

Electricity Networks Regulation Review

Package 2 – EEC submission

September 2026



About the EEC

The Energy Efficiency Council (EEC) is the peak body for Australia's energy management sector.

We are a membership association for businesses, universities, governments and NGOs that have come together to ensure Australia harnesses the power of efficiency, electrification and demand management to deliver a prosperous, equitable, net zero Australia with:

- People living and working in healthy, comfortable buildings;
- Businesses thriving in a decarbonised global economy; and
- An energy system delivering affordable, reliable energy to everyone.

The EEC works with our members, governments and other experts to accelerate the deployment of efficient, electric and flexible products and services.

The EEC delivers practical change by building the evidence base, making the case, informing policy, supporting skills and literacy, and shaping market outcomes.

Introduction

The EEC welcomes the opportunity to respond to the Electricity Network Regulation Review (Review) – Package 2 Consultation Paper.

The EEC has long advocated that behind-the-meter measures, including energy efficiency, electrification and active energy management, are essential to optimising the energy system. These measures can help maximise the use of renewable electricity, reduce wasted energy, and lower costs for consumers and businesses.

The EEC is concerned about increasing network costs and their impact on customer energy bills. The social licence for the energy transition will depend on demonstrating that reforms are delivering tangible benefits to consumers. Achieving this outcome will require a regulatory framework that encourages distribution network service providers (DNSPs) to take a whole-of-system approach to planning and investment and genuinely considers demand-side solutions on an equal footing with traditional network infrastructure.

The need for a holistic review

The EEC welcomes the Commission's decision to review electricity network regulation at a time when rapid growth in distributed energy resources or consumer energy resources (CER), electrification and demand-side participation is challenging many of the assumptions that underpin the current framework. However, the scale of change occurring across the energy system raises questions about whether incremental reforms within the existing framework will be sufficient to deliver the outcomes consumers need.

This Review is occurring alongside a range of other major reforms, including the Pricing Review, CER Roadmap workstreams, development of the inaugural Demand Side Statement of Opportunities and the implementation of recommendations from the NEM Wholesale Market Settings Review. These reforms are highly interconnected. Changes to pricing, expenditure assessment, incentives, planning frameworks and market arrangements should therefore be considered as components of a broader regulatory architecture rather than as discrete reforms.

The challenge is particularly evident in the Review's division into separate packages. Questions about network incentives and regulation cannot fully be separated from more fundamental questions about the future role of network service providers in a highly distributed energy system. Before determining how networks should be regulated and incentivised, it is necessary to establish what functions networks should perform, which services should remain contestable, and how emerging roles such as distribution system operation should be accommodated within the framework.

Without a clear vision of the role of networks in the future energy system, there is a risk that reforms continue to address individual issues as they emerge, rather than establishing a coherent framework capable of supporting the transition over coming decades.

In summary, the EEC continues to advocate for a more comprehensive review of networks, ideally conducted by an independent panel of experts, akin to the recent National Electricity Market wholesale market settings review.

What outcomes do we want reform to deliver?

The Review's terms of reference describe the overall review objective as:

“To assess and, where appropriate, recommend changes to the economic regulatory framework for electricity networks to ensure it continues to promote the long-term interests of consumers by supporting efficient investment in, operation and use of electricity networks.”

This is a high-level objective which does not provide any detail on *what* the long-term interests of consumers are other than in terms of economic efficiency. More detail from the Commission on what we want regulation to achieve and how DNSPs should support this would be helpful in providing a shared vision of what we are solving for.

The EEC suggests that network regulation should deliver affordable, reliable, resilient and decarbonised energy services by maximising the efficient utilisation of network and consumer assets, enabling consumer participation, and ensuring a level playing field between network and non-network solutions.

The framework should also promote third-party competition by requiring DNSPs to provide transparent, non-discriminatory platforms, data and access arrangements through which retailers, aggregators and other service providers can offer flexibility and network support services. Investment and regulatory settings should equip DNSPs to perform these enabling functions without unnecessarily expanding monopoly activities into contestable markets.

The importance of a level playing field for lowering costs for consumers

Consumers benefit when the regulatory framework delivers the most efficient solution to a network need, regardless of whether that solution involves traditional network infrastructure or demand-side resources. Network regulation should therefore seek to create a genuine level playing field between network and non-network solutions.

As CER uptake, electrification and flexibility services grow, demand-side resources increasingly offer lower-cost and more adaptable alternatives to network augmentation, while also delivering broader system benefits. Regulatory settings that favour capital expenditure on network assets over these alternatives risk increasing costs and limiting innovation. Reform should focus on ensuring DNSPs are incentivised to pursue the most efficient solution to deliver the outcomes discussed above.

The role of DNSPs is changing alongside the energy transition

Australia's distribution networks are becoming increasingly important to achieving the transition from an energy system dominated by fossil fuels and large centralised generators to one dominated by decentralised renewable electricity generators, storage and flexible assets. DNSPs are no longer simply providers of network infrastructure. They must facilitate CER

integration, support electrification, manage two-way power flows, coordinate flexibility, improve asset utilisation and contribute to efficient whole-of-system outcomes. As households and businesses invest in rooftop solar, batteries, electric vehicles, electrified appliances and energy efficiency in buildings and appliances DNSPs will play a critical role in determining whether these resources deliver their full value to consumers and the broader electricity system.

