AUSTRALIAN ENERGY COUNCIL

13 February 2026

Ms Sally McMahon
Commissioner
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Project Reference: EPR0097

Dear Ms McMahon,

Draft Report – The pricing review: Electricity pricing for a consumer-driven future

The Australian Energy Council (AEC) is the peak body for energy retailers and generators operating in competitive markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring that customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

This submission is informed by our Future Role of Retailer project, as outlined in our submissions to the review's previous rounds of consultation. The AEC's Consumer Energy Resources (CER) Integration strategy provides a structured and holistic approach to guide our consideration of the changes to industry arrangements needed to serve customer needs in the future system. As part of this strategy, we initiated the *Role of Retailer* project in June 2024 and have worked with our retail members to consider what products and services customers may need in the future system and the changes that may be needed to retailers' role to deliver the outcomes customers require. Our submissions draw on the insights we developed through the project, which is still ongoing.

Overview

In this submission, the AEC outlines its reasons for urging the AEMC to undertake further consultation before delivering the final report.

It is important to understand the context in which this review is taking place. Below, we set out the main contextual factors to consider.

Ongoing pressures for customers, industry and decision-makers pertain as a result of a prolonged cost-of-living crisis and broader concerns with energy affordability. This informs retailers' processes and actions to assist customers who need it the most. Of course, retailers can only act within the rules as they stand, and there is limited scope for retailers to shoulder more of the burden of energy affordability issues, given the need to recover costs and the modest overall margins enjoyed by the sector.

As a consequence of affordability concerns, the sector is subject to a range of reforms and government interventions. The Australian Energy Market Commission's (AEMC's) *Interacting reforms across the retail sector* infographic[1] does a good job of illustrating the complexity that results for industry and

[1] Draft report, p3

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

policymakers. The infographic does not even cover the totality of reform, noting that some changes, such as the Solar Sharer, have been announced during this review process. The full impact of this range of reforms is yet to be understood, and so we urge caution in layering on still more regulation.

Whether as a consequence of recent reforms – or in some cases despite them – competition is delivering more positive outcomes for customers and accordingly remains an important driver of customer benefits. Additionally, the surest route to achieving the innovation that the AEMC articulates is part of its vision[2], is via competition. Accordingly, reforms should be pro-competition rather than stifling it.

In light of these factors, the recommendations in the draft report are likely to result in variable impacts. Crucially, recommendation 1 and the reasoning that underpins it in the report are anti-competition rather than pro-competition. This is because the framing of price differentials as "loyalty penalties" fails to recognise that the other side of this coin is that they are also "search rewards" that reward customers who do choose to actively participate in the market. The AEMC's third theme for the report is to "reward consumers for activities that are valuable in achieving a lowest-cost system…"[3] Ideally, this would also apply to consumers who actively participate and thus drive competition in the market, leading to lower overall costs as retailers are forced to find ways to save costs and work hard to strike energy contracts at the most competitive price possible. However, the AEMC also states that its goal is to "ensure every customer is always on the best price"[4], which is only possible by effectively setting the "search reward" to zero. This would remove the incentive for customers to shop around, fundamentally undermining retail competition.

Recommendation 2 is more pro-competition but carries the risk of failure to achieve the desired outcomes unless carefully designed. We need to better understand the details of a potential auction of standing offer load before expressing support.

Recommendations 3 and 4 are sensible in principle but need careful consideration to deliver worthwhile outcomes.

The AEC has serious concerns about recommendation 5. We are not convinced that the AEMC should be prescribing definitive views on what the "right" network tariffs look like. The allocation of network costs to different tariffs is fundamentally a question of trade-offs and thus is not well-suited to a rigid perspective. It also appears to fail to distinguish between stable pricing signals at a network level, which is what we consider network tariffs are for and should continue to be, and dynamic network support payments that target a demand response at a specific time and location. There is a role for the latter, and the development of a network support market should be fostered by policymakers, but this is separate from the question of tariffs.

Recommendation 6 remedies a long-standing ambiguity in the rules, and we are highly supportive, providing the process is set up appropriately.

