ENERGY CONSUMERS AUSTRALIA

Electricity pricing for a consumer-driven future

Submission to AEMC Consultation Paper

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Summary

Energy Consumers Australia is encouraged by the direction of the review and supports the proposed approach.

We endorse the AEMC's focus on being consumer focussed, asking critical questions to determine the appropriate pathway forward to deliver better products and services. Currently, consumers are facing poor outcomes, and trust is broken. Costs and risks are being unfairly transferred between consumers and industry, and between consumer segments themselves. We hope this review addresses these issues without equivocation.

Our principal recommendation is that fairness, equity, and justice must be the dominant focus of the review. While pricing reform has an opportunity to reduce system costs, it also directly influences how costs and risks are shared between the industry and consumers. To this end, a focus on distributional equity is not simply a ‘nice to have’ but a design imperative for an (increasingly) essential service.

If fairness and equity are ignored, there is a real risk that the most disadvantaged in our community will bear an unfair share of the transition’s costs. Efforts to incentivise Consumer Energy Resource (CER) adoption could further entrench inequalities.

This does not mean we oppose incentivising CER adoption and integration – quite the opposite. Rather, we must ensure that efforts to encourage CER do not inadvertently create new inequalities or further entrench existing ones.

To achieve a just transition, the AEMC must resolve two fundamental challenges as part of this review:

First, the review must determine the services and value that CER can provide to the system. The review must determine a pathway for consumers and their CER to provide these services and be fairly rewarded for it. To do this, the long-term outlook for electricity distribution networks must be considered, including where new loads may require network expansion. ECA will soon submit a rule change request that will, among other things, enable greater transparency around the future drivers of electricity distribution network costs.

Second, the review must explore the fairest and most equitable ways to allocate core system costs amongst consumers in a high CER future. Currently, most costs are recovered from consumers via grid consumption charges. These cost recovery methods may not be appropriate for a high CER energy system as customers with CER will likely avoid grid consumption charges. As such, current cost recovery methods may lead to residual costs being transferred from one set of customers to another.

Ensuring a fair and equitable allocation of costs across the community is important because certain consumers lack the capacity and/or agency to purchase CER. Further, regardless of whether a consumer has CER or not, if they are connected to the energy system there will inevitably be a residual cost to serve. The AEMC must determine this residual cost to serve and discuss how to best recover these costs from customers.

Below, we provide our responses to the questions posed by the Consultation Paper. We look forward to continuing to engage in this important review.

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

We support the proposed approach and believe no changes are necessary, provided there is:

- an opportunity to discuss the issues that exist today so that mistakes aren't replicated; and
- an additional opportunity to comment on some of the key details later. Specifically, once the AEMC clarifies its intended direction, there should be a further opportunity to discuss key details, such as network cost allocation and necessary consumer protections.

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

We broadly support the proposed Consumer Preference Principles.

It could be argued that fairness, equity and justice may be an appropriate inclusion to the Consumer Preference Principles. However, we consider they may be better included as an explicit assessment criterion.

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

The Consumer Archetype matrix is a useful tool for illustrating that consumers will have varying levels of capacity and motivation to "engage" with the energy system. We have two main points of feedback:

- Do not overstate consumer "engagement" levels.
- Consumer diversity goes well beyond "engagement" levels. We must consider other key factors to ensure we adequately consider variation in consumer attitudes and behaviours.

Do not overstate consumer "engagement" levels

The evidence suggests that most consumers won't have the ability, motivation or capacity to "engage" significantly with the energy system:

- Our December 2024 Consumer Energy Report Card found that 54% of households say they just want a basic relationship with the energy system - they simply want affordable, reliable energy at a straightforward price.
- Additionally, half of Australian households either rent or live in an apartment. Others will lack the discretionary income or interest in purchasing CER or are impeded from doing so by other personal or accessibility impediments.

This means that nearly half of Australian households could currently reside in the "not to be left behind" quadrant for the foreseeable future. As such, most of the review's attention should focus on ensuring the market delivers affordable, simple and fair products and services for this majority of consumers.

That said, as the Consumer Archetype matrix rightly envisages, many consumers may have no interest in engaging with the system yet still use products that depend on complex pricing mechanisms. In other words, their devices may have a very active relationship with the energy market, despite their owner having limited or no engagement with the energy market. A great opportunity will therefore lie in delivering these types of products and services and seeing how they can be shared to all customers.

A simple example of such a product would be controlled hot water systems. Consumers still get hot water when they need it, but the system typically heats water when the grid is not stressed. A more complex example would be Reposit Power's "No bill" product which allows consumers to forgo paying energy bills for 7 years, in exchange for allowing their CER to be controlled by Reposit.

