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Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

By electronic lodgement: www.aemc.gov.au

EPR0097: Electricity pricing for a consumer driven future - consultation paper

Alinta Energy welcomes the opportunity to respond to the Australian Energy Market Commission's consultation paper on its review of electricity pricing for a consumer driven future.

As the energy transition progresses, the way consumers use and pay for the energy they use will change as highlighted in the consultation paper. While we support the objectives of the Commission's review and the development of a directions paper, we believe that committing to the development of regulatory measures that aim to fundamentally change market design and structure would be premature at this time. It is not clear what barriers/constraints the outputs of the Review will address in the short to medium term. While we agree that reform will be required, any changes to the regulatory framework for distributors and retailers should be adopted gradually and be flexible to support the update of Consumer Energy Resources.

There are immediate steps the Commission could investigate that would support consumer confidence in the energy sector and support the take up of CER that fall under the scope of the review. A key example of such a priority is the relationship between network and retail electricity pricing structures. Recent amendments under the Accelerating Smart Meter Deployment (ASMD) rule change allow the customer to remain on a flat tariff structure following the installation of a smart meter, but with no corresponding obligation on the distributor to maintain a flat tariff structure. These arrangements result in:

- The maintenance of a network tariff structure that does not send a price signal to the consumer
- The exposure of retailers to an unmanageable network pricing risk; and
- A policy environment counter to the approach the Commission, the Australian Energy Regulator and state and federal governments have taken on network tariff reform for more than a decade. Electricity retailers and many consumer bodies have engaged with these reforms in good faith, including the electricity distributor's Tariff Structure Statement development processes.

While we understand the policy consideration of temporarily shielding customers from non-flat network tariff structures, the recent amendments made to the ASMD rule change diverge from long-held policy positions of policy makers and regulators in relation to network tariff reform and the approach chosen is not sustainable (with respect to the goal of cost reflective pricing to send price signals to end-use consumers). Nor is this divergence equitable as it places unmanageable network tariff structure risks on retailers with these costs ultimately borne by all consumers.

As part of this review, it is strongly recommended that the Commission examine the forced misalignment of network and retail tariff structures. Where a retailer is unable to obtain customer explicit informed consent to change the customer's tariff structure following installation of a smart meter, the distribution businesses should be obliged to provide a flat network tariff structure to the retailer to support the customer's choice. This will reduce overall electricity costs for consumers, reflect consumer preferences and enhance consumer confidence to invest in CER.

Innovative new products and pricing structures will emerge as the penetration of CER technologies grows. Changes to the consumer protection framework may be required, but the emphasis of any reform should maximise consumer choice and competition among market participants, rather than regulate pre-determined solutions designed to support a specific business model. While the structure of the market is likely to evolve with new product offerings for CER, certain fundamental principles should remain a feature of the electricity market:

- New business models and participant types should be subject to registration under the National Electricity Rules and the provisions of the National Energy Retail Rules to ensure a level playing field and provide a consistent suite of consumer protections. To the extent existing regulation is not deemed necessary for some providers of CER products and services, its applicability to all energy providers and relevance to customers should be questioned.
- Businesses subject to monopoly regulation should be clearly ring-fenced when participating in competitive markets or establish separate businesses that are not advantaged by regulated revenue streams or exclusive access to information and assets unavailable to businesses operating in the contestable market.

We respond to specific questions from the consultation paper below.

We welcome the Commission's review and look forward to further engagement as it develops the Directions Paper. Alinta Energy also welcomes further discussion of any issues raised in this response with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely



Graeme Hamilton
General Manager, Regulatory & Government Affairs

Question	Context/sub-issue	Alinta Energy response
1. Do you consider that we should make any changes to our proposed approach to this review?		<p>The approach is too focused on engineering a particular set of outcomes based on assumptions that are yet to be tested.</p> <p>While we support placing consumers at the centre of the AEMC's approach, barriers to competition and innovation should also be central, rather than the development of new regulatory frameworks that are likely to stifle investment in innovative new products.</p>
2. What are your views on our proposed Consumer Preference Principles?	<ul style="list-style-type: none"> Are you aware of additional research that could help us refine the CPPs? How might the CPPs help us in assessing whether our decisions will lead to good consumer outcomes? 	<p>Additional principles might include equity/fairness between consumers. For example, low resource and low engagement customers should not subsidise those with high resources and engagement with CER though network charges.</p> <p>However, there is a general point that the AEMC should not assume or engineer a solution to the energy transition, as it relates to consumers and their investment decisions and use of CER.</p>
3. What are your views on our proposed Consumer Archetypes?	<p>For the purpose of this review:</p> <ul style="list-style-type: none"> Do the Consumer Archetypes capture the diversity of future energy consumers? Do you agree that engagement is the primary axis of differentiation among electricity customers? 	<p>The proposed consumer archetypes broadly capture the consumer cohorts in the future at a very high level.</p> <p>Engagement is a key differentiator among customers and the consumer archetypes. Levels of interest in energy have been historically low and are likely to remain so, even for most of those customers who invest in CER.</p> <p>The AEMC should not focus solely on the CPPs or consumer archetypes however, recognising that consumers are more diverse than the broad groups identified.</p>
4. We want stakeholders to help us imagine the widest range of possible future products, services, and pricing structures. How might they look in the future? For example, you might consider:	<ul style="list-style-type: none"> How have products and services evolved in similar markets that were disrupted by new technologies, for example, in telecommunications and point-to-point transport? What new innovations are we starting to see in current offerings? What electricity products and services are available internationally that aren't available here? 	<p>Other industry and energy market examples demonstrating how products and services have evolved include:</p> <ul style="list-style-type: none"> Telecommunications and internet services are essentially subscription models with predictable pricing and premiums added for higher 'quality' plans. Solar and battery installations can be bundled/financed in different ways. Consumers will increasingly be able to pool their CER and seek investment partnerships with financial institutions, traditional retailers and other energy service providers. <p>Pricing structures will need to reflect a range of consumer preferences in relation to return on investment in the CER (or maintaining the agreement/lease to a third party), while complementing the pricing of standard supply arrangements (network access, energy sources from the grid).</p>

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	<ul style="list-style-type: none"> Which technological trends may impact the electricity market, beyond those already discussed in this paper? What types of pricing structures might align well with the proposed Consumer Preferences Principles? 	The ongoing relevance and effectiveness of the Default Market Offer will need to be considered as it becomes increasingly less meaningful as a reference price for most customers and its determination as cost-build up approach even less representative of costs and market offerings.
5. How could electricity products, services, and pricing structures be presented to serve future consumers?		<p>We do not believe there is a prominent role to regulate the way competing businesses present their products in providing CER services. There may be a role for minimum standards and requirements, but highly prescriptive approaches will not support customers as CER use and investment grows.</p> <p>The regulatory framework should support competition, innovation and flexibility rather than hinder and discourage the objectives.</p>
6. How could consumer protections be balanced to enable further innovation in a future retail electricity market?		<p>To the extent the existing regulatory framework will inhibit the provision of new products, services and pricing approaches, the role of regulation and its neutrally competitive application to market participants needs to be thoroughly questioned and examined.</p> <p>As noted by the Commission, the AER has previously provided advice to the Energy and Climate Change Ministerial Council through its Review of Consumer Protections for Future Energy services.¹ A principles-based approach to future regulation of CER is supported but should not disadvantage market participants engaged in traditional energy services.</p> <p>Furthermore, the barriers to obtaining an authorisation to participate as a retailer and market customer are extremely low (evidenced by the large number of authorised retailers), demonstrating that the creation of number of participant types with lower standards of regulation is unnecessary. Consumer protections should not be weakened to support new business models, unless they are to be regarded as no longer fit for purpose, with respect to authorised retailers.</p>
7. What barriers will need to be addressed to deliver future consumers a meaningful and beneficial range of products, services and pricing structures? How might we consider addressing those barriers?	<ul style="list-style-type: none"> Consider the changes that are happening in the system now – what barriers might either endure or emerge post 2035? 	For participants in the electricity sector, particularly the competitive segments of electricity supply, there are extremely low barriers to entry. <i>There are</i> significant regulatory obligations and compliance costs imposed on traditional retailers, including reporting obligations, the provisions of the National Energy Retail Rules, National Electricity Rules and Law, ombudsman schemes, AER guidelines and so on.