We expand on these points further below and in the Attachment, which sets out responses to the key questions in the draft report.

[2] Draft report, p20

[3] Draft report, p35

[4] Draft report, p29

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

ACCC: Competition, combined with recent reforms, is delivering more positive outcomes for customers

The AEC welcomes the Australian Competition and Consumer Commission's (ACCC's) latest report, which confirms that competition in the retail energy market is delivering benefits for customers: "we see signs that competition and recent policy reforms to support customers are leading to more positive outcomes".[5] The report shows households can save around $100 to $250 a year by moving off default offers, showing the benefits of an active market. It also highlights that more customers are shopping around, with those on their retailer's best offer jumping from 19 to 27 per cent and the share on new plans rising from 29 to 42 per cent.[6] The findings reveal that the market appears to be working effectively and that competition is delivering positive outcomes, with customers who shop around able to access better deals.

Customers on older plans vs customers who switch

The ACCC's December 2025 Report includes a comparison between customers on new plans and customers on older plans. In this report, the ACCC shows how the additional amounts some customers pay increase with the age of the plan they are on and refers to this as "the loyalty penalty":

> "For all regions combined, customers on older plans were paying prices that were:
>
> - 4.7% higher on flat rate plans (down from 11.7% in 2024)
> - 4.2% higher on time of use plans (down from 11.8% in 2024)
> - 0.9% higher on flat rate demand plans (down from 6.3% in 2024)
> - 1.4% higher on time of use demand plans (down from 4.3% in 2024)."[7]
>
> "Customers on plans more than 3 years old pay the most. Compared to newer plans, these plans have calculated annual prices that are 10.5% or $221 higher in all regions combined."[8]

The ACCC also found that 24.1% of customers (or 1.1 million customers) on flat rate plans are on plans that are 3 or more years old, out of a total of 6.8 million customers. There are also significantly more customers on older plans paying prices above the default offers than customers on newer plans.[9]

Concurrently with the findings about customers on older plans, the ACCC found that approximately 20% of customers across the NEM (1.4 million customers) switch retailers in any given year and that more customers are on newer plans in 2025 than in 2024. This is broadly consistent with the Energy Consumer Australia's Consumer Energy Report Card June 2025, which identified that 18% of respondents had switched retailers in the past 12 months, although 64% had at least reviewed their plan and investigated alternatives during the same period. Additionally, 61% of respondents were very or somewhat confident that they were on a competitively priced plan.[10]

[5] ACCC (2025) Inquiry into the National Electricity Market at https://www.accc.gov.au/about-us/publications/serial-publications/inquiry-into-the-national-electricity-market-2018-26-reports/inquiry-into-the-national-electricity-market-report-december-2025 p.2
[6] ACCC (2025) ibid
[7] ACCC (2025) op cit p.31
[8] ACCC (2025) op cit p.32
[9] ACCC (2025) op cit
[10] ACCC (2025) op cit p.41

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

Defining “the problem”

In a competitive market, the problem cannot simply be the existence of price differentials. Price differentials are a hallmark of a real-world competitive market, as opposed to a theoretically perfectly competitive market. Retail electricity, like many other services, is composed of fixed and variable costs, and so pricing offers aimed at attracting price-sensitive new customers will inevitably trend towards recovering only variable costs. So, in order to remain financially viable, the retailer will need to recover fixed costs and margins from the remainder of their customer base. Those cost savings are the reward for customers for taking the time and effort to search for better offers, and to switch, whether within a retailer’s suite of offers or by changing their retailer.

Price competition is good because customers want the option of lower prices - otherwise, why should policymakers care about price differentials if they think customers do not? So, it remains an appropriate element of retail competition, but of course it need not be the only element (and retailers have always found other points of differentiation).

Price competition also forces retailers to constantly examine their own costs and ways to reduce them to stay competitive. This is the inherent logic of the many certificate schemes that retailers in the NEM are subject to – these schemes would just be administratively inefficient unless the process of retailers competing against each other and needing to drive down their costs led to them (or certificate creators) discovering the lowest cost means to generate a certificate.

