



**HOUSTONKEMP**  
Economists

# Consumer protections to support network tariff reform

A report for the Australian Energy Market Commission

APRIL 2026



# Table of contents

Executive summary

---

**01** Purpose and scope of this paper

---

**02** Understanding the problem

---

**03** Framing the consumer protection response

---

**04** Strengthening the network tariff framework

---

**05** Enhancing consumer protections at the retail level

---

**06** Combining the consumer protection options

---

Appendix: Economics of network pricing and relationship with retail prices

---

**Report authors:**  
Adrian Kemp  
Sam Pfeiffer

## Disclaimer

This report is for the exclusive use of the HoustonKemp client named herein. There are no third party beneficiaries with respect to this report, and HoustonKemp does not accept any liability to any third party. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof. All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client.

# Executive summary

# Network tariff structure changes, if passed through, could adversely affect some consumers

The AEMC's Pricing Review has proposed reforms to the retail and network pricing frameworks in the National Electricity Market, including **Draft Recommendations 5 and 6**. Together, these recommendations would create a framework in which network tariffs place downward pressure on electricity costs, while promoting the role of energy service providers in helping consumers manage those costs effectively.

A key outcome of the proposed pricing framework changes is the likely transition towards network tariff structures comprising two components, ie:

- a **usage-based component** that varies in real time to reflect the network's actual cost of providing import and export network services – also referred to as a **dynamic tariff component**; and
- a **fixed component for residual cost recovery**, designed to recover the network's unavoidable fixed costs from all connected consumers.

These network pricing reforms are expected to deliver significant benefits for consumers and the energy system. Notwithstanding this, stakeholders have raised concerns about the potential for these reforms to create adverse bill impacts for some consumers. In particular, there are concerns about adverse bill impacts particularly for low consumption users, including those that are socially disadvantaged and/or the least engaged with the energy market. Stakeholders have also raised broader concerns about the potential for network tariff reform to affect the payback expectations of consumers who have invested in CER, to alter incentives for future CER and energy efficiency investment.

The purpose of this report is to present viable options to mitigate potential adverse consumer bill impacts associated with the transition to more dynamic network tariff structures, with a greater reliance on cost recovery through a fixed tariff component. This report demonstrates that viable options exist to complement existing consumer protections and provide an additional safety net, without compromising the intended outcomes of the reforms.

## The need for consumer protections to mitigate the risk of adverse consumer bill impacts

Network tariff reform exposes retailers to financial and operational risks, arising from greater input cost volatility and a potential mismatch between the cost structures they face from networks and what consumers expect or are willing to pay. Where retailers pass through these structural changes to consumers, the risks include adverse bill impacts from higher fixed charges, particularly for low usage households, and changed payback outcomes for consumers who have invested in consumer energy resources.

However, network tariff structure pass-through is not inevitable. Retailers will make commercial decisions about how to structure their retail tariff offerings as they compete for and retain consumers. As demonstrated in other industries such as telecommunications and grocery retailing, input cost structures bear little resemblance to what the end consumer pays. There is also evidence that some electricity retailers already offer products that differ in structure from the underlying network tariffs they face.

Notwithstanding this, stakeholders have raised concerns that retailers will simply pass through network tariff structure changes, resulting in higher fixed charges on retail bills. Whether existing consumer protections are sufficient to manage these risks, or whether additional measures are needed to provide an adequate safety net during and beyond the transition, is the central question this report addresses.

## Options may be implemented at different points in the electricity supply chain

Interventions to mitigate consumer bill impact risks can operate at two principal points in the electricity supply chain:

- **at the network level**, where the rules governing tariff design and cost allocation determine how network charges are structured; and
- **at the retail level**, where obligations on retailers can shape how changes in network tariff structures are translated into the prices and products that consumers see on their bills.

Options at each point have different implementation characteristics. Some options can be implemented within the current rules, while others require amendments to the National Electricity Rules (NER), National Electricity Retail Law (NERL) or National Electricity Retail Rules (NERR). In addition, some of these options are suited to being enduring features of the framework, while others are better designed as transitional measures with built-in review mechanisms to determine whether they should continue.

# Existing consumer protections and retailer and customer choices may not be sufficient to manage adverse bill impacts from network tariff reform

## Existing protections and their limitations



The NEM has a suite of existing consumer protections, which were designed for specific purposes and have served those purposes well.

However, the AEMC's proposed network tariff reforms involve a coordinated, structural change to how network costs are recovered through network tariff prices and structures, which may flow through to retail offers in ways that existing protections may not fully manage.

Draft Recommendation 6 would clarify that the responsibility for managing consumer bill impacts rests primarily with retailers, recognising their capability to translate complex network signals into consumer offerings. The removal of the "customer impact" and "customer understanding" principles from the NER gives effect to this shift but also strengthens the case for targeted protections at both the network and retail levels.

## A combination of measures



In our opinion, there is merit in considering a combination of measures as no single intervention at any one point in the supply chain is likely to be sufficient on its own. A combination of network and retail consumer protection approaches might be more likely to provide effective and resilient protection for consumers across the range of risks and uncertainties associated with the transition to reformed network tariff structures.

The case for combining measures across both levels is reinforced by the interaction between **Draft Recommendations 5 and 6**. Together, these recommendations shift network tariffs toward greater efficiency while reducing the regulatory protections that currently apply to end consumers, strengthening the need for mitigation at both points in the supply chain.

## The benefit of implementing combinations of options



The options presented overleaf can all be thought of as complements, rather than substitutes, particularly across the retail and network options and across transitional and enduring options.

Although these options all target risk mitigation for adverse consumer bill impacts associated with network tariff reform, each option has its own implementation challenges and risk mitigation mechanism.

Combining options may help address those challenges and strengthen the effectiveness of an individual option.

## The role of periodic review and assessment



These measures should be subject to periodic review so they can be adjusted or removed as the market develops and the risks diminish.

Building in review points from the outset signals that these measures are designed to support the transition, not to become permanent constraints on the retail market.

The AEMC's proposed periodic review of the retail market provides a natural mechanism for the periodic review of the retail options, which could also include a review of network options.

# Viable consumer protection options exist to support the transition to efficient network tariffs

Option	Description	Rule or legislative change required?
<b>Network option 1 (N1)</b> Rate-of-change constraint on fixed network tariff component	Caps the year-on-year change in fixed charges (or total residual cost recovery) applied to a tariff component within a tariff class	Yes (NER rule change)
<b>Network option 2 (N2)</b> Consumption/capacity-based fixed network tariff component	Allocates residual costs based on each consumer's historical consumption (kWh) or peak demand/capacity (kW)	Not necessarily (NER clarification may strengthen incentives)
<b>Network option 3 (N3)</b> Characteristic-based fixed network tariff component	<p>Allocates residual costs differentially based on connection characteristics (such as presence of a consumer energy resource (CER), property value, meter size, property type, etc) reflecting differences in benefit and cost-causation</p> <p>This option could be implemented using a 'firm capacity band model', which may include dynamic operating envelope (DOE) type arrangements</p> <p>This option requires careful consideration and framing given broader policy objectives to accelerate the uptake of CER</p>	Not necessarily (NER clarification may strengthen incentives)
<b>Retail option 1 (R1)</b> Retailers to offer at least one lower fixed charge tariff	Requires retailers to offer at least one tariff with a lower fixed charge, offset by higher variable charges, drawing on the approach being piloted by Ofgem in Great Britain	Yes (NERR rule change or NERL legislative change)
<b>Retail option 2 (R2)</b> Extending explicit informed consent to retail offerings	Prohibits retailers from making material changes to a consumer's retail tariff structure without first obtaining that consumer's explicit informed consent	Yes (NERL legislative change)
<b>Retail option 3 (R3)</b> Regulated fixed charges in the Default Market Offer	<p>AER regulation of the maximum allowable fixed charge component in the Default Market Offer (DMO), or the maximum annual rate of change of that fixed charge component.</p> <p>This is effectively the retail level equivalent of Option N1, operating within the DMO framework.</p>	Yes (amendments to DMO framework)

# 01

## Purpose and scope of this paper

# Options to support network tariff reform outcomes

The Australian Energy Market Commission's (AEMC) *Pricing Review – Electricity pricing for a consumer-driven future* – has proposed reforms to the retail and network pricing frameworks in the National Electricity Market (NEM), including both Draft Recommendations 5 and 6 (see to the right).

These two recommendations complement each other. Energy service providers are generally better placed than consumers to understand and respond to flexible, dynamic and sophisticated network price signals. Designing network tariffs with this audience in mind, rather than consumers directly, can therefore support a more rapid improvement in tariff efficiency which can benefit all consumers.

