15 July 2025

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

Project Reference: EPR0097

Dear Ms McMahon,

Discussion Paper – The pricing review: Electricity pricing for a consumer-driven future

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net zero by 2050 and a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC has welcomed the opportunity that we have had to discuss the Australian Energy Market Commission's (AEMC's) Pricing review: Electricity pricing for a consumer-driven future (The Pricing Review). The AEC is very encouraged by the extensive engagement the AEMC has undertaken, including through the Advisory Group, Stakeholder Reference Group (of which the AEC is a member), and bilateral meetings, and commends the AEMC on its approach and detailed consideration of issues.

This submission is informed by our Future Role of Retailer project, as outlined in our submission to the Consultation Paper.

AEC retail members have been part of the energy system evolution, providing customers with rooftop solar and battery offerings, virtual power plans, and EV bundles and EV charging plans. Our members are also working with other industry partners on current trials to test new technologies and innovative pricing arrangements that could deliver better outcomes for customers in the future.

The AEC's 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.

Retailers as enablers of customer participation in the future energy system

The AEC and its members consider that retailers have an important role as trusted enablers of customer participation in a future electricity system that is reliable and decarbonised.

The future electricity system is likely to be more dynamic than the current system. The future energy market may offer more choices and different types of interactions with the electricity system for some consumers, but it may also present more complexity and be more difficult to navigate for others. We welcome the AEMC foreshadowing that it will develop recommendations that consider the needs for all

customers, regardless of whether they have CER or not, or whether they have the capacity or willingness to engage with future energy markets.

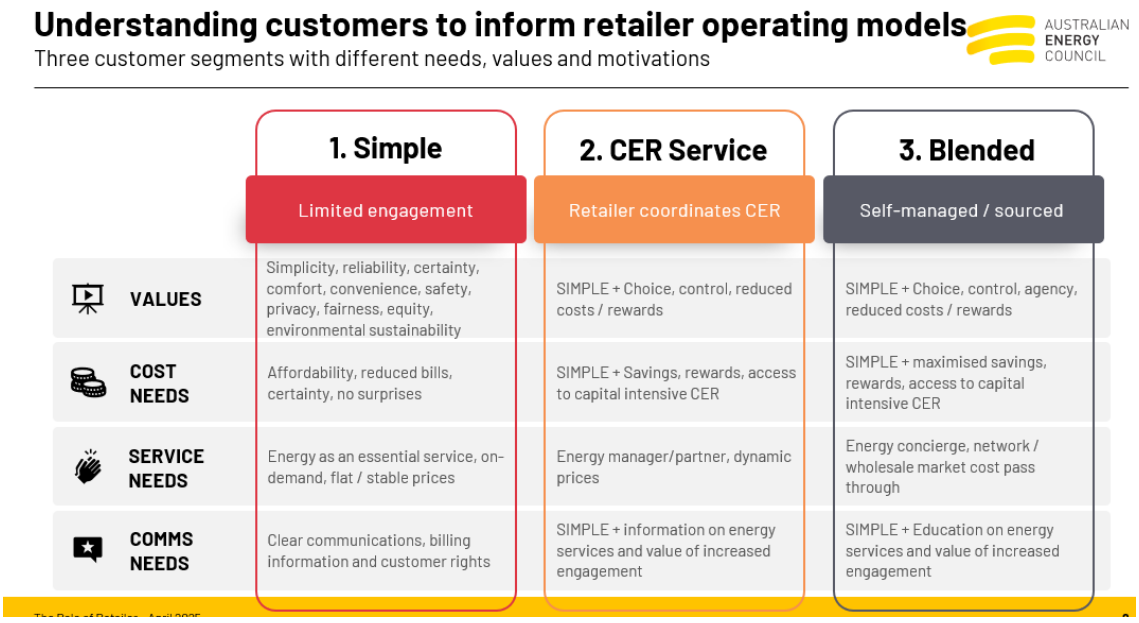
The AEC believes that pricing should deliver on the shared needs and values of all customers for:

- Simplicity
- Reliability and certainty
- Affordability
- Comfort and convenience
- Choice and agency
- Customer protections and security
- Fairness and equity
- Environmental sustainability.

