

# Electricity Pricing for a Consumer-Driven Future Review (EPR0097)

## Submission to the Australian Energy Market Commission

Re: Electricity Pricing for a Consumer-Driven Future

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### 1. Executive Summary

I strongly oppose the proposal to expand the proportion of network cost recovery through unavoidable fixed daily charges as a central mechanism of future electricity tariff reform. While the draft report presents higher fixed charges as a pathway to improved efficiency and fairness, the proposed approach risks materially undermining core policy objectives including affordability, consumer empowerment, demand management, and equitable cost allocation.

In particular, increasing the proportion of unavoidable fixed charges would shift costs onto low-usage households and vulnerable consumers while reducing the effectiveness of behavioural price signals that currently encourage energy efficiency and responsible consumption. Households that have invested in solar generation, batteries, and efficiency improvements would experience diminished financial returns despite contributing to system stability and demand reduction. The reform risks creating regressive cost structures that disproportionately affect renters, pensioners, and energy-conscious households while simultaneously weakening incentives that support long-term infrastructure sustainability.

By reducing the financial benefits associated with lower consumption, the proposal may contribute to increased aggregate electricity demand over time, placing additional strain on network infrastructure and undermining broader policy objectives related to efficient resource use. In doing so, the reforms may have the effect of prioritising revenue stability for network operators over consumer affordability and behavioural incentives that have historically supported efficient system operation.

The AEMC should reconsider any proposal that significantly increases fixed network charges. Instead, reform efforts should maintain strong usage-based pricing signals, protect low-consumption households, preserve incentives for demand reduction and technological innovation, and prioritise genuine system cost reduction rather than redistributing existing costs among consumers.

## **2. Concerns Regarding the Expansion of Fixed Charges**

### **2.1 Removal of Behavioural Incentives**

The draft report acknowledges that fixed charges are attractive in part because they have limited influence on consumer decision-making. This characteristic should be viewed as a significant policy concern rather than a benefit. Electricity pricing structures have historically served as an important mechanism for encouraging efficient consumption patterns and reducing unnecessary demand on shared infrastructure.

Reducing the proportion of charges linked to actual usage weakens price signals that motivate consumers to conserve energy, invest in efficient technologies, and actively manage their consumption. A tariff structure dominated by unavoidable fixed costs risks creating a perception that individual behaviour has little impact on total expenditure. Over time, this may encourage higher baseline consumption and reduce engagement with demand-side initiatives that are critical to maintaining long-term system efficiency. Pricing reforms that substantially weaken the relationship between consumption and total network costs faced by consumers undermine decades of demand-management policy and risk reversing efficiency gains achieved through sustained consumer participation.

### **2.2 Increased Strain on Infrastructure**

Weakening volumetric pricing signals may have unintended consequences for system planning and infrastructure utilisation. Where tariff structures recover a greater share of revenue through fixed charges rather than usage-based pricing, the effective price elasticity of residential electricity demand may decline. When the marginal cost of additional consumption represents a smaller proportion of total electricity expenditure, consumers may become less responsive to price signals that currently encourage efficient usage and load shifting.

Reduced demand responsiveness may translate into lower participation in demand response initiatives, diminished incentives to avoid peak usage, and a gradual increase in baseline electricity consumption. Over time, this behavioural shift may reduce the effectiveness of existing demand-management programs that rely on consumer price sensitivity to support efficient system operation.

In the longer term, reduced elasticity and higher aggregate demand could place additional strain on network infrastructure, potentially accelerating asset wear, increasing the need for capital investment, and raising overall system costs. Pricing reforms should seek to enhance the efficiency of infrastructure utilisation rather than weaken the economic signals that encourage responsible consumption patterns. These risks are particularly relevant in the context of the review's objective to promote efficient utilisation of existing infrastructure and minimise unnecessary future system costs.