Capture full consumer diversity

Focusing on "engagement" levels will ignore a key factor that determines how consumers interact with the energy system – when and how they use energy.

Currently, networks are transitioning customers to cost structures that vary costs across the day (i.e. time-of-use pricing) or the intensity of their usage (i.e. demand pricing). If these pricing structures continue to be explored, we recommend collaborating with networks and retailers to see if indicative usage profiles could be developed for typical customer archetypes. These usage profiles would be used to assess how various approaches to network pricing impacts different consumers.

For example, some customers likely benefit immediately from their retailer passing on a time-of-use network demand tariff, with little change to their routines. Some households may already use appliances outside peak hours, so lowering charges during the day reduces their costs without altering their

behaviour. However, the opposite could be true for other households. For example, a move to time-of-use tariffs could penalise households that are not home during the day.

Undoubtedly, there will be "winners" and "losers" relative to the status quo – in any approach to electricity tariff and pricing reform. However, we need an honest discussion about who benefits and who loses to determine if the outcomes are socially and politically acceptable.

We also encourage the creation of multiple small business profiles. There is significant variation in energy use across small business types. Small businesses engage with the energy system differently from households and face unique challenges. For example, many small businesses lease their premises and only operate (and therefore use certain appliances) during specific hours of the day.

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?

Overall, the future needs to move towards the market delivering simpler products and services. Philosophies need to change from price signals to consumers, to price signals to retailers, aggregators and consumer devices.

Sadly, current trends appear to be moving in the wrong direction. Over half of consumers on a time-of-use or demand retail electricity tariff said they didn't choose to be on this plan.[1] We need to explore what market settings are needed to provide these customers even simpler products, such as subscription pricing[2].

Looking forward, rooftop solar and battery uptake will continue to grow. Over 1 in 3 Australian households have rooftop solar, and over half of these households say they say they are contemplating adding a battery system.[3] Alongside solar and battery uptake will be increased use of smart devices, enabled by broader trends in automation and AI.

There are a few consequences of these observed trends:

- These innovations allow price signals to be sent directly to devices, rather than consumers. We foresee an increase in the offering and uptake of simple, basic retail products that rely on highly dynamic underlying wholesale and network price signals.
- We also imagine retailers will increasingly sell 'bundled' services where they sell the technology in addition to the service (e.g. buy a battery and solar system with us and receive a particular benefit, such as long-term bill certainty).
- Consumers with solar and batteries may have little need to import energy from the grid and could become net exporters. As a result, many of these households may never pay a material energy bill again or could even receive payments from their retailer (depending on export revenue). Therefore, for many customers, they won't purchase energy from a retailer – instead they are purchasing specific services (e.g. optimised battery operation, or cheap EV charging).

These developments show there is a very exciting future for those who can have these products and services. If priced correctly, these products should benefit all consumers, whether they have CER or not.

To price these products correctly, we must determine and value the services CER can provide the system. Consumers must be given access to provide these services to the market and be rewarded for it.

[1] Energy Consumers Australia – Consumer Energy Report Card (December 2024).
[2] See the following link for a discussion paper on a potential fixed bill model: https://www.brattle.com/wp-content/uploads/2022/03/FixedBill-Plus_Working-Paper.pdf.
[3] Energy Consumers Australia – Consumer Energy Report Card (December 2024).

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

Overall, the clear need is to remove the barriers that prevent consumers from having access to basic, simple, easy to compare products.

Under current settings, the growing complexity and variation in electricity pricing—whether through network tariff reform or exposure to wholesale spot prices and other markets— will make it increasingly difficult for consumers to compare products and chose the right product for them. Consumers may be given advice that a certain product is cheap because it is for a "typical" consumer's load profile, when the product may be bad for that consumer's circumstances.

The consultation paper frames this issue as there being poor information availability. While low information is a barrier, arguably the biggest barrier is the high complexity of decisions and the numerous factors to consider. As such, there is a need to simplify products and consumer choices to make decisions easier and transparent. Let industry manage risks on behalf of consumers and instead provide consumers simple services.

For emerging CER products, there will be a need for highly tailored, trusted advice. Energy comparison websites may need to evolve to allow consumers to compare these products (if it is indeed possible to compare these products at all). The smart meter rollout could allow energy comparison websites to use actual historical usage data to provide simple, targeted advice for consumers.

