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Submitted via AEMC website

20 December 2024

The Pricing review: Electricity pricing for a consumer-driven future, Consultation Paper

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Pricing review: Electricity pricing for a consumer-driven future, consultation paper (**consultation paper**).

Proudly Australian for more than 185 years, AGL supplies around 4.1 million energy services. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market (NEM), comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. AGL is also innovating on a broad suite of products and services to drive distributed energy resources (DER) adoption and deliver value for customers.

As of FY24 AGL had 1.25 GW of decentralised assets under orchestration, with a FY27 target of 1.6 GW. Most of these assets are installed behind the connection point, and include residential batteries and solar, as well as flexible loads and backup generation systems at commercial and industrial customer sites.

AGL supports the AEMC's intent to consider different consumer types with the view of identifying potential consumer offerings and barriers to implementing these offerings. AGL's view is that there are three core areas of reform which also need to be considered to fully unlock value for consumers now and into the future:

- Pricing and structure of core network services
- Pricing and structure of regulated retail pricing
- Consumer protections to enable the future high CER world.

These three focus areas are essential enablers to ensure that prices for consumers are simple, actionable and fair. They are also key to unlocking additional incentives which can prompt consumers with CER to accept new forms of market engagement, such as CER coordination.

Attached to this letter is our response to the questions raised in the consultation paper. If you have any queries about this submission, please contact Kyle Auret on 0498 003 090 or kauret@agl.com.au.

Yours sincerely,

Ralph Griffiths

General Manager Policy and Market Regulation



Question 1: Do you consider that we should make any changes to our proposed approach to this review?

The AEMC should be cautious when aiming to determine - with any certainty - what future energy services will be delivered from 2035 and onwards at this early stage of the transition to a high CER future. The AEMC should instead focus on the underlying frameworks that will support and enable better outcomes for customers, regardless of their archetype or the future state of the energy market. While the increased uptake of CER is leading to changes in the types of products and services many customers (with and without CER) will want or need the same essential service they do today: reliable and affordable energy on demand.

The Commission identifies three key areas of focus for the review: market arrangements, role of distribution networks and role of retailers/energy services providers. While these are comprehensive and appropriate, AGL's view is that the AEMC should focus on three areas which are necessary to unlock value for all consumers, and which are expected to underpin the energy sector, regardless of the future state:

- Pricing and structure of core network services
- Pricing and structure of regulated retail pricing
- Consumer protections to enable the future high CER world.

Focusing on these three areas will enable the delivery of customer centric pricing and products which are underpinned by:

- Simpler, more actionable, and fairer cost reflective network tariffs
- Network and market incentives which attract active participation from consumers with CER.

Improvements in technology and data capabilities are continuing to unlock new value for customers, and the necessary business models to deliver the underpinning solutions. It is not possible to determine with confidence what value and opportunities will be available beyond 2035. The role for regulation and rules is not to try predict the future, and to build for this future, but to enable value and protect consumers in a range of possible future states.

While looking to the future the Commission can build on an established base:

- The existing competitive market has created a strong foundation where electricity is provided and priced in one form of 'as a service': Consumers can move into any premises in the NEM and obtain supply without investment or long-term commitments. Consumers have the right to access regulated prices and standard contracts and can choose from a wide range of competitive market offers.
- Small customers are increasingly splitting into different customer types based on CER ownership and ability to engage with CER, this different experience is already evident between solar and non-solar customers. Smart home and transport electrification is leading to an even greater diversification of customer types. Competitive product offerings are already targeting these customer segments and products are emerging which aim to deliver on different consumer preferences and needs.
- New products and services will continue to evolve. Changes in wholesale risk, grid stability and power quality, DER supply arrangements, improvements in IT systems (both for retailers and networks), industry regulations, energy efficiency, and customer behaviors will all materially affect the pricing and products that can be offered to consumers.