## **2.3 Regressive Impacts on Low-Usage Households**

A greater reliance on fixed daily charges to recover network revenue risks creating a regressive cost structure in which consumers who use less electricity pay a disproportionately higher share of network costs relative to their actual demand on the system. Low-consumption households — including pensioners, single-occupancy dwellings, renters, and consumers who have invested in energy efficiency — would face unavoidable charges similar to those applied to high-consumption households.

Such an outcome effectively transfers costs from heavy users to light users, undermining the principle that consumers should be able to meaningfully influence their bills through responsible behaviour. Equity in energy pricing must account not only for equal access to infrastructure but also for fairness in relation to consumption patterns and capacity to manage costs. A tariff structure that penalises efficient households risks eroding public confidence in the fairness of the energy market.

## **2.4 Penalty on Solar and Energy Efficiency Investments**

Increasing fixed network charges would diminish the financial benefits currently associated with rooftop solar systems, battery storage, efficient appliances, and other demand-reduction measures. While consumers would continue to benefit from reduced consumption, a higher fixed-charge component would materially reduce the financial impact of those reductions. Consumers who have invested significant resources to reduce their reliance on grid electricity have done so in response to longstanding policy signals encouraging efficiency and distributed generation. As the review seeks to facilitate effective integration of consumer energy resources through responsive pricing and consumer participation, tariff structures that materially reduce the financial responsiveness of consumption and export behaviour may weaken incentives for ongoing CER engagement.

Retrospective changes to tariff structures that significantly reduce the value of these investments risk undermining consumer confidence in energy policy stability. Households that have contributed to demand reduction and system resilience would face higher unavoidable costs despite imposing lower marginal demand on shared infrastructure. Such outcomes send a damaging signal to current and prospective investors in energy-efficient technologies and risk slowing innovation that benefits the broader system.

## **2.5 Risk of Reduced Consumer Trust and Engagement**

For many years, consumers have been encouraged by governments and regulators to reduce energy consumption, invest in efficient technologies, and actively manage their electricity usage. Introducing large fixed charges that significantly limit consumers' ability to influence their bills through behaviour may create a perception that individual action is no longer meaningful.

This loss of agency may reduce consumer engagement with the energy market, weaken participation in demand response programs, and erode trust in regulatory institutions. Consumer trust is a critical component of effective energy policy, particularly during periods of structural transition. Pricing reforms should strengthen consumer engagement rather than create incentives for disengagement.

## **2.6 Insufficient Focus on Cost Reduction**

The review appears to focus primarily on redistributing existing system costs rather than addressing underlying drivers of high electricity prices. Consultation materials confirm that network and wholesale costs constitute the majority of household electricity bills. Reforms that shift costs between consumers without addressing systemic inefficiencies risk delivering limited real-world benefits. While tariff design alone cannot reduce underlying system costs, pricing structures that weaken demand-side efficiency may indirectly increase future infrastructure expenditure.

Instead of increasing fixed charges, policymakers should prioritise measures that reduce overall system costs, including improved infrastructure planning, more efficient capital investment, enhanced market competition, and the reduction of unnecessary regulatory overhead. Genuine affordability improvements are more likely to be achieved through structural efficiency than through changes that simply redistribute costs among consumers.

## **2.7 Questionable Equity Arguments**

The draft report suggests that volumetric tariffs may shift costs between consumers and that higher fixed charges could improve fairness. However, equity in energy pricing should incorporate multiple dimensions, including ability to pay, encouragement of efficient behaviour, and recognition of responsible consumption patterns. Equalising network contributions regardless of usage risks creating an outcome in which consumers who actively reduce demand are penalised while those with higher consumption benefit from cross-subsidisation.

True equity requires a balance between recovering shared infrastructure costs and preserving incentives that reward efficiency and responsible resource use. Pricing reforms that undermine these incentives risk producing outcomes that are perceived as unfair by a significant portion of consumers.

