



Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

12 December 2024

To Ms Collyer,

The pricing review: Electricity pricing for a consumer-driven future – Consultation paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper for its self-initiated review into electricity pricing for a consumer-driven future.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, diesel peakers, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia. ENGIE provides its retail customers with access to innovative products that have a focus on consumer energy resources (CER), such as residential virtual power plants (VPPs) and electric vehicle (EV) charging.

ENGIE considers this review is timely in the context of the expected rapid increase in CER adoption over the coming decades. This review provides an opportunity to rethink network tariff arrangements and move towards simplified networks tariffs that give retailers greater flexibility to design a suite of retail tariff offerings that align with the wants and needs of the diverse customer base.

As will be discussed throughout this submission, ENGIE considers that retailers will have an important role in the future market to enable customers to access value from the flexibility they can offer to the future energy market. Retailers are also well-placed to support their customers through the energy transition, particularly for customers that do not want to actively engage in the market and are seeking simple solutions.

It is important that this review is not restricted to addressing barriers related to our current expectations of the future market, as the market will likely evolve in ways that we could not predict today. Any amended regulatory framework should be flexible enough to enable the development and introduction of a variety of new products and services.

In the remainder of this submission, ENGIE has provided feedback on each of the questions posed throughout the consultation paper.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0436 929 403.

Yours sincerely,

A handwritten signature in black ink that reads "Matthew Giampiccolo". The script is fluid and cursive, with the first letter of each word being capitalized and prominent.

Matthew Giampiccolo

Manager, Regulation and Policy

ENGIE response to consultation paper questions

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

ENGIE considers the Commission's proposed approach is broadly appropriate. ENGIE supports the establishment of an Advisory Group and Stakeholder Reference Group to ensure that the Commission has access to direct input from stakeholders with significant expertise and experience.

In terms of the timeframes set out in the consultation paper for the review, this may be ambitious, particularly due to the diverse range of stakeholders and views that the Commission will receive throughout the review process as the potential recommendations become clearer. ENGIE would urge the Commission to ensure it gives itself sufficient time to properly assess the views and feedback it receives throughout the review.

It is also important that the review is not restricted to addressing barriers related to our current expectations of the future market, including consumer preferences. Despite our best efforts, it is likely that the market will evolve in ways that we do not predict in this review. Any amended regulatory framework should be designed in a way that is technology agnostic and enables the development and introduction of products and services, and consumer use cases, that we are not able to envisage today.

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

The proposed Consumer Preference Principles, as well as the Consumer Archetypes, set out in the consultation paper highlight that consumers are not homogenous and the challenges in establishing prescribed regulatory requirements that can pre-determine outcomes that are relevant for all consumers. Regulation should focus on identifying and addressing market failures, including risks of consumer harm, while maintaining the ability of service providers to tailor their products and services to meet the preferences of their diverse customer base.

In addition to the initial proposed Consumer Preference Principles, ENGIE would support 'sustainability' being expressly considered as a consumer value. There is evidence that some cohorts of customers are willing to pay more to access products and services that align with their sustainability values and reduce their carbon footprint, such as the uptake of GreenPower products. ENGIE is committed to supporting our customers to lower their carbon footprint and transition to renewable and efficient energy solutions.

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

In addition to the comments provided in response to question two, ENGIE considers it is critical that the review has a particular focus on consumers that will be unable, or unwilling, to access and directly benefit from CER and the future energy market. One market failure that regulation should prioritise is ensuring that a basic service offering is available for these types of consumers at a reasonable price. This consumer cohort will necessarily attract more regulatory oversight than other consumer cohorts that have higher scope to engage in the competitive market and access different value propositions.

In terms of the specific Consumer Archetypes presented in the consultation paper, it may be useful to also include a more moderate archetype (such as a medium resources, medium interest to engage scenario) that captures consumer cohorts that may be in the centre of the matrix.

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?

While it is helpful for the Commission to think about the products, services and pricing structures will look like in the future, as noted previously, it is likely that the market will evolve in unexpected ways and a different set of products and services will emerge and be favoured by consumers. It is important that any redesigned regulatory framework is flexible enough that it does not act as a barrier to new, unexpected, and innovative products and services.