Pricing and structure of core network services

The core electricity network has natural monopoly characteristics, and effective monopoly regulation will remain essential to protect consumers from the harms of monopolistic pricing and service. In 2035 and beyond most consumers will still depend on natural monopoly network services to access energy for use. Increasingly for many, they will also be dependent on network services to access value their own excess production and flexibility.

There are many options and models for pricing and incenting monopoly services, and exploring these should naturally be a key focus for the review. Network pricing involves complex tradeoffs between equity, efficiency and simplicity. AGL is strongly of the view that network tariffs should be simple, actionable and fair. Simple so they can be understood and integrated with retail offering, actionable so customers and retailers can respond to intended signals to change use, and fair so they recover the costs in a way that is not punitive to customers,



particularly those unable to respond or engage. A time of use tariff with a relatively short peak window is an example of a cost reflect network tariff structure that is simple and actionable and can inform efficient use of the network. Fair recovery of the large sunk cost base necessarily involves subjective policy judgements to allocate costs to different customer groups through fixed daily charges and the pricing of non-peak usage.

To attract increased active participation from consumers with CER, the review should also consider regulation for network businesses to develop demand management/response frameworks and non-network solutions. These may include many variants of dynamic network pricing and control which may prove attractive over time for certain customers and devices on an opt-in basis. The AEMC should explore if current frameworks such as demand management incentive scheme pilots, trial network tariffs, sandboxing arrangements, system support procurement and third-party access to network owned DER need to change to improve the incentives for CER orchestration and to further enable innovation in new customer products and services.

Pricing and structure of regulated retail pricing

Small consumers in all NEM states have a right to access to regulated retail prices and standard contracts¹. While retail price regulation is not necessary in competitive markets and can be expected to undermine innovation and development of the consumer driven future, it is likely to remain a key feature in 2035 and beyond. It is therefore important to consider the future structure and role of future retail price regulation. The current approach of 'one size fits all' is already straining under the bifurcation of customers with and without solar, and customers on flat vs 'cost reflective' network tariffs. The current methodologies will no longer be sustainable long before 2035.

Retail prices collect and fund all costs across the electricity supply chain (transmission, distribution, wholesale and retail), and in many jurisdictions the costs of schemes to increase energy efficiency and other key policy objectives. Regulated retail prices and structures need to be sustainable over the long term to ensure the financial stability and sustainability of the entire electricity supply system.

There are also key linkages between the regulation of retail prices and network prices that should be considered, including to what extent the intent is to align the regulated pricing structures.

Consumer protections to enable the future high CER world

The current regulatory framework is highly prescriptive in almost all aspects. In many cases, these frameworks have been understandably designed with a specific state of the world in mind. The unifying factor across each of these frameworks, be it customer billing, pricing regulation, network tariff design, or customer connections, is that they were not established for future energy services or for the varied customer types that are now emerging. As the AER noted in their final advice on their 'Review of consumer protections for future energy services'², in some cases the regulatory frameworks may need to incorporate flexible principles-based regulation to enable the industry to innovate and develop new services and product offerings.

The review should consider the areas where reform is most urgent to enable consumer driven innovation, and conversely where it may be appropriate to consider new guardrails. For example, the consultation paper outlines one future customer experience where the customer outsources decisions on their retail plan to the building automatic retail switching program (box 5). This convenient value-added service also suffers risks of consumer harm from the principal-agent problem and split incentives. What arrangements are, or should be, in place to ensure Joel's body corporate and switching provider act in Joel's interests? What disclosure or restrictions may be appropriate on commissions received. The evolution of embedded networks may provide a useful case study of the interactions at the boundaries between regulatory systems and need for foresight to protect consumers while enabling potentially lower cost business models.

¹ ESC, Victorian Default Offer, [Victorian Default Offer | Essential Services Commission](#)
Energy Made Easy, Default Market Offer: The Electricity Price Safety Net, [Default Market Offer: The Electricity Price Safety Net | Energy Made Easy](#)

² AER (2023), Final advice - Review of consumer protections for future energy services, <https://www.aer.gov.au/system/files/2023-12/AER%20-%20Review%20of%20consumer%20protections%20for%20future%20energy%20services%20-%20Final%20advice%20-%20November%202023.pdf>



Question 2: What are your views on our proposed Consumer Preference Principles?

