Institute for Energy Economics and Financial Analysis
ieefa.org

91 Percy Street
Warwick, QLD 4370
aus_staff@ieefa.org

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To: Australian Energy Market Commission
Re: Pricing Review

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the *Draft report - The pricing review – Electricity pricing for a consumer-driven future*.[1]

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA believes there could be merit in further exploration of recommendations 1, 2 and 4. However recommendation 5, which proposes a move to predominantly fixed network charges, has a number of issues and should be reconsidered. Higher fixed network charges could advantage households that use more energy, and disadvantage households that use less. It could also reduce incentives for energy efficiency and peak demand reduction, potentially leading to higher than necessary network costs. The additional dynamic charge proposed by the AEMC appears to have a number of challenges that could prevent it from containing peak demand rises.

IEEFA recommends a first-principles review of the economic regulation of electricity networks be undertaken prior to adjusting network tariffs to understand the full picture of the costs, risks and benefits associated with network assets and how they are sized and allocated across all stakeholders: generators, network businesses, households, businesses and large industrial loads.

Please find detailed comments on the various recommendations in the following pages.

Please do not hesitate to get in touch with any questions on any part of this submission at aus_staff@ieefa.org.

Kind regards,
Johanna Bowyer – Lead Analyst, Australian Electricity, IEEFA
Jay Gordon – Energy Finance Analyst, Australian Electricity, IEEFA

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

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Recommendation 1: Require energy service providers to charge all customers on the same plan the same price, to address the 'loyalty tax' on customers who don't switch and ensure every customer is always on the best price

In IEEFA's view, requiring energy service providers to charge all customers on the same plan the same price could be a positive measure for consumers and is worthwhile exploring further. However, there is a risk the recommendation could be gamed if energy service providers respond with a proliferation of plans with different names and prices, or by frequently withdrawing and reintroducing plans for new customers. This could undermine the objective of addressing the "loyalty tax" by increasing complexity and reducing comparability for consumers. Additional guardrails may therefore be required, such as limits on plan proliferation or clearer enforcement of what constitutes a "meaningfully different" plan.

Recommendation 2: Introduce a competitive franchise for the cohort of customers who have not chosen a market offer

IEEFA considers that introducing a competitive franchise for the cohort of customers who have not chosen a market offer could be a positive step for consumers, as it could provide a competitively set default price for those not actively shopping around. However, safeguards are needed to ensure it delivers better outcomes than customers than existing DMO and VDO structures. For example, mechanisms should be in place to prevent the franchise retailer from significantly increasing prices for acquired customers in subsequent years. Mechanisms could also be put in place to ensure the winner of the franchise is indeed offering competitive prices.

The interaction with existing DMO and VDO frameworks should also be carefully considered. The DMO and VDO provide an existing baselining exercise; removing it could have negative consequences.

Additionally, as IEEFA understands it, this proposal could mean that a disengaged customer, who hasn't chosen a plan and is on a standing offer, might be reassigned from one retailer to another if the most competitive franchise offer is from a different retailer. This raises practical concerns, as customer ownership, account information, and data could potentially be transferred automatically, which has implications for privacy and data protection. There is also a risk that extremely disengaged customers could be repeatedly reassigned over time. Strong attention must therefore be given to service quality, privacy safeguards and customer rights for those on a competitive franchise plan.

Recommendation 3: Periodically review whether regulations are supporting good consumer outcomes in an evolving market

IEEFA has no specific comments on the AEMC undertaking an assessment of how competition is delivering for consumers in the context of other reports and assessments such as the existing ACCC inquiry into the National Electricity Market and the proposal for the AER to take on the reporting role going forward.[2]

[2] AEMC. Draft report - The pricing review - Electricity pricing for a consumer-driven future. 11 December 2025. Page viii.

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However, IEEFA notes that further analysis is needed regarding consumer outcomes relating to electricity network economic regulation. Electricity network businesses have received persistently higher than expected network returns on equity over the past decade.[3] IEEFA has estimated the dollar value of these excess returns on equity to be $15 billion from 2014-2023.[4] The scale of this is such that it should be a major priority for the energy industry to examine electricity network economic regulation and ensure customers are not paying more than necessary for network services.