In this way, although the cost savings are invisible as we cannot know the counterfactual of the absence of competitive pressures, the system costs are lowered thanks to the actions of active customers. This is how competition benefits all customers. We can be confident of this, given ACCC evidence of modest overall margins, meaning there must be some implicit constraint on even the prices charged to less engaged customers.

Despite this, we recognise that electricity’s status as an essential service means that market outcomes are subject to community scrutiny and that some stakeholders may consider the scale of price differentials to be too high. In considering any regulatory response to such concerns, policymakers should bear in mind the following:

- Retailers do not simply decide the scale of price differentials – they are an outworking of competitive market dynamics.
- Attempts to precisely calibrate price differentials to a specific “acceptable” range are fraught with the risk of unintended consequences, leading actual outcomes to be either higher or lower than the target.
- Average retail margins are modest. The ACCC’s analysis indicates that the average NEM retail margin for the five years to 2023/34 was 3.4 per cent[11]. Accordingly, there is little scope to bring down prices for those paying the highest prices without also increasing prices for those currently paying the lowest prices.
- Eroding price differentials completely may solve the “loyalty penalty”, but it also eliminates the “switching reward” that drives competitive market outcomes.

We also recognise that the market is likely to continue to mature such that retailers compete on terms other than price, too. This is already occurring, and so the direction of travel is consistent with achieving

[11] Data sourced from: ACCC, Inquiry into the National Electricity Market report - December 2024. NEM averages over five years have been used, as individual state averages for individual years are volatile, and even negative in some cases.

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

the AEMC's retail vision. Indeed, as more households install solar PV and batteries, the size of the traditional retail market will shrink, and retailers will need to adapt to survive and thrive. But there will likely always be a role for price competition in the market, too – it is not a case of either/or. Further, it is often smaller retailers who are amongst the most aggressive users of acquisition pricing to obtain new customers, as their business model relies on growth (note that by definition, such retailers' customers are always proven switchers, so they have to pay attention to the competitiveness of the prices they charge customers who have been with them for longer). Growth creates scale and scale supports the cost-effective development of alternative offerings, including those of the sort that the AEMC envisages in its vision.

From a customer perspective, the AEMC's recommendation 1 (same plan, same price) will mean that customers with the deepest discounts off the DMO will be the losers, with the expectation that customers paying around the DMO or above are better off. The ability for retailers to compete on price is also constrained by this recommendation. While this may be the intention of the AEMC in making this recommendation, it is worthwhile considering its implications for particular customer cohorts.

While it is expected that there is a proportion of customers with deep discounts who actively switch, and may even do so frequently, the AEC has provided data to the AEMC confidentially as part of this submission, which indicates the proportion of hardship customers who are currently on their retailer's best offer (AEMC to refer to Appendix). These customers are expected to be paying more under the same plan, same price proposal. That is because if discounts range from 15 to 5% below the DMO (hypothetical scenario), the same plan, same price proposal results in all discounts moving to 5% and those hardship customers on the retailer's best offer lose their 6-15% discounts.

The importance of underlying costs in electricity offers

It is important that in its analysis, the AEMC does not lose sight of how costs impact the range of offers that retailers can and do make.

Firstly, in the case of simple plans, current hedging costs (primarily for wholesale costs, but also for environmental certificates) inform what price can be offered. Network prices change each financial year, too. Failing to recognise that offers made at different times may have different underlying costs is one of the analytical weaknesses of the "same plan, same price" recommendation. Strictly, a plan offered six months ago is a different plan from one offered today, even if their name and their other characteristics are the same. This can be illustrated by two case studies.

Case study 1 – a falling cost environment

Retailer X has a simple market offer product, the Everyday Advantage. It goes out to market with a marketing campaign to grow its customer base. It prices the Everyday Advantage based on its understanding of contract prices at that time, which it buys to hedge out the new load. Six months later, it tries a new campaign. Falling spot prices and anticipated new generation in the market mean that contract prices are lower than they were before. Accordingly, it can offer the Everyday Advantage at a lower price to new customers. Under "same plan, same price", it would have to reduce the cost for all other Everyday Advantage customers, even though they currently have a higher cost to serve, due to historical hedging. Since this would be unsustainable, it cannot drop the price of Everyday Advantage, and the market misses out on a new competitive offer.