The AEC also notes that opportunities for customers to be rewarded as they increasingly engage include:

- Dynamic network pricing
- New value streams and auxiliary markets
- Emerging CER technologies
- Electric vehicles and vehicle-to-grid capabilities
- Energy market policy reforms
- Load flex and CER orchestration
- Smart and digital management technologies
- Set and forget devices.

The AEC has developed a customer segmentation framework that enables consideration of the different types of customers. The segmentation framework is an engagement spectrum, with customers moving to increasing engagement as they move from 1 to 3 in the framework:



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 percentage of customers in each segment is:

- Simple – unengaged 25%, green conscious renters 19% (barriers to investing in assets), comfort seekers 17% (61% total)
- CER-service – cost-conscious baby boomers 25%
- Blended - green tech adopters 14%[1]

As the pricing evolves, it is important to ensure that all types of customers are provided for. The AEC considers that this spectrum enables one to see why retailers should be enabled to offer customers a suite of retail tariffs, so that they can cater to the different service needs of their customers. This approach will best enable optimisation of customer assets and affordability.

Do retailers care about distribution network pricing constructs?

Distribution network pricing exposes retailers to costs that need to be passed on to their customers. Retailers have to decide what level of risk they will take in covering distribution costs – this means working out how they will structure offers based on the tariffs they are facing. Retailers are focused on developing innovative tariffs, but distribution network prices are a constraint. Creating innovative retail tariffs is more challenging when factoring in distribution prices because a retailer must work out how to fit the retail offer within the bounds of the distribution tariff

Retailers generally consider that they have insufficient flexibility to make offers that widely vary from the distribution tariff. Innovative network tariffs like those designed for EVs, hot water systems, and other loads are easier to incorporate into retail offers and give retailers good incentives to help manage network constraints

Barriers to delivering the desired types of retail tariffs

The barriers to delivering the desired types of retail tariffs from a retailer's perspective include:

- The Tariff Structure Statement process
- The impacts of regulated retail pricing

Networks currently have multiple 'customers' they must engage with in the development of their TSSs. The Pricing Principles in the NER require networks to engage with various stakeholders in the TSS process. The concept of retailers being the sole customers of networks is a much simpler proposition, as the diagrams on the following pages illustrate.

The retailer as the customer allows greater arbitrage of competing elements of a cost stack, finding opportunities to exploit price differences or inefficiencies in the different components that make up the total cost of producing or delivering electricity, and having the incentive provided by competition to deliver this value to customers. In this context, more innovative approaches to lowering network costs can be added to the existing suite of production costs, retail costs, environmental costs, compliance costs, and more. The idea of arbitrage here is to leverage differences or inefficiencies within the cost stack or across different markets to reduce overall costs, but that also provides more room below the price cap to expand non-network assets.

[1] Connecting the new energy customer | Deloitte Australia | Energy, Resources & Industries

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

Tariff Structure Statements

Networks have multiple 'customers'

Retailers as customers

There are some genuine structural and regulatory limitations on innovation in retail pricing and product design. These do affect how far retailers can go with new pricing models, especially as they try to differentiate themselves through the types of products and plans discussed elsewhere in this submission.

At present, retailers must express all their innovative tariffs in terms of annual cost estimates relative to a static benchmark. This can be difficult to achieve with some offers. This stifles innovation because it can misrepresent savings that are conditional, such as customer load shifting; great product, but does not compare well to a static benchmark.

One example is Amber Electric, which passes through wholesale prices to customers, but is still forced to show comparison rates that may make it look more expensive than basic flat-rate 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

Energy comparison websites like Energy Made Easy and Victoria Energy Compare simplify and standardize plan comparisons, but do not support complex or niche plans, such as:

- Real-time dynamic pricing
- Retailer subscription models
- Plans tied to external products (e.g., EV charging networks or broadband).