A key outcome of the AEMC's proposed pricing framework changes is the likely transition towards network tariff structures comprising two components:

- a **usage-based component** that varies in real time to reflect the network's actual cost of providing import and export network services at a given location, time of day and time of year – rising when and where the network is congested and falling (or disappearing entirely) when network capacity is ample – a so called '**dynamic' tariff component**; and
- a **fixed component** for residual cost recovery, designed to recover the network's unavoidable fixed costs from all connected consumers in a way that allows users to benefit from the security of being able to access and sell electricity using the network.

This recognises that networks provide value to all consumers beyond the simple conveyance of electricity for consumption. Consumers with CER, for example, benefit from being able to export surplus generation to the grid, participate in aggregated services such as virtual power plants and maintain access to the

grid supply as backup. The fixed component reflects the principle that all connected consumers who derive benefit from the network should contribute to its shared costs accordingly.

These reforms are expected to deliver significant benefits for consumers and the energy system. The AEMC's distributional analysis report, released alongside this paper, sets out those benefits and models potential consumer impacts.

Notwithstanding the potential benefits associated with these reforms, stakeholders have raised concerns about the potential for these reforms to create adverse bill impacts for some consumers.

In particular, the concerns regarding adverse bill impacts are most substantial for low consumption users, including those that are socially disadvantaged and/or the least engaged, or able to be engaged, with the energy market.

It follows that the purpose of this report is to present viable options to mitigate potential adverse consumer bill impacts associated with the transition to more dynamic network tariff structures, with a greater reliance on cost recovery through fixed charges.

This report demonstrates that viable options exist to complement existing consumer protections and provide an additional safety net, without compromising the intended outcomes of the reforms.

These viable options include those applied:

- to networks;
- to retailers;
- as a temporary measure, to support the transition to the new arrangements;
- to mitigate long-run effects, ie, are enduring; and
- as both a transitional measure and as an enduring approach.

## The AEMC's proposed reforms from the draft report include

### Theme 3: Reward consumers for activities that are valuable in achieving a lowest-cost system, and target a more equitable allocation of shared costs

- **Recommendation 5:** Amend the rules to focus network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers.
- **Recommendation 6:** Amend the rules to ensure networks design tariffs for energy service providers, rather than directly for consumers, to promote more flexible and innovative retail offers.



The remainder of this report is set out as follows:

- we present a simple description of the problem that this report seeks to address in [section 2](#);
- we frame our approach to identifying these viable consumer protection options in [section 3](#);
- we present options that can be applied to networks in [section 4](#);
- we present options that can be applied to retailers in [section 5](#); and
- we discuss the potential role for network and retail options to be combined to improve the effectiveness of these mitigation approaches in [section 6](#).

Further, we present a brief description of the economics of network pricing and how it relates to retail prices in [appendix A](#).

# 02

## Understanding the problem

# The AEMC's proposed reforms



## Primary consideration

*How reforming network prices and structures might risk near-term bill impacts for consumers, and the extent to which existing protections and retail market competitive dynamics can manage those impacts*

The AEMC's Pricing Review proposes a package of reforms to the way electricity network costs are recovered from consumers. Two draft recommendations are particularly relevant to this paper.

**Draft recommendation 5** proposes to amend the network pricing rules to improve the focus of network tariff design on efficiency, supporting a lowest-cost grid and a fairer sharing of costs among consumers. The Commission considers that consumers are best served where network tariffs send signals that reward behaviour contributing to the lowest overall system costs, and ensure a more equitable allocation of shared infrastructure costs. Currently, network costs are predominantly recovered on a volumetric basis, which means consumers who reduce their grid consumption (for example, through rooftop solar and batteries) contribute less to network costs than consumers with similar consumption who rely solely on grid power, despite both groups depending on the network.

The Commission proposes several reforms to the network pricing principles to give effect to this objective, including allowing networks to design tariffs that reflect both long-run and short-run network costs, clarifying how residual costs should be allocated, and removing the "side constraint" that currently limits how quickly prices can change between regulatory periods. Precisely how these reforms are implemented is a question to be worked through, but the direction of travel is clear: towards network tariffs that are more efficient, with a greater fixed component and a dynamic element that rewards consumers for behaviour that reduces network costs.

**Draft recommendation 6** proposes to amend the rules so that networks design tariffs for energy service providers (primarily retailers), rather than directly for end consumers. The Commission considers that energy service providers are risk managers who should translate network tariffs, alongside wholesale prices and other costs, into retail offers that meet their consumers' needs.

To give effect to this, the draft report proposes potentially removing the "customer impact" and "customer understanding" principles from the network pricing rules, which currently require networks to consider the effect of tariff changes on end consumers and to ensure tariffs are reasonably capable of being understood.

Together, draft recommendations 5 and 6 would create a framework in which **network tariffs place downward pressure on electricity costs, while promoting the role of energy service providers in helping consumers manage those costs effectively.**

Rather than designing network tariffs with end consumers directly in mind, the framework would rely on retailers and other energy service providers to translate efficient network signals into products and services that meet their consumers' needs.



## This raises an important question...

*what protections are needed to ensure consumers are not adversely affected during the transition?*

# Consumer protections in practice

## Retailer pass through of network tariff structures is not a given

A common concern raised by stakeholders is that retailers will simply pass through these structural changes to end consumers, resulting in higher fixed charges on retail bills. While this is possible, it is not inevitable. Retailers will make commercial decisions about how to structure their offerings as they compete for and retain consumers.

The relationship between input cost structures and retail prices in other industries illustrates this point well.



In **telecommunications**, retailers purchase wholesale network access from infrastructure providers at regulated rates that reflect the cost structure of the underlying network, including significant fixed and common costs.

However, retail mobile and broadband plans bear very little resemblance to this wholesale cost structure. Retailers package voice, data and messaging into bundled monthly plans, often with unlimited inclusions on particular services.

Consumers choose between plans based on data allowances, contract length, bundled entertainment services and brand, not on the basis of the per unit network access charges their retailer pays.

The wholesale cost structure is entirely absorbed and repackaged by the retailer as part of its competitive offering.



In **grocery retailing**, supermarkets face a complex set of input costs including transport and logistics, warehousing, supplier contracts, labour, cold chain management and property.

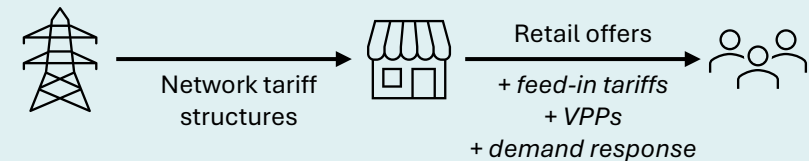
These costs are not reflected in the prices of individual products on the shelf. Instead, retailers make strategic pricing decisions across their entire product range, using techniques such as loss leading on high visibility items, private label differentiation and promotional cycling. The additional cost of transporting milk to a regional store is not itemised on the price tag.

Retailers absorb the complexity of their cost base and the structure of those prices and compete on the overall value proposition they offer consumers across its diversity of products. In short, they adopt a portfolio approach to providing grocery retailing services to the communities they service.

## Electricity retailers already separate input cost structures from consumer price structures

Despite facing network tariffs that include daily supply charges, volumetric usage rates, time of use differentials, demand charges and controlled load tariffs (depending on the distribution network and tariff class), some retailers offer consumers a diverse range of retail products that do not mirror these underlying structures.

These include flat rate plans (with a single usage rate regardless of time of day), time of use plans, solar specific plans with enhanced feed in tariffs, fixed rate plans that lock in pricing for a contract term, subscription style offerings and demand response products that reward consumers for reducing usage at peak times. In some cases, the retail tariff structure a consumer sees on their bill has already been repackaged from the underlying network tariff their retailer pays.



This diversity of retail products exists today, and it will continue to evolve as network tariff structures change. Retailers that are best able to translate complex network signals into simple, attractive retail products will gain a competitive advantage. This is not to say that all retailers will respond this way, or that the transition will be seamless. But it does mean that a direct, uniform pass through of network tariff structures to retail bills should not be treated as the assumed or inevitable outcome.

# Risks arising from network tariff reform for retailers and consumers

## Risks for retailers



The proposed reforms expose retailers to both financial and operational risks.

A transition to more dynamic network tariff structures introduces greater volatility and complexity into retailers' input costs, requiring more sophisticated risk management and hedging capabilities. While the shift to higher fixed network charges reduces input cost volatility, it does not reduce overall retailer risk.

This is because higher fixed network charges may create a mismatch between the cost structure retailers face from networks and the tariff structures their consumers expect or are willing to accept, and the more certain and fixed that network obligation, the sharper this mismatch may become. Retailers that are unable to manage it effectively may face margin compression, particularly if competitive dynamics constrain their ability to pass through structural changes.