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

Case study 2 – a rising cost environment

The scenario is the same as in case study 1, except that tightening supply/demand and rising fuel prices mean that spot prices and contract prices are higher than six months ago. So, Retailer X may have to raise the price of its Everyday Advantage for it to be a financially viable offer. Of course, customers who switched six months previously are unlikely to be attracted, but there may be other customers on older plans who still benefit from switching to this plan. Under "Same plan, same price", Retailer X has to raise prices for Everyday Advantage customers who joined six months ago to maintain price equivalence, but it may be prohibited from doing so by existing regulations that constrain the incidence of price rises for existing customers. If it cannot raise prices and must maintain the same price, then, effectively, Retailer X will seek to withdraw from the market, as it cannot support applying the historic low-cost offer to new customers at this time.

Costs also play a role in constraining the range of tariff structures and additional services that retailers can offer. The AEMC appears not to recognise this, when it suggests that the way it wants competition to evolve is: "For example, an energy service provider could offer plans with different rates for different times (a family-friendly plan with lower rates for hours after school, a retiree-friendly plan with cheaper rates in the middle of the day, an EV plan with differentiated rates for charging…)"[12]. This implies retailers can and should simply design plans to suit the existing load profiles of different customer cohorts. But the reality is that costs do differ by time of day. Wholesale costs are typically lowest in the middle of the day and highest in the early evening. Network tariffs have set peak/off-peak times. Retailers lean into these cost differentials as best they can, hence the emergence of solar sharer-style market offers with a few free hours a day well before the legislated version. However, they cannot be infinitely flexible in such plans, except by charging a significant risk premium for the higher-priced periods, which is unlikely to suit customers.

Similarly, the potential for retailers to offer tariff types that are often mooted as being desirable, such as subscription-style pricing or multi-year fixed price tariffs, is fundamentally dependent on the extent to which their actual cost structures and the risk management tools available to them support them in making competitively priced offers of these types. This applies to the cost stack as a whole. As an example, the unpredictability of policy costs undermines the ability to offer multi-year fixed prices, and the prevalence of kWh-based liabilities for policy costs undermines the ability to offer subscription pricing. While retailers generally support the underlying intent of such schemes (energy efficiency, promoting renewable energy, etc.), policymakers may need to think more carefully about their priorities.

Innovation is risky and requires a higher margin to compensate for the costs of developing and marketing offerings that didn't take off. Despite this, VPPs and other CER-oriented offerings are emerging. But the way to catalyse this further is not to try to constrain other retailer activity, such as price-based competition for standard tariff offerings. If the AEMC really wants to foster a greater rate of retailer innovation, it will need to think much more deeply about the actual drivers of retailer behaviour and what they are responding to in the market. The AEC stands ready to lean in to conversations about the best means to achieve this.

[12] Draft report, pvii

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Retailers are not a homogeneous group

In considering how best to influence retailer behaviour to achieve policy goals and in evaluating the impacts on retailers, it's important to allow for differences between retailers in terms of size, customer composition, business model and other factors. Retailer responses to consultation should also be evaluated in this way - an individual retailer's support for our opposition to a proposal may be predicated on their specific circumstances. As noted above, we consider it likely that smaller retailers, for whom price-based customer acquisition is a central part of their growth strategy, will be the most negatively impacted by recommendation 1. Larger retailers will still be impacted, especially as they often have a large cohort of long-standing customers, but having greater resources and a broader customer base, they have more options in managing such regulations. By contrast, some emerging retailers, who are leveraging off their technology offerings, may be largely unaffected, due both to their lack of legacy customers to account for and the fact that they are less likely to be focused on price-based competition. Over time, retailers evolve, but they cannot simply change themselves from one type of retailer to another.