The practical effect is that customers cannot easily find or evaluate non-standard plans on these sites, and that retailers are discouraged from offering innovative plans that are not easily modeled in standard usage profiles. And like the example above, products that offer wholesale-based pricing are limited because cost estimates cannot predict individual usage flexibility or load management.

The static assumptions are a problem for innovative pricing, too, as plans such as complex time-of-use, real-time spot price plans, or demand response rewards cannot be fairly compared using static assumptions.

The comparator sites also chill innovation to a degree, especially for really novel products, due to the risk of being non-compliant.

Retailers' role is likely to remain the same, but their interactions with other businesses will need to evolve

In a decarbonised electricity system with high CER uptake, all parts of the supply chain will need to work together to deliver the desired customer outcome. We therefore welcome the AEMC reviewing the interface between different energy supply businesses in the future energy system.

Our *Role of Retailer* project has not considered retailers in isolation. We are examining how retailers need to change their interactions with established participants such as DNSPs, and also potential new parties who may play a part in the new energy system. We have also considered how collaboration between parties in the energy supply chain can deliver better outcomes for customers. To this end, we have established a retailer-DNSP forum together with Energy Networks Australia (ENA) where a number of DNSPs and retailers are working together to identify and implement opportunities where coordination between retailers and DNSPs can deliver better outcomes for customers in a high CER world.

Retailers have historically played a very limited role in the network tariff consultation processes undertaken by electricity distribution networks, though they have been invited. And despite their central role in pricing, retailers have often been passive in the tariff-setting process.

Several limitations have hindered retailer involvement:

1. **Misalignment of participation incentives:** Retailers are keenly interested in distribution price resets, reviews and their cost inputs, as the DMO and other price mechanisms do not allow for full pass-through necessarily. But with network tariffs themselves, retailers are not obligated to mirror the structure of network tariffs in their retail offerings. This disconnect between network cost signals and retail pricing (while this increases retailer risk of under recovery of network costs, it may also be an opportunity that some retailers may be able to leverage in product development (see products list below)), reduces the incentive for retailers to participate actively in network tariff processes. And retailers do not feel really consulted on network tariff design – it appears as a kind of here it is, what do you think approach. For networks, it appears as a compliance activity; for retailers, there are

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

competing demands on their time, and they have had little influence historically as evidenced by ToU and kVA and other network price designs going all the way back to the 1980s.

2. **Customer outcomes**: With the AER and Networks both progressing complex tariff structures that can be challenging for consumers to understand, and retailers reluctant to adopt complex tariff structures if they believe customers will not comprehend or accept them, retailers can adopt a hands-off approach that limits their overall engagement in the network tariff setting. Networks and the AER seem to be focused on designing a price product directly for the end user, not for a retailer. Retailers want a more meaningful conversation than this.
3. **Structural Barriers**: Retailers will not discuss price in front of each other or generally in public. They cannot collectively signal what an end-user tariff would look like or price at, or reveal their own proprietary needs, and so they are really just "tariff takers" in the current regulatory environment.

Retailers do actually want a bigger conversation about tariffs. Tariff reform should not be pursued in isolation, but concurrently with reforms to access to the distribution network, data, standards, and cost/price/value incentives from networks to ensure responses in ways that benefit the whole of the system and all of the customers. Tariffs need to become market-enabling in this way.

What challenges do retailers face in translating network tariffs into different products in the retail space?

Network tariffs do not need to be "translated" to support the future. The Endgame Analytics report commissioned by the AEC (not published yet but available to the AEMC upon request) makes clear that current tariff arrangements are inadequate to support customer energy resources (CER) participation effectively and that tariff reform is critical to enable a targeted response to network price signals and better align consumption and exports with whole-of-system needs. Without this type of reform, CER investment may become inefficient or create system-wide inefficiencies that see CER deployed in ways that increase rather than decrease peak demand or congestion.

Networks are alive to this, but some are seeking to internalise all the price signals (except for the vintage FiT) so there is no chance of price discovery or arbitrage by retailers (for example, Ausgrid's Regulatory Sandbox proposal – Community Power Network). Products that retailers add to CER (or any Demand Response) require the price to the network to be revealed and added into the cost/value stack.