Smaller retailers, with less diversified consumer bases and more limited access to hedging opportunities, may be disproportionately affected.

## Resulting risks for consumers

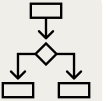


If network tariff structure changes flow through to the retail tariff structures consumers face, the risks include potentially:

- adverse bill impacts from higher fixed charges for low-usage consumers;
- increased bill volatility from dynamic tariff components;
- unfamiliarity with new tariff structures that makes it harder to compare offers or manage consumption; and
- reduced bill predictability.

Consumers who have invested in CER may also find that changes to the tariff structure affect the expected payback on those investments.

## How retailers may respond



Retailers have a range of options for managing these risks. They may:

- absorb the complexity of reformed network tariffs and repackage them into simpler retail products, as some already do today;
- develop new product offerings that give consumers a choice between different tariff structures;
- invest in demand response, community batteries or virtual power plant capabilities to manage dynamic network cost exposure across their consumer base; or
- pass through some or all of the network tariff structure changes to consumers.

The approach adopted by each retailer will depend on its commercial strategy, consumer base and capability, and we expect these responses will evolve as the market develops.

## The role of existing protections



The NEM has an extensive suite of consumer protections, which were designed for specific purposes and have served those purposes well.

However, the proposed network tariff reforms involve a coordinated, structural change to how network costs are recovered, giving rise to a combination of risks that differs in nature from the issues these protections were designed to address.

The key question is whether existing protections, taken together, are sufficient to manage these risks.

The following page identifies the most directly relevant existing protections and assesses their limitations in this context.

# Relevant examples of existing consumer protections

Protection	What it does	Key limitation in the context of network tariff
<b>Default Market Offer (DMO)</b>	AER sets the maximum price retailers can charge standing offer consumers, determined annually. Under reforms announced in November 2025 and given effect through amendments to the Electricity Retail Code in March 2026, the DMO will from 1 July 2026 be expressed as a regulated tariff cap for common standing offer types (including flat rate and time of use), specifying both daily supply charges and per kWh usage charges, rather than as an annual price cap at a benchmark consumption level.	The reformed DMO will set tariff caps that specify both fixed and variable charge components, which represents a change over the previous annual bill cap. However, the AER's methodology for apportioning costs between fixed and variable components will determine the practical protection afforded to low-usage households, and this will depend on detailed design choices.
<b>Explicit informed consent (EIC)</b>	Restricts retailers from changing a consumer's tariff structure without active agreement	Applies to changes in existing market offers only. Does not limit price levels. Retailers can recover higher costs by raising prices within the existing tariff structure
<b>Standing offer obligations</b>	Retailers must make a default offer available to all consumers in their distribution area	Provides a fallback, but does not prevent price increases or structural changes to network tariffs flowing through to bills
<b>Once per year price change rule (ICCIREP)</b>	Restricts retailers to one price change per year for existing consumers (effective July 2026)	Limits frequency but not magnitude of price changes
<b>ICCIREP benefit period protections</b>	Requires retailers to charge no more than the standing offer price if benefits under a market offer expire or change before contract expiry	Only protects consumers whose market offer contains a benefit that changes or expires
<b>Hardship protections (AEMC reform, effective December 2026)</b>	Requires retailers to ensure hardship consumers are no worse off than the retailer's "deemed better offer"	Applies to ~1.5% of consumers. The "deemed better offer" must be widely available, which may exclude a retailer's best value plans
<b>Customer impact principle (TSS process)</b>	Requires networks to consider consumer impacts when designing tariff structures	Operates indirectly at the network level. Not designed for system wide structural network tariff reform. Proposed for removal under Draft Recommendation 6
<b>Better Offer prompts (STABO, effective Dec 2026)</b>	Requires retailers to include their better offer on all consumer correspondence	Relies on consumers actively engaging with the market

The NEM already has a suite of consumer protections that play a role in managing retail price outcomes (see the adjacent table).

These protections were designed for specific purposes, and they have served those purposes well. By way of example:

- the DMO addresses the risk of excessive pricing for consumers on standing offers;
- the EIC protections guard against unilateral changes to retail tariff structures; and
- the 'once per year' rule provides bill predictability.

Each operates within its intended scope.



The question addressed in this report is **whether these protections, taken together, are sufficient to manage the risks that may arise from a system wide shift in the underlying structure of network tariffs.**

This is a different type of challenge from the issues the existing consumer protection mechanisms were designed to address. It involves a coordinated, structural change to how network costs are allocated, which could flow through to retail bills in ways that existing protections may not fully manage. If the "customer impact" and "customer understanding" principles are also removed from the network pricing rules, the case for targeted protections at the retail level becomes stronger still.

This paper explores options to enhance and complement these existing protections, to ensure the consumer protection framework remains fit for purpose as network tariff structures evolve. The aim is to consider what additional safety net may be needed to support a smooth transition.

We also note that there are other AEMC reform processes currently focusing on consumer protections.

# 03

## Framing the consumer protection response

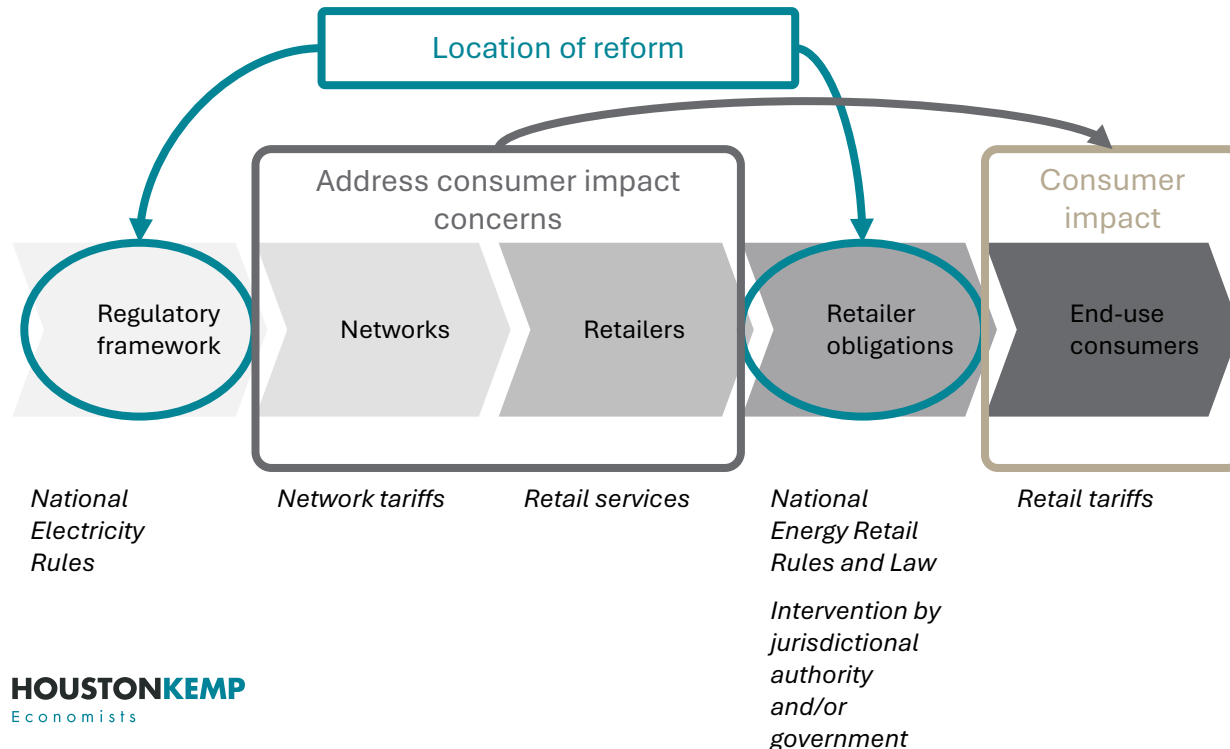
# Options at points in the supply chain

Managing the risks to consumer bills that may arise from network tariff reform is not a challenge that calls for a single solution.

The electricity supply chain involves multiple participants, each operating under different regulatory frameworks and commercial incentives. It follows that the policy and regulatory tools available to manage consumer bill impacts also sit at different points in that supply chain, and each carries its own set of implementation characteristics, trade-offs and design choices.

This section sets out the framework used in the remainder of this paper to explore those options.

In broad terms, network level options support retailers to manage network tariff structure changes by shaping how costs are allocated before they reach retailers, reducing the need for retailers to rely on direct pass through to consumers. Retail level options directly address the potential bill risks that consumers may face from network pricing reform. The most effective approach is likely to involve a combination of both.