Price differentials and broader market considerations

The price differentials that give rise to criticisms of so-called "loyalty penalties" are not unique to energy markets. Similar dynamics have been observed in telecommunications, banking, insurance, and broader financial services. While market structures differ, the consumer impact is comparable.

In Australia, concerns about the size of price differentials in both energy and financial services have been examined by the Australian Competition and Consumer Commission and the Productivity Commission. Despite structural differences between sectors, both reviews identified common themes and proposed similar remedies. These included improving transparency, facilitating switching, and leveraging the Consumer Data Right to help consumers engage with the market and thus obtain some "switching benefits", or otherwise constrain the size of price differentials.

Evidence on unintended consequences

Academic research has also cautioned that policies designed to limit price differentials can produce counterproductive outcomes if poorly designed. A study by the University of New South Wales found that restricting price differentials between new and existing customers may reduce competitive undercutting, potentially resulting in higher prices overall[13]. However, the study also noted that carefully calibrated interventions could reduce excessive switching while protecting disengaged customers, potentially benefiting both consumers and firms. Nonetheless, calibrating a policy intervention in practice, rather than in the simplified market model used in the study, is challenging, as the following international examples show.

International experience: insurance reform in the UK

In the UK financial services sector, the Financial Conduct Authority introduced rules preventing insurers from charging renewing home and motor insurance customers more than equivalent new customers[14].

[13] Yang et al, Fairness Regulation of Prices in Competitive Markets, Manufacturing & Service Operations Management, Vol. 26, No. 5, September–October 2024, pp. 1897–1917

[14] See https://www.fca.org.uk/news/press-releases/fca-confirms-measures-protect-customers-loyalty-penalty-home-motor-insurance-markets

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

While the reforms prompted firms to revise pricing strategies, evidence on long-term consumer benefits remains mixed.

Some industry analysis suggests the reforms encouraged "brand stacking", whereby firms offer increasingly stripped-back products at lower prices[15]. While this specific risk may be less pronounced in the National Electricity Market—given minimum service standards under the National Energy Retail Rules and Electricity Retail Code of Practice—other assessments suggest that removing the scope for price differentials can lead to higher average prices across the market.

The FCA has since committed to evaluating the impacts of its pricing reforms, including unintended consequences.

International experience: UK electricity markets

In the UK electricity market, Ofgem has supplemented its price cap with additional measures aimed at addressing loyalty penalties. Notably, it has retained a prohibition on acquisition-only tariffs, which prevent suppliers from offering lower prices exclusively to new customers. Introduced during the 2022 wholesale price crisis, this ban has been extended until at least March 2026 while Ofgem considers whether it should become a permanent feature of the market[16].

Ofgem has acknowledged that while removing the ban could enhance competition for active switchers and spur innovation by improving incentives to launch new offerings, retaining it offers qualitative benefits for consumer protection during periods of market stress[17]. It also applies a market-wide derogation allowing acquisition-only tariffs to be offered to customers exiting a fixed-term contract.

State of play in the NEM

Another complication in calibrating a policy intervention effectively is to take account of other reforms in train. It is timely to reflect on the extent of these reforms. As the ACCC notes:

> "Upcoming rule changes will limit the loyalty penalty. From 1 July 2026, several rule changes will likely reduce price dispersion and constrain the size of the loyalty penalty:
>
> - Retailers in Victoria must ensure most Victorian customers pay no more than the Victorian Default Offer if they have been on the same contract for 4 or more years.
> - Retailers in Victoria will have to automatically place customers experiencing payment difficulty on their best offer.
> - Retailers in the NEM outside Victoria will be prevented from charging customers who were on fixed-term contracts more than the standing offer price after their energy plan's benefits change or expire.
> - Retailers in the NEM outside Victoria will be required to remove the conditionality of discounts on plans that existed before 1 July 2020 and apply the discount in full.
>
> The reforms seek to protect customers from paying unreasonably high prices. They should reduce the spread of prices as different customer groups are either moved to prices no higher

[15] See for example, https://www.insurancetimes.co.uk/analysis/opinion-has-brand-stacking-replaced-the-loyalty-penalty/1452359.article#:~:text=Some%20unintended%20consequences%20of%20brand%20stacking%20include:,have%20caused%20the%20rise%20of%20brand%20stacking.