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

To ensure consumer protections are fit for purpose for the future energy market, we need:

- Modernised default offer protections
- Monitoring of installer behaviour, advertising, and CER product contracts

Updated, long-term default offer protections

There is a need for a long-term solution that can ensure all consumers have access to a basic and fairly priced simple service.

It will be increasingly difficult for current default offer protections to ensure all consumers access a fair energy price with underlying complex network tariffs. The Australian Energy Regulator (AER), for example, is responsible for setting the Default Market Offer (DMO) which both caps the price retailers can charge their customers on standing offers (often considered to be "disengaged" consumers), and acts as a reference price that consumers navigating the energy market can use to compare plans.

The DMO regulations were introduced at a time when most consumers were on flat prices (across both the network and retail level). The AER is not required to set prices for consumers on demand pricing, and their time-of-use prices are based on an assumed load profile that likely does not reflect the actual consumption pattern of many consumers.[4] As such, some may be on a contract that delivers a bill higher than the default market offer, because of their usage profile.

We were encouraged by the AEMC's recent rule change which entitles consumers to remain on a flat retail price if they choose.[5] However, this right is limited to two years (down from a proposed three years in the consultation paper), and it is unclear what will happen after that period. As such, we remain concerned about the ongoing risk of limited access to simple, easy-to-understand products in the retail market.

There is merit to consider changing the default market offer to a guaranteed basic service at a set price. This offer would be intended for vulnerable and unengaged customers.

Monitoring of installer behaviour and advertising and VPP and CER product contracts

In the future, many consumers will have CER and therefore may pay small energy bills. As such, most of their energy costs will be upfront hardware costs. These consumers therefore face two main risks:

1. Consumers could receive bad-faith advice, leading them to purchase more solar and battery capacity than necessary, or they may be sold poor-quality systems.
2. Consumers might be locked into contracts that don't fairly compensate them for the services their CER provide or expose them to unforeseen risks.

To better understand the extent and impact of these risks, we propose ongoing AER monitoring of contract terms and advice provided to consumers by installers and retailers.

[4] AER, DMO Price Determination 2024-25 Issues Paper, p. 28
[5] AEMC, National Energy Retail Amendment (Accelerating Smart Meter Deployment) Final Rule Determination, 28 November 2024.

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?

Numerous barriers are contributing to current challenges:

- A lack of alignment on the roles of network and retail pricing and services (e.g. to whom network tariffs are meant to be for, and the role of retailer in managing risks on behalf of customers).
- We have heard from retailers that a barrier to reform has been lack of consistency and stability in network tariff design across networks. In addition, the lack of alignment on a broader strategy for network tariff reform.[6]
- The absence of smart meters and limited access to consumption data hinder broader customer awareness and education. Lack of smart meters is likely a barrier to retailers being able to invest in new products in some jurisdictions.
- A lack of trust in the energy sector will impede the adoption of certain products. Many customers will likely purchase batteries and solar panels so they specifically don't have to engage with their retailer anymore. To ensure trust it will be crucial to ensure that the smart meter rollout does not damage the sector's social licence for the transition.
- We imagine some retailers will be a barrier. Retailers with generation assets may have limited incentives to offer demand response services to ensure profitability of their assets. More broadly, while there is innovation in the retail market,[7] many existing retailers seemingly provide the same billing models and contracts which may no longer be fit for purpose.

We hope that current reforms, and this review will address most of these barriers.

[6] Lessem N & Bradshaw A – Industry Perspectives on electricity tariffs and retail pricing (2022). Accessed here.
[7] Australian Energy Council discuss some of these new products here.

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

We are encouraged by the AEMC's openness in discussing the challenges associated with current network cost recovery methods.

In our view, the focus needs to be on the role of network tariff reform to enable a fairer and more equitable recovery of costs. Additionally, where networks create signals, they should be designed for retailers or aggregators, not consumers.

We have the following main points of feedback. We recognise that the AEMC is already aware of many of these points:

- We need clarity on the intended purpose of network tariffs
- We need alignment in network approaches to tariff design
- We need an exploration of other cost recovery methods, including higher fixed costs
- We need to explore the opportunities and challenges of opt-in, dynamic, locational network tariffs to reduce network costs

Need for clarity on the intended purpose of network tariff reform

Broadly, network tariff reform could achieve two outcomes:

- incentivise actions that mitigate future costs.
- more fairly and equitably share costs and risks.

As we discuss in our response to Question 3, purely efficient prices may not result in a fair and equitable allocation of costs. As such, we consider there is a need to explicitly include equity and fairness as key considerations in network tariff design.