These responsibilities differ significantly from those envisaged when the economic regulatory framework was developed. Historically, consumer value was delivered primarily through efficient capital investment and maintenance of network assets. As the grid transitions, value is likely to be created increasingly through coordination, optimisation, consumer engagement, flexibility procurement and the efficient use of both network and consumer-owned resources.

The CER Roadmap's Distribution System Operator (DSO) work program envisages a role focused on delivering efficient whole-of-system outcomes through active system management, CER flexibility, transmission-distribution coordination and integrated distribution system planning. Many of these functions are likely to be essential to the operation of a highly distributed energy system.

Against this backdrop, a key challenge is ensuring that DNSP incentives are aligned with the outcomes consumers increasingly rely on them to deliver. The Review's consideration of DSO incentives, efficient network utilisation and innovation therefore raises a broader question: is the framework fit for purpose in a decentralised, electrified and increasingly consumer-driven energy system?

A review of a complex interrelated economic regulation framework requires a systems-based approach

The revenue determination framework, expenditure framework and incentive framework cannot be considered in isolation during this Review. The EEC understands that topics needed to be separated to aid consideration of complex topics, but together, they shape the choices DNSPs make about how services are delivered and where investment occurs. Changes to one part of the framework may have unintended consequences elsewhere if the interactions between capital expenditure, operating expenditure and incentive mechanisms are not considered holistically.

For this reason, reforms aimed at improving innovation, network utilisation, DSO performance or non-network procurement should be assessed alongside the broader capex and opex framework. The effectiveness of individual reforms will depend not only on their design but also on how they interact with the wider package of revenue determination, expenditure and performance incentives.

Principles for reform

The current framework is not fit for purpose in a decentralised, electrified and increasingly consumer-driven energy system. It cannot deliver affordable, reliable, resilient and decarbonised energy services by maximising the efficient utilisation of network and consumer

assets, enabling consumer participation, and ensuring a level playing field between network and non-network solutions.

As set out above a systems-based approach is required to consider whether changes can be made to the current framework to deliver the required outcomes, or whether an entirely new framework is needed.

The EEC suggests there are various pathways to achieve the outcomes which the Commission must consider. However, given the DSO rule change process is still underway, reforms should remain principles-based and adaptable rather than seek to prescribe detailed obligations or performance measures before the final role is settled.

The EEC asserts that the performance incentive schemes for Australian electricity distribution networks including the Capital Expenditure Sharing Scheme (CESS), Efficiency Benefit Sharing Scheme (EBSS), Service Target Performance Incentive Scheme (STPIS) and Demand Management Incentive Scheme (DMIS) do not yet provide strong incentives for decarbonisation, CER integration or dynamic asset management and need to be holistically reviewed alongside the existing regulatory framework.

Principles for reform of the economic regulation of networks:

1. Create a level playing field between non-network solutions (CER and aggregated CER) and network solutions

Network and non-network solutions should compete on genuinely equal terms. The framework should value demand-side solutions consistently with traditional infrastructure and enable third-party providers and aggregators to deliver services such as congestion management, voltage support and reliability where they offer better consumer value. Please see the responses to question 5 and question 7 for more details.

2. Introduce commercial discipline into the regulatory asset base (RAB)

Although the framework is intended to protect consumers through ex ante expenditure assessment and incentive regulation, those controls do not always expose network investment to the same discipline faced by contestable investments. The Commission should strengthen the framework so that expenditure is added to the RAB only where a DNSP demonstrates a credible need, material consumer benefit, proportionate consideration of lower-cost and staged alternatives, and a disciplined strategy for managing utilisation and stranding risk. Consumers should not carry the full cost of assets that become underused or unnecessary where that risk could have been managed by the DNSP.

3. Modernise the revenue determination process, in line with the pace of change

The current revenue determination process is lengthy, increasing forecasting uncertainty, investment risk and costs for consumers.

More frequent, and concurrent across all DNSPs, revenue assessment would enable DNSPs and the AER to respond more effectively to changes in technology, consumer behaviour and market conditions.

Principles for reform of network obligations/incentives:

The current incentives package should be holistically reviewed and reformed where necessary to ensure that the following outcomes are being delivered either through incentives or obligations:

1. Network productivity for both imports and exports

Productivity-based metrics would assess how effectively the network enables both consumption and exports across the distribution system, including at the low-voltage level, and a related incentives mechanism could better reflect the outcomes consumers value in a modern electricity system. See the response to question 7 for more detail.

2. Whole-of-system benefits

The DSO role and market boundaries are not yet clearly defined and DNSPs should be obligated to fulfil the role of a DSO. Any related incentives that are ultimately required should focus on measurable whole-of-system outcomes rather than rewarding DNSPs for undertaking specific DSO activities. See the response to question 6 for more detail.