## Interventions to mitigate consumer bill impact risks can operate at two principal points in the electricity supply chain

The first is at the **network level**, where the rules governing tariff design and cost allocation determine how network charges are structured.

Options here can influence how residual costs are allocated across consumers once efficient marginal cost-based price signals are in place, guiding networks toward approaches that are both efficient and equitable. The existing tariff structure statement process and pricing principles already provide a degree of flexibility for networks to manage the consumer impact of tariff changes.

However, the existing “customer impact principle” operates across the tariff as a whole rather than distinguishing between the marginal cost and residual cost components.

The options explored in [section 4](#) consider how the framework might be refined to provide clearer guidance on residual cost recovery specifically, while freeing networks to pursue more efficient marginal cost-based usage pricing. Because network tariff structures remain a decision for individual networks within the parameters of the pricing rules framework, these options are necessarily less prescriptive than those at the retail level. The specific mechanisms adopted will vary depending on each network’s circumstances, including factors such as technology maturity, smart meter deployment and retailer relationships.

The second is at the **retail level**, where obligations on retailers can shape how changes in network tariff structures are translated into the prices and products that consumers see on their bills.

Retail level interventions can moderate how structural changes flow through to consumers, providing an additional layer of protection while allowing network tariff reform to proceed. These options tend to be more targeted and more directly observable in their effects on consumer bills, because they operate closer to the point at which consumers experience price changes.

However, they also carry a greater risk of constraining retail competition and innovation if not carefully designed. The retail options explored in [section 5](#) consider mechanisms such as requiring retailers to offer certain types of tariff, restricting the circumstances in which tariff structures can be altered, and directly regulating or capping elements of the retail price.

There may also be a role for targeted government intervention to support particularly vulnerable consumers during the transition, for example through concession frameworks or other forms of direct assistance. Such measures operate outside the regulatory framework for network and retail pricing and are not the focus of this paper, but they may form a useful complement to the options explored in sections 4 and 5.

# Transitioning the network tariff reforms and protecting consumers are complementary but distinct tasks

The AEMC's Pricing Review will involve decisions about how the proposed network tariff reforms are implemented over time.

There are a number of approaches to managing this transition, each with its own characteristics and trade-offs. These include grandfathering arrangements (see box to the right), phased implementation across regulatory control periods and models such as the energy service provider choice model proposed in the AEMC's draft report, under which networks would offer both a basic and a dynamic tariff and retailers would choose which structure to adopt for their consumers.

These transition approaches manage the pace at which reforms take effect. They are important, and we expect that the AEMC will continue to consider them as part of the broader reform package. However, they are distinct from the question this paper addresses.

The consumer protection options presented in this paper address what policy and regulatory measures should be available to manage the risk of adverse consumer bill impacts as the reforms are implemented. Some of these options may be transitional in nature, operating as a temporary safety net during the reform transition and subject to periodic review as the market adjusts. Others may warrant a more enduring place in the regulatory framework, because the concerns they address are structural and likely to persist beyond the transition period. We return to this distinction on the following page.

The design of the transition pathway will naturally influence the scale of consumer bill risks that arise, and therefore the combination of consumer protection options that is most appropriate.

A well-designed transition can reduce the severity of near-term bill impacts, while the consumer protection options in this paper provide a complementary layer of assurance that does not depend on any single transition mechanism operating as intended. It follows that a faster transition may be possible if there is confidence that consumer protections can address any risks arising for consumers.

In [section 6](#) we consider how these options might be combined into a coherent package alongside the AEMC's broader transition arrangements.

## Grandfathering as a transition mechanism

Grandfathering is a transition mechanism under which existing arrangements are preserved for a defined period, even as new arrangements take effect for other participants. In the context of network tariff reform, grandfathering could operate in several ways.

At the network level, existing consumers (or classes of consumers) could remain on current network tariff structures for a period, with reformed tariff structures applying only to new connections or consumers who actively opt in. This protects consumers from abrupt changes to their network charges but may delay the efficiency benefits of reform and preserve existing cross-subsidies for longer than necessary.

At the retail level, retailers could be permitted to remain on current network tariff structures for a defined period, giving them time to develop new product offerings and build capability to manage more dynamic or fixed network tariff structures. This is broadly consistent with the AEMC's proposed energy service provider choice model.

In either case, grandfathering involves trade-offs. It reduces near-term bill shock but slows the transition to more efficient outcomes. If the grandfathering period is too long, it risks entrenching existing inequities. If too short, it may not provide adequate protection. The design of the grandfathering period, including its duration, eligibility and review triggers, would need to be considered carefully as part of any subsequent rule change process.

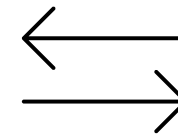
Grandfathering manages the pace at which reforms reach consumers and retailers but does not itself address the structural question of how residual network costs should be allocated or how consumers should be protected once the transition is complete. The options presented in this paper are designed to complement transition mechanisms such as grandfathering by providing targeted consumer protections that operate during and, if appropriate, beyond the transition period.

# Consumer protection mechanism implementation characteristics

## How potential consumer protection options can differ

Beyond the point in the supply chain at which they operate, options differ along two other important dimensions, being the:

- nature of the change required; and
- timeframe over which the option may be applied.



## Is the consumer protection option implementable within current frameworks or are new rules and requirements necessary for implementation?

The nature of the regulatory change required is a relevant consideration but should not be overstated.

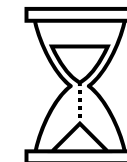
Some options can be given effect within the existing National Electricity Rules (NER) or the National Energy Retail Law and Rules (NERL and NERR), while others may benefit from formal amendments to those instruments to provide clearer guidance or stronger incentives. For each option explored in sections 4 and 5, we identify whether it can operate under the current framework or would require a rule or law change. Whether and how any such change is progressed would be a matter for consideration as part of a more detailed rule change process.



## Is the consumer protection option transitional, enduring or both?

A second relevant consideration is whether an option is suited to being a transitional measure or an enduring feature of the regulatory framework.

- A **transitional option** addresses a concern for which a period of adjustment is appropriate, such as the risk of near-term bill shock as network tariff structures change. However, transitional measures may carry their own costs if retained indefinitely, for example by dampening competitive incentives, preserving inefficient tariff structures or delaying the reallocation of residual costs. Transitional options should therefore be designed with a clear pathway for review and, where appropriate, removal as the risks they address diminish.
- An **enduring option** addresses a structural concern that is likely to persist beyond the transition period and may need to be given effect through changes to the regulatory framework that provide appropriate ongoing incentives. Enduring options represent a permanent improvement in how the framework operates, for example by providing clearer guidance on how residual costs should be allocated or by establishing ongoing consumer protections that complement retail market competition.

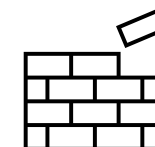


This distinction is important because transitional measures that lack a clear pathway for reassessment risk becoming permanent constraints on the market, potentially undermining the efficiency gains the reforms are intended to deliver. The Commission's proposed periodic review of the retail market, to be conducted every three years, provides a natural mechanism for reassessing any transitional measures introduced alongside network tariff reform, and for adjusting or removing them as the risks they were designed to address diminish over time.

## A combination of consumer protection approaches may be appropriate

A combination of network and retail mitigation approaches might be more likely to provide effective and resilient protection for consumers across the range of risks and uncertainties associated with the transition to reformed network prices and structures.

The sections that follow explore the options available at each point in the supply chain, before [section 6](#) considers how they might be combined into a coherent package.



# 04

## Strengthening the network tariff framework

# Incentivising networks to manage bill impact risks through the design of the fixed network tariff component

Once efficient marginal cost signals are in place, the remaining network revenue – frequently referred to as ‘the residual costs’ – must be recovered. There is no single correct approach to this revenue recovery, with any allocation between customers requiring a consideration of trade-offs between efficiency, equity and implementation.

The current tariff structure statement (TSS) process and pricing principles guide these trade-offs. The AEMC’s Pricing Review recommendations do not seek to fundamentally change this guiding role of the TSS, nor the roles of networks and the AER in this process. However, the AEMC does recommend to *‘reduce energy service provider compliance costs and support energy service provider innovation by making changes to the timing and/or flexibility of the tariff structure statement’*. In any case, network tariff structures will remain a decision of networks, guided by the pricing principles framework in the NER.

In addition, the AEMC’s draft report proposes transition arrangements under which networks would offer retailers a choice between a basic and a dynamic tariff structure. Under such an arrangement, retailers could opt into remaining on current or simpler network tariff structures for a defined period as they build capability to manage reformed tariff structures. The network options in this section are designed to operate alongside and complement such transition arrangements.

