Submission on Draft Report Pricing Review Consultation Paper December 2025

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Introduction

Many of AEMC's proposed actions in its Draft December 2025 Pricing Review are worthwhile. However, potential impacts on fixed charges must be carefully considered, especially for small consumers and vulnerable households. These consumers often have low peak demand and consumption, so they can be seriously impacted. And some of them may be subsidised by governments, so this adds to government costs.

Energy pricing must also be considered within a broader context of overall business input costs and household living costs, as discussed in this submission: optimising network costs does not necessarily deliver on broader issues and overall consumer costs and impacts. There are many ways other mechanisms outside network operators can be used to manage network costs, potentially in more targeted ways.

An example of the problem from p.ix:

'For example, customers with rooftop solar and a battery contribute less to network costs than customers with the same electricity consumption who only use grid power, despite both groups of customers depending on the network.' But owner of a battery may rely less on the grid at times of peak demand or in areas where the network is short of capacity.

This submission focuses on issues related to fixed charges. While they focus on network pricing, energy retailers also seem to contribute to high fixed charges.

The AEMC seems to want to look after our poorly regulated network operators within a badly designed existing business model at the expense of a core aspect of energy market policy: provision of marginal pricing signals to encourage changes in consumer behaviour – which is, itself, poorly designed.

As IEEFA and others have pointed out, network operators have been very profitable, without carrying any risk and seemingly with the regulator failing to 'even up' profits in 5-yearly license renewals, as I thought was originally intended in exchange for their avoidance of risk.

AEMC points out 'that they [consumers] reminded us it would be critical to ensure that equity issues are very carefully considered, so customers are not left behind. (p.iii)'. Which consumers? The Commission notes:

If we do nothing, some consumers would unfairly pay higher shares of network costs, contributing to declining equity, higher overall costs and an increased proliferation of interventions.

Has the Commission not noticed that some consumers have been left behind for many years, and efforts to 'even up' impacts may adversely affect vulnerable households in energy poverty and those who have invested in behind-meter technologies on the assumption that they would be able to repay loans from the benefits?

Equity is mentioned 13 times in the 160 page document, but is never defined. The focus is on 'efficiency' which is also not clearly defined. I think relatively short-term 'economic efficiency' in narrow terms is what's meant. The National Electricity Objective refers to long-term interests of consumers and [urgent] reduction in carbon emissions. How do these relate to AEMC's interpretation of 'efficiency'?

For this small, efficient household with a half-hourly peak demand never higher than 4 kilowatts and peak winter daily consumption under 10 kWh, fixed charges are already almost half of my energy bill. But how much of this fixed charge is related to the network? I suspect that retailers are also working hard to shift risk onto consumers to maximise profit as part of those fixed charges. The Victorian 2017 report into energy retailing led by former politician John Thwaites is worth a read.

I must acknowledge that I am assuming that higher network charges will largely flow onto higher fixed charges. I hope I am wrong, but I suspect that both network operators and retailers will be inclined to shift as much risk onto consumers as possible via fixed charge increases that they will blame on AEMC and governments. Businesses work to maximise profit.

How big are electricity and network pricing issues for consumers?

Energy policy makers need to remember that, for many businesses and households, energy is a small proportion of input costs, so optimising network pricing could be at the cost of overall productivity, health, equity, innovation and other factors. According to Australian Bureau of statistics data, electricity and gas is, on average, around 1 percent of Australian business input costs. For households, it's about 3 percent of expenditure, about $7 per day – hardly enough to buy a take-away coffee.

For vulnerable households, energy can be a big cost relative to income, but high fixed charges undermine the cost-effectiveness of behaviour change as well as investment in change.

Yes, people get angry when they see a big winter or summer energy bill. But the next one is much lower, and a long time away. They have much bigger challenges paying the rent or mortgage or feeding their kids. Not surprisingly, high energy costs are not a very powerful behaviour change measure. Concern about the environment and supply reliability for 'essential services' such as ability to reliably cook meals and keep comfortable dominate. High fixed charges disempower them.

At the same time, if consumers are charged high prices at times when they believe they need 'essential services' they feel exploited. That is not a great driver of trust. Surrendering control of their expensive battery to a business can create a sense of loss of control and risk.

Network operators have historically focused mostly on investing in 'poles and wires' regardless of the obvious trends in technologies and business models. Why weren't they forced to change by regulators? Some have set up 'ringfenced' businesses to 'complement' their regulated activities. Encouragement of governments and communities to fund network-based batteries has not been a great success, as the financial models have not been attractive enough for consumers for them to hand over control to powerful monopoly businesses.

Maybe policy makers could integrate financial management of networks with their 'ringfenced' businesses to cover the 'unexpected' lower utilisation of poles and wires with new revenue streams? This would 'even out' network prices.

As some have suggested, documentation and consideration of past 'superprofits' in ongoing regulation would correct a serious regulatory failure that network operators should not have exploited. After all, the National Objective is to deliver outcomes in the long-term interests of consumers, not energy businesses. How does AEMC incorporate energy poverty in its 'economic efficiency'?

Do supermarkets charge us a fixed charge to be able to access their store? Do petrol stations charge a fixed fee for us to access their petrol pumps? Why is the electricity industry so different?

