

AEMC
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Submission on Draft report: The pricing review - Electricity pricing (Reference: EPR0097)

The submission is related to Theme 5: Amend the rules to focus network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers.

For a consumer-driven future and to achieve lower costs for electricity provision in the long run I strongly urge the AEMC to abandon the proposal to shift network charges away from being tied to power demand to instead become largely fixed.

This should be abandoned for the following reasons:

- charging a flat rate for network charges can not in any way be considered fair when comparing an energy efficient 30 square metre bedsit with a property having a 400 square metre and a pool, the latter obviously has a much higher demand on the network, both in terms of peak demand and overall energy usage
- similarly a flat rate will hurt lower income households who on average tend to consume less energy than high income householders with the lower income household bills likely to increase, while higher income households would decrease. The proposal being something of a reverse Robin Hood approach taking from the poor to give to the rich.
- introducing a flat rate for network charges would reduce the unit charge for electricity and thus negatively impact on financial incentive for consumers to reduce energy use and the associated greenhouse gas emissions (thus impacting on achieving of the relevant section of the National Energy Objective)
- the negative impacts on those property owners who have invested in energy efficiency appliances and activities, solar and batteries. Such owners have in aggregate invested many hundreds of millions of dollars on the basis of a particular return on investment. Moving to a flat rate charge will significantly reduce the future savings from those investments. There is an argument that these property owners who have invested in such infrastructure should be compensated for any change to the charging regime which reduces their return. It would be like saying to a distribution network that their profit margin allowances and allowed return on capital are to be reduced by say 40% - there would be a clear case for compensation, so why should it be any different to a property owner who has made a significant investment based on the clear expectation of future savings.

- it could be argued that the most economically effective approach at a national or NEM-wide level is to minimise the amount of electricity and the maximum demand being used to generate a given level of production or services. Minimising the total amount of electricity used and peak demand would minimise the overall cost through lower amounts of expenditure on augmentation or new supply infrastructure and the associated capital being employed. To achieve this outcome, charges should be set which support energy efficiency and the minimisation of electricity use. Using an increased component of flat rate for network charges will reduce the financial incentive for users to reduce their electricity consumption.
- A flat rate would also diminish the potential for the setting of regulated network related tariff structures which incentivise moving usage to outside of peak demand periods, such as for electric vehicle charging. In the long run this is likely to lead to the need for higher capital expenditure on networks than would otherwise be the case and increase costs to consumers.
- The flat rate approach would further disincentivise landlords from investing in electrification, energy efficiency and the like. At present the potential is there for landlords and renters to reach some agreement about reduction in electricity charges being shared in some form through the rental arrangements. A reduction in the unit rate for electricity will lower potential savings and thus make it even less attractive for landlords to consider this.

In summary I am opposed to any move to significantly shift network charges away from being tied to power demand to instead become largely fixed charges.

Yours sincerely,

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