Recommendation 4: Provide the AER with additional funding to upgrade Energy Made Easy so that consumers can easily compare electricity offers, including new and emerging types

IEEFA supports further exploration of this recommendation. We agree that Energy Made Easy could be improved. Victoria's Energy Compare could be used as an example for potential improvements to Energy Made Easy. IEEFA has no comments on the funding aspect of this recommendation.

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

The AEMC has not undertaken adequate analysis of different network tariff options

The AEMC's analysis, which points to higher fixed network charges as a likely path to "efficient" network tariffs, is limited. It does not consider alternative tariff designs or the broader network and system-wide efficiencies they could generate. It does not provide analysis of higher fixed network charges, including potential bill impacts, equity implications, customer responses and retailer responses.

Higher fixed charges are likely to impact consumers inequitably. Transitioning to higher fixed network tariffs is likely to generate greatly differing impacts across consumers and stakeholders. Likely beneficiaries include network businesses, which would be less exposed to demand fluctuations, and households with higher grid electricity consumption. Conversely, households with lower grid electricity consumption, such as many low-income households and those with solar panels, battery storage, or energy efficient technologies, are likely to be disproportionately disadvantaged.[5]

Multiple sources show low-income households typically consume lower volumes of electricity from the grid.[6] While it can be argued these consumers are more likely to live in poor-performing buildings with inefficient appliances and without solar or battery systems, it is overly simplistic to assume these households have uniformly higher grid electricity consumption.

[3] IEEFA. Taming electricity price inflation starts with addressing network supernormal profits. 5 November 2024.
[4] Ibid.
[5] IEEFA. Don't rush to raise fixed network charges. December 2025.
[6] For example, Energy Consumers Australia. Understanding the energy divide: Explainer. December 2023; The Australia Institute. How low income households use electricity. January 2018. Page 9; Frontier Economics. Determinants of household energy consumption: Report for IPART. September 2016. Page 46.

91 Percy Street
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An ACOSS survey focused on households receiving income support, social housing residents, renters and First Nations households found that many respondents were living in poor performing homes, with many reporting living with ineffective or unaffordable air conditioning.[7]

Nearly two-thirds of those surveyed by ACOSS reported they were struggling to pay energy bills, even after attempts to conserve energy. Eighty-five percent of respondents reported compromising on other essential expenditure in order to pay energy bills, with food and medicine being the most common category of expense that was cut.[8]

In IEEFA's view, there is insufficient evidence to suggest retailers would not pass through an increase in fixed network charges as an increase in fixed retail charges. This is likely to increase energy bills for low-consuming households, including many low-income households and those facing energy poverty.

Analysis from Green Energy Markets explored what could occur if networks were to shift all their variable kWh charges into the fixed daily charge. The analysis found:[9]

- A low-income, low usage consumer in a small home would be worse off, with an increase in the annual power bill from $127 (in the Endeavour network) to $217 (in the SAPN network).
- A high-income, large electricity consumer in a large house with 2 Teslas would be better off, with a reduction in their annual electricity bill from $791 (United Energy network) to as much as $1,401 (SAPN network).

A move to higher fixed tariffs would reduce incentives for solar, batteries, energy efficiency and other peak reduction measures

If more electricity charges are moved from the volumetric to the fixed component of tariffs, households will see reduced rewards for investing in solar, batteries and energy efficiency upgrades. This could decelerate the uptake of those technologies, which are important to help reduce emissions and large-scale system costs. Customers who have already invested in these technologies would also see a reduction in their returns, which risks damaging consumer trust in solutions critical for the energy transition.

Analysis by IEEFA shows that rooftop solar, batteries and energy efficiency upgrades can all deliver significant reductions in demand during peak times.[10] This can be beneficial both for reducing the cost of wholesale electricity, but also for reducing stress on electricity networks.

Peak demand could be an increasingly pressing issue for networks in the future, with AEMO forecasting peak demand will rise across most NEM states.[11] In the residential sector, newly electrified loads such as electric vehicles could put upward pressure on peak demand. AEMO's

[7] ACOSS. Heat in Homes Survey Report 2025. March 2025. Page 7.
[8] Ibid.
[9] Green Energy Markets. Consumers face five-fold hike in network charges under regulator plan to take from the poor, and give to the rich. 9 February 2026.
[10] IEEFA. A focus on homes, not power plants, could halve energy bills. 9 July 2025.
[11] AEMO. 2025 Electricity Statement of Opportunities. August 2025. Page 34-35.