The network pricing principles in the NER can be amended to provide guidance to networks on how best to manage network tariff bill risks for consumers through the design of tariff structures within its TSS process. We expect that they may use a combination of approaches as their tariff strategies develop over time.

It follows that the network options explored in this section are likely to be less prescriptive relative to those presented as retail options. The actual mechanism employed by networks in mitigating bill impacts will reflect how incentives are provided in the pricing rules framework, taking into account network specific considerations such as technology maturity and retailer relationships.

The AEMC has recommended clarifying that the responsibility for managing consumer bill impacts rests primarily with retailers, as the parties best placed to translate network tariff structures into retail offerings that meet their consumers’ needs. This reframing would reduce the regulatory weight currently placed on the “customer impact principle” in the NER, which applies to the entire network cost component. The network options in this section complement that approach by providing targeted guidance on the recovery of residual costs specifically, while freeing networks to pursue more efficient marginal cost-based pricing.

1

## Network option 1 (Option N1)

Rate-of-change constraint on fixed network tariff component\*

2

## Network option 2 (Option N2)

Set a fixed network tariff component based on the historical consumption or capacity of the connection

3

## Network option 3 (Option N3)

Set a fixed network tariff component based on observable characteristics of the connection

# Option N1 | Rate-of-change constraint on fixed network tariff

The pricing rules framework includes a limit on the annual rate at which a network can reallocate residual cost recovery between consumer groups. This differs to the current “customer impact principle” by focusing specifically on tariff component to recover residual costs rather than total network tariffs.

## How does it work?

Consistent with the AEMC’s Pricing Review draft recommendations, networks retain full flexibility to set efficient marginal cost-based price signals for use of the network. Under this option, the NERs are amended to cap the year-on-year changes to fixed charges (or total residual costs recovery) applied to a tariff component within a tariff class. The AER would regulate compliance with this requirement in the NER through the existing annual network pricing compliance process.

A similar mechanism, ie, the side constraint, already exists in the current NER. The side constraint limits the extent to which networks can reallocate revenue recovered from each tariff class (ie, a large grouping of consumers) to be no more than two percentage points larger than the annual change in volume-weighted average revenue per consumer. The side constraint limits the rate-of-change with which networks can reallocate costs between groups of consumers, eg, between large industrial consumers and residential consumers. In contrast, this option is a far more targeted application, with a specific focus on the recovery of residual costs only. The cap could be set similar to the existing side constraint, as ‘CPI plus’ or by some other derivation.

The cap on the annual rate-of-change can be set to taper over time, allowing a managed transition toward fully efficient residual cost allocation.

## How does it mitigate consumer bill impact risks?

A primary concern in relation to consumer bill impacts from the transition to more efficient marginal cost-based price signals is that any associated transition towards a relatively higher recovery of residual costs through fixed charges will give rise to adverse bill impacts for low-use consumers. This option directly targets this concern by protecting consumers from larger than necessary increases in fixed charges, thereby mitigating adverse bill shock.

That is, this option limits the pace of change for residual cost recovery but does not distort the efficient marginal cost-based price signals provided by network tariffs. However, limiting the responsiveness of certain tariff components (eg, fixed charges) may give rise to other unintended consequences, such as revenue recovery risk and adverse bill shocks for other consumer groups. This will require further consideration as part of implementation of this option.

The smooth, gradual transition of fixed charges and/or residual cost recovery reduces adverse bill shock for all consumer groups. However, this approach may delay reallocation away from current over-charging of certain consumers. This transitional measure necessarily preserves some degree of the current residual cost recovery cross-subsidy over the transition period.



Requires rule or legislative change?

Yes  
(NER rule change)

## Implementation challenges

Requires amendments to the NER, to either:

- reframe the existing side constraint principle (cl. 6.18.6) around charges to recover residual costs; or
- implement a new pricing principle to the NER.

However, there is likely to be reduced implementation risk, given the existing familiarity of networks with the current side constraint mechanism.

The primary implementation challenge is the estimation methodology for the cap amount. A poorly designed cap estimate could lock in inefficient residual cost recovery allocations for longer than needed, to the detriment of consumers.

Such a transitional measure can be implemented with scheduled review, at which the rate-of-change of the transition path can be reviewed. These periodic AEMC reviews can dictate how this option is relaxed as the market matures and the need for this measure dissipates.

# Option N2 | Consumption/capacity-based fixed network tariff

Networks allocate the recovery of residual costs across consumers based on either historical consumption (kWh) or historical peak demand/capacity (kW) (or some combination of the two). As opposed to purely by reference to connection type (option N3) or being set to a common level per connection (ie, fixed charges).

## How does it work?

The allocation of residual costs to each consumer is based on the historical contribution of that consumer to total use of the network. The rationale being that larger consumers should contribute relatively more to the shared (or fixed) costs of the network than smaller consumers of a similar connection type. These historical measures can be averaged (eg, a rolling average) to reduce volatility between years and help provide certainty and predictability for consumers.

Specifically, the components of the network tariff that recover residual costs are set, on a per consumer basis, proportional to that consumer's historical annual usage (kWh), registered capacity (kW) or historical maximum demand (kW). A combination of these measures of a consumer's use of the network could also be used to derive network charges to recover residual costs. In addition, residual costs could be recovered through a combination of per kWh and per kW charges.

Networks could adopt this approach under the existing TSS framework and pricing principles. The key question is whether the NER should be amended to provide an explicit incentive or clearer guidance for networks to allocate residual costs in this way, and how that guidance is framed in the pricing rules. This is a matter that will need further consideration as part of a more detailed rule change process.

## How does it mitigate consumer bill impact risks?

A primary concern in relation to consumer bill impacts from the transition to more efficient marginal cost-based price signals is that any associated transition towards a relatively higher recovery of residual costs through fixed charges will give rise to adverse bill impacts for low-use consumers. This option directly targets this concern by allowing for differentiation in the relative contribution towards residual costs by all consumers, with this differentiation linked to their relative use of the network. This means that smaller consumers will contribute relatively less towards residual cost recovery than larger consumers, as is the case under the current recovery of residual costs through volumetric charges.

By maintaining this differentiation of residual cost recovery amongst smaller and large consumers, the risk of adverse bill shock for small consumers is mitigated, as the regulatory framework restricts the ability for networks to standardise residual cost recovery by setting uniform fixed charges within consumer groups.

Such an approach to residual cost recovery minimises distortions to efficient marginal cost-based price signals, maintaining the effectiveness of the AEMC's other network tariff reforms.



Requires rule or legislative change?

Not necessarily

(NER clarification may strengthen incentives)

## Implementation challenges

This option could be adopted by networks within the current TSS framework without changes to the NER. However, amendments to the NER pricing principles in relation to residual cost recovery (rule. 6.18.5) may be considered to provide clearer guidance and to strengthen incentives for networks to adopt this approach. Whether such amendments are warranted, and how they are framed, is a question for a more detailed rule change process.

Historical usage may lag changes in consumer behaviour, which creates a temporary misalignment between a consumer's actual use of the network and the use of network assumptions used to derive their network tariff. In particular, this approach does not account for a consumer's ability to exit the network (eg, invest in battery storage, off-grid generation).

Notwithstanding these implementation challenges, this option is intuitive and easy to communicate to stakeholders and consumers.

However, an allocation based on capacity or maximum demand (kW) may adversely impact smaller consumers, who tend to have a lower load factor, ie, the ratio of consumption to capacity.

# Option N3 | Characteristic-based fixed network tariff

Residual network costs are allocated differentially based on observable characteristics, such as whether a consumer has solar, battery storage or participates in demand response programs, as well as other characteristics such as property value, meter size or property type, reflecting differences in the level of benefit consumers derive from their connection to the network.

## How does it work?

Networks identify sub-groups of consumers based on observable characteristics, such as installed CER or participation in a virtual power plant (VPP) program, registered capacity or property value. The allocation of residual costs, eg, fixed charges, are then differentiated across these sub-groups. The differentiation of fixed network charges across consumers could then be derived by reference to a range of relevant factors, eg, the level of benefit derived from the network or the willingness-to-pay for access to the network.

This option can be implemented through a firm electricity capacity band model, where each consumer has a defined limit on how much electricity they can import from (or export to) the grid at any given time (just like in some broadband services). Consumers may be able to choose their capacity band, or they may be assigned one based on their connection characteristics. Their contribution to shared network costs is then linked to the size of band they hold: a larger band means a greater share of residual costs, and a smaller band means a lower share. This gives consumers a degree of predictability over their network charges and, where choice is available, some agency over what they pay. Networks and retailers would need to monitor usage to ensure consumers stay within their allocated bands. Dynamic operating envelope (DOE) arrangements are one way this type of model could be practically implemented in practice.