3. Improved consumer service frameworks

Customer service frameworks should evolve to cover the services consumers need in a two-way system, including timely connections and dynamic exports. This could be achieved by expanding the Customer Service Incentive Scheme (CSIS) or through a replacement framework that rewards DNSPs for reducing barriers to CER integration and enabling consumer participation. See the response to question 7 for more detail.

4. Decarbonisation and electrification

The framework should recognise efficient, measurable contributions by DNSPs to electrification, CER integration and emissions reduction, consistent with the emissions component of the NEO. The Value of Emissions Reduction (VER) could support valuation, provided benefits are not already rewarded through productivity or whole-of-system measures. See the response to question 7 for more detail.

5. Improved climate resilience of energy services

The 2025 resilience reforms and the application of the Value of Network Resilience (VNR) should be allowed to operate, but their effectiveness should be monitored and reviewed. The framework should place non-network resilience options, including aggregated CER, SAPS, improved energy efficiency and microgrids, on an equal footing with traditional network solutions. See the response to question 7 for more detail.

Responses to questions

Question 1: Prioritisation framework for the Review

The EEC supports the proposed assessment criteria, particularly the prioritisation of consumer outcomes. We also support the inclusion of emissions reduction objectives and principles of good regulatory practice.

We recommend adding an additional criterion focused on the risk of structural lock-in. Decisions arising from this Review will shape network investment, market development and consumer outcomes for decades. In a period of rapid technological change, the greatest cost to consumers may result not from today's most visible challenges, but from decisions that limit the availability of lower-cost or more efficient pathways in the future. Given that the framework for distribution economic regulation was designed for a largely one-way electricity system and has not been comprehensively reconsidered in the context of the energy transition, assessment criteria should explicitly consider whether an option preserves future flexibility or constrains future choices, assessed over a long-term horizon.

For the same reason, implementation feasibility should not be given disproportionate weight in the assessment process. While feasibility is a relevant consideration, placing too much emphasis on implementation challenges risks narrowing the range of reforms considered before their long-term benefits have been properly assessed. Given the scale of the energy transition and the significance of this Review, some reforms that deliver the greatest long-term value to consumers are likely to be more complex to implement. This should not, in itself, prevent those options from being considered.

Question 2: Are changes required to the revenue determination process?

The EEC supports a shorter, more frequent and adaptive revenue assessment process. One option the Commission should examine is assessing all networks on a common timetable every two years, rather than running separate five-year determinations across different cycles.

A common cycle could improve comparability, allow the AER to apply consistent assumptions and benchmarks, and reduce the period over which forecasts must anticipate rapid changes in technology, consumer behaviour and market conditions. Any move to a common timetable would need transitional arrangements and a streamlined process proportionate to the shorter cycle.

Question 3: Are changes required to improve the quality of expenditure forecasts

The current forecasting framework is better suited to assessing traditional capital expenditure than operational or digital investments. Network assets such as substations, transformers and lines have well-established engineering standards, asset lives and cost benchmarks, allowing

the AER to scrutinise capex proposals with a relatively high degree of confidence. By contrast, digital systems, demand flexibility platforms, customer engagement programs and other operational expenditures often involve emerging technologies, evolving business models and uncertain consumer responses. Their benefits are also more difficult to quantify using conventional forecasting approaches, despite their potential to defer or avoid network investment. As a result, the regulatory framework may be more effective at validating traditional infrastructure forecasts than assessing innovative non-network alternatives.

Demand forecasts do not distinguish flexible load from firm load. A large flexible load entered at nameplate capacity justifies augmentation it would not cause, and that augmentation enters the revenue requirement and is recovered from consumers. Forecasts should represent flexible load by its declared and metered operating profile.

A shorter determination cycle would improve expenditure forecasts by reducing the need to predict technology, consumer behaviour and network need many years in advance. As the energy transition accelerates, shorter forecasting horizons would allow DNSPs and the AER to make decisions using more current information, reducing uncertainty and improving the accuracy of both capex and opex forecasts.

Question 4: Are changes required in how consumer preferences are reflected in the revenue determination process?

The EEC considers that the current approach to consumer engagement could be improved. Revenue determinations are highly technical, and engagement can place too much emphasis on asking consumers to form views on regulatory inputs they are not well placed to assess. Consumer engagement should focus more clearly on outcomes and trade-offs that people experience directly, including affordability, reliability, service quality, simple and understandable tariffs, timely connections, resilience, export access and the ability to participate through CER and flexible demand.

Representative participants should be progressively supported to understand the network's role and then asked accessible, outcomes-based questions about relative priorities. DNSPs should clearly demonstrate how feedback influenced their proposals and explain where it was not adopted.

Retailers can provide valuable insights into customer behaviour, tariff preferences and barriers to CER participation, but they should not be viewed as primary representatives of consumers. Their role should be supplementary to direct consumer engagement and independent consumer advocacy.

The EEC also encourages stronger representation of under-represented consumer groups and greater use of deliberative engagement. Revealed preference evidence, such as uptake of solar, batteries, EVs and flexible demand services, can complement direct engagement. This work should also be linked with pricing reform, because network service preferences and tariff design cannot be considered in isolation.