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aus_staff@ieefa.org

draft 2026 ISP forecasts that by 2050, 80% of all vehicles are expected to be battery EVs.[12] If there is no (or limited) reason for households to charge outside high demand periods, the upward pressure on peak demand could be more significant.

IEEFA notes that tariff signals don't always lead to significant changes in consumer behaviour.[13] However, we also note that the timing of large loads such as EV charging could be increasingly automated with relative ease via the vehicle's own software or external devices. Consumers are more likely to be motivated to save energy costs for these loads, given their size and the fact reduced running costs are a key value proposition for EVs. Retail tariff offerings specifically targeted at EV owners are already emerging in the market.[14]

Reducing volumetric or demand charges and increasing fixed, unavoidable charges could reduce the signal to households to reduce demand in peak periods. This, in turn, could increase peak demand and the need for additional network investment.

The additional dynamic charge proposed by the AEMC has a number of challenges that could prevent it from containing peak demand rises

The additional dynamic charge proposed by the AEMC faces several challenges that may limit its effectiveness in containing peak demand growth. It is unclear whether the implementation of these charges would achieve reductions in peak demand. Dynamic charges applied when the network approaches congestion could encounter multiple issues:

- **Weaker peak demand reduction signals before congestion:** Where the fixed component of network tariffs is relatively high, and this flows through to retail tariffs, customers could face weaker signals to reduce consumption during peak periods. This could reduce incentives for pre-emptive demand management, increasing the risk that local network congestion emerges earlier. In such cases, dynamic charges may need to play a greater role in managing congestion once it emerges or becomes material. For example, many customers could install EVs with limited signals to charge outside network peaks, leading to network congestion risk arising very quickly in a given area, then a strong dynamic charge signal needing to be applied to manage this.
- **Customer acceptance:** Households on simpler or fixed tariffs may resist switching to retail plans that include more dynamic charges. Automatic assignment without strong customer engagement is likely to be unpopular, and consumers cannot be expected to change their behaviour if they're moved to a different tariff without their full understanding. (Home energy management systems and other software would likely need to be updated to respond to any new dynamic tariff signals.)
- **Data limitations:** DNSPs have limited visibility in parts of the network due to incomplete monitoring (with voltage being a particular gap[15]). While smart meter rollout and data improvements are under way, DNSPs' ability to directly identify where and when local network congestion occurs is still evolving. This makes it

[12] AEMO. Draft 2026 Integrated System Plan. December 2025. Page 14.
[13] For example, CitiPower. Regulatory Proposal 2026-31. Tariff structure statement: Explanatory statement. January 2025. Page 17.
[14] Wattever. Home EV Charging Rates in Australia. 2 February 2026.
[15] AEMO. Appendix A9. Demand Side Factors Statement. December 2025.

91 Percy Street
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aus_staff@ieefa.org

challenging to target dynamic signals precisely where they are needed. Limited distribution network voltage and the fact some areas of the low voltage network have limited monitoring could make it difficult to identify congested areas.

- **Equity concerns:** Areas with historically low network investment could face higher dynamic charges compared to better-invested areas. A dynamic charge could result in households located a few suburbs apart experiencing different tariffs, raising equity questions.

Potential designs for a fixed charge all have significant challenges that have not been considered by the AEMC

The AEMC's pricing review has not yet explored how the higher fixed charge could be calculated, leaving uncertainty around its practical implementation. IEEFA understands that several approaches to determining the fixed charge could exist as we outline below. However, all face significant challenges and material limitations.

- **Static daily fixed charge (¢/day):** A pure daily fixed charge, similar to the fixed supply charge currently applied, is straightforward to administer. However, it does not differentiate based on network use or cost causation and could have an inequitable impact on low energy consumers, including low-income households.
- **Fixed charge based on use in high demand periods:** This option, recommended by the NEM review panel,[16] could vary with a customer's use of the network in times of peak demand. Demand-based tariffs (e.g. demand charges tied to peak kW usage) are already permitted under current NEM rules, raising questions about the need for further rule changes to implement this measure. If such a charge were fixed based on a household's historical demand data, households' ability to reduce the charge would be severely limited. As such there would be limited reasons for households to reduce their peak demand.
- **Income-based fixed charge:** While an income-adjusted charge could help address equity concerns, linking electricity charges with personal income information could be administratively complex, raise privacy issues, and require infrastructure outside the current energy regulatory framework. Other utility charges in Australia are not typically set on the basis of income, and it is not immediately clear why electricity networks ought to be an exception.
- **Capacity charges based on connection capacity:** Capacity charges based on the capacity of a customer's grid connection differ from traditional "fixed charges". These charges also face limitations. Many residential connections can have similar connection capacities, meaning capacity may not reflect actual network cost causation. This could also raise fairness concerns if, for example, a household with a high connection capacity (e.g. a renter) pays a high capacity charge despite very low actual usage.