Network tariffs can be designed so that they signal future cost drivers. However, there appears to be misalignment across the industry as to “whom” these signals are meant for:

- they could be designed so that they are basic signals that retailers are meant to pass on to all consumers (e.g. a simple time-of-use tariff structure)
- they could be complex signals that better reflect the true costs of the network and are intended for retailers to create new products (e.g. dynamic locational network pricing that incentivises demand response).

A key rationale for network time-of-use and demand tariffs is that they will be passed onto consumers, and these will provide nudges for them to change when they use energy so that network costs decrease. In reality, these savings may not actually be realised, and these signals lead to added complexity and can impose costs onto consumers (whether these costs be financial, or emotional).[8]

We find that some consumers are responding to time-of-use or demand retail tariffs, however many aren’t doing so in ways that is likely to materially benefit them. Further, lower-income households are more likely to say they are changing when they use appliances, while higher-income households are more likely to be considering automation technologies and batteries. [9] As such, these pricing structures may lead to unfair cognitive burden on households already under financial hardship.

[8] Monash University – Household Energy Glossary (2024).
[9] Energy Consumers Australia – Consumer Energy Report Card (December 2024).

Our view is that network "signals" should largely be designed assuming they are for retailers and aggregators. The AEMC's recent rule change suggests that, at least for the short-term, this will be true, as retailers will be prevented from passing on these signals to consumers (unless they ask for them)..[10]

If network usage tariffs are to be disconnected from retail prices, then network approaches to consultation on network tariff design, and the pricing rules generally, need to change to ensure better consultation with retailers.

Under the National Electricity rules, "the structure of each [network] tariff must be reasonably capable of being understood by *retail customers* that are assigned to that tariff"..[11] As such, network tariffs must be set assuming that they are assigned to individual customers. Because of this, they must be relatively simple so the customer can understand how their usage affects the amounts they pay.

We find that many consumers have low energy literacy, don't know what a tariff is, and don't know which type of tariff they are on..[12] As such, it is unclear how all consumers could be assigned many of the complex network tariff structures that distribution networks are assigning customers.

If the current network pricing rules were revised, then network usage tariffs could be disconnected from individual customers. Instead, network tariffs would be designed for aggregated use in a network area. We imagine that if this approach was adopted, consultation on design would have to be done with retailers and regulators.

As we discuss in our response to Question 10, there are potentially broad implications of disconnecting network tariffs from retail prices that must be considered.

Alignment in network approaches to network tariff design

Once there is alignment on the purpose of network tariff reform, there is further benefit to greater alignment across networks to designing tariffs and reducing costs more generally.

As the Consultation Paper highlights, the current network pricing rules are principles-based, rather than prescriptive, leaving networks to design their own tariffs. Equally, until recently, there was no clear regulation on whether retailers should pass these tariffs directly on to consumers.

As a result, there appears to be misalignment across stakeholders on the role of network tariffs and the role of the retailer in responding to them. For example, some networks design tariffs with the expectation that retailers will pass them on to consumers, while others leave the decision up to retailers, resulting in varied practices across the market.

There should be more consistent approaches to calculating costs, designing and assigning tariffs. There may also be a net benefit to uniformity in network tariff publishing, particularly mandating that tariffs are "machine readable," making their integration into retailer, aggregator, and research digital tools easier and lower cost.

Exploration of other cost recovery methods

In a high CER future, a greater proportion of electricity system costs may need to be recovered via fixed methods. Otherwise, consumers without CER may pay an unfair share of network costs. This comment

[10] AEMC, National Energy Retail Amendment (Accelerating Smart Meter Deployment) Final Rule Determination, 28 November 2024.
[11] NER, 6.18.5(i)
[12] Energy Consumers Australia – Consumer Energy Report Card (December 2024).

applies to costs across the entire supply chain (e.g. wholesale and environmental), not just distribution networks.

Currently, most energy system costs (wholesale, network, and environmental) are recovered through consumption charges. If more consumers adopt solar and batteries, they may consume relatively little energy from the grid and thus pay fewer consumption charges. This approach could lead to significant cross-subsidies, where those without CER pay a larger share of system costs, particularly if distribution networks increase consumption tariff levels in response to this 'lost' revenue.

Increasing fixed charges would ensure that all consumers, regardless of whether they own CER, contribute fairly to shared system costs. Philosophically, this cost would reflect the minimum unavoidable cost that all members of society must pay to remain a part of the energy system.

Recovering more costs via fixed methods has multiple challenges to address. However, fixed charges do not necessarily have to be the same across customers. For example, costs could be recovered via a fixed charge that is scaled by the size of the customer connection.[13]

The challenge will be ensuring that making these changes doesn't result in perverse incentives, either disincentivising CER adoption or incentivising consumers to not participate in the energy system at all.