The value of consumer engagement depends not only on how DNSPs engage, but also on how the AER assesses and uses the resulting evidence. At present, there is insufficient transparency regarding the role consumer preferences play in regulatory decisions and how they are weighed against technical and economic considerations. The AER should provide clearer guidance on where consumer preferences are expected to influence outcomes, establish more consistent expectations for how engagement evidence is evaluated, and explicitly demonstrate how consumer views have informed its decisions. Without a clear link between engagement and decision-making, there is a risk that consumer engagement becomes a procedural requirement rather than a meaningful input into regulatory outcomes.

Question 5: Are changes required to levelise incentives between capex and opex?

The EEC does not consider the framework provides a reliably neutral choice between capex, opex and third-party solutions.

Capital expenditure enters the regulatory asset base and earns a return over time, while many flexibility, software and service-based solutions are recovered as operating expenditure or contracted payments. Different treatment, incentive periods and perceived recovery risks can affect DNSP choices even where alternatives deliver comparable network outcomes.

In principle, the DMIS was an important step towards recognising non-network solutions. In announcing the scheme in December 2017, the AER stated:

“The Australian Energy Regulator (AER) estimates that if electricity distributors fully subscribe to the [new scheme](#), demand management investment of up to \$1bn over five years may be realised. Increased take up of demand management measures by electricity network businesses and consumers will lead to a reduction in the need for costly infrastructure spending and accordingly put downward pressure on prices, benefitting the whole community.”¹

Unfortunately, the DMIS has never come close to realising this potential.

The DMIS states that,

*“the scheme should reward **distributors** for implementing relevant **non-network options** that deliver net cost savings to **retail customers**”* Sect. 1.3 (3b)²

The DMIS defines these non-network options and associated savings and benefits widely, including:

*“ (a) Costs and benefits of a kind that accrue to consumers via the distribution network;
and
(b) To the extent they exist and may affect the **distributor's** identification of the **preferred option**:*

¹ AER incentive scheme to drive potential \$1bn in demand management action - 14 December 2017

<https://www.aer.gov.au/news/articles/news-releases/aer-incentive-scheme-drive-potential-1bn-demand-management-action>

- i. *Costs and benefits of a kind that accrue to consumers via parts of the **relevant market** other than the **distribution network**; and*
- ii. *Benefits that consist of option value.” Sect. 2.2(4)²*

Despite this wide intended scope, the DMIS has been very narrowly applied. In practice, it remains focused on a narrow set of demand-management outcomes centred on peak demand and avoided augmentation. This reflects the needs of a past electricity system rather than today's increasingly distributed and dynamic network. The scheme is also complex to administer, with benefits often difficult to quantify and validate, creating a barrier to the widespread deployment of flexibility, demand response and CER-based services. As a result, the DMIS has not evolved into the primary mechanism through which DNSPs procure and value non-network solutions and is increasingly misaligned with the outcomes consumers need from the future network.

The impact of the DMIS has also been limited by the fact that, due the rapid growth of CER, it has applied during a period of flat growth in peak demand, as illustrated in Figure 1. However, as noted in AEMO planning documents, due to the forecast rise of electrification, especially electric vehicles, and data centres, peak demand is now expected to resume rapid growth.