The AER would assess the network's differentiation methodology through the TSS process. The pricing principles in the NER would be updated to explicitly permit characteristic-based differentiation, providing networks with a clear and consistent regulatory basis for this approach.

## How does it mitigate consumer bill impact risks?

A primary concern with the transition to more efficient network tariffs is that a move towards higher fixed charges for residual cost recovery may increase bills for low-usage consumers, for whom fixed charges represent a larger share of their total bill. Under the current volumetric approach, consumers with CER contribute less to residual cost recovery than consumers without CER, despite both groups benefiting from the network. This option targets both concerns by allowing differentiation in residual cost allocation based on observable consumer characteristics (such as the presence of CER or property value), so that fixed charges are not applied uniformly but instead reflect differences in the level of benefit consumers derive from their network connection. However, this requires careful consideration and framing given broader policy designed to accelerate the uptake of CER.

This option may potentially unwind the current disproportionate recovery of network residual costs from consumers that are unable to (eg, renters) or do not have the means to (eg, low income) invest in CER. Consumers who are least able to reduce their network reliance contribute proportionally less to residual cost recovery, while those with greater capacity to avoid network charges that recover residual costs (ie, those consumers with CER) contribute relatively more towards residual cost recovery than current levels.

This approach is the most targeted of the network options in addressing residual cost recovery equity concerns associated with the uptake of CER. A well-targeted differentiation approach minimises distortions to the efficient marginal-cost based network charges and maintains the effectiveness of these price signals, consistent with the AEMC's broader network tariff reform objectives.



Requires rule or legislative change?

Not necessarily

(NER clarification may strengthen incentives)

## Implementation challenges

Networks could adopt characteristic-based differentiation of residual costs under the existing TSS framework. However, amendments to the NER pricing principles may be considered to provide an explicit regulatory basis for this approach and to ensure consistency across networks. AER guidance on methodology and ongoing oversight of the differentiation approach might also support effective implementation. Whether NER amendments are warranted, and how they are framed, is a question for a more detailed rule change process.

Identifying and maintaining accurate records of consumer connection characteristics across a large and evolving consumer base presents further ongoing administrative complexity for networks.

Community acceptance also presents a material challenge, as this option may be perceived as penalising CER adoption, particularly given broader policy objectives around CER uptake. This option could be implemented under a 'grandfathering' approach to minimise the effect on those consumers that have already invested in CER.

There is a risk of perverse investment incentives if consumer sub-groups are poorly defined or frequently recategorised, creating uncertainty for consumers and retailers.

However, this measure could be reviewed through the AEMC's proposed periodic review mechanism (draft recommendation 3) as CER uptake evolves and networks refine their approach to consumer differentiation.

# 05

## Enhancing consumer protections at the retail level

# Regulating how network tariffs reach end-use consumers

## Retail consumer protection options manage the risk of potential bill impact shock from network tariff reform

As discussed in [section 2](#), a range of consumer protections already operate at the retail level, including the DMO framework, EIC requirements, standing offer obligations and the once per year price change rule. Additional retail level consumer protections may be needed to address the anticipated change in network tariff structures resulting from network tariff reform.

While network level protections support retailers to manage the transition by shaping how residual costs are allocated before they reach retailers, the retail options in this section directly address the potential bill risks that consumers may face from network pricing reform. Not all consumers benefit equally from competitive dynamics, particularly disengaged consumers who do not regularly review their plans. Retail level consumer protections provide a direct safety net for these consumers, ensuring that structural changes to network tariffs do not flow through to bills in unmanageable or inequitable ways.

This section explores three options to enhance existing retail level consumer protections:

1. Require retailers to offer at least one option to consumers with a lower fixed charge, drawing on the Ofgem approach in Great Britain.
2. Extend the EIC framework in the NER to restrict retailers from passing through material structural changes without consumer agreement.
3. Direct regulation or capping of retail fixed charges through amendments to the NERR, NERL or DMO framework.

We understand that each option can be implemented within the existing regulatory and policy architecture and shares a common design principle: **retailers remain free to innovate and compete, while consumers gain an additional layer of protection against adverse bill outcomes arising specifically from network tariff reform.** An important consideration for all three is the interaction with standing offers and market offers. The existing regulatory framework for retail pricing under the NERL primarily governs standing offers, with retailers having considerably more flexibility over the structure and pricing of market offers, which covers most consumers.

As with the network options in [section 4](#), retail level interventions are best understood as part of a broader package of measures rather than standalone solutions. The following pages set out each option in detail, with [section 6](#) then considering how network and retail measures can be combined and kept proportionate over time through the AEMC's proposed periodic review mechanism.

1

### Retail option 1 (Option R1)

Requiring retailers to offer at least one lower fixed charge tariff

2

### Retail option 2 (Option R2)

Extending the explicit informed consent (EIC) framework to retail tariff structure changes

3

### Retail option 3 (Option R3)

Direct regulation of fixed charges in a retail offering

# Option R1 | Retailers to offer at least one lower fixed charge tariff

This option provides a safety net, by ensuring that consumers who would be disproportionately affected by higher fixed charges retain access to at least one retail tariff with a lower fixed charge, offset by higher variable charges. It is not intended to drive all retail tariffs towards lower fixed charges or to constrain how retailers structure their broader product offerings. Rather, it preserves consumer choice by ensuring a lower fixed charge alternative remains available as network tariffs transition toward higher recovery of residual costs through fixed charges.

## How does it work?

Under this option, retailers would be required to offer consumers at least one tariff with a lower fixed charge component, offset by correspondingly higher variable charges. This approach draws on the approach explored by Ofgem in Great Britain, where in September 2025 the energy regulator consulted on requiring energy suppliers to offer at least one lower standing charge tariff. Ofgem has launched a one-year lower standing charge tariff pilot to explore the feasibility of implementing this obligation. The reference price for these tariffs would remain the DMO, against which retailers' low and high fixed charge offerings could be compared.

Networks would remain free to implement efficient network tariff reform, including higher fixed network charges. The retailer obligation would operate at the retail level only, requiring retailers to manage the cost of maintaining an alternative product structure. Retailers would have flexibility in how they set the offsetting variable rate, allowing them to structure the lower fixed charge product in a way that reflects their cost base and competitive positioning.

Eligibility criteria could be considered as part of the detailed design of this option, to help ensure that the lower fixed charge tariff is directed at consumers most likely to face adverse bill impacts from higher fixed charges. For example, one approach might be to set a minimum annual usage threshold, which would prevent uptake of the lower fixed charge option for connections that may be consumer secondary residences.

## How does it mitigate consumer bill impact risks?

A primary concern with the transition to more efficient network tariffs is that a relatively higher recovery of residual costs through fixed charges will increase bills for lower-usage consumers. This option directly addresses that concern by ensuring that lower-usage consumers have access to a retail tariff structured to limit their exposure to higher fixed charges.

Low-usage consumers would self select into the lower fixed charge option. There is a threshold consumption level at which the two tariffs produce the same annual retail bill. Below this threshold, the lower fixed charge option is cheaper; above it, the standard tariff is cheaper. The larger the differential between the fixed charges on the two products, the lower this threshold and the broader the group of consumers who benefit.

Importantly, this option does not reduce the effectiveness of network tariff reform. Networks can continue to set efficient marginal cost signals and transition toward higher fixed cost recovery. The option operates solely at the retail level, where it preserves consumer choice and encourages retailers to innovate in managing the allocation of network cost risk across their consumer base.



Requires rule or legislative change?

Yes  
(NERR/NERL amendments)

## Implementation challenges

Requires amendments to the NERR or NERL to introduce the retailer obligation. This could be self-contained within the existing retail regulatory framework and would align with the DMO.

A key design challenge is calibrating the required differential between fixed charge levels and ensuring the lower fixed charge option represents genuine value. Without appropriate safeguards, retailers could structure the offsetting variable rate in a way that makes the alternative unattractive in practice.

There is also a risk that disengaged consumers, who may be among the lowest usage households, may not actively switch to the lower fixed charge option. The obligation would need to be paired with effective communication and comparison tools to support informed consumer decision making.

The measure could operate on either a transitional or enduring basis, and could be reviewed through the AEMC's proposed periodic review mechanism as the market develops.

# Option R2 | Extending explicit informed consent to retail offerings

The retail rules framework is extended so that retailers cannot pass on material changes to a consumer's tariff structure without that consumer's explicit informed consent. Rather than offering a choice of tariff, this places a consent right on structural changes, requiring retailers to absorb network cost risk until the consumer actively agrees to a new tariff structure.