ENGIE notes that home battery uptake and VPP participation is still in its infancy in Australia and this will likely continue to expand in the future, particularly as the prices of devices become affordable for more Australian households. Currently, customers participating in VPPs tend to be early-adopters that are highly engaged and technically savvy.¹

In general, ENGIE considers the future of the Australian electricity retail market will involve a greater focus on flexibility. Retailers will likely continue to launch new products and services that seek to assist customers benefit from flexibility, such as through shifting load and on-site generation according to market and network price signals. One example is SA Power Network's 'Market Active Solar Trial' in South Australia, which seeks to trial how a distributor's flexible export initiative can operate in parallel with retailer offerings to actively manage the output of a customer's solar inverter in response to electricity wholesale price signals. ENGIE is one of the retailers partnering with SA Power Networks in this trial and will provide trial participants with benefits for enabling their solar output to be limited during times when the electricity wholesale price is negative.² The 'Market Active Solar Trial' is in its early stages and learnings will be shared via the ARENA project page, which should provide valuable information on the customer experience of participation in solar management schemes.³

Key future flexibility products in the residential space are likely to be centred around hot water controlled load and EV charging. As we are still some time away from widespread adoption of EVs, it is challenging to currently predict how products and services related to EV charging will be structured and adopted for the mass market.

¹ Simply Energy 2022, Simply Energy – Lesson Learnt Report, December, p. 7. Accessed at; <https://arena.gov.au/assets/2022/12/simply-energy-vppx-lessons-learnt-2.pdf>

² SA Power Networks provided detailed background on the Market Active Solar Trial in its application to the Australian Energy Regulator for a waiver from the ring-fencing guideline. This information can be accessed at; <https://www.aer.gov.au/industry/networks/ring-fencing/sa-power-networks-ring-fencing-waiver-market-active-solar-trial-january-2024/initiation>

³ ARENA, Projects, SA Power Networks Market Active Solar Trial, accessed at; <https://arena.gov.au/projects/sa-power-networks-market-active-solar-trial/>

The upcoming accelerated smart meter rollout program⁴ should support more customers being able to access forms of flexibility, such as demand response programs. Customers with smart meters are also able to access detailed insights about their energy use through retailer applications, including comparisons of usage to prior periods and information on the types of appliances that have used the most electricity.

In addition, the Commission's rule change related to 'unlocking CER benefits through flexible trading'⁵ should open up new opportunities for retailers to carve out offerings that are tailored specifically for the flexible CER devices of small customers. There may be a new suite of services that emerge in the years following this rule change coming into effect.

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

Most consumers do not want to actively engage in the energy market and instead are seeking simple solutions they can trust. Retailers are well-placed to continue managing volatility on behalf of customers and packaging up complex products and upstream pricing structures into a simple solution that a customer can confidently engage with.

ENGIE notes there are existing tools that are intended to simplify the process for consumers to compare electricity products and services across suppliers, such as government comparison websites, reference price obligations, regulated standing offer tariffs, and the Consumer Data Right. The Consumer Data Right remains limited in terms of consumer interest and uptake and there are limited use cases available, however, this may improve in the future. It may be appropriate to reassess these existing tools with a future-focused lens to understand whether these will remain fit-for-purpose in a future retail electricity market that has a more diverse set of products, services and pricing structures.

In relation to electricity-related products, such as solar PV systems and batteries, ENGIE currently partners with specific installers through referral programs to help our customers navigate this complicated market and connect with reputable installers.⁶ This type of role for retailers may become increasingly important as flexible CER technologies become accessible to more households over time, particularly for those consumers that are not as engaged and technically savvy as early adopters have been.

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

ENGIE notes that in late-2023 the AER finalised advice to Energy Ministers on the case for reforming the National Energy Customer Framework (NECF) to include new energy services and provided a potential

⁴ Australian Energy Market Commission 2024, Rule determination – Accelerating smart meter deployment, 28 November.

⁵ Australian Energy Market Commission 2024, Rule determination – Unlocking CER benefits rule change, 15 August.

