Marginal cost

The draft report envisages a shift away from long-run marginal cost toward greater reliance on short-run marginal cost (**SRMC**). However, electricity networks are capital-intensive natural monopolies where costs are dominated by assets with long service lives. This means that the cost of providing network services is largely driven by capital investment, with little to no cost associated with supplying an additional kilowatt hour or kilowatt. On this basis, networks require stable cost recovery arrangements, which the use of SRMC does not provide.

Greater reliance on SRMC signals may also create challenges in financing new and replacement infrastructure, as increased revenue volatility and reduced certainty over long-term cost recovery can weaken credit metrics and increase the cost of capital.

Network constraints are typically localised, and the behaviour of most customers is unlikely to lead to network constraints that require management. As a result, SRMC is not well suited as a primary basis for network pricing. While setting network charges with reference to SRMC is likely to lead to lower variable charges, greater reliance would also necessitate higher fixed charges, an outcome TasNetworks does not support.

TasNetworks recognises that SRMC may have a role in dynamic pricing or congestion-related pricing elements. However, DNSPs should retain discretion in how and when such approaches are applied, supported by greater guidance than currently provided in the draft report.

TasNetworks' does not consider that the current pricing framework requires the level of structural change proposed in the draft report. Any further reform should be incremental, carefully sequenced and grounded in the cost structure of networks, while preserving the flexibility to respond to future market developments.

We thank the AEMC for the opportunity to comment on its draft recommendations and would welcome further engagement in relation to the issue of network cost recovery. To discuss the views expressed in this submission please contact Alex Burk, Leader Regulation, at

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Yours faithfully

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Marthinus Le Roux
Head of Regulation