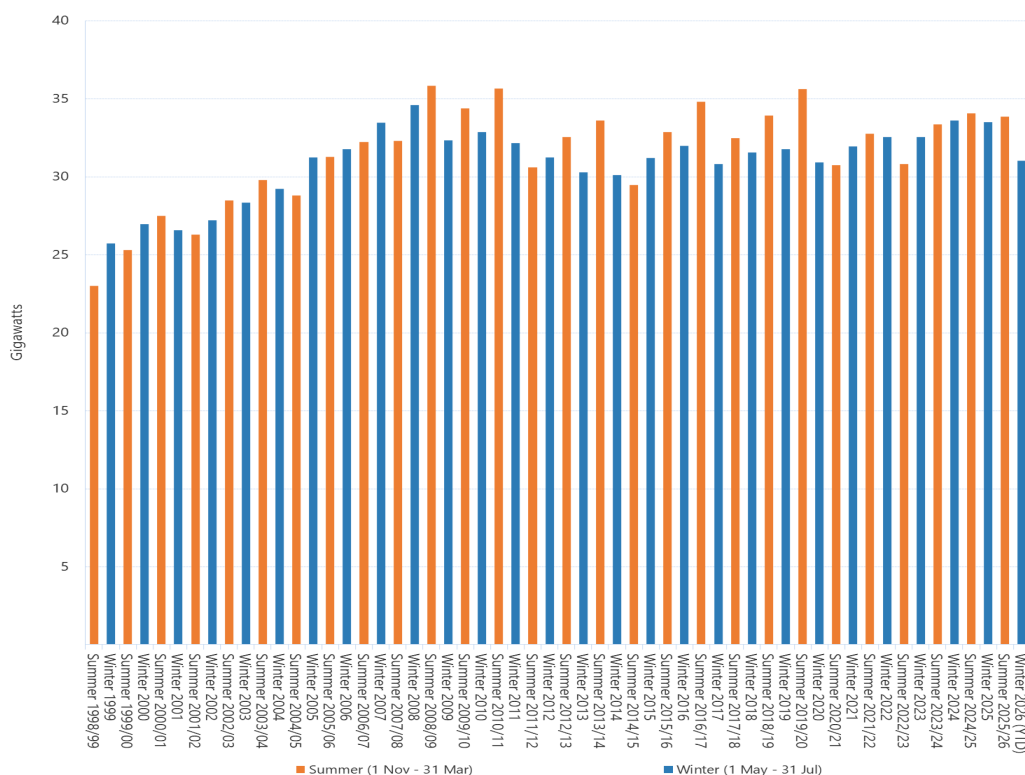


Figure 1. Summer and winter peak demand across the NEM since its commencement. (AER³)

² AER - Demand management incentive scheme - 14 December 2017 <https://www.aer.gov.au/system/files/AER%20-%20Demand%20management%20incentive%20scheme%20-%202014%20December%202017.docx>

³ AER, <https://www.aer.gov.au/industry/registers/charts/seasonal-peak-demand-nem>

Now more than ever, there is a critical need for effective incentives for demand-side solutions and demand management.

A level playing field must be created by valuing demand-side solutions equally with traditional infrastructure. This may be achieved in a variety of ways that should be considered by the Commission:

Adopting totex regulation

A total expenditure (totex) framework has been adopted by Great Britain's regulator, Ofgem, through its RIIO (Revenue = Incentives + Innovation + Outputs) regime to reduce the bias between capital and operational expenditure.

This has supported increased consideration of non-network solutions, flexibility services and innovative operating approaches, while reducing incentives to favour traditional network augmentation simply because it attracts a regulated return.

However, the UK experience also highlights a number of implementation challenges. Totex requires more granular cost reporting and new approaches to expenditure assessment, capitalisation and depreciation. It also requires careful transition arrangements to manage legacy assets and avoid unintended revenue impacts. Some stakeholders have also raised concerns that poorly designed totex models can create incentives to defer rather than avoid expenditure, meaning that the details of the framework are critical.

While these challenges should not be underestimated, the UK experience demonstrates that they are manageable and should not preclude consideration of totex as part of a broader package of reforms to create a more level playing field between network and non-network solutions.

Importantly, the UK did not rely on totex alone. The RIIO framework combines totex with output-based incentives, innovation funding and, more recently, flexibility and DSO-related incentives. This suggests that while totex can reduce structural capex bias, additional reforms may still be required to actively reward efficient use of demand-side and distributed energy resources.

Totex carve-outs

While concerns about expenditure bias extend across the broader regulatory framework, the strongest case for reform exists where traditional network augmentation competes directly with demand-side and non-network alternatives to address the same identified need – for example, where a DNSP can either augment a constrained feeder or procure local flexibility services to manage the constraint. In these circumstances, regulatory settings should ensure both options are assessed on an equivalent basis, so consumers receive the lowest-cost and highest-value solution.

A targeted totex “carve-out”, applied in these circumstances, could therefore be used as a transitional measure, focusing on a limited number of expenditure categories before considering wider application.

Retain the capex and opex distinction but reform current incentives with a package that better addresses the capex bias

Retaining the capex and opex distinction while replacing the current incentive package may represent a pragmatic near-term reform option. Rather than fundamentally changing how expenditure is treated, this approach would seek to counteract capex bias through targeted incentives that reward efficient utilisation of existing networks, procurement of non-network solutions, deployment of flexibility services, and avoidance of unnecessary augmentation.

However, the effectiveness of this approach will require incentives to be sufficiently strong to offset the underlying advantage that capital expenditure continues to receive through its inclusion in the regulated asset base.

Some options to reform current incentives to better address the capex bias are set out below. Please also see the response to question 7.

- *Better align the CESS and EBSS*

The CESS and EBSS were originally designed to provide similar incentives for efficient spending, but they have become increasingly misaligned over time. While both schemes started with the same sharing rate, the effective reward available under the EBSS has declined, while the CESS has largely remained unchanged. In principle, networks should be indifferent between capital and operating solutions if both schemes provide similar incentives. However, where the schemes differ there is a risk that expenditure decisions are influenced by incentive design rather than by the most efficient outcome.

The AER acknowledges that this imbalance exists, but has found limited evidence that it has materially changed network investment decisions. Recent changes to the CESS have narrowed the gap for large capex underspends, but differences remain. Timing differences also create distortions, as rewards for opex efficiencies decline towards the end of a regulatory period, potentially encouraging substitution between opex and capex.

More fundamentally, the interaction between the CESS and EBSS is not the primary source of capex bias. Capital expenditure added to the regulatory asset base earns a return over the life of the asset, while operating expenditure receives only a temporary reward through incentive schemes. As a result, capital solutions continue to receive preferential treatment regardless of the relative sharing rates.