Opt-in dynamic locational network pricing

There appears to be a strong case for networks creating highly dynamic and locational network tariffs, which are only exposed to "consumers" (or more likely, certain devices) on an opt-in basis. The purpose of these tariffs is to provide signals of current and future network constraints and for consumer devices or consumer agents (i.e., retailers and aggregators) to respond to them to provide services to the system. In other words, these tariffs are meant for technology, not people.

An example would be a tariff that is very expensive during part of one day and very inexpensive (or even negative cost) during the same part of the following day. For example, on one overcast cold day, when there is a lot of heating load and no solar energy in the local system, the local network tariff may be very high. It would indicate the danger of excess load on the system, encouraging batteries to discharge and EVs and water heaters not to charge. If the cold front moves on, the next day could be mild and sunny, with no heating or cooling load and a lot of excess solar power, with low or negative prices signalling the available and benefit to flexible EV chargers, water heaters and batteries that it is wise to charge/use energy.

[13] Argyle Consulting and Endgame Economics, Network tariffs for the distributed energy future (June 2022). Accessed here.

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

We are glad the AEMC is considering the potential future roles of networks and retailers to deliver services to customers.

Overall, retailers have the direct relationship with customers and operate in a competitive environment. Therefore, it is the retailer's role to design attractive products that meet customer needs. There may be a need for additional regulation on some or all retailers to ensure all consumers have access to certain products. The variety of offers all consumers should have access to is potentially broad, including on one end of the spectrum, an affordable, basic retail plan so that consumers who want a basic engagement with the energy system have one that if fair and affordable. On the other end, there may be value in ensuring that there is a highly dynamic and locational price that ensures consumer assets, like batteries, water heaters, and EV charging, that can reduce system costs are effectively incentivised to do so.

Networks will need to signal to retailers and aggregators where the network is and is not constrained. Networks should offer specific tariffs that incentivise demand response and other programs to be implemented where they are most needed to avoid future network costs.

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

The Consultation Paper discusses some new approaches to network tariff design and the responsibilities of the retailer. It suggests that retailers could take on network pricing risk on behalf of consumers. We will need to think carefully about the implications of this approach to network tariff design and the role of the retailer.

If retailers are required to acquire new products to manage network price risk, it is essential that the cost of acquiring these services (which will ultimately be passed on to consumers) is outweighed by the benefits of creating these price risks. In other words, avoided network costs would need to exceed the added risk management costs that are passed on to consumers.

Additionally, we must consider how retailers, acting in their own best interests, would allocate these new risk management costs to their customers. Consumers with solar and a battery could respond to network price risk on behalf of the consumer themselves, which means retailers may pass on these risk management costs just to the customers without these services.

In other words, there is a risk that these changes could lead to the simple basic products provided by retailers being much higher priced than they otherwise would have been if underlying network tariffs were “simple”.

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

Fairness, equity and justice must be a key component of the assessment criteria. The AEMC must determine this core group of costs that all members of the energy system cause and discuss approaches to recovering them.

If these factors are ignored, there is a real risk that the most disadvantaged in our community will bear an unfair share of the transition's costs. Efforts to incentivise Consumer Energy Resource (CER) adoption could further entrench inequalities.

Time-of-use pricing structures, for example, have been implemented with the intention of being "cost-reflective". However these models allocate costs based on usage patterns, which may not always lead to equitable outcomes for consumers. This is because many consumers aren't necessarily exercising a simple *choice* when using appliances in certain times.

Further, consumers with rooftop solar and a battery system can avoid grid consumption charges altogether, regardless of the underlying structure. Therefore, in a high CER future, current cost recovery methods may lead to unfair cross-subsidies between consumers (whether it be from the "engaged" to the "non-engaged", or those who's circumstances suit certain pricing structures, to those who's circumstances don't).

It is reasonable for consumers who can avoid or reduce peak consumption, to receive benefits from doing so. However, these benefits must accurately reflect the actual value these actions are providing to the system.

As such, there is a need for a long-term cost recovery method that ensures that all consumers pay a fair share of energy system costs. As we discuss in our response to Question 8, we think it is likely that in a high CER energy system many energy system costs will have to be recovered via alternative methods to consumption charges.

We thank the AEMC for the opportunity to provide comments on this important review. If you have any questions, please reach out to Ashley Bradshaw at Ashley.bradshaw@energyconsumersaustralia.com.au

Yours sincerely

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