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12 December 2024

Ms Lisa Shrimpton - Director  
Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

Dear Ms Shrimpton

**Ausgrid submission to the consultation paper “Electricity pricing for a consumer-driven future” review**

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (**AEMC**) in response to its consultation paper for the “Electricity pricing for a consumer-driven future” review. Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

Consumer Energy Resources (**CER**) is playing an increasing role in the energy system as existing coal-based electricity generators retire. The AEMC’s electricity pricing review can help customers to realise the benefits of CER by ensuring customers have access to the right incentives, information and support.

Our responses to the AEMC’s consultation questions are provided as follows. Please contact Bill Nixey at [bill.nixey@ausgrid.com.au](mailto:bill.nixey@ausgrid.com.au) if you would like to discuss this submission.

Regards

A handwritten signature in blue ink, appearing to read "T. Jarratt".

Timothy Jarratt  
Group Executive, Market Development & Strategy

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

Stakeholders have told us that the current regulatory framework does not provide a level-playing field between transmission and distribution pricing for large scale storage facilities and renewable generation. A footnote included in the AEMC's final terms of reference says that this review "may consider where differences between transmission and distribution pricing could lead to inefficient outcomes". We recommend that the review does include this existing imbalance between the transmission and distribution pricing arrangements.

Transmission networks can offer a negotiated service with reduced prices for a non-standard level of service while distribution networks are required to pass through the full transmission costs. The optimal connection location of these facilities should not be determined by anomalies in the regulatory framework. The current framework creates a risk that storage and renewable generation projects are disincentivised from utilising existing capacity on distribution networks, which could result in higher overall system augmentation costs.

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

We broadly agree with the Consumer Preference Principles (**CPPs**) and believe that they will, when used in conjunction with the Consumer Archetypes, be useful for assessing whether decisions from the review will lead to good consumer outcomes.

However, we offer the following suggestions to develop the CPPs based on our experience in consulting with customers on pricing for our recent regulatory determination, and also feedback from Ausgrid's Pricing Working Group.<sup>1</sup>

- The AEMC should consider what the purpose of the CPPs are. Multiple studies have shown that activating and supporting customer participation will not only be beneficial but also necessary for an efficient transition to a high renewable energy system. To encourage this participation, it is likely that customers will need to be provided with meaningful options (CPP 3), but for most customers their preference would likely be to not actively engage. While affordability (e.g. value for money), reliability (e.g. availability) and fairness (e.g. appropriate protections) are core customer preferences, the other CPPs may reflect what we need to do as a collective industry to bring customers into the system rather than represent customer preference.
- CPP 2 "Availability" refers to energy consumed and how customers want energy to be available when they need it. We note that energy moving from the customer's premises to the network as reverse flow will become increasingly commonplace in future, and this could be considered within this CPP.
  - We suggest CPP 4: "Simple Engagement" becomes "Clear Engagement" to better capture the subset of consumers who are interested in engaging with more complex information. Retail offer comparability could also be considered within this CPP as consumers want to be able to evaluate their bill outcomes from different tariff structures (e.g. time of use versus demand structures).
- We also suggest CPP 5: "Appropriate Protections" becomes "Fairness" to better capture the diverse risk appetites of consumers and wide range of consumer views of 'adverse outcomes'. Some clarity could be provided on how "Appropriate Protections" differs from energy concessions and other support. Consumers also expect a proactive

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<sup>1</sup> The Pricing Working Group is a stakeholder group that reviews and provides advice to Ausgrid on pricing matters from a variety of customer perspectives.

engagement from their energy service provider, and want to avoid a reactive response to events such as, for example, energy bill shock. Further, bill stability could be considered as part of this CPP as many consumers will expect their energy costs and tariff structure to remain stable over time.

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

We consider the Consumer Archetypes help capture the diversity of future energy consumers and agree that engagement is the main point of differentiation among electricity customers as it captures both the emotional and non-emotional drivers of consumer behaviour. However, while we consider these archetypes provide an excellent starting point, we note they may need to be refined and adjusted as outlined below.