The EEC supports further work to identify whether the EBSS and CESS can be better aligned. The Commission should also consider whether eligibility for a portion of CESS rewards should be contingent on DNSPs demonstrating that non-network alternatives were properly considered and that augmentation represented the most efficient available option. This would better align the scheme with the objective of technology neutrality and help ensure that incentive payments reward efficient outcomes rather than simply efficient delivery of network assets.

However, aligning the two schemes alone is unlikely to address the underlying capex bias. Consideration should also be given to strengthening incentives for non-network

solutions (see responses to question 7), requiring clearer assessment of competitive alternatives, and exploring longer-term reforms such as totex-based approaches.

- *Streamline and open up the DMIS*

The DMIS is not fit for purpose. It does not recognise the wide range of outcomes that the demand side can deliver to an increasingly dynamic network.

The extraordinary success of the Small-scale renewable energy scheme (SRES), the NSW/ACT Energy Savings Scheme, the Victorian Energy Upgrades scheme and the Cheaper Home Battery scheme have clearly demonstrated that simple, transparent and competitively open mechanisms can deliver massive benefits to consumers, while reducing energy bills and carbon emissions. The DMIS could be reformed along similar lines, with DNSPs identifying emerging network constraint and opportunities, and accredited suppliers providing defined demand-side solutions that meet clearly specified needs.

As mentioned above, any changes to the treatment of capital and operating expenditure should not be considered in isolation from the broader incentive framework. Economic regulation and incentive schemes work together to shape network behaviour, and changes in one area may reinforce or undermine outcomes in another.

Options for reforming economic regulation should be assessed alongside potential reforms to incentive arrangements, including those discussed in response to question 7, to ensure the framework operates as a coherent package.

Question 6: How should we approach DSO incentives through this Review?

Detailed DSO incentives should not be finalised until the DSO role, contestable boundaries and ring-fencing arrangements are settled. At this stage, DSO is an emerging function rather than a consistently defined institutional role. The immediate priority should be to establish clear obligations on DNSPs to provide the platform capabilities, interoperable data and non-discriminatory access that enable retailers, aggregators and other third parties to compete in providing flexibility and network support services. These are foundational responsibilities and should not depend on an additional reward.

The Review should therefore first define the desired outcomes, obligations and market boundaries, including how data access and coordination will support third-party participation. Only then should it consider whether residual gaps justify additional incentives and how to avoid double counting benefits already captured through expenditure assessment, utilisation measures or service obligations. This sequencing concern applies to DSO-specific incentives. It should not delay consideration of an incentive for efficient network utilisation or for the procurement and connection of non-network and flexible load solutions, which can be progressed independently of the DSO role definition

If incentives are subsequently found to be necessary, they should be narrowly targeted, measurable and demonstrably additional to minimum obligations. Rather than rewarding DNSPs for undertaking particular DSO functions, any future incentive framework should focus

on the consumer and system value delivered. One option would be to build a whole-of-system incentive around an expanded version of the AER's Customer Export Curtailment Value (CECV) methodology. The CECV framework already estimates the value to consumers and the broader electricity market of reducing CER export curtailment and enabling additional exports. While it is currently used to inform expenditure assessment and long-term investment decisions, it is not directly linked to DNSP performance incentives. Incorporating similar methodologies into an incentive framework could reward DNSPs for delivering measurable system benefits through network utilisation, flexibility and CER integration, rather than for undertaking prescribed activities.

Over time, this approach could evolve into a broader whole-of-system value metric. In addition to the wholesale market benefits captured through CECV, the framework could incorporate avoided transmission investment, avoided generation capacity investment, emissions reductions and other measurable system outcomes. This would better align network incentives with the National Electricity Objective and the growing role of distribution networks in enabling CER, electrification and efficient utilisation of existing infrastructure. The definition of whole-of-system benefits should apply to large flexible industrial loads connected at either the distribution or transmission level, as well as to consumer energy resources.

Question 7: We are interested in stakeholders' views on an incentive mechanism to support efficient network utilisation

While better network utilisation is one outcome, as set out in the principles for reform section above, the current incentive package should be reviewed and amended or replaced with incentives/obligations which drive the following outcomes:

Network productivity for both imports and exports

The EEC supports reform to the current utilisation metric. Existing utilisation measures focus primarily on peak demand relative to network capacity and provide only a narrow view of how effectively the network is being used. This metric can provide perverse incentives by suggesting increased peak demand and lower load factors are desirable. A future metric should assess the value enabled by both consumption and exports and should be sufficiently location-specific to reveal constraints and performance at relevant parts of the distribution system, including at the low-voltage level, rather than relying only on a whole-of-network average.

Current utilisation measures can produce counterintuitive results in high-CER networks. For example, a DNSP that successfully enables large volumes of rooftop solar exports may appear poorly utilised under traditional metrics because export constraints are reached during periods of high solar production. However, from a consumer and system perspective, facilitating those exports can reduce wholesale prices, improve asset utilisation and increase the value delivered by the network.

A productivity-based incentive mechanism could reward DNSPs for delivering these wider benefits.

The EEC recommends that the Commission review the work done by researchers at the Institute for Sustainable Futures at the University of Technology Sydney, with support from Energy

Consumers Australia as a starting point⁴. This research proposes two headline measures: the Total Economic Throughput Utilisation (TETU) and Two-way Power Flow Utilisation which could be used to reward performance on exports and self-consumption rather than only on peak import.