We support the AEMC's proposed Consumer Preference Principles. We consider these principles reflect that electricity supply will continue to be an essential service for customers. It is likely that most customers will consider energy supply arrangements as incidental to living their life the way they want it to be.

This is also consistent with the views stated in question 1 – this review should maintain a strong focus on the fundamental structures that will enable / disincentivise value creation for consumers (pricing and structure of core network services, pricing and structure of regulated retail pricing, and consumer protections to enable the future high CER world).

Question 3: What are your views on our proposed Consumer Archetypes?

As already noted previously, the uptake of CER is leading to the emergence of various customer types that will use energy differently and want different services to meet their needs. The four broad consumer archetypes in the consultation paper are a reasonable characterisation of this customer type segmentation.

We agree that engagement can be an axis of differentiation between electricity customers and is reasonable for the purpose of this review. However, this review should not downplay 'access to resources' which has important equity implications.

We also note care will be needed in exploring the meaning and implications of the archetypes to ensure important consumer differences are not lost through the simplification to 4 archetypes that merge ability to engage with the market with ability to engage with CER. The ability to engage in the energy market (financial, education, interest, etc) may not align with the ability to engage with CER (which also include type of building, ownership, location etc). There may be value in breaking down the archetypes to separate this when exploring barriers and solutions to engaging with the energy market and engaging with CER.

For example, a high-income professional owning a heritage listed city apartment may be excluded from CER but not the market, while a renter in a suburban house experiencing hardship may have barriers to engage in the market but may actually have CER (solar is already installed on around 1 third of Australian houses). The archetypes could map both to the 'not to be left behind' archetype but with little overlap in their circumstances.

Question 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?

We are already starting to see the opportunities that CER can deliver in terms of reducing network costs and grid-scale generation, including augmentation and infrastructure upgrades, as well as consumer benefits in a reduction in bills. The implementation of recent market rule changes (for example, 'unlocking CER benefits' and 'integrating price responsive resources') will also enhance the ability to offer new products and encourage new suppliers into the market.

A fundamental challenge we face as industry is ensuring customers are at the centre of the transition. CER uptake and 'orchestration' rely on customers choices and engagement. AGL's view is that retailers are best placed to address these challenges as a customer-facing integrated service provider. Retailers have the necessary customer insights and data, investments in technology, and ability to simplify customer interactions required to enable customer participation in a reliable and decarbonised energy system.



Retailers are actively engaging customers to maximise the value of the CER, are strongly motivated to grow their capability and are best placed to engage customers with new products and services that integrate wholesale and network value.

AGL's strategy is designed to help our customers electrify and decarbonise. We are strongly committed to ongoing development, trials and scaling of new customer centric products to enable CER and electrification. Our Retail Transformation Program is also an important step for AGL as we focus on building a new energy business to support our customers through the energy transition. Whilst we cannot publicly comment on the products currently under development, outlined below are examples of recent products and service offerings we have launched in the market:

- ElectrifyNow is a free digital advisory tool, powered by advanced analytics and leveraging Consumer Data Right data to create electrification recommendation pathways for consumers. This innovative platform gives information to customers on product options, as well as estimated costs, savings and potential emissions reductions in a simple and intuitive way – using their own energy consumption data. The platform also provides connections to installation partners for fulfillment.
- AGL is innovating on a broad suite of products and services to drive distributed energy resources (DER) adoption and deliver value for customers through our VPP. As of FY24 AGL had 1.25 GW of decentralised assets under orchestration, with a FY27 target of 1.6 GW. Most of these assets are installed behind the connection point, and include residential batteries and solar, as well as flexible loads and backup generation systems at commercial and industrial customer sites.
- Our EV Night Saver Plan demonstrates the power of clear incentives for our customers. With a simple and clear price signal the Night Saver has effectively shifted load to off-peak times. We built this EV Plan after a two-year trial with ARENA to better understand customer charging behaviour.
- Our Peak Energy Rewards (PER) program, now has over 160,000 customers is a behavioral demand response program and another example of a product that has gone from pilot to scaling in recent years. Our customer feedback suggests customers love this product with very high participation rates, and consistently favourable NPS (+50). We also envisage products like PER as a great way to engage customers about their energy usage.
- Through AGL owned Ovo Energy Australia, we have approximately 900 EV smart chargers orchestrated to manage demand for both customers and the grid.
- Ovo Energy Australia also offers a Free 3 Plan where all electricity usage (excluding controlled load) is free from 11 am to 2 pm every day.