In terms of billing systems, there will always be varying costs of implementation as they are all different, and what is easy for one is difficult for another. Often, their build has not anticipated some regulatory changes, and this can also be costly. Most are readily scalable; it is the changes in functionality that are complex.

Our *Role of Retailer* project is focused on customer outcomes instead of defining future products and services

Technological developments are occurring much faster than previously, and they are enabling a faster products and services development cycle. Customers may also develop new preferences in response to new technologies entering the market. The *Pricing Review* should focus on defining the customer outcomes and consider the market and industry arrangements needed to support them, rather than trying to predict or define products and services. Any products and services that are developed now and in the near future are likely to evolve along with the energy market and CER integration capacity, and the Regulatory Framework must be fit for future purpose.

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

It is essential to prioritise the option(s) that support the energy transition at the lowest possible cost. The benefits of innovative products, incentives to encourage the adoption and use of Customer Energy Resources (CER), a more cost-effective distribution network, and reductions in regulated prices must be delivered from within the energy supply chain.

Future offers and delivering more value to customers

The Energeia report[2] highlights that a key barrier for participating consumers is that they could see their bills increased if their CER is used for grid services instead of for minimising their own bills (self-consumption). The report suggests that this will occur unless tariffs are made cost-reflective. The report outlines that this is due to a misalignment between actual system costs and retail tariffs. Energeia calculate an annual increase in a small consumer's bill if they use their CER to maximise system benefits rather than their own retail savings.

This is, on the face of it, true, but if the true system cost is revealed, then that is the value of the orchestration to the system to avoid augmentations. This amount may not be going to nominally equal the value of foregone consumption. Paying a customer more for CER system support use than it is actually worth to avoid augmentations just so it makes it a more compelling proposition than self-consumption is not an efficient system. We need to be careful to solve for the supply of efficient cost grid services, and not the cost to switch from self-consumption to grid assist.

Like the Energeia report, an Endgame Analytics report commissioned by the AEC makes clear that current tariff arrangements are inadequate to support CER participation effectively and that tariff reform is critical to ensure CER is deployed in ways that increase rather than decrease peak demand or congestion (this paper is not yet published but can be made available to the AEMC). Endgame Analytics concludes that the way to make that stack bigger, so we get to a proposition better than self-consumption, is retailer-led orchestration. Energeia concludes differently.

Energeia believes that retailers have the upper hand in accessing the value of CER flexibility through existing access to the wholesale value. We would argue that anyone can access that now by becoming a trader or retailer. But no one can access the value of CER flexibility in the network bar the monopoly, and Energeia suggests providing them with incentives to get them to use it. The Endgame Analytics report outlines the preferred option of getting it to the market, where it can be used to deliver customer value.

Future retail products could contain elements of any of the following:

- Wholesale price pass-through (possibly with caps or risk smoothing)
- Time-of-use + network pricing signals, reflecting real congestion and capacity costs
- Locational signals like export and other network support pricing by feeder or suburb
- Formal arrangements for automated charging/discharging of EVs, batteries, water heaters, etc., based on price, carbon, or grid need
- Could be opt-in by device, with tiered levels of automation
- Revenue sharing models (e.g., percentage split or fixed fee per event)
- Service-level guarantees for availability, with opt-out rights, or battery health protection packages
- Upfront cash incentives
- Ongoing payments based on energy shifted/exported

[2] Energeia (2025) Benefit Analysiis of Load-Flexibiliyt from Consumer Energy Resources at https://www.aemc.gov.au/energeia-finds-cer-flexibility-could-deliver-45b-benefits-2050

- Environment benefits like lower rates for charging with solar or during low-emission periods.

To the customer, it probably looks like a smart, app-based electricity plan where battery, solar, EV, and hot water work together automatically to cut costs and help keep the grid stable. Where the customer may be able to adjust how much control they want and see real-time savings.

Value in products is addressed elsewhere in this submission. Many of the dot points above are already in plans. But the network value of flexibility is not in current plans.

What is the future role of pricing?