Further clarity could be provided on the extent business customers are included in these archetypes, and the development of the AEMC's reforms. The significance of business customers should not be understated, for example, in the Ausgrid network they use two thirds of the total energy distributed. Further, many businesses face similar challenges to residential customers when engaging in the energy market, including energy affordability and understanding tariff options.

We suggest that the AEMC considers the proportion of customers that fall into each of the different archetypes. This will help guide the extent that each consumer archetype are represented in the final outcomes of the review.

We note that the archetypes may be overly simplistic. The descriptions under each Consumer Archetype and the name of some archetypes could be reviewed to better reflect the diversity within each archetype. For example, a high-income renter with interest in engaging could either be in the 'Behind barriers' archetype, or the 'Embracers' quadrant. These customers have the resources to participate but are currently described as 'low resources' because they likely face barriers in installing CER as renters.

Further, as electricity products and services become increasingly diversified, many consumers may end up spanning two archetypes. For example, renters may have the resources to purchase an EV, but may face barriers with installing other CER, or consumers may have higher interest to engage with CER products and services, but not with other loads.

We are also interested in the AEMC exploring how consumers being time poor is reflected across the archetypes.

**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?**

The growth of CER presents an opportunity for retailers to innovate and offer new products and services, and we see the future including a greater diversity of pricing offers for small consumers. For example, customers with low engagement or interest would be able to have their energy decisions managed by their retailer within simple boundaries agreed with the customer. This might be with a subscription service with a fixed monthly fee for example. Appropriate protections to safeguard customers from paying too much could be set with reference to the default market offer (**DMO**).

Conversely, small customers with a high level of engagement should be able to see both their wholesale and network charge separately, and to respond to these price signals in real time. For example, some retailers are already passing our network charges through to customers separately on their electricity bill. This is popular among customers who have invested in CER and use smartphone-based apps to manage their usage and generation proactively.

VPPs are a significant opportunity for retailers and networks to share benefits with customers who have behind the meter batteries installed. Ausgrid's Project Edith is a network pricing trial specifically exploring ways that network value can be made available to retailers to optimise for market price signals on behalf of customers. 5-minute dynamic network prices are published a day ahead to retailers to be considered alongside 5-minute market prices. Currently energy retailers EnergyAustralia and Origin Energy are participating in the trial in addition to aggregators Reposit Power and ShineHub, with over 1,300 customers actively participating.

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

Energy consumers will benefit from greater clarity on where to find information on electricity pricing, ways to manage their energy costs and where they can find help on these matters. Customers will likely need help in understanding and comparing new electricity products and services and without this support the benefits of reforms in pricing may not be realised. The AER's Energy Made Easy website and initiatives such as Ausgrid's website materials on "[Ways to save on your energy bill](#)" are steps in the right direction. A review of how these and other tools could address the information gap for customers, including customer research on what they need and clear roles and responsibilities for industry and government, should be considered as part of the review.

Customers should be able to decide on the best service offering for their needs, noting that it is not necessary for the underlying network pricing structure to be passed through to all customers directly. The network tariff structure should only be reflected in a retail tariff structure if a customer wants to receive it. We consider retailers can manage and respond to network price signals to encourage the efficient use of the network, without passing the network tariff structure to the end use customer. If retailers understand what drives network costs and are incentivised to take it into account (through cost reflective network prices) they can develop products and solutions for their customers that, at a minimum, won't drive up network costs, and at best reduces these costs.

A review of the current small customer retail offers<sup>2</sup> in our network shows that our tariff structures typically aren't fully passed through by retailers to customers. For example, many of the retailer offers do not reflect the current Ausgrid seasonal peak period of 3pm-9pm or they continue to apply an energy shoulder period (which we removed on July 1, 2024).