AGL has also developed a market-leading data application that leverages meter data and data from CER assets to provide valuable information to consumers. The AGL App includes Solar Status monitoring and is available at no additional cost to every AGL solar customer. Solar Status uses artificial intelligence based on historical Market Settlement and Transfer Solution (MSATS) data to predict the health of a customer's solar system. The tool does this without the need for either real-time or behind-the-meter data and was developed specifically to offer a scalable low-cost solution.

Beyond this, AGL supports our customers through insights and projections through two Energy Insights emails each bill cycle. This is comprised of a mid-bill report, which includes the cost-to-date and a projected bill, and an end-bill report, which contains insights into the energy use for the whole bill period.

Scanning the products and offers available in the market from all retailers today, we can see most conceivable variants of the future products being offered today. Customers can access products that provide full real time exposure to wholesale prices through to products that price a fixed subscription which includes provision of CER like batteries and solar. There are of course many flat rate and time shaped products.

The competitive market is delivering on CER for Australian customers, enabling some of the lowest solar costs and highest solar uptake in the world. This market is broader than the remit of the National Energy Laws, including suppliers and sellers of solar, batteries, electric vehicles and a range of smart appliances.



However, the design of the NEM and the structural separation in the Australian electricity market between competitive and monopoly segments should be recognised as a key enabler of this success. Customers have choice of suppliers, rights to connect CER, and ability to access to value streams. This success should be built on to enable the consumer driven future.

Question 5: How could electricity products, services, and pricing structures be presented to serve future consumers?

AGL's strategy is to connect every customer to a sustainable future. We believe the best way to engage customers is through simple, affordable and equitable customer propositions.

The growth in CER assets will be a key feature of the consumer driven future. In addition to growing the scale of the assets, it is important to ensure they can be orchestrated or managed to shift load throughout the day without impacting customers lives. Whilst we are investing in technology to accelerate our flexible demand portfolio to meet these challenges, we are also investing in tools that arm customers with the information needed to confidently make electrification changes and trust how these benefits can be realised.

We have therefore invested in technology, and will continue to do so, to inform the customer to make meaningful change. This includes our investment in Electrify Now and aspects of our Retail Transformation Program.

As CER technology continues to evolve and customer trust in automation grows it is likely the market for simple subscription products will grow together with the ability to manage market and network price risk with CER. As noted in the consultation paper, low cost distributed energy resources will also open different ownership models, in front of the meter and behind the meter, that can support simple low cost offers for customers including subscription and energy as a service arrangement where customers get the benefit of CER without incurring upfront costs and pay through their energy use.

While it is useful for the review to explore potential future pricing structures to inform barriers and opportunities, it is not necessary to predict or constrain them. The market will naturally evolve to meet consumer preferences.

As noted under section 4, there are customer segments who do desire to engage directly with the wholesale market and manage their own risk. The competitive retail market is enabling these products today. As technology and trust enables greater ability for customers to directly manage the risk more consumers may opt for these products.

Question 6: How could consumer protections be balanced to enable further innovation in a future retail electricity market?

Electricity will remain an essential service in the future. No matter the alternative supply arrangements that exist, customers should have a default right to access energy services from the distribution network through a financially responsible market participant (in the case of smaller consumers, a retailer) and rely on customer protections necessary to safeguard this essential service.