⁶ ENGIE, Solar made simple, Accessed at; <https://engie.com.au/residential/energy-efficiency/solar-made-simple>

reform framework.⁷ ENGIE provided feedback throughout that review in relation to the consumer protection obligations that could apply to providers of new energy services and the importance of identifying the specific market failure or regulatory barrier that is intended to be addressed through new regulation.⁸

ENGIE considers that many of the rules in the NECF are very prescriptive and not sufficiently flexible to respond to changing market dynamics and the introduction of new products and services. During the AER's review, ENGIE advocated for the AER to consider the appropriate minimum consumer protections that should apply to the envisaged new energy services before these are widely adopted by consumers. ENGIE supports a greater reliance on principles-based rules, particularly for new energy services that may not be as 'essential' as the traditional one-way flow of energy that the existing rules were designed around. There will likely continue to be a role for some prescriptive rules that are targeted at critical consumer protections that are relevant to maintaining a consumer's essential energy supply.

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 in response to question six, there are many prescriptive regulatory requirements that were designed for services related to the traditional one-way flow of electricity that may not be fit-for-purpose in a future electricity market. Some of these requirements provide challenges and barriers to launching some innovative energy products today, including requirements related to best offer calculations, reference price comparisons, production of rate sheets, among others.

To the extent that the future regulatory framework provides prescriptive requirements that are not well-suited to innovative new products and services, there will be barriers to the introduction of a wide range of products, services and pricing structures. In some instances, it may be reasonable that these barriers exist due to the potential consumer harm or other market failure that could arise without those barriers.

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

ENGIE considers that network tariffs should primarily be set in a standardised manner that enables distribution network service providers (DNSPs) to recover their revenue requirements and are simple enough for retailers to be able to bundle the tariffs into a retail offering.

⁷ AER 2023, Review of consumer protections for future energy services – final advice report, 22 November.

⁸ Simply Energy 2022, Re: Retailer authorisation and exemption review – issues paper, 27 May, available at; <https://www.aer.gov.au/system/files/Simply%20Energy%20Submission.pdf>

Simply Energy 2022, Re: Review of consumer protections for future energy services – Options paper, 15 December, available at; <https://www.aer.gov.au/system/files/Simply%20Energy%20-%20Submission%20to%20AER%20review%20of%20consumer%20protections%20for%20future%20energy%20services%20-%20Options%20paper%20-%2015%20December%202022.pdf>

While there is a role for cost-reflective signals to manage peak demand and avoid network augmentations, it is not clear that the current suite of time-of-use and demand network tariff structures have been effective at shifting consumers' consumption and whether the tariffs actually reflect the costs being imposed on the network by consumption in peak periods. In particular, DNSPs currently set tariffs uniformly across their networks, which does not reflect that the peak utilisation rates and associated costs for a DNSP will differ across locations.

The Commission's recent rule determination for the 'accelerating smart meter deployment' rule change will prevent many consumers from directly receiving a network pricing signal unless they explicitly consent to that tariff structure.⁹ This decision further brings into question the usefulness of DNSPs setting complex network tariffs that aim to disincentivise electricity consumption during peak demand periods. It is clear that retailers will have a stronger role in the future to manage network price risks on behalf of customers and bundle network tariffs into offerings that are well-suited to their customers' needs. Any network tariff signals and structures reflected in retail tariff offerings should be reasonably understood by customers and complex tariff structures should be primarily targeted to customer cohorts that have access to smart technologies that can be used to optimise consumption to more efficiently utilise the network.

As will be noted further in response to question nine, ENGIE would prefer simpler network tariff structures that enable us to design our own suite of retail tariff offerings that align to the wants and needs of our diverse customer base. Retailers have a direct relationship with the consumer and are better placed than DNSPs or regulators to design tariff structures relevant to consumers.