In cases where Ausgrid's network price structures are passed through to customers by their retailer, the tariffs are designed to ensure that customers without CER do not on average pay more than customers with CER if their impact on the network is similar (e.g. they have a similar peak demand). Energy affordability should remain a priority as the sector transforms. Our continued migration of small customers with smart meters to cost reflective network tariffs (with demand and time of use options) achieves this balance between technology flexibility, fairness, and the efficient use of the network. These principles were used by Ausgrid in our recent TSS consultation process, and they may help inform the AEMC as it develops the recommendations for this pricing review.

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

In situations where network prices are passed through to consumers, the need for additional consumer protections could be moderated if the underlying network tariff structures (which are

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<sup>2</sup> AER Energy Made Easy website accessed November 2024

applied under a revenue cap) achieve the appropriate balance between efficiency and fairness. We provide further information in our response to question 8.

**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?**

The lack of clear and comparable retail tariff options with tailored information and support is an existing barrier for customers. Customers should be able to understand and choose their retail tariff structure, and not receive a mandated tariff structure change from their retailer without the tools or information necessary to be able to respond to it. A network tariff change should also not be provided to a small customer as a reason for a retail tariff change. The Ausgrid customer contact centre regularly receives small customer tariff enquires on this issue that are referred to us from retailers rather than retailers taking proactive steps to support and educate their customers and provide them with meaningful options.

We suggest that the AEMC explore evidence of any limitations or barriers that exist with retailers' ability to manage or hedge small customer network tariffs. The variability of costs based on network tariffs across different customers within customer classes is minimal and would be naturally hedged across a retailer's customer base.

The AEMC's proposed safeguard reforms (as part of the Accelerating smart meter deployment rule change) will give customers greater options and improve the likelihood of customers finding an offer that meets their needs. Retailers should assist customers with understanding their tariff, including how time-based tariff periods apply under the offered retail structure. If customers aren't satisfied with the information they receive, a different retail tariff structure should be made available to them.

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

We support a balanced approach to the development of future network tariffs. Network tariffs should continue to be guided by the need to be cost reflective, capable of being understood, provide optionality, and deliver customers with fair outcomes. These priorities are referred to either directly or indirectly in the current version of the NER pricing principles (clause 6.18.5). These existing rules support flexible price setting and innovation and this is important as CER take up increases and customer needs change.

As the AEMC describes in its consultation paper, the marginal cost to the network of increased customer demand is typically low, especially in the short term. As a result, most network revenue is recovered as a residual cost, not as a marginal cost. We believe the key trade-off for future network tariffs is whether customers with CER should be able to avoid payment of residual network costs via volume charges. Or in other words, the extent that network residual costs should be recovered from volume charges. For example, it would be an unacceptable outcome if CER enabled customers made little or no contribution to fixed network costs, while the shortfall was borne by other customers, including those who are unable to afford or access CER.

The solution will be a balance, with adequate incentives for customers to invest in CER, but not to the extent that other customers pay more and cross-subsidise customers with CER. Customers who require similar access to the network should make a similar contribution to the costs of supporting it. The right policy settings will avoid unacceptable outcomes and help to maintain ongoing community support for the energy transition.

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

The whole sector needs to work better together to build trust and ensure customers receive the information they need to succeed in the energy market. We also see an increased occurrence of energy retailers managing network price signals on behalf of customers. We provide further information in our response to question 5.

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

While network tariffs should be cost reflective to create the right incentive for retailers to develop products and services that efficiently use the network, this does not mean that small customers should see these price signals in all circumstances. Small customers that want to remain on their existing retail tariff structure should be able to do so, and we support the proposed safeguards within the AEMC's directions paper on the smart meter deployment rule change. We provide further information in our response to question 7.

**Question 11: Do you have any feedback on our proposed assessment criteria?**

We support the proposed assessment criteria, and its inclusion of the consumer preference principles. We have provided feedback on these principles in our response to question 2.