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Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Lodged online

The pricing review – discussion paper (EPR0097)

Alinta Energy welcomes this opportunity to respond to the Australian Energy Market Commission's discussion paper on its pricing review ("the review") on electricity pricing for a consumer-driven future.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers. We have also been at the forefront of driving retail competition and delivering substantial benefits to consumers across competitive energy markets for many years.

The increasing penetration of consumer energy resources and the value and need to orchestrate these resources will be impacted by the rules governing competition and the way market participants deliver innovative products and services to their customers. Competition and the minimisation of regulatory barriers are key to realising and maximising the benefits of CER as part of the energy transition.

We support the review's focus on placing customers at the centre; prioritising their long-term interests and preferences in how they engage with energy products and services. Realising this ambition will depend largely on market rules and regulatory settings that enable strong competition among retailers and other providers involved in delivering consumer energy resources (CER). Complementary network tariff structures, along with the flexibility for competitive market participants to design and offer products and services that customers value, will be essential.

The impact of retail market regulation

While we agree with the Commission that features of the current approach to pricing traditional energy services are not conducive to the realisation of the benefits of CER, we note current regulation stifles innovation and competition and are at odds with the objectives of the review. For example, the Default Market Offer, originally intended as a reference price and to "protect customers from unreasonable prices in the market by reducing unjustifiably high standing offer prices", has been progressively amended (and is currently under further review) to effectively make it an instrument of formal and restrictive price regulation. As CER penetration grows and customers respond to price signals from cost reflective tariffs in diverse ways, the utility of the DMO as a reference price and having meaning for a representative customer has materially decreased. Furthermore, tightening of regulation of the DMO is in direct conflict with the choices available to consumers and the capacity for retailers and energy service providers to innovate and engage in robust competition.

In addition, the Commission re-states its concerns that safety net pricing regulation (such as the DMO and Victorian Default Offer) could increase financial risks facing retailers, decrease levels of innovation

(due to lower retail margins to invest in innovation) and increase barriers to entry.¹ These risks remain and will be amplified as consumer interaction with the energy market diversifies further through the uptake of CER.

We recognise the review takes a long-term perspective of the regulatory and policy environment that will foster the efficient coordination of CER and support the ways in which customers will choose to engage with products and services. However, as the Commission identifies, regulation of the retail energy market “may be limiting innovation and adding costs”.² Despite the introduction of the National Energy Customer Framework over 15 years ago, jurisdictional inconsistencies remain (amplified by Victoria’s separate regulatory arrangements), and regulation has continued to expand in a piecemeal and often uncoordinated way. This growth has occurred without clear overarching objectives or regular reviews to assess whether claimed consumer benefits of the reforms have been delivered. As a result, opportunities for customers to participate in and benefit from the retail energy market have not been fully realised.

The lack of clarity around the objectives of retail energy market regulation has impacted innovation and competition, reducing choice and opportunities for consumers. While the Commission’s review is aimed at supporting competition, innovation and consumer choice, other reforms relating to retail pricing are likely to work against these outcomes.

The review’s aspirations in many ways are at odds with the current regulatory framework, which consistently restricts choice and applies a ‘lowest common denominator’ approach. Alinta Energy supports protections for vulnerable customers but believes much of the current regulation and proposed reform of the retail energy market simply add costs and reduce opportunities for consumers and retailers alike. The Commission’s review needs to address this contradiction and acknowledge that the conflict between increased price oversight is inconsistent with a regulatory framework that supports consumer choice, innovation among service providers and competition to support the integration of CER.

Network tariffs and the distributor-retailer relationship

Network tariff design

We welcome an examination of whether the current approach to network tariff setting, and the retail-network interface will support CER and innovation, with a focus on reducing costs through the energy supply chain. Designing network tariffs for retailers rather than individual end-use customers is likely to provide greater flexibility for retailers to manage the characteristics of the load shape and portfolio of their consumers. At the same time, such flexibility will provide the opportunity for retailers to design products and services more suited to the customer archetypes identified by the Commission.

Addressing friction between network tariff signals that work against wholesale market signals is important where there is evidence of it occurring given the projected benefits of CER coordination that rest on reduced wholesale market costs.

Networks must be able to recover the long-run cost of network assets, which depend on current and forecast capacity required to meet maximum demand. It is understandable that a fixed cost demand-based tariff structure might be seen as the most efficient approach to cost recovery. For small electricity customers however, demand tariffs can appear complex and difficult to understand. While the Commission notes concern with time of use network and retail pricing, such tariff structures are more intuitive and easier to communicate to customers.³ In Victoria, the introduction of time of use network tariff structures was undertaken in a consistent, methodical manner across the five network areas. Minimal negative consumer public feedback has occurred as a result.