[16] Ofgem, Renewing the ban on acquisition-only tariffs (BAT) after March 2026 – Consultation, August 2025

[17] Ofgem, Future of domestic price protection – Discussion Paper, March 2024

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

than default offers or are automatically placed on their retailer's best offer, reducing the number of customers on higher prices. We would expect these reforms to reduce price dispersion and the loyalty penalty for customers on old plans. Additionally, from September 2026, the Australian Energy Market Commission will require retailers to include comparison information, such as better offer messages, in accompanying communications like covering emails. This acknowledges that many customers may not open their actual bill if all necessary information is in the covering email."[18]

Next steps

In light of our concerns that the Draft report's recommendations are either inappropriate or require significant further development to be attractive, we consider that further consultation would be appropriate before delivering the final report. This would allow the industry time to potentially coordinate around workable alternatives to Recommendation 1. Given that the AEMC will want to then test its revised recommendations, a second draft report is likely to be appropriate. This also allows further time to evaluate the impact of the most recent tranche of reforms.

The AEC addresses the consultation questions in the attachment.

Please do not hesitate to contact me at jo.desilva@energycouncil.com.au or by telephone on 03 9205 3100 if you wish to discuss our submission further.

Yours sincerely,

Jo De Silva

Jo De Silva

General Manager Retail Policy

[18] ACCC (2025) op cit p.45

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Attachment: Consultation Questions and AEC Responses

Question 1: Remove retail loyalty tax [sic]

Do you consider recommendation 1 would provide a better outcome for market offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

Refer to the attached letter.

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

Do you consider recommendation 2 would provide a better outcome for standing offer customers? If so, why? If not, why not and are there other approaches that would work better? What further implementation and market impacts would need to be considered?

This is a radical proposal, even if it is similar to approaches taken overseas. It raises significant questions about the role of explicit informed consent in the market. If it can be waived for such an auction, could it be waived in other circumstances – for example, if a retailer moved standing offer customers or customers who have been on the same market offer for some years to a cheaper tariff than they would otherwise be on?

Accordingly, this proposal would require careful development and scoping out of the auction process and associated regulations in order to maximise retailer participation and to elicit the most competitive bids possible. This entails consideration of the size of the tranche, the length of time for which the offer must be maintained, the frequency of auctions, how the tranche is composed, processes for transferring customer information in a way that's compatible with privacy requirements, customer communication protocols, and how customers with specific requirements (hardship customers, life support customers etc) are taken account of.

If the recommendation goes ahead, it should start with a very small-scale trial, and there should be a commitment to remove the DMO/VDO if it proceeds to a full-scale process.

The AEMC considers that recommendation 2 is complementary to recommendation 1. This does not appear to be the case. We assume that the thinking is that 1 is for consumers on higher-priced market offers, while 2 is for standing offers. But presumably the winning bid in an auction is effectively a market offer. So that implies that retailers will have to bid based on their current "standard" market offer, or that the winning retailer will have to move all its market offer customers to that price. Both of these will inhibit participation in the auction. If that is not the intention, then the AEMC must make that clear. The AEMC should also explain why it will tolerate a price differential between a standard market offer and an auction bid if they are fundamentally similar plans.

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07

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

Do you support the AEMC periodically assessing the impact of regulations and interventions on competition?

In principle, the AEC supports a periodic assessment. We are pleased to see the AEMC acknowledge that some regulations may be outdated and drive costs for no benefit. However, for it to be effective, several steps must be taken first.

The AEMC needs to be clear on what "good outcomes" look like, and this must be compatible with plausible competitive market outcomes.

The AEMC needs to be clear on how it can identify and remove obsolete regulations. While it is good to state the principle of doing so, we note that the recommendations in this Draft Decision only add, rather than subtract from, the stock of retail regulations.

The AEMC needs to be confident that it can diagnose which of the many regulations are working and which are not. As the Draft report notes in Figure 1.1, this review is taking place alongside many other reforms.