## How does it work?

Under this option, retailers would be prohibited from making material changes to a consumer's retail tariff structure without first obtaining that consumer's explicit informed consent (EIC). This builds on the existing EIC framework, which already applies in certain contexts. For example, the AEMC's final rule on accelerating smart meter deployment requires retailers to obtain a consumer's EIC before changing their retail tariff structure for two years following a smart meter upgrade. This option would extend that principle more broadly, so that any material structural change to a consumer's retail tariff, such as a shift from a predominantly variable tariff to one with materially higher fixed charges, would require the consumer's active agreement before it could take effect.\*

Networks would remain free to implement efficient network tariff reform, including higher fixed network charges. The obligation would operate at the retail level only. Where a retailer faces higher fixed charges from the network but has not yet obtained a consumer's consent to restructure their retail tariff, the retailer would need to absorb the difference, recovering changing network costs through price changes under the existing tariff structure rather than through structural changes. This creates a strong incentive for retailers to engage with consumers, explain the benefits of new tariff structures, and develop offerings that consumers are willing to accept.

## How does it mitigate consumer bill impact risks?

The primary concern this option addresses is that retailers could unilaterally restructure their retail tariffs in response to network tariff reform, exposing consumers to adverse bill impacts from materially higher fixed charges without their knowledge or agreement.

By requiring EIC for structural changes, this option ensures that consumers cannot be moved to a higher fixed charge structure without actively agreeing to that change. This protects disengaged consumers from unilateral changes to their retail tariff and provides them with a consent right that operates as a direct safeguard against bill shock arising from tariff restructuring.

However, it is important to note that EIC restrictions do not constrain price levels. Retailers would remain able to recover higher network costs by increasing prices under the consumer's existing tariff structure. While price increases are limited to once per year under current rules, there is no limit on the size of such increases. This means that consumers could still face higher bills even where the EIC requirement prevents structural changes to their retail tariff. The protection is therefore targeted at the form of the tariff rather than the overall level of charges.

The option also creates incentives for retailers to develop and offer consumers genuine choices as a way of managing the allocation of network cost risk across their consumer base.



Requires rule or legislative change?

Yes  
(NERL legislative change)

## Implementation challenges

Extending EIC protections in this way would require legislative change to the NERL, building on the EIC protections already in place for smart meter consumers. This represents a more substantial implementation pathway than a rule change to the NER or NERR.

A key design challenge is defining what constitutes a material structural change that triggers the consent requirement, given that EIC protections are currently tied to specific triggering events and extending them more broadly would require careful design of the triggering mechanism.

There is also a risk that retailers may selectively avoid acquiring or retaining low-usage consumers who are harder to transition, which could give rise to systemic risk associated with a growing pool of disengaged consumers on legacy tariff structures. This could be managed by allowing retailers a right to retire a retail tariff with sufficient notice to the consumer.

This option could be implemented under a 'grandfathering' approach to minimise the effect on those consumers that have already signed up to a particular tariff structure prior to the reforms taking effect.

# Option R3 | Regulated fixed charges in the Default Market Offer

The AER regulates the maximum allowable fixed charge component in the Default Market Offer (DMO), or alternatively the maximum annual rate of change of that fixed charge component, providing a regulated benchmark that anchors retail fixed charges for standing offer consumers. This is effectively the retail level equivalent of Option N1. This option operates within the existing DMO framework and is not intended as a broader reintroduction of retail price regulation.

## How does it work?

Under this option, the AER would incorporate a constraint on the fixed charge component within the DMO determination, either by setting a maximum level for the fixed charge, or by capping its annual rate of change. Under the reformed DMO framework taking effect from 1 July 2026, the AER will determine tariff caps that specify both fixed and variable charge components, rather than setting an annual bill cap alone. This option would build on that reform by introducing an explicit constraint on the fixed charge component within the DMO tariff cap, either by setting a maximum level for the fixed charge or by capping its annual rate of change. Without such a constraint, the AER's cost apportionment methodology would determine the split between fixed and variable charges, and there is no guarantee that the resulting fixed charge would be set at a level that adequately protects low-usage consumers.

Retailers would retain full flexibility over the structure and pricing of their market offers, and the regulated fixed charge constraint would apply only to the DMO benchmark. Networks would remain unconstrained in implementing network tariff reform, including transitioning toward higher fixed network charges. The constraint operates through the DMO, which serves as both a price cap for standing offer consumers and a reference price against which market offers are compared. By constraining the fixed charge component within the DMO, the option provides a visible benchmark that may also influence the structure of market offers, without directly regulating those offers.

## How does it mitigate consumer bill impact risks?

A primary concern with the transition to more efficient network tariffs is that a relatively higher recovery of residual costs through fixed charges will give rise to adverse bill impacts for low-usage consumers, who benefit less from the offsetting reduction in variable charges. This option directly addresses that concern by requiring each retailer to offer at least one tariff in which the fixed charge component is subject to a regulated constraint, either on its level or its rate of change.

Low-usage consumers who select a tariff subject to the regulated fixed charge arrangement benefit because their bills are more sensitive to fixed charges than to variable charges. By constraining fixed charge increases in that offering and thereby requiring the corresponding shortfall to be recovered through variable charges, this option maintains a more volumetric cost structure for consumers who choose it, which is relatively more favourable for those with lower consumption.

As the cap is gradually increased over time, the protection for low-usage consumers gradually unwinds, ultimately allowing retail offerings to align with more efficient structures.



Requires rule or legislative change?

Yes  
(amendments to DMO framework)

## Implementation challenges

The 2025 reforms to the DMO framework already require the AER to express the DMO as a tariff cap, specifying both fixed and variable charge components.

This option would build on that reform by requiring the AER to apply an explicit constraint on the fixed charge component within the DMO tariff cap determination, which could be given effect through further amendments to the Electricity Retail Code. This avoids the need for broader amendments to the NERR or NERL that could be characterised as a reintroduction of retail price regulation. The scope of this option is deliberately confined to the DMO to preserve retail market competition and innovation for market offers.

A key design challenge is determining whether the obligation should regulate the fixed charge component by level or by rate of change, and calibrating the constraint appropriately. A poorly calibrated cap risks locking in inefficient retail tariff structures for longer than necessary, to the detriment of consumers over the long run.

# 06

## Combining the consumer protection options

# Packages of measures, with periodic reviews over time, can manage consumer bill risks

## The benefit of implementing option packages

The network and retail options outlined in this paper perform different but complementary functions. Network options support retailers to manage the transition to reformed tariff structures by shaping how residual costs are allocated, reducing the pressure on retailers to pass through structural changes directly to consumers. Retail options directly address the bill risks that consumers may face, providing targeted protections closer to the point at which consumers experience price changes. We believe that the most effective approach is likely to involve a combination of both.

The case for combining measures across both the network and retail levels is reinforced by the interaction between **Draft Recommendations 5 and 6**. Together, they shift network tariffs toward greater efficiency while reducing the regulatory protections that currently apply to end consumers, strengthening the need for mitigation at both points in the supply chain.

As explained in sections 4 and 5 above, although these options all target risk mitigation for adverse consumer bill impacts associated with network tariff reform, each option has its own implementation challenges and risk mitigation mechanism. This means that combining options may help address the challenges and strengthen the effectiveness of an individual option. We present indicative packages of options on the right-hand side.

## The role of periodic review and assessment

These measures should be subject to periodic review so they can be adjusted or removed as the market develops and the risks diminish.

Building in review points from the outset signals that these measures are designed to support the transition, not to become permanent constraints on the retail market.

The AEMC's proposed periodic review of the retail market provides a natural mechanism for the periodic review of the retail options, which could also include a review of network options. In addition, a review and assessment of retail options could be integrated with the AER's DMO process, which occurs on an annual basis.

Further, the AER has required networks to propose and review network transition strategies with respect to network tariffs and pricing, ie, export tariff transition strategies. The five-year regulatory control period and TSS cycle provides a natural mechanism for the AER to periodically review any network options, with the annual compliance process for network tariffs providing another avenue for review and assessment.

## Indicative packages of options

### Transitional retail option to support an enduring network option

In this example, the NER is amended to provide guidance as to the recovery of residual network costs on the basis of the historical consumption and/or capacity of a connection. This encourages an enduring structural change at the network level (ie, option N2).

However, the transition towards this change at the network level (alongside other network tariff reforms recommended by the AEMC) could be supported, from a consumer protection standpoint, by a transitional option at the retail level, such as direct regulation and/or capping of the fixed charge component of retail offerings (ie, option R3).

The advantage of offering such a package is that the transitional retail option helps to strengthen consumer protections during a period of capability building and structural change for networks and retailers.

### Transitional network option to support an enduring retail option

In this example, an enduring retail level option, such as requiring retailers to offer at least one lower fixed charge tariff (ie, option R1), is complemented with a transitional network option, such as a rate-of-change constraint on residual cost recovery (ie, option N1).