Responses to AEMC expectations of outcomes of changes

Below are AEMC expectations of outcomes listed in the draft paper for the proposed solutions, including some observations from me:

"We expect our proposed reforms, collectively, would deliver the following outcomes:

• Energy customers could trust that they would get value from products and services. [*The energy sector, not just energy businesses, but also regulators and governments have low trust, which influences a lot of consumer behaviour. Will raising fixed charges build trust? How much to owners of big PV systems trust regulators who have cut feed-in prices to near zero after they responded to messaging from many directions that buying a bigger PV system was a good idea?*]

• For those customers who wish to, comparing energy service products would be simpler. [*this is a small proportion of consumers, who are actually responding in a rational way to overall operating and living costs, not the 'bounded rationality' of the energy sector*]

• Energy service providers would compete, and compete more strongly, on both price and service, creating more product differentiation in the market to meet customers needs. This would result in downward pressure on prices, and more innovation and variation in product offerings that better match consumer needs and wants. [*I would love to accept this, but I have little historical evidence to support this. Also, more product differentiation is seen as confusion and risk of exploitation by many*]

• Stakeholders could have confidence that consumers receive good outcomes from competition. [*sorry but the naïve faith in markets to deliver consumer benefit is in decline as increasing numbers of voters and many consumers feel like losers, and energy policy makers*

have a poor track record – for example AEMC's residential report has predicted declining 'real' residential electricity prices. Inflation and market behaviour undermine the credibility of policy makers]

• Network costs would be shared more equitably. [*what is meant by 'equity'? We subsidise vulnerable households and specific groups to improve equity and minimise overall societal costs, not just energy costs. Governments spend a lot of money subsidising vulnerable households who may experience energy poverty in response to fear that they won't be able to pay their energy bills, not high usage.*]

• Networks would focus on designing efficient and effective network tariffs. [*Networks are not very visible to consumers, and retailers design tariff structures to optimise their profits, so I am not confident that this will happen unless driven by disruptive change from outside the mainstream energy sector*]

• Energy service providers would be encouraged to package tariffs into opportunities for consumers to lower their own bills and place downwards pressure on total system costs for all. [*but these incentives are actually small in comparison to overall living and operating costs, and many people and business decisionmakers are not numerate enough to respond*]

• Energy service providers would be better able to design products and services for their customers. [*Retailers are focused on reducing churn and other issues, and design tariffs so they don't 'scare' the existing consumers who pay little attention*]

• The costs and risks that energy service providers must manage in relation to delivering services and protecting consumers would be better able to be managed, benefiting customers through simpler offerings. [*Great in theory, but all businesses focus on net profit, and consumer perceptions matter, not 'objective economics'.*]

Disruptive forces are coming from many directions

We live in a time of stunning disruption. Changes cross traditional organisational energy market boundaries. Even the disruptors are being disrupted, often by factors outside the energy sector, for example:

- The best new 8-star fridges use 80 percent less electricity than those of a couple of decades ago – our big energy challenge is to identify and remove the old, often faulty fridges from garages and laundries
- New homes in most states and ACT must meet a 7-star energy requirement. If they do (enforcement is poor) and they use reverse cycle air conditioners (preferably not ducted systems, which are inefficient) they use as little as 10 percent as much heating energy as traditional homes heated with gas appliances
- Lots of plug-in appliances are used: microwave ovens and air fryers are impressively efficient – and quick.
- LED lamps keep improving in efficiency, and IC4 (insulation-compatible) recessed downlights don't have to leak air or undermine effectiveness of insulation – though many tradies seem to do their best to achieve that by leaving it piles after they work in a roof space. 2 Watts per square metre instead of up to 20 watts per square metre is now quite achievable.
- Heat pump clothes dryers are up to four times as efficient as traditional dryers and their electricity demand is around half, and they don't cause condensation problems or drive

air leakage from ducted outlets. Few people realise that if you are heating a room where clothes are dried on a rack, the heater is actually doing a lot of the drying.

- Smart, efficient, flexible appliances, automation and communication are delivering demand management and peak demand reduction, and we are in early days as batteries are being built-into appliances such as induction cookers.
- Balcony solar (with over a million in Germany) and other 'behind meter' alternatives, including plug-in smart batteries, are emerging. Uninterruptible Power Supplies that used to just back up a computer are getting bigger and smarter. The caravan and camping industry leads in this area.
- Rapid adoption of batteries to complement rooftop solar as well as behind-the-powerpoint smart batteries
- Electric Vehicles add to the challenges.
- 'Off market' PV and batteries: some businesses are now offering a 'remote PV/storage' model. The business installs a large PV/battery system on a large site (eg commercial) and individuals can buy as many panels as they like. They are then paid for the difference between the avoided retail electricity cost for the host minus the operating costs of the PV/storage system. Essentially this is a business financial arrangement outside energy markets. An example of this approach is SolarCloud.

The aim of mainstream energy policy makers to make distributed energy solutions 'visible' is doomed to failure as these changes flow through. So scope to manage networks from 'top down' is becoming more complex.

At present, most mainstream energy analysts assume consumers will have to stay on the grid to cope with winter and summer peak service demands. If fixed charges increase, that encourages more consumers to 'defend themselves' by going off-grid, and this is becoming increasingly possible. Particularly in rural areas, long duration power outages after fires and floods are encouraging change to provide off-grid operating capability. Will we see 'battery trucks' topping up home batteries, just like the LPG suppliers do now? Will supermarkets and petrol stations offer battery swap facilities?

Welcome to the 21st century for energy!

Conclusion

The AEMC must rethink its approach to reflect the dramatic change and to develop a new model for energy market businesses. The traditional monopoly energy network and pseudo-competitive retail market are not fit for purpose. And they never were.

As noted earlier in this submission:

Maybe policy makers could integrate financial management of networks with their 'ringfenced' businesses to cover the 'unexpected' lower utilisation of poles and wires with new revenue streams? This would 'even out' network prices.