CER orchestration and the distributor-retail relationship

CER offers an opportunity to relieve local network constraints, avoiding the need for network-wide price signals that may not be relevant to customers in uncongested zones of a distribution system.

There are growing opportunities for retailers and distributors to work together to address local network

¹ AEMC (2025), *Discussion paper – the pricing review*, page 44.

² AEMC (2025), *op. cit.*, page 7.

³ For example, the concerns set out in page 57 and 60-61 of the *Discussion paper*.

constraints, manage excess solar PV generation through Virtual Power Plants, and optimise grid performance using large-scale batteries. In many cases, this type of local engagement can deliver more practical outcomes than formal consultation processes such as those involved in Tariff Structure Statement (TSS) development and approval. While challenges remain, such as differing interpretations of ring-fencing obligations and the application of waivers under the Australian Energy Regulator's guideline, better local coordination of CER has the potential to deliver meaningful benefits for consumers (regardless of whether they have CER), as well as for network service providers and retailers.

Cost reflective network tariffs

Preserving network tariff structures in retail tariffs has been a longstanding practice, predating retail market deregulation. The Commission's characterisation of this as retailers shifting network tariff risk onto consumers overlooks the context in which these practices evolved. For years, networks and retailers have worked together (at the direction of policy makers and the AER) to implement cost-reflective network tariffs, particularly since 2014 as the Commission itself notes.⁴ The outcome of this policy direction has resulted in customer pushback and negative media coverage, with the most challenging tariff structures (e.g. demand tariffs), now being withdrawn as default network tariffs.

Furthermore, given the consumer safeguard requirements contained in the NERR under the amended *Accelerating Smart Meter Deployment* final rule, retailers face additional costs reassigning customers from demand to time of use tariff structures, mandated by the distributors' tariff assignment policies. This has essentially placed the responsibility for managing network tariff structures rejected by customers, onto retailers.

While we agree that the growth in CER and more dynamic consumer demand response has shifted the policy focus away from passing through cost-reflective network tariffs, it is important to recognise that previous practices were shaped by longstanding policy and regulatory directives provided to industry.

We respond to questions set out in the discussion paper below. Alinta Energy welcomes any further opportunity to discuss our response with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely



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⁴ AEMC (2025), *op. cit.*, Appendix D, page 73.

Discussion paper questions

Question 1: If we focus on enabling bookend products (from basic to sophisticated), is this sufficient to enable the range of products and services that will meet consumer preferences and lower system costs?

It is appropriate to focus on the bookend approach, which contemplates a spectrum of products that customers in a market of high CER penetration may seek. It is not necessary to define specific products and services beyond the bookend approach, as this should be the role of competition among CER service providers to design products that best suit customer needs and preferences.

It is not the role of the National Electricity Law or National Energy Retail Rules to define products and services and how they should be priced. This needs to be the role of the market and attempting to foresee and regulate CER will stifle innovation and reduce benefits to consumers.

Question 2: Can we rely on competition in the retail market to deliver the mix of products and services that customers value?

- How should this review address issues in the retail market to ensure the products and services needed will be available, recognising work already underway?

Alinta Energy considers that competition in the retail market is key to delivering products and services that will benefit customers under each of the refined archetypes set out on page 24 of the discussion paper. As discussed above, attempting to design products and services, or regulate their structure and features, will not realise the benefits of CER to consumers in the long-term.

The review needs to focus on dismantling barriers and costs that inhibit effective competition. These include:

1. Inconsistent regulatory arrangements across jurisdictions and a focus on harmonisation

Clause 14.5 of the Australian Energy Market Agreement (AEMA) provided for (amongst other things):

- Common regulatory arrangements for the electricity and gas sectors;
- Provide an appropriate level of regulatory certainty
- Reduce overlap between energy specific and generic regulation
- Minimise the regulatory compliance burden and associated cost.⁵

Since the signing of the AEMA, the energy market objectives have become increasingly diluted; particularly the aims of reducing compliance burden and costs and achieving regulatory consistency across jurisdictions. Regulatory certainty has also diminished, with frequent changes to retail market rules and further overlapping reforms often considered before the impacts of previous changes can be properly assessed. A credible, post-implementation review process (including cost-benefit analysis) is rarely undertaken but is essential to support best-practice regulation.

2. The impact of the Default Market Offer on retail market competition and innovation

The relevance of the DMO as a reference price in a retail electricity market featuring diverse customer preferences, varying levels and complexity of CER adoption, and the application of new pricing structures (including subscription models) needs to be examined as part of the recommendations arising from the review.

⁵ The Commonwealth of Australia (2013), *Australian Energy Market Agreement*, page 29.

