

12 December 2024

Mr Andrew Lewis
Executive General Manager - Consumer, Markets and Analytics
Australian Energy Market Commission

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Submitted online to <http://www.aemc.gov.au/>

Dear Andrew

AusNet welcomes the opportunity to provide this response to the consultation paper for the Australian Energy Market Commission's (AEMC) review of electricity pricing for a consumer-driven future.

We support the intent and future-focused approach to the review with a strong focus on future consumer experience and preferences. However, we consider the current regulatory framework for electricity distribution network pricing is largely fit for purpose, with sufficient levers to deliver benefits from Consumer Energy Resources (CER) and does not need further substantive review. However, we support further clarification about the role of tariffs given the essential service nature of energy services and recent media attention regarding poor customer outcomes from the implementation of cost reflective pricing.

Networks are currently and will continue to evolve their service offerings and prices within the current framework to unlock the benefits of CER. For example, within the current framework, AusNet is:

- designing network tariffs with cost reflective signals that can reward specific behaviours, including from CER. We have commenced a trial of an optional EV-specific network tariff, EV Dynamic, which rewards charging during the day and rewards dynamic response (i.e., stopping or starting charging) to network instructions. Findings from the trial will help us better understand how responsive EV users are to tariff structures and dynamic instructions, helping us plan the network in a way that reduces electricity costs for all customers. As foreshadowed in our EDPR Draft Proposal, we are also planning to transition residential customers to a time-of-use tariff which includes a low-cost middle-of-the-day 'solar soak' period to incentivise more electricity use when there is less demand in the network and when rooftop solar generation is plentiful.
- rolling out dynamic service offerings, such as flexible exports to our customers following our implementation of the Emergency Backstop Mechanism in Victoria. Flexible export limits allow customers to extract greater value from exporting their CER without negatively impacting the grid at certain times such as minimum demand days. We are well positioned to deliver strong and efficient network signals for CER through network control and dynamic limits, rather than relying solely on retail pricing which may offer weaker incentives and require greater engagement than desired by our customers.

We have not identified any major barriers which require large scale reform to distribution network pricing over the horizon of the future looking review, but recognise some additional flexibility could support networks' ability to design tariffs to respond to emerging technologies and potentially unlock greater benefits. While the framework offers the opportunity for networks to develop new innovative tariffs to target specific technologies or those customer segments who want to engage, there may not be sufficient flexibility to facilitate effective take up of these tariffs to deliver benefits for some customers. Our experience shows attracting customers to tariff trials is difficult and may result in trials with a limited number of customers. Retailers can understandably be reluctant to invest their resources in passing on pricing signals from tariffs that are time bound and can only be applied to a limited number of customers for a particular distribution network. The AEMC should consider introducing flexibility in the regulatory framework to allow networks to shift customers to new tariffs during a regulatory period, based on meeting certain criteria. The current Tariff Structure Statement (TSS) amendment threshold could benefit from being lowered to allow networks to respond to future changes and make appropriate changes to tariffs in a more timely manner (e.g. this could enable adjustments to peak window times within a period as required as customers demand shifts through the transition).

In 2022, we conducted an extensive [research program](#) which, for the first time, combined smart meter usage data with quantitative and qualitative customer research around customers' motivators, energy saving behaviours and

take-up of new technologies. This showed customers on different tariff structures exhibit no difference in behaviour during peak hours, and that customers mostly prefer convenience over rewards from price responsiveness. A key insight is that two-thirds of households on our network – across several network tariffs – have a smaller peak in the morning and a large evening peak. Our research indicates these customers are convenience-motivated, have the highest percentage of renters, have the lowest energy literacy, and are less interested in changing their behaviour compared to all other segments. This indicates that benefits from orchestration will only be achieved if it is easy for convenience-motivated customers to participate and there is low to no detriment to their experience. We consider these findings, along with other similar research, should underpin the next stage and outcomes of this review and it is important that this review is conducted with this context when prioritising and further evaluating potential pricing reforms.

The role of network tariffs is to signal the right incentives to promote efficient investment in the network, and an equitable recovery of shared network costs. While the current framework does not ensure all end use customers engage with network pricing signals through their retail prices, this may deliver preferable outcomes to customers if they highly value convenience, through retailers developing innovative and simplified product offerings, whilst managing the price signals sent by network tariffs. On balance, therefore, we consider the benefits of large-scale reforms to the network-retail price interface may be unlikely to outweigh the costs or be necessary to address the aims of this review.

We broadly support the approach the AEMC has outlined for the review and the Customers Preference Principles (CPPs) and Consumer Archetypes identified in the consultation paper:

- We support a principles-based approach to assessing how the review reflects customers' expectations. We consider that the CPPs appropriately broadly capture key preferences for electricity customers and are largely aligned with our research findings. However, we consider that the value customers place on having the option to choose their level of engagement is not appropriately captured. While this is captured within the Consumer Archetypes, our research indicates our largest segment of customers highly value *convenience* and the flexibility to use electricity when and how they want. It is critical that the CPPs recognise this as a core customer preference when it comes to electricity pricing and service design and balance this customer preference with the other principles. It is also not clear how the review will assess the trade-offs between the principles (e.g. be conflicts between availability and affordability), including in the context of other legislative objectives, such as the National Energy Objective.
- The Consumer Archetypes appropriately capture consumers at a high level, with engagement representing a key differentiating axis. However, the review should consider the scale of each segment and how potential changes will benefit each customer segment relative to a realistic view of their scale.

It will be crucial to ensure that proposed regulatory changes and outcomes of the review can deliver significant benefit, without neglecting the preferences of large segments of customers (e.g. those who cannot or do not want to engage). We support the next stage of the review focusing on changes to the framework if/where there are key opportunities to enable more appropriate incentives for customers commensurate to the benefits they are expected to unlock, and which will deliver benefits for all customers.

Please reach out to Eliza Cochrane on eliza.cochrane@ausnetesvices.com.au if you have any questions about the submission or to organise further engagement.

Sincerely,



Charlotte Eddy
GM Strategy and Regulation (Distribution)
AusNet Services