Question 4: Make it easier for consumers to compare offers

What information should be gathered from energy service providers, as the AER considers its review of the retail guidelines?

Support. Energy Made Easy needs to be better designed to enable innovative retail offers to be better promoted.

However, this entails careful consideration of the following issues:

- What is the scope of Energy Made Easy – will it cover CER sales too, or only products from conventional retailers? As boundaries start to blur at the margins between retailers and other service providers, maintaining the distinction and including all relevant offers becomes increasingly challenging.
- What helps customers make good choices? More diverse offerings may entail obtaining more information from customers to allow for appropriate comparison and rankings (assuming that is intended to remain a feature of Energy Made Easy). How will rankings be affected if retailers increase non-price competition as desired by the AEMC?
- Should every retail offering be bundled into a tariff, or should additional services like a VPP be compared independently?
- How can the relevant input data be efficiently collected from retailers to minimise the regulatory burden?

To assist the AER in working through these issues, the AEC recommends that it set up an industry working group to advise on how best to collect and present retailer information.

A complementary approach that would reduce reliance on Energy Made Easy being the sole source of truth in comparing offers would be to follow the UK lead and accredit commercial comparison sites. These are incentivised to actually help customers switch, and accreditation would allow policymakers to address concerns such as limited coverage of offers.

Question 5: Implement reforms such that network tariff design is focused on efficiency

Do you consider that the proposed reforms would be effective in delivering more efficient network tariffs and better promote the long-term interests of consumers than the existing rules? If not, are there different approaches that would work better?

We do not agree with some key aspects of this recommendation, such as:

- the AEMC's contention that largely fixed tariffs represent efficient tariffs;
- the AEMC's view that it is best placed to determine overall tariff structures, and;
- the concept of embedding highly dynamic and locational signals in tariffs, which are better viewed as stable price signals and for which a community preference for postage stamp pricing is well established.

We support the underlying premise of reviewing the pricing principles for network tariffs to ensure they are fit for the future.

- We suspect that careful thought will need to be given to the wording of any outcome-based objectives to elicit the desired outcomes in terms of tariff design. In particular, the allocation of jurisdictional costs that are passed through networks should be considered, given that these have no direct bearing on the use of or investment in the network.
- We note there is a range of views about how residual costs should be allocated, but that the specific outcomes should be allowed to emerge from the proposed process in recommendation 6, noting that we advise the AER should continue to have the role of approving network tariffs.
- Removing the side constraint allows greater flexibility for networks to respond to emerging issues but should be replaced by a requirement for networks to consider the value of stability in tariffs and the costs incurred by retailers and customers in responding to rapid changes in tariff structures. It will also facilitate whole-of-NEM consultation as discussed further below.

We also think it is important to distinguish between long-term and short-term price signals. We consider that LRMC remains a good starting point for tariff design, noting that most customers will prefer relatively simple, stable tariffs that, if they contain a signal for how to use the network, is one that support their own investments and "set-and-forget" style behavioural change. Most changes to load profiles that may arise from tariff design will be of this type, and the scope for change may be quite limited in any case. Postage stamp pricing is a well-established and widely supported approach to tariffs, and retailer systems are not set up to offer highly granular locational tariffs.

There is also the potential to unlock value in CER and support retail innovation by also having short-term, location-specific signals to reduce congestion and to defer network investment. But response to these kinds of signals will mostly be confined to battery charge and discharge (including EV charging patterns) rather than ad hoc load-shifting. These signals are best considered as network support payments and, as such, ancillary to tariffs. Retailers can then use these to improve the value proposition of VPPs for customers who do not want to actively monitor and respond to signals themselves or pass them through, as currently occurs with a small cohort of customers who choose real-time wholesale pricing. We agree with the AEMC that it is important to ensure tariff design does not inhibit the use of such signals, but we also suspect that this has never been the real barrier to the emergence of such signals.

In terms of whether the incentives on networks to design effective tariffs are appropriate, this should be considered in the context of the AEMC's Review of electricity network regulation, which will allow for a more holistic appraisal of network incentives under the regulatory framework.