Voltage management

Sustained over-voltage and under-voltage should be captured through strengthened minimum standards, monitoring and transparent reporting. These outcomes may be partly reflected in a well-designed utilisation measure, so voltage management should not automatically be addressed through a separate incentive. Any additional incentive mechanism should address a clearly identified gap and avoid rewarding compliance with minimum obligations.

Whole of system benefits

Please see the response to question 6 above.

Improved consumer services

The Review should distinguish between minimum customer-service obligations and performance that may warrant an incentive. Many services that might once have been considered innovative are becoming core functions of network businesses and should increasingly be treated as business as usual. The priority should be to establish clear, nationally consistent obligations and accountability mechanisms, supported by standards and penalties where appropriate. Any customer service-focused incentive should be reserved for material gaps not adequately addressed through obligations or a broader network utilisation and/or whole-of-system incentive framework.

The Service Target Performance Incentive Scheme (STPIS), the Export Service Incentive Scheme (ESIS) and the Customer Service Incentive Scheme (CSIS) should be reviewed and updated or replaced to meet consumer needs as distribution networks transition to a two-way system. Priority outcomes include timely and transparent connection processes, access to flexible export arrangements, and the provision of clear network information. This could include publication of hosting capacity and available import and export headroom at the low-voltage level, curtailment information, network utilisation and voltage-management metrics. Data sharing, transparency and interoperability would improve the ability of retailers, aggregators and other third parties to identify and provide non-network solutions, lowering barriers to entry and supporting more efficient use of existing network capacity.

Some of these outcomes could be delivered under the Commission's recent rule on enhancing distribution network planning and reporting, which requires the AER to develop guidelines prescribing the network information DNSPs must publish. This Review provides an opportunity to establish clearer expectations regarding the content of those guidelines and ensure that network utilisation opportunities become more visible to consumers and market participants.

⁴ [Langham, E, Ibrahim, I., Rispler, J and Roche, D. \(2024\). Reimagining Network Utilisation in the Era of Consumer Energy Resources. Prepared by UTS with the support of Energy Consumers Australia. Version 1.2, December 2024.](#)

Decarbonisation and electrification

In 2023, the National Electricity Objective (NEO) was amended to include the achievement of emissions reduction targets set by participating jurisdictions. Despite this change, the economic regulatory framework for electricity networks has not been substantially updated to recognise or reward the role DNSPs can play in facilitating decarbonisation.

DNSPs can facilitate emissions reductions by increasing electrification hosting capacity, integrating CER and enabling flexible connection of electric vehicles, buildings and commercial and industrial loads. Connection processes should explicitly test whether flexibility, storage or staged connection arrangements can meet customer needs while deferring augmentation. The regulatory framework should recognise these enabling outcomes where they are measurable, efficient and not already captured through utilisation or whole-of-system measures.

Improved climate resilience of energy services

The 2025 resilience rule changes represent a significant step towards embedding climate resilience within network regulation. The reforms require DNSPs and the AER to explicitly consider resilience outcomes when proposing and assessing expenditure, supported by new resilience expenditure factors, AER Network Resilience Guidelines, and enhanced planning and reporting requirements.

A key component of the framework is the Value of Network Resilience (VNR), which seeks to quantify the value customers place on avoiding prolonged and disruptive outages, providing a clearer basis for resilience investment decisions. These reforms may be sufficient to strengthen resilience incentives in the near term and should be given time to operate. However, their effectiveness should be monitored and reviewed as the energy system evolves.

The framework should also encourage DNSPs to consider non-network approaches to resilience alongside traditional network hardening. Aggregated CER, standalone power systems (SAPS), microgrids and other distributed solutions can in, some circumstances, provide a lower-cost and more flexible means of improving resilience and reducing bushfire and extreme weather risks. The extent to which these options are adopted will depend on whether the broader regulatory framework provides neutral treatment of capital, operating and service-based solutions.

An ongoing challenge will be how to appropriately value high-impact, low-probability (HILP) events. Traditional cost-benefit approaches can struggle to capture the severe social and economic consequences of major bushfires, storms, floods and prolonged outages. Future reviews should consider whether existing resilience valuation methodologies adequately reflect community expectations regarding catastrophic risk and whether additional mechanisms are needed to account for events with potentially extreme consequences but low likelihood.

Question 8: Are changes required to better incentivise network innovation?

The current framework is not effective in driving innovation.

The Demand Management Innovation Allowance Mechanism (DMIAM) was developed in an era when the primary challenge facing distribution networks was managing peak demand and

identifying alternatives to traditional network augmentation. While these objectives remain relevant, the role of demand-side resources has expanded considerably. Flexible demand, batteries, electric vehicles, distributed generation and other CER can now support a much wider range of outcomes, including improving network utilisation, increasing export capacity, enabling electrification, enhancing resilience and reducing whole-of-system costs. A mechanism focused primarily on peak demand no longer reflects the full value that demand-side solutions can deliver. Stakeholder feedback indicates that the scheme's objectives and eligibility criteria remain anchored to a one-way electricity system and have not kept pace with the opportunities created by CER and an increasingly dynamic network.