While acknowledging the Department of Climate Change, Energy, the Environment and Water are undertaking a review of the DMO, this review is unlikely to result in changes aligned with the objectives of the Commission's review, which is focused on future products and services.

As customers adopt CER and engage with the energy market in diverse and dynamic ways, the traditional assumptions underpinning reference prices will become less relevant to the problems they are intended to solve. The value and utility of a reference price is likely to diminish in a future where consumer experiences and energy usage patterns are increasingly heterogeneous, while simultaneously seeing the DMO become less relevant as an information source for consumers and at worst, misleading them.

3. Streamlining and simplifying the regulatory framework

Related to (1) above, the relevance and value of consumer protections in an environment of where CER products and services are growing rapidly should be considered. Where protections are already provided under the Competition and Consumer Act, duplication in the National Energy Retail Rules (NERR) should be avoided. Retaining overlapping regulation adds unnecessary complexity and cost, without delivering additional benefit to consumers.

While energy supply is an essential service, the current regulatory framework may exacerbate the gap between customers without CER and not able to access the market (and may not wish to), and customers who are heavily engaged and invest in CER. Furthermore, all providers of energy services (authorised retailers and energy service providers), should be subject to the same consumer protection regime and retail market regulations to maintain a level playing field and competitive marketplace.

Question 3: How can better outcomes for consumers be enabled through network tariff setting processes?

- What can be improved at the retail and network interface that would contribute to better outcomes for consumers?
- How can arrangements governing retailers and networks be improved to support better product and service offerings?
- Who should receive the network price signal to make it more effective?
- Should network tariffs be designed for retailers or consumers? If retailers, how much weight should networks put on the recommendations and views of retailers?
- Should any or all the following be key design features of network tariffs: support competition in the retail market, avoid imposing unnecessary additional costs, and deliver lower overall costs over time?

The retail and network interface

The Commission notes the limited interaction retailers have had with respect to the distribution businesses TSS consultation processes. The Commission points out the reasons for this on page 50 of the discussion paper, noting the:

- Level of commitment required of retailers and the financial cost to participate in 14 network resets every five years;
- Difficulty retailers face discussing matters associated with pricing given Competition laws;
- Free rider effect of one retailer lobbying for a better outcome for their business necessarily extending to all retailers operating in a distribution network.

Retailers do participate in TSS and other network regulatory processes when issues arise and there is value in providing meaningful input. An increased focus on designing network tariffs with retailers in mind rather than end-use consumers, with closer collaboration between distributors and retailers on the principles and objectives of network tariff structures, would address some of the deficiencies identified by the Commission, including:

- Inconsistency in network tariff structures across reset periods; and
- The effectiveness of cost-reflective tariff structures broadcast to all small customers across a network area rather than aimed at a local constraint.⁶

The flexibility to allow retailers to bundle network tariff structures and the potential for a choice of network tariff structures could support long-run network cost recovery goals and improved outcomes for customers with and without CER.

Governance arrangements

The AER's TSS process has been of value and the distribution businesses have provided greater opportunities for various stakeholders to engage with the design of network tariffs. An improvement on this process would involve a focus on tariffs aimed at retailers more generally with a targeted consultation scope. Consumers and other stakeholders would necessarily still be involved in consultations relation to network tariff design.

Who should the network tariff signal be aimed at? Should network tariffs be designed for retailers or consumers?

Alinta Energy believes it is likely to be more efficient for network tariff signals to be directed to retailers rather than end-use customers (in the case of small customers). There are variations on how the transmission of such signals could be enabled, including a range of tariffs retailers could apply to their portfolio and standardisation of these tariffs as discussed on page 51 of the discussion paper.

Under a model that aims network tariff structures at retailers, significantly greater weight should be assigned to retailer views on tariff design. Shifting the focus to retailers will likely require a significant overhaul of the pricing principles, where network tariffs are set a "whole of retailer" level, rather than designed and calculated based on individual customer types and connection point characteristics.

Network tariff design features

All the features described in Question 3 need consideration in design of network tariffs. While each feature would need to be weighed against the others, supporting retail competition in a retail energy market with increasing CER penetration and a need for efficient coordination will be key.

Question 4:

What role can network tariffs play in meeting customer preferences while also efficiently and effectively contributing to lower overall costs?

Network tariffs will meet consumer preferences while lowering system costs where they are designed in close consultation with retailers at the network-wide level and provide flexibility for retailers. This will support the design of products and services and pricing structures that best meet customer preferences and improve network utilisation, as well as aligning with or being linked to wholesale market outcomes.

Network tariffs will retain their function of recovering the revenue cap distribution businesses need to invest in their network assets, cover operating expenditure and the return on and of capital.

⁶ AEMC, *op. cit.*, page 53, Appendix D page 73.