Firstly, retailers may avoid long-term investments in innovation if prices must still track the DMO/VDO benchmark, which does not fully account for:

- Rising wholesale volatility and the wall of network capex
- VPP and other CER service values
- Retailers with different business models (e.g., renewable or VPP-backed portfolios, for example).

So, we need to shift emphasis from protecting consumers from exploitative pricing toward enabling fair participation in a more complex, dynamic market that accounts for consumer protection *and* drives efficient outcomes for the above.

This could mean that future pricing regulation may retain the DMO/VDO but use them more as reference signals or eligibility thresholds (e.g., for hardship customers) rather than setting de facto price ceilings. In other words, allowing greater flexibility above the DMO/VDO for value-based or dynamic pricing, as long as protections are in place for vulnerable customers.

Retailers have a role in communicating what a plan enables, not just what it costs, and will not shy from that. But to do so, to have these products, price regulation must move beyond price-focused comparability toward outcome-based comparability. It's complex, as the regulator's role evolves from being a gatekeeper as now, to being an innovation enabler and referee, even the arbiter of non-price fairness.

In summary, we believe that the future of electricity pricing is not just about controlling price levels, it is about shaping a fair and functional market-based system in which price signals drive efficient investment and behaviour. And doing so in a way that does not compromise access, choice, or equity objectives.

Retailers need to deliver sufficient value to customers – where is this happening, where is it not, and why?

Retailers already manage wholesale, network, and environmental markets and other risks. This retailer buffer makes it possible for customers to engage and benefit.

A further value proposition comes in the form of lower energy costs and more competitive, tailored retail products delivered by competition. As a function of Government policy, these have narrowed in dispersion and are generally discounted plans compared to the Default Market Offer (DMO) or Victorian Default Offer (VDO). But they are also compared against each other, such as at comparator websites, driving further competition in price and non-price benefits. These can be simple or complex:

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

- *AGL – Peak Energy Reward*: Offers cheaper off-peak rates and rewards for reducing usage during peak times.
- *Powerclub – Wholesale Power + Demand Charge*: Direct access to wholesale electricity with a monthly demand-based component.

Solar is generally the catalyst for further differentiations:

- *Red Energy – Solar Boost*: Higher FiT (e.g. 15c/kWh) if customer also signs up for broadband or other services.
- *Amber Electric – Smart Solar*: Dynamic wholesale pricing with FiT linked to spot prices.

Then comes further pass through of wholesale electricity prices suitable for those with batteries and/or EVs that can shift load to cheaper times:

- *Amber Electric – Amber for Batteries*: Real-time pricing + smart battery automation.
- *ReAmped Energy – ReAmped Advance*: Wholesale exposure with optional automation tools.

Then EV plans designed for EV owners who charge at home:

- *AGL – EV Plan*: 8c/kWh from midnight to 6 am for EV charging.
- *Energy Locals – Tesla Plan*: Special pricing for Tesla Powerwall/EV owners.

And environment plans that may include carbon offsets or purchase of renewable energy certificates (RECs), etc.:

- *Powershop – 100% Carbon Neutral*: Default carbon offset, with optional GreenPower add-on.
- *Momentum Energy – SmilePower Flexi*: Backed by 100% renewable generation.

There are even some subscription products emerging:

- *Powerclub – Membership Plan*: Customers pay a monthly membership fee (~$10-$15) to access wholesale rates.
- *GloBird Energy – GloSave*: Subscription-style pricing with flexible terms.

Somewhere in here a customer will find value if they look. Retailers spend what they can in proportion to these products to attract and retain more customers to them. There are many, many more.

But for those who do not engage at all, as a function of Government policy, these have narrowed in dispersion and are generally discounted plans compared to the Default Market Offer (DMO) or Victorian Default Offer (VDO). There, the value to customers is what the regulator has determined it is, and a retailer can do little about that other than offer the wide range of alternatives available.