Question 6: Ensure that network tariffs are developed and designed for energy service providers

Do you consider that removing or amending the customer impact and customer understanding principles, as outlined, would make energy service providers central to network tariff design? If so, why and what would the preferred option be? If not, are there different approaches that would work better? Do you consider that the tariff structure statement timing can be amended to reduce energy service provider compliance costs and support energy service provider innovation? If so, why and what would be the preferred option? If not, are there different approaches that would work better?

AEC supports the recommendation, which we consider will simplify tariff design issues. As things stand, the apparent ambiguity in the rules leads to networks designing tariffs as if they are going to be passed through and consulting with end-user advocates on that basis. Even then, it seems that many of the eventual tariffs - such as demand tariffs - are not valued by the typical end user. Retailers are faced with the dilemma of passing on unpopular tariffs or bearing the risks of a mismatch between the network or retail tariff if they do not pass on the tariff. They often face criticism either way.

Despite these challenges, retailers are better placed to manage signals from networks than end-use customers. They have the key advantage of being able to diversify some of the risk across their customer base. They are also better placed to design retail tariffs that offer customers meaningful choice of whether to adopt a tariff with a network signal for the minority of customers that are interested in responding to the signal (or whose existing load profile makes the tariff good value for them) or whether to adopt a simple tariff and let the retailer manage the tariff signal behind the scenes. Choice will be a feature across the spectrum of retailer offers, noting that individual retailers may not offer the full range of tariff shapes that are available.

In order to make the process work in the best interest of consumers, we consider the following features are important:

- The customer impact criterion should be maintained. This will assist networks in designing tariffs that are at least capable of management by some customers. Pass-through will remain a legitimate risk management tool for retailers, and so a network tariff that was not suitable for any customers to be exposed to would not be appropriate.
- A consolidated tariff design process should be established. It will be unduly onerous for retailers, especially smaller retailers, to participate in 13 different processes. While obviously the tariff *prices* will necessarily be specific to each distribution network service provider (DNSP), the basic tariff structures should be capable of being determined on a NEM-wide basis. This includes agreeing on reasonable limits on tariff structure components, such as a maximum ratio between peak and off-peak rates for time-of-use tariffs. We recognise that there may be practical challenges under the current Tariff Structure Statement (TSS) timetables, which are staggered across the NEM as they are aligned with revenue determination processes. But they do not have to be, at least for standard control services, which is what is under consideration here.
- The AER should retain overall signoff of tariffs and tariff structures. One of the key concerns with current tariff arrangements is inequities between different customers of the same type, for example, between households with CER and households without. We consider that evaluating the fairness of network tariff structures is not an appropriate task for industry, and so the regulator will need to be the final arbiter.

Whether a network support payment design process needs to be integrated with the tariff design process is unclear at this stage.

Question 7: We are considering transitional measures to manage the impacts of reforms, and will outline these in the final report

Do you consider the proposed transitional supports would manage the transition effectively and fairly? Are there other options that we have not considered? How can the distributional impacts of a move to predominantly fixed charges be assessed and managed so that consumers are transitioned fairly and risks are appropriately managed?

We appreciate the AEMC considering how to manage the pace of change through transitional measures. Of course, the first priority is getting the main recommendations right, and then appropriate transitional measures can be designed. In practice, some of the suggested elements may be helpful enduring features. The choice model and the inclusion of a simple basic tariff are worth exploring further, but they may work well on an ongoing basis, given it is likely that a significant cohort of customers will just want a simple pricing proposition and not be willing or able to participate in demand response activity.

Question 8: An implementation schedule that achieves necessary reform quickly while balancing cost and risk

Do you consider the reforms could be implemented using current processes outlined above (e.g., network reset processes)? Or do you consider that different processes, such as an accelerated implementation approach, would be warranted? Are there other considerations that we need to be aware of in implementing these reforms?

Rushed implementation is more likely to cause issues than to resolve existing concerns quickly. It is more important to get the reforms right than get them done quickly.

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 926 084 953 07