As the uptake of flexible CER assets increases over time, there will likely be a greater number of customers with the capability to shift their grid consumption, either through their own actions or via orchestration activities. Instead of relying on tariffs to drive behavioural outcomes, DNSPs could instead provide locational-based incentives through dynamic operating envelopes for consumers to shift their consumption, which retailers could then pass through to consumers that either successfully shift their consumption or enable their retailer to do so on their behalf. Such an approach would retain a cost-reflective element to DNSP pricing, while providing a standardised simple network tariff structure for all small customers.

There may also be scope for DNSPs to also consider other mechanisms outside of tariff design to drive desired behavioural change that results in more efficient investment and operation of their networks, such as through community education programs and investment in localised storage assets that can provide additional flexibility to manage peak demand.

⁹ Australian Energy Market Commission 2024, Rule determination – Accelerating smart meter deployment, 28 November.

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

Retailers currently play an important risk management role in the energy supply chain and are the key interface for consumers to participate in the energy market. Retailers also manage customer vulnerabilities and ensure that customers can sustainably pay their energy bills and remain connected to energy supply.

Retailers are also helping consumers manage CER devices and tariff structures and tailoring services to a diverse range of customers, ranging from those that are very engaged in the market to those that are vulnerable and unwilling or unable to engage. With the expected increases in CER uptake, these aspects of the retail business will become increasingly important in the future market and the relationship between consumers and their retailers will become more two-way than is the case today.

An increased uptake of controllable CER devices and smart home appliances will create opportunities for products and services focused on harnessing the flexibility these assets can offer the market. There are examples of this business model in the market today, where VPP operators can control customers' batteries to participate in frequency control ancillary services (FCAS) markets and provide customers with financial incentives for their participation. As highlighted in our response to question four, ENGIE is also participating in SA Power Network's 'Market Active Solar Trial' in South Australia, which will trial how a DNSP's flexible export initiative can operate in parallel with retailer offerings to actively manage the output of a customer's solar inverter in response to electricity wholesale price signals. In the future, retailers may have access to a greater proportion of their customer base that are willing to have a component of their electricity generation and consumption orchestrated to meet market and network needs in return for compensation for their flexibility.

In addition, ENGIE sees retailers as the main interface between customers and energy services and as such, retail flexibility could be made available to DNSPs as an alternative to costly network augmentation. This would provide additional benefits directly to those customers able to provide flexibility, as well as a broader cost reduction for the wider pool of customers on the network.

While the opportunities for increased flexibility and new services are exciting, it will remain important that retailers can continue to offer simple energy offerings and straightforward interactions to the majority of customers that are not particularly interested in the energy market and just want to be sure that they are paying a reasonable price. In that context, ENGIE is mindful that the future energy market should be designed to ensure that the benefits of flexibility are able to flow through to all consumers and we do not end up in a scenario where unengaged consumers are cross-subsidising services provided to engaged and savvy consumers.

ENGIE considers there will be an important role for retailers to support customers on their decarbonisation journey, which may include providing access to renewable energy schemes (such as GreenPower), advice on electrification and energy efficiency options, and products and services that support consumers to consume electricity at times of high renewable generation.

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

As noted in response to question eight, ENGIE is supportive of a reconsideration of network tariff setting that provides retailers with greater flexibility to design a suite of retail tariff offerings that align with the wants and needs of the diverse customer base.

The integration of CER assets should be supported by initiatives such as the Australian Energy Market Operator's (AEMO) CER Data Exchange¹⁰, which is intended to support the sharing of CER-related information through a secure exchange and improve the integration and coordination of CER assets.

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

The five proposed assessment criteria appear sufficiently broad to capture the outcomes the Commission should seek to achieve when developing its recommendations. The Commission may need to give some more thought into how it will weight and prioritise these criteria, as there may be instances where the criteria are in conflict with each other. For example, a potential option that may provide high flexibility and consumer outcomes may not be as well aligned with achieving the promotion of market efficiency.

The Commission may also consider undertaking a cost-benefit assessment of the different options it identifies in the draft report before finalising its recommendations.

¹⁰ Australian Energy Market Operator, CER Data Exchange Industry Co-Design, project page available at; <https://aemo.com.au/en/initiatives/major-programs/nem-distributed-energy-resources-der-program/markets-and-framework/cer-data-exchange-industry-codesign>