Reforms need time to develop and collaborative effort to implement

We appreciate the extended timeframe the AEMC has allowed for the *Pricing Review*. However, we also note that this review is considering complex issues that may require time for stakeholders to engage and consider implications before providing feedback. We urge the AEMC to remain flexible and not allow

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 review timeframe to constrain the development of policies that will have long-term implications for the energy market.

We welcome opportunities to continue to work closely and iteratively with the AEMC

Recent past reform efforts that were successful heavily relied on open and consultative processes where a broad range of stakeholders collaborated to stress test and improve recommendations and solutions. We support the AEMC taking a similar approach. We also welcome opportunities to meet with Commissioners and the AEMC project team to discuss our *Role of Retailer* project as we progress our thinking in 2025.

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

David Markham

David Markham

DER and Networks Policy Manager

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

Attachment: Consultation Questions and AEC Responses

Question 1

If we focus on enabling bookend products (from basic to sophisticated), is this sufficient to enable the range of products and services that will meet consumer preferences and lower system costs?

The AEC considers that enabling bookend products helps enable the range of products and services that will meet consumer preferences and lower system costs. Technological developments are occurring much faster than previously, and they are enabling a faster products and services development cycle. Customers may also develop new preferences in response to new technologies entering the market. The Pricing Review should focus on defining the customer outcomes and consider the market and industry arrangements needed to support them, rather than trying to predict or define products and services. Any products and services that are developed now and in the near future are likely to evolve along with the energy market and CER integration capacity, and the Regulatory Framework must be fit for future purpose.

Question 2

Can we rely on competition in the retail market to deliver the mix of products and services that customers value?

- *How should this review address issues in the retail market to ensure the products and services needed will be available, recognising work already underway?*

Competition, supported with clearly defined regulation, will deliver optimal customer outcomes and incentivises the party most at risk (retailers) at risk to develop solutions to mitigate them. Competition is currently delivering benefits to customers, notwithstanding the current barriers. For example, the median market offer is materially lower than the DMO. Customers with batteries are able to opt in to participate in VPPs, and those with EVs can enter agreements for lower-priced dedicated charging and demand-responsive charging.

The fact that all of the opt-in/introductory network tariffs that DNSPs have been introducing in recent years (transitional TOU, opt-in demand tariff, flexible pricing, etc.) achieve very low take-up demonstrates the fact that DNSP-driven network tariffs do not work. The AEMC should sponsor a survey to size the costs and benefits across the supply chain to support those trial/opt-in tariffs.

There is evidence of EV charging offers from multiple retailers with strong ToU incentives (note that retailers are offering these despite mismatched network tariffs), e.g., Globird's free lunch, OVO's free energy during the middle of the day. Retailers can see the demand for and the benefits of offering these tariffs.

There is also evidence of the use of controlled load ToU tariffs in SA, where there is a machine able to respond.

Competition will drive innovation. Retailers already respond to price signals at a wholesale level. When retailers are designing tariffs for customers, they think about customers differently than networks do, e.g., when is the customer's car in their driveway versus what is the best time in our pricing model to signal the LRMC of the network.

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

Retailers are generally comfortable with the concept of a network ToU tariff. Retailers do not support demand tariffs.

Retailers vary in their support for moving to retailer subscription tariffs instead of cents per kWh tariffs. Most retailers support subscription tariffs as part of a suite of tariffs that retailers can offer. Retailers will typically only offer these subscriptions if they have sufficient customer flex (e.g., battery, solar, EV load, etc.) under control to manage wholesale price volatility. If they can manage wholesale price volatility with this flex, then they can also manage network price volatility. Retailers note that the majority of customers still are on the low engagement spectrum (around 60% - see attachment). This means the amount of flex available to retailers is still limited. This is not expected to change quickly.

Retailers note the complexity of setting subscription tariffs in energy – how would it be set, e.g., size of house, number of occupants, who owns the lot, amount consumed in the previous year, wholesale hedging costs.