## **2.8 Transitional Risk and Policy Instability**

The draft report acknowledges that the proposed reforms may produce winners and losers and may require significant transitional protections. Such admissions highlight the potential magnitude of consumer impact and underscore the need for caution. Major structural changes to tariff design should not proceed without comprehensive modelling, transparent distributional impact analysis, and extensive consumer consultation beyond industry stakeholders.

Policy instability resulting from abrupt tariff changes risks undermining long-term investment confidence and may create unintended economic and social consequences. Incremental and evidence-based reform is essential to maintaining public trust and market stability.

### **3. Additional Policy Concerns**

#### **3.1 Impact on Renters and Structural Barriers**

Many consumers face structural barriers that prevent them from installing solar systems or investing in advanced energy technologies. Renters and individuals in multi-dwelling housing often lack the ability to make infrastructure changes that would reduce consumption. A tariff structure dominated by fixed charges would leave these consumers with limited options to manage or reduce their electricity bills through behaviour, disproportionately exposing them to unavoidable costs and creating a form of structural tariff inequity. This outcome conflicts with the stated objective of accommodating diverse consumer circumstances and promoting inclusive access to affordable energy.

#### **3.2 Potential Environmental Consequences**

Weakening price signals that encourage efficient consumption may also have environmental consequences. If consumers perceive that reducing usage has a minimal impact on total bills compared to current tariff structures, overall electricity demand may increase. Reduced conservation behaviour undermines efficiency gains achieved through decades of policy development and may complicate broader emissions-reduction strategies. Even consumers motivated by environmental concerns respond to financial incentives, and pricing structures that weaken these incentives risk reversing progress toward more efficient energy use.

#### **3.3 Encouragement of Grid Defection**

The draft report acknowledges that fixed charges must be carefully calibrated to avoid incentivising customers to disconnect from the grid. A poorly designed tariff structure could encourage households with sufficient resources to pursue off-grid solutions, thereby reducing the customer base supporting shared infrastructure. Such outcomes risk creating a feedback loop in which rising fixed costs are distributed across a shrinking pool of customers, leading to further price increases and declining system stability.

#### **3.4 Cost Causation Principles**

Efficient tariff design should align with the principle of cost causation, whereby consumers who impose greater marginal demand on network infrastructure contribute proportionally to associated costs. A substantial shift toward fixed daily charges risks weakening this alignment by distributing infrastructure costs more evenly across consumers regardless of demand intensity or contribution to peak network utilisation.

## 4. Recommendations

Any proposed tariff reform should be explicitly assessed against the review's core objectives of enhancing consumer choice, maintaining meaningful price signals, enabling flexible participation including CER integration, and demonstrably improving consumer outcomes. I recommend that the AEMC reconsider proposals that materially increase the proportion of network revenue recovered through unavoidable fixed daily charges at the expense of volumetric pricing signals. Reforms should protect low-consumption households from regressive cost impacts, maintain incentives for solar adoption, battery storage, and energy efficiency, and focus on reducing underlying system costs rather than redistributing them among consumers. Any proposed reforms should be supported by transparent modelling demonstrating real-world consumer bill impacts and accompanied by robust distributional analysis. Tariff innovation should aim to reward flexibility and efficient consumption without penalising responsible behaviour.

Any proposed increase in fixed daily charges should be subject to a formal consumer impact assessment demonstrating distributional effects across consumption quintiles, dwelling types, and ownership status, including renters versus owner-occupiers.

## 5. Conclusion

Electricity pricing reform should aim to reduce costs, empower consumers, and encourage efficient use of energy resources. Shifting a large proportion of network costs into fixed charges may increase total electricity costs for some households, particularly low-consumption and energy-efficient consumers, potentially weakening conservation incentives, discouraging innovation, and eroding consumer trust in the energy market. A reform approach that may be perceived as prioritising revenue stability over consumer price responsiveness and behavioural efficiency may undermine long-term policy objectives and public confidence in regulatory institutions.

The AEMC is encouraged to reconsider the direction of this reform and ensure that consumers — particularly low-usage and vulnerable households — remain at the centre of tariff design.