How these consumer protections are balanced with further innovation in a future retail electricity market remains a significant issue under consideration in the National CER Roadmap. We note the initial recommendations made by the AER in their advice to Energy Ministers are subject to further consultation and review. The Victorian Department of Energy, Environment and Climate Action has also recently commenced a consultation on how these issues should be addressed³. We consider a movement to principles-based regulation is warranted in certain frameworks where prescriptive based regulation is no longer necessary.

Our response to Question 1 includes further views on this topic.

³ Engage Victoria (2024), CER Consumer Protections Review, [Consumer energy resources \(CER\) consumer protections review | Engage Victoria](#)



Question 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?

As noted earlier, AGL's view is that the AEMC review should not focus on trying to predict all future solutions and services, but rather focus on enabling the future by addressing the challenges present in fundamental aspects of the energy system which will remain in 2035. As noted in our response to question eight below, regulatory changes have often aimed to address specific issues observed at the time the reforms occur – typically these reforms take years before they are implemented and can be out of date before they have even commenced. Focusing on areas of reform that will be necessary regardless of the future state would ensure the AEMC's recommendations are suitable for a broad range of future scenarios.

The NEM wholesale markets are inherently well designed to recognize the real time value of CER. A key missing piece of the puzzle is the identification network value and design of network tariffs and contracts to reward customers for the value their CER can create (or price costs). Valuing the direct benefit or costs from use of CER at specific premises is inherently difficult, however at the system level it is evident there are huge opportunities in better coordination of CER and shifting load patterns. Network pricing stability is important for customers and industry certainty; however this needs to be balanced with the importance of regulatory flexibility in trialing the effectiveness of new types of tariff incentives and making the necessary improvements when they are needed.

The retail energy rules, guidelines and standards are highly prescriptive and were written largely for a different era. Generally without explicit consideration of the role CER and opportunities. The review should actively explore how the framework could expressly identify the role of CER in the system and how to best enable flexibility in developing incentives and mechanisms as the technology continues to evolve.

Question 8: What should network tariffs look like in the future?

Almost all electricity customers in the future will still be reliant on the grid to meet some aspect of their energy supply requirements. This could vary from using the grid to meet all energy service requirements all the way up to using a grid connected supply as a back-up in case a self-reliant behind the meter energy solution fails.

Whilst a universal reliance on the grid is almost certain, how and when the customer therefore uses the network will vary significantly. This gives rise to significant challenges in how to structure a fair and just cost recovery arrangement across all customers that use the network. The principles of equity and fairness in tariff design will be particularly important as the gap between 'not to be left behind' customer archetype and the other customer archetypes continues to grow.

Network tariff reform has carefully considered variations of this trade-off through numerous reviews and consultations over the last decade. These reforms have ultimately led to the gradual implementation of cost reflective pricing in network tariff design. Whilst these reforms have been a step in the right direction, they have also demonstrated key issues that should be considered in this review when considering what network tariffs should look like in the future.

Network tariffs should be simple, actionable and fair. Simple so they can be understood, actionable customers and retailers can respond to intended signals to change use, and fair so they recover the costs in a way that is not punitive to customers, particularly those unable to respond or engage.

Where networks have local constraints and other opportunities for non-network solutions, these are likely best delivered through contracts and/or incentive markets rather than broad based tariffs

Are network tariff incentives the only pathway to address long term network efficiency?

The focus of economic efficiency in network regulation is essential to ensure customers receive an appropriate level of service and pay no more than is necessary. The design of network pricing should reflect the efficient cost to serve. However, there is no clear empirically correct approach to efficient tariff design, and given electricity is an essential service and that cost recovery is dominated by sunk costs, fairness and equity are also critical to tariff design. Collectively this means tariff design requires many subjective policy



judgements. Ultimately tariffs must be acceptable to customers and broader community. There is a long history of well-intentioned network tariff reform initiatives resulting in contentious and complex outcomes that proved unacceptable with real world customers.