¹ AER (2023), Review of consumer energy protections for future energy services – Final advice, <https://www.aer.gov.au/documents/aer-review-consumer-protections-future-energy-services-final-advice-november-2023>

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		<p>Any examination of the current regulatory framework needs to review how relevant the NERR (for example) remains as new markets emerge and the influence of the demand side of the market (through customer uptake of CER for example) accelerates.</p> <p>There are existing provisions in the NERR that are likely to discourage the provision of particular services, given the focus of the NERR is on traditional energy supply, with prescribed and strictly enforced regulation around billing contents, payment methods and billing, the hierarchy of payment for energy services and other products and services provided and so on. These, along with other elements of the regulatory framework may need to move from prescription to principles-based regulation following a comprehensive review.</p>
<p>8. What should network tariffs look like in the future?</p>	<ul style="list-style-type: none"> What are the key choices and trade-offs we should consider when answering this question? 	<p>Network tariffs have undergone significant reform over a long period. There had been widespread support (and regulatory obligations placed on distributors by the AER) for network tariff reform to support more cost-reflective tariffs until recently. With the new safeguards included in the ASMD rule change, distributors can continue to assign and reassign customers to cost-reflective network tariff structures following the installation of a smart meter, but customers can choose not to be assigned a similarly structured retail tariff.</p> <p>Network tariffs need to align with authorised retailers' ability to package these for consumers. The purpose of a cost-reflective network tariff where retailers are unable to pass through its intended price signal, makes such tariffs redundant as a tool to minimise capital expenditure (e.g. for network augmentations and addressing constraints) as there is no signal for consumers to shift load or respond following the making of the ASMD final rule. To the extent price determinations for asset recovery, network augmentations and patterns of use across regulated network assets have been made based on consumer response to such price signals, such assumed outcomes need to be revisited.</p> <p>Alinta Energy believes there is a role for cost-reflective network (and retail tariffs) where these support consumer's use of energy and investment in CER as well as reducing constraints in the network and supporting wholesale market risk management undertaken by retailers.</p> <p>While there are many options for network tariff development in the future to support CER investment, any price signals will be eliminated or significantly diminished with the requirement for retailers to obtain customer EIC prior to providing a matching or similar retail tariff structure.</p>

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		<p>As discussed above, the first issue the review should address is the correspondence between network and retail tariffs – namely, where a retailer is unable to gain consumer consent to a cost-reflective retail tariff (knowing the distributor will reassign the customer’s network tariff following the installation of a smart meter), the network should be required to retain the current network tariff structure. This will typically be a flat tariff.</p> <p>A menu of network tariffs that could be chosen by consumers for the same meter type should be made available to provide flexibility for retailers and other energy service providers to design products that best match consumer preferences.</p>
<p>9. How should the role of energy supply businesses evolve to meet customer and energy system needs in the future?</p>		<p>There seems to an implied view that distributors will become more active in competitive areas of the energy market. While we agree the distribution businesses have an important role to play, their participation should reflect the monopoly nature of their core business and not interfere with competitive segments of the market (whether CER is the relevant segment or not).</p> <p>There is a risk to retailers and other energy service providers that current ring-fencing requirements (financial, structural and physical separation) of monopoly segments of network businesses will inadequately provide for competitively neutral outcomes. This will become an increasing challenge as ring-fencing waivers are sought by distributors for CER-related products, services and assets and regulation of alternatives to network augmentation remains in its current form.</p>
<p>10. What changes might be required in the future to the interfaces between different energy supply businesses?</p>		<p>Increasing investment in CER will still require the current vertical relationship between electricity distributors and retailers to continue. Alinta Energy believes this regulatory framework will evolve and will need to be flexible to support</p>
<p>11. Do you have any feedback on our proposed assessment criteria?</p>		<p>We recommend that the Commission engage focus groups of consumers over the course of the review to ensure that the basis for the assessment criteria remains relevant and be prepared to adjust and revisit any assumptions made.</p>