The EEC considers that innovation funding should sit outside the broader incentive framework, so DNSPs are neither rewarded for underspending innovation allowances nor penalised when well-designed trials do not succeed. Eligibility should be broadened beyond peak demand management to support innovation that improves network utilisation, CER integration, interoperability, data sharing and access to non-network solutions. Funding should be contingent on genuine collaboration with commercial providers, consumer representatives or industry reference groups, and on the publication of lessons learned to maximise benefits across the sector. The Commission should also consider moving towards a competitive innovation funding model, similar to approaches adopted internationally, to direct funding towards the most valuable and scalable innovations rather than relying solely on distributor-specific allowances.

Question 9: Does the framework appropriately allocate risk given the changes underway?

The EEC considers that some sources of uncertainty are increasing in the context of the energy transition. Key sources of uncertainty include the rate and location of CER uptake, electrification of transport and buildings, flexible demand participation, technology cost reductions, changing customer preferences and the evolving role of DNSPs. These factors affect both the timing and quantity of future network investment requirements. The Commission's consultation paper recognises that risk should be allocated to the party best placed to manage, influence or absorb it, and that consumers may incur unnecessary costs where risks are allocated inefficiently.

While the current framework has historically provided strong investment certainty, it was designed for a more predictable environment. Under the existing arrangements, consumers bear a significant proportion of the consequences of forecasting error because approved capital expenditure is incorporated into the regulatory asset base and recovered over time. In an environment of rapid technological change, this can expose consumers to stranded asset risk and may reduce incentives to pursue lower-cost and more flexible alternatives. This suggests that some transition risks are currently allocated to consumers even where DNSPs are better placed to manage or mitigate those risks.

DNSPs should continue to be compensated for genuine systematic risks and should have mechanisms available to respond to material events outside their control. However, the framework should place greater emphasis on ensuring that networks bear the consequences of decisions they can influence, including investment timing, option selection and consideration of non-network alternatives. Consistent with this principle, the framework should place greater

weight on adaptive planning, staged investment approaches and the use of flexible, non-network solutions where future needs remain uncertain.

The framework should be reoriented around the principle that risk is allocated to the party best able to manage it. This requires retaining strong incentives for DNSPs to manage ordinary forecasting and delivery risks, improving flexibility to respond to material changes during the energy transition, and strengthening accountability for investment outcomes so that consumers do not bear unnecessary transition risks.

Question 10: Does the framework appropriately enable anticipatory investment?

Anticipatory investment can lower long-term costs and support timely electrification, but it can also leave consumers paying for assets that are underused or no longer required. The framework should support investment where there is a credible need, material consumer benefit and a disciplined strategy for managing uncertainty. This should include explicit consideration of flexible and non-network alternatives, connection processes which explicitly test whether flexibility, storage or staged investment approaches are practical, and assessment of the value of waiting where future demand remains uncertain.

Question 11: Does the RoRI enable appropriate compensation for risk within the context of the regulatory package as a whole?

The EEC acknowledges that transmission and distribution businesses may face increasingly different risk profiles as the role of CER and flexible demand expands. Distribution networks are generally more exposed to changes in consumer behaviour and the availability of non-network alternatives. However, these developments also create new opportunities to improve network utilisation, defer augmentation and deliver lower-cost outcomes for consumers. The regulatory framework should incentivise DNSPs to capture these opportunities rather than assuming that greater uncertainty necessarily warrants higher returns.

The EEC does not consider that the Rate of Return Instrument should be used as the primary mechanism for addressing transition-related uncertainties. The current review and update cycle for the instrument remains appropriate and provides sufficient flexibility to account for changes in systematic risk over time. Instead, reform efforts should focus on improving expenditure assessment, strengthening incentives for adaptive planning and flexibility, and ensuring that networks bear appropriate responsibility for risks they are best placed to manage. Shorter and more responsive revenue determination cycles, as discussed elsewhere in this submission, would also reduce forecasting uncertainty and the duration over which DNSPs are exposed to changing market conditions. As these reforms reduce risk exposure, they should be reflected in regulatory settings in the same way that increases in risk would be recognised.

Question 12: Do you agree with our proposed assessment framework?

The EEC broadly supports the proposed assessment criteria, particularly the prioritisation of consumer outcomes. However, the assessment framework would benefit from greater clarity regarding the consumer outcomes it is seeking to promote.

For example, the consultation paper refers to consumers ‘having access to the services they want and need’ but does not clearly define what those services are in the context of a rapidly changing electricity system.

The Review should assess reforms against a clearer set of desired outcomes, including affordable and reliable electricity, efficient utilisation of existing network and consumer assets, timely and transparent connections, access to export services, participation in CER and flexibility markets, interoperability and data access, resilience, and support for electrification and emissions reduction.

A clear articulation of these outcomes would improve the transparency and consistency of the assessment framework and provide a stronger basis for evaluating trade-offs between competing reform options.



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