[16] "Transition away from volumetric tariffs to other network tariffs with a higher fixed component based upon the individual consumer's actual use of network capacity at times of high electricity demand." NEM Review Panel. National Electricity Market wholesale market settings review Final Report. December 2025. Page 252.

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aus_staff@ieefa.org

A first-principles review of the economic regulation of electricity networks should be undertaken before network tariff changes

A first-principles review of the economic regulation of electricity networks should be conducted before implementing network tariff changes.

Such a review would examine the nature and drivers of network costs and benefits, how they are incurred, and how they are allocated across different stakeholders, including households, businesses, large industrial loads, generators and network service providers. It could also consider how system, technological and behavioural changes influence network and system costs.

Without addressing potential flaws in the regulatory framework, changes to tariffs risk reinforcing inefficiencies. For example, network businesses could recover inefficient costs, tariffs could shift costs unfairly between customer groups, and signals intended to reduce peak demand or encourage technology uptake may be ineffective. Tariffs that might appear "efficient" in theory could fail to achieve true system-wide efficiency if the underlying investment incentives and rules for revenue recovery are misaligned with efficiency goals.

A comprehensive first-principles review of the economic regulation of electricity networks would ensure all stakeholders who receive benefits from, and bear the costs of, network assets are considered. It could clarify how network costs should be sized and allocated, and identify the right signals to minimise costs, encourage efficient investment, and support efficient consumer and technological behaviours. IEEFA has detailed this recommendation in a previous report.[17]

IEEFA understands the AEMC has committed to a review of electricity network regulations in 2026.[18] However, we are concerned the scope of this review is limited, and will not address existing inefficiencies in the network economic regulation regime, nor the structural questions facing network regulation that have emerged alongside the rapid uptake of distributed energy resources (DER). In our view, a broad-reaching, independent review should be undertaken.

IEEFA also notes the AEMC has canvassed options for potential incentive mechanisms to help ensure network businesses design efficient tariffs. In IEEFA's view, it would be more effective to look at the economic regulation regime comprehensively to explore opportunities to align network services investment signals with customer interests as much as possible. If the investment framework is misaligned with customer interests, efficient tariff design can't fully protect customers, as tariffs mostly allocate costs after investment decisions are locked in.

Recommendation 6: Amend the rules to ensure networks design tariffs for energy service providers, rather than directly for customers, to promote more flexible and innovative retail offers

The AEMC's draft pricing review proposes that network tariffs should be designed for energy service providers, rather than directly for end-use customers, with the aim of enabling more flexible and innovative retail offers. The Commission's rationale (as IEEFA understands) is that energy service providers are the direct customers of distribution networks and are better placed

[17] IEEFA. Reforming the economic regulation of Australian electricity distribution networks. May 2024.
[18] AEMC. Draft Terms of Reference: Electricity Network Regulation Review. 18 December 2025. Page 1.

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Warwick, QLD 4370
aus_staff@ieefa.org

to translate network price signals into retail products and services that match consumer preferences.

However, this recommendation warrants scrutiny. ESPs function as intermediaries between network businesses and end-use customers, they are not the end consumer. They are also not the ultimate beneficiaries of lower network costs. Consequently, relying on ESPs to manage network cost signals assumes commercial intermediaries will automatically pass signals through that would benefit consumers, but the incentives for them to do this appear limited. Retailers earn revenue and manage risk with a profit motive, which can diverge from consumers' objective of minimising electricity bills. ESPs manage their business based on competitive dynamics, risk management and commercial considerations. There is no assurance ESPs will consistently design or price products to reduce consumer bills or enhance welfare.

Transitional measures and implementation schedule

IEFEA recommends a first-principles review of the economic regulation of electricity networks be completed before adjusting network tariffs (as explored in more detail above).