The advantage of offering such a package is that consumer choice is enhanced – through greater diversity of retail offerings – and retailer innovation is encouraged. However, the additional, temporary protection at the network level helps to reduce the risk and cost allocation to retailers as they build and develop this new capability.

# Appendix

A primer on the economics of network pricing

# Key economic concepts | What are marginal and residual costs?

This appendix provides a brief introduction to the economic concepts that underpin network tariff design and explains how these concepts relate to the retail prices that consumers see on their bills. It is intended to support readers of the main paper who may be less familiar with this material.

Electricity networks incur costs to build, maintain and operate the poles, wires and other infrastructure that deliver electricity to homes and businesses. These costs can be usefully separated into two components.

The first component is **marginal cost**, which is the forward-looking cost to the network that would need to be incurred (or could be avoided) when a consumer uses more (or less) of the network at a given time and place. When the network is congested, say during a particularly hot summer afternoon, the network may need to invest in additional capacity or undertake demand management initiatives to manage that congestion safely. When the network has ample spare capacity, the marginal cost of additional usage may be very low or zero. Marginal cost therefore varies across time, location and network conditions, and the price signal it generates is designed to reflect these differences.

The second component is **residual cost**. Even if every consumer were charged for the marginal cost of their usage, the revenue collected would typically fall well short of the total amount the network needs to recover. This is because the costs of operating and providing the network are primarily historical and fixed, rather than forward-looking (which is captured by marginal cost). **The gap between total required revenue and the revenue collected through marginal cost charges is the residual.** These residual costs reflect the substantial sunk investment in the existing network, which must be recovered from consumers in some way.

If residual costs are recovered through usage charges (for example, a higher per kilowatt-hour rate), those charges may discourage consumers from using the network even when the true cost of their usage is low. This creates a distortion to the marginal cost-based price signal, ie: **consumers change their behaviour in response to a price signal that does not reflect any real marginal cost to the network.**

The economic principle for recovering residual costs efficiently is known as Ramsey pricing. The intuition behind Ramsey pricing is straightforward. If residual costs must be recovered from consumers, they should be recovered in a way that changes consumer behaviour as little as possible. In practice, this means placing a greater share of the recovery of residual costs on those aspects of consumption that are least responsive to price. A fixed daily charge, for example, is unlikely to alter how much electricity a household uses on any given day, whereas a higher per unit usage charge may cause consumers to shift or reduce their consumption in ways that do not reflect genuine network costs. Accordingly, recovery of residual costs through fixed charges is typically considered consistent with Ramsey pricing.

The goal is not to eliminate residual cost recovery, which is necessary for networks to recover the total efficient costs of providing network services to consumers, but to design charges that recover a network's required revenue with the least possible distortion to consumers' decisions about how and when to use the network, including how and when to invest in CER.

## A familiar example: the coffee shop



A coffee shop provides a helpful analogy. Every time a barista makes an extra cup of coffee, the shop incurs a small additional cost for the beans, milk, cup and a few minutes of labour. This is the marginal cost of an additional coffee. However, the shop also has substantial fixed costs that do not change with the number of coffees sold, eg, the rent on the premises, the espresso machine, fit out and base staffing costs.

The question for the coffee shop, as for an electricity network, is how to structure the prices it charges consumers to recover both types of costs.

The price of each coffee must cover more than just the beans and milk. If the shop only charged the marginal cost per cup, it would never cover the rent or the cost of the espresso machine. In practice, the price of each coffee includes a margin above its marginal cost, and that margin contributes to recovering the shop's fixed costs.

A coffee shop could, in principle, introduce a subscription or membership fee for regular consumers and then charge a lower per cup price. This would be a form of multi-part tariff: a fixed component (the subscription which allows the coffee shop to recover its overhead costs) and a variable component (the per cup charge).

There is another way to see the distinction between marginal and fixed costs. If you decide to buy a home coffee machine instead of visiting a coffee shop each morning, you incur the fixed costs up front (the machine, the grinder, a set of cups) and then simply pay the marginal cost each time you make a coffee (beans, milk and electricity). In this case, you bear the cost structure directly, rather than having a retailer (the coffee shop) bundle it into a single per cup price on your behalf.

Electricity networks work in much the same way. Marginal cost charges signal the true cost of using the network at a particular time and place. Residual costs, like the coffee shop's rent, must also be recovered, but the way they are recovered matters for efficiency. Finally, just like there are increasing investment by consumers in semi-commercial home coffee machines, so have some consumers embraced home generation and storage of electricity.

# Key economic concepts | Network tariffs and retail offerings

## The structure of network tariffs

Network tariffs are structured to be consistent with the principles of marginal cost-based pricing and Ramsey pricing by comprising distinct components, ie, having multiple parts.

A simple two-part tariff, for example, might include a fixed daily charge (contributing to residual cost recovery) and a usage charge set at or near the marginal cost of network use at different times. By keeping the usage component close to marginal cost, the tariff sends consumers an accurate signal about the true forward-looking incremental cost that their usage imposes on the network. The fixed component recovers the remaining revenue the network requires, without distorting how consumers respond to the usage signal.

In practice, network tariffs may have more than two parts. For instance, a tariff might include a fixed daily charge, a capacity charge (based on a consumer's peak demand) and a time varying usage charge that reflects marginal costs at different times of day. The design of these components involves trade-offs between:

- the accuracy of these price signals; and
- the distribution of residual cost recovery across different types of consumers.

Current network tariff structures reflect a balance between economic efficiency and other objectives, including simplicity and ease of administration. They were also designed in a context where consumer demand for electricity was relatively inflexible and difficult to shift between time periods. In such a world, a tariff with a single volumetric usage rate is not an unreasonable price signals, because the efficiency cost of consumers over or under consuming at any given time is relatively small. However, as consumer demand becomes more flexible through the adoption of CER, batteries, smart appliances and electric vehicles, the benefits of improved price signals grows. This is the fundamental reason why network tariff reform is needed.

A dynamic network tariff component differs from a traditional flat or time-of-use usage charge in that it varies in response to actual network conditions, rising when the network is congested and falling when capacity is ample. This gives consumers (and their retailers) a more accurate signal about the real cost their usage imposes on the network at any given time. As network tariffs place greater weight on these dynamic usage signals, the residual cost component becomes more distinct and its allocation across consumers becomes a more prominent design question.

It is this question, how to allocate residual costs fairly and efficiently, that gives rise to many of the consumer bill impact concerns this paper addresses.

## Network tariff reform and consumer protection

Getting network price signals right is the foundation for a well-functioning retail electricity market.

When network tariffs send efficient price signals, retailers have stronger incentives to develop products that meet their consumers' diverse needs and preferences. When network tariffs are poorly designed, this inefficiency flows through to the retail market and ultimately to consumer outcomes.

Network tariff reform and consumer protection are therefore not in tension. On the contrary, reforming network tariffs to better reflect how network costs are incurred supports competition in the retail market, which is itself a foundational mechanism for protecting consumers.

The options discussed in this paper are designed to complement and strengthen that dynamic, not to work against it. As the following panel explains, the advantages of efficient network price signals do not depend on retailers passing those signals through directly to consumers.

## The role of retailers



Consumers do not typically receive network price signals directly. Instead, retailers purchase network services on behalf of consumers and present consumers with a retail offer that bundles together network costs, wholesale energy costs, environmental obligations and the retailer's own margin.

Retailers may choose not to pass through the structure of the network tariff on a one-for-one basis. There are sound commercial reasons for this. Retailers can manage wholesale and network price risk on behalf of their consumers, offer simpler and more predictable pricing and differentiate their products through innovative tariff structures.

A retailer facing dynamic network charges may, for example, offer a flat rate tariff to a consumer even though the underlying network tariff has time varying components, absorbing the resulting price risk and managing it across its broader customer base, including through investing in community batteries or aggregating consumers into VPPs.

This is analogous to how the coffee shop bundles the cost of beans, rent and the espresso machine into a single price per cup. The consumer does not need to understand or respond to each underlying cost component separately. The competitive pressure of the retail market encourages retailers to find the most effective and attractive ways to translate complex network signals into products that consumers value.

Efficient network price signals therefore create opportunities for retailers to innovate and compete. Retailers that are best able to manage network price signals will, over time, gain a competitive advantage. Consumers benefit from efficient network signals not by responding to them directly, but through the retail products and services they are offered.



**HOUSTONKEMP**  
Economists

Level 40, 161 Castlereagh Street, Sydney NSW 2000, Australia

+61 2 8880 4800 | [houstonkemp.com](http://houstonkemp.com)