The impact of the DMO/VDO and Reference Pricing on retailer innovation should be considered. Clarifying the role and operation of a prescribed safety net is also important. The presence of regulated pricing incentivises retailers to manage pricing risk by using strategies that mirror the regulated methodology, rather than trying to beat the market and risking incurring costs unable to be recovered in the regulated model. If the aim is to encourage retailers to offer pricing structured that differs from the regulated price, consideration will be needed as to the role of the safety net, in particular, its role as a fallback price, rather than a default for many customers.

To help get innovative retail products and services mainstream, it would be best to keep the network tariff as simple as possible, which would streamline the operation of DNSPs and retailers, which in turn keeps the cost down, allowing more investment into innovative, value-created products for customers.

It is difficult to assign a new network tariff/incentive to a customer. The current approach is difficult and impractical for customers. In most states besides SA, the retailer has to have the customer's consent to move to a new network tariff, and they have to be an existing customer of the retailer. This means the customer has to sign up with the retailer and then provide consent to change their network tariff before the customer can access, for example, the free energy offer.

A tender process is the easiest option to deliver on local congestion, making greater use of the principles within the RIT-D. However, consideration should be given to what will incentivise a network to use a non-network option. Over time, networks could move to using a centralised hub that acts as a marketplace to provide price signals so retailers and other aggregators can respond. SAPN's local flexible market pilot, where they intend to post real-time congestion constraints, is an important initiative and is welcomed by retailers.

Question 3

How can better outcomes for consumers be enabled through network tariff setting processes?

- *What can be improved at the retail and network interface that would contribute to better outcomes for consumers?*
- *How can arrangements governing retailers and networks be improved to support better product and service offerings?*
- *Who should receive the network price signal to make it more effective?*
- *Should network tariffs be designed for retailers or consumers? If retailers, how much weight should networks put on the recommendations and views of retailers?*

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

- *Should any or all of the following be key design features of network tariffs: support competition in the retail market, avoid imposing unnecessary additional costs, and deliver lower overall costs over time?*

The development of the network tariff should be conducted by the AER/AEMC rather than the network. Networks and retailers could present their proposed commitments to the AER/AEMC. Networks should guarantee that they will at least provide one flat tariff and/or incentives to retailers, and retailers should guarantee that they will provide flexible offers in the market to enable customers to respond if they choose. Consideration will need to be given to how to facilitate retailer commitments, given competition law. The potential role of the AEC or some other third party as a representative of retailers should be considered.

The AER/AEMC's development of network tariff/s should include structure, approach, time periods, and implications of nomenclature for retail tariffs. The AER/AEMC should consider nationwide implications, e.g., what are the communication considerations for retailers when interacting with customers? When considering behavioural responses that the AER/AEMC or networks are trying to achieve through tariffs, it is important to engage with retailers to assess how these could be elicited.

Question 4

What role can network tariffs play in meeting customer preferences while also efficiently and effectively contributing to lower overall costs?

To deliver better network tariffs, network tariffs should prioritise:

- Simplicity: retailers vary in response to how many network tariffs they would like to see from:
    - one network tariff for all customers
    - one flat network tariff including a fixed charge and energy charge per customer segment (residential and SME customers). Could also have a tariff type for the controlled load circuit because we know that this is a machine response, so they could use a TOU tariff for this, and it would be effective.
    - three tariffs per customer segment (residential, small business, large business).
    - So, ideally, retailers would like to see 1-3 network tariffs per customer segment. The AEC considers that, for equity reasons, it is important to have network tariffs according to customer segments (business and residential).

Retailers operate across different DNSPs and markets. The pricing signals that DNSPs have been introducing in their tariff structures are often not significant enough, too complicated, and inconsistent between DNSPs, making it harder for retailers to develop and maintain billing and quoting systems and ensure compliance with various regulatory requirements across tariffs. This has ultimately resulted in complexity, customer confusion, and higher costs to serve customers. These impacts are more pronounced for residential customers.

- Consistency and Stability: The tariff structure should be stable over time to allow retailers and customers to plan accordingly. There should be consistency across DNSPs and within states.