What this shows is that the practical reality of implementing complex network charges to mass market customers can water down the intended purpose and objective of the reform. It may also give rise to unintended negative outcomes such as CER barriers to efficient use of the network.

Electricity retailers do have responsibility for translating network tariffs into more customer centric retail propositions, however unnecessary complexity or inequity in the underlying network tariff will necessarily have impacts through to the ultimate prices paid by consumers.

The review should consider opportunities to guide development of simpler, more actionable and fairer tariff designs that can achieve the same economic objectives when coupled with a broader suite of incentives arising through different incentive frameworks such as more sophisticated arrangements for CER devices when automation is available.

The various approaches to network tariff design

The implementation of network tariff reform has also underlined the significant variation of approaches to tariff design in each distribution network. Whilst this is a result of the existing network regulation framework, there is an opportunity for the review to consider if network tariff structures can become more uniform and aligned across all distribution networks. The various tariffs create significant complexity that hampers the ability of retailers to implement innovative products across all distribution networks they operate in.

Should there be greater focus on customers that can respond?

Current tariff design aims to balance efficient cost recovery principles and incentives for the efficient use of the network to avoid unnecessary network augmentation. Whilst this is an important balance to preserve, there will continue to be a significant segment of customers unable to respond to network price signals particularly during peak usage times.

The review should also consider if network pricing limits should be available to customers that are unable to shift their consumption behaviour or can't attain CER assets.

This naturally leads to a question as to whether there should be a greater focus on encouraging and incentivising CER, rather than changing the behaviour of all customer types, that uses the network in a way that improves network stability and avoids unnecessary augmentation of the network. Along with Tariff price incentives, the review should consider if alternative mechanisms, such as an improved procurement of system support service and non-network solutions, should be created to target this demand flexibility.

These alternative pricing pathways could change how the network is used and address long-term efficiency principles without putting in place price signals which are not actionable for particular customer segments.

Question 9: How should the role of energy supply businesses evolve to meet customer and energy system needs in the future?

AGL's retail ambition is to drive the decarbonization journey through simple, affordable, and equitable customer propositions. AGL is investing in foundational technology, such as Kaluza, which will enable customers to maximise and optimize their CER in the future. More broadly, this will enable AGL to offer simple and engaging customer experiences and to accelerate our speed to market for innovation – these features will support our broader consumer base (not just CER customers). As noted in question 4, AGL is delivering a broad range of products and services to meet our customers evolving needs.

More broadly, now and in the future, retailers will continue to be integrated service providers and trusted enablers of consumer participation in the energy system. This participation may take many forms – these include providing the energy services that deliver value and meet our customers' needs, making our customers interaction with the energy system as simple as possible, helping integrate CER into the energy system so that our customers get the most benefits from their investment, and supporting and empowering our customers to actively participate in Australia's energy transition.



Question 10: What changes might be required in the future to the interfaces between different energy supply businesses?

The effective integration of CER/DER and value creation for consumers is intrinsically related to DNSPs' ability and willingness to connect these resources and to enable retailer and other customer representatives to integrate different value streams and deliver this value to consumers. DNSPs will be primarily incentivised to deliver critical regulated functions such as quality and reliability of supply, but will not be best placed to deliver customer-centric products and solutions.

AGL's view is that the enablers required to unlock current and future customer value can be addressed through changes to the current regulatory frameworks, these include:

- Simplified network tariffs with greater consistency across distribution network businesses – i.e., Network tariff structures that can be readily integrated into retail tariffs, that customers can understand and take action to respond to the price signal, with pricing that is not punitive for customers who are unable to change their consumption pattern, and which are underpinned by greater consistency between networks.
- Improved understanding of network conditions, including hosting capacity, to determine where CER can be connected into the network.
- Improving network regulation to improve the procurement of non-network services.
- Maintaining ring-fencing protections to ensure there is no reduced competition in the delivery of CER products and services.