  Example:

    - When DNSPs shift a ToU tariff window by half an hour, this flows through to a very large amount of work for retailers to respond as they have to change their systems which is time consuming and costly and also meet their obligations under the rules e.g. best offer

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

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E info@energycouncil.com.au
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messaging – the calculations have to change every time a tariff changes or retailers face large fines. Even minor changes in the network tariff can add significant cost and risk for retailers.

- Actionable and fair tariffs:

  Actionable – A clear price signal that does not require significant investment. Energy consumers need tariffs that are simple to understand and that provide a clear price signal that they can easily act on. A key component here is that the customer understands their retail tariff.

  Fair – Energy consumers need retailer tariffs that are fair, understandable, and encouraging. Network tariffs should support and not undermine this consumer outcome. There is a positive story behind Time of Use tariffs in Victoria, with its uniformity of structure and price intervals across all networks, that illustrates how this can readily be done.

- Before any augmentation build, networks should be required to contract customer CER.

  Ensuring networks can invest efficiently and customers use energy at the right times:

  - There is evidence to show that network price signals to customers do not work.
  - Network tariffs should be designed with retailers and machines responding on behalf of customers as their focus.
  - Networks can offer incentives/pricing signals to retailers for flexibility (demand response).

  Incentives for flexibility: These incentives/pricing signals for flexibility (demand response) can be structured as additional incentives, such as dollar rewards. Retailers, as the customer-facing entity, can decide to package all the upstream costs and create different retail offers to best suit their targeted market. Retailers can make complex tariffs simple by using machines to respond on behalf of their customers.

  The incentives that DNSPs can offer can be as simple as a fixed $ reward if customers can reduce their consumption or solar export by X% of the baseline. Their baseline could be the average of 10, 20, 30 previous like-days. So, the retailer pays the network on the basic tariff rates, and the network pays the retailer for any incentive payments earned by shifting their load profile from the assumed baseline.

  Examples:

  - South Australian example of controlled load (hot water). The network is sending a price signal to retailers through its ToU windows for controlled load, and retailers are responding by shifting customer loads. The SAPN example works well because retailers do not have to get the customer to change their tariff when the smart meter goes on - once the customer has a controlled load circuit, the controlled load tariff automatically goes on. In their TSS, SAPN has specified that the timing of the controlled load is determined by the retailer – this is the simplest way to provide for retailers to optimise this load. Below is the section in the SAPN TSS dealing with the controlled load tariff[3]:

[3] SA Power Networks (2019) Tariff Structure Statement at https://www.aer.gov.au/documents/sapn-revised-regulatory-proposal-attachment-17-tariff-structure-statement-part-december-2019 p.13

17.4.2 Off-peak controlled load (OPCL) tariffs

Table 17A-3: Controlled load tariffs proposed

Network tariff	Status/ metering	Components	Measurement	Charging parameter
Companion Controlled Load (hot water) tariffs				
Controlled load Residential and Small business	**Closed** Legacy meters (Type 5, 6)	Flat rate	$/kWh	Based on usage - time clock is managed by SA Power Networks, and typically involves supply usage between 11:00pm to 7:00am and from 10:00am to 3:00pm. Priced at 50% of the single-rate prices
Controlled load Residential and Small business	**Default** Interval meter (Type 4)	Usage – Peak	$/kWh	Peak Pricing for the 14 hours per day not captured in the off-peak/solar sponge windows at 125% of the single rate price
		Usage – Off-peak	$/kWh	Based on usage from 11:30pm to 6:30am (Central Standard Time) with randomised start time of at least one hour. At 50% of the single rate price
		Usage – Solar Sponge	$/kWh	Based on usage from 9:30pm to 3:30am (Central Standard Time) with randomised start time of at least one hour. At 25% of the single rate price

* For Type 4 meters, the time clock is managed through the meter by the retailer and the metering coordinator. For Type 5 meters, the time clock is adjusted manually by SA Power Networks.

- EVs – there can be a pricing incentive for retailers to increase consumption off an assumed baseline. If retailers can beat the baseline, they can be rewarded.
- The SAPN solar soak tariff is an example of a tariff that supports retailer tariff innovation, e.g., happy hour offered by Engie in SA uses the solar sponge tariff to make it work.

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