AusNet

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

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THE PRICING REVIEW: ELECTRICITY PRICING FOR A CONSUMER-DRIVEN FUTURE

Dear Danielle

AusNet appreciates the opportunity to respond to the AEMC's Discussion Paper *Electricity Pricing for a Consumer-Driven Future*.

We support the intent and objectives outlined in the paper to achieve lower overall system costs and ensure electricity bills meet customers preferences.

We reiterate the position expressed in our response to the AEMC's consultation paper, namely that the current network pricing framework is largely fit for purpose and does not require major reform, but rather continued evolution of services to deliver customer benefits from CER over time. We support enhanced collaboration with retailers and recommend making incremental improvements within the existing rules to deliver the outcomes sought by the AEMC.

We do not consider the AEMC has provided sufficient evidence to support a shift away from the current practice of improving the cost reflectivity of network tariffs which DNSPs have been incrementally implementing over the past decade, driven by government and regulator support.

Importantly, while we will continue to advocate for the beneficial role of cost reflective network tariffs, we concede that not all customers will respond to, or want to be exposed to these network signals. Customers should be able to choose their level of engagement, with many potentially suited for the "basic offering" end of the spectrum, with retailers retaining the responsibility for managing and packaging the network costs to suit the breadth of their customers' needs.

AusNet does not agree with a number of claims that the AEMC makes about network tariffs and we make the observation that examples drawn from one jurisdiction are not necessarily applicable in others. To this extent, notably, the Victoria DNSPs have:

1. **Conducted retailer engagement on our 2026-31 Tariff Structure Statement (TSS) with multiple retailers.**

   Network tariffs are ultimately designed for retailers, although careful consideration is given to how customers can understand and opt-in to them so that they may respond to the price signals being sent. We therefore consult with retailers and other stakeholders to design appropriate tariffs, ultimately approved by the AER.

   We engaged with multiple retailers as part of our processes for our 2026-31 TSS, including through the Victorian network conducted joint engagement of 3 workshops aimed at developing common baseline tariffs across the networks while considered feedback form retailers. Representatives from ten retailers were part of these joint sessions and retailers were also given the opportunity to read and respond to our small business consultation paper on network tariffs.

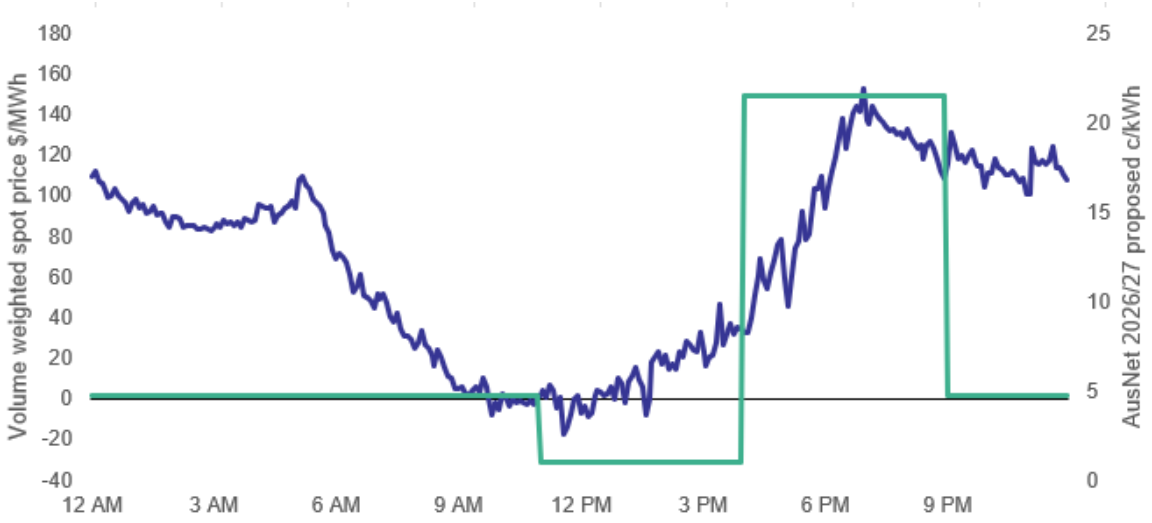
   Our engagement with retailers didn't find consensus regarding the specific design of tariffs, however Victorian DNSPs adopted mostly uniform tariff structures in order to make it easier for retailers to design their offers and for customers to understand them. We are currently considering retailer submissions to the AER's Issues Paper on our 2026-31 TSS and where needed, we will incorporate this feedback and any feedback on the AER's Draft Decision, into our Revised TSS due in December 2025.

2. **A cost reflective peak pricing period of just five hours (4pm-9pm) and solar soak period of 11am-4pm in the residential network tariffs in our proposed 2026-31 TSS**. This reflects both the network costs of managing peak demand periods and the abundance of PV generation from rooftops in the middle of the day.

   We acknowledge that, as signals are not differentiated by each customer's connected network capacity, there may not be immediate benefits from all customers shifting their load in response to network signals. However, there are trade-offs between sending price signals in a cost-reflective manner and providing the consistency and simplicity that our stakeholders expect. We consider that the tariff structures within the Victorian DNSPs' 2026-31 TSSs achieve this balance. We agree that not all customers will engage in these network price signals and that network cost risk is most appropriately managed by retailers and passed on where appropriate.

   Therefore, we caution against short term shifts away from network signals unless there is strong evidence to suggest network costs signals are less important than other drivers during the transition. We also note that concept of current peak pricing is broadly reflective of wholesale costs in this period, but the network tariff window just appears to be at a marginally different time of day. This also differs depending on the region and time selected. Plotting the Victorian volume weighted spot price in November to December 2024 (the period used in the Discussion Paper) against AusNet's proposed 2026-31 TSS residential tariff structure reveals reasonably good alignment between the spot price and network price signals, as demonstrated below.

   Figure 1. Victorian volume weighted spot price (Nov/Dec 2024) v. AusNet's proposed residential structure for 2026-27



3. **Made progress to capture the value of CER over time but are still in the process finalising design and approval of new tariffs and services** from the AER.

   As the energy transition and CER uptake accelerates, we are continuing to evolve our tariffs and service offerings more recently to capture new opportunities and drivers of network investment from CER. Under our Rules requirements, DNSPs largely introduce changes to our tariffs in 5-year cycles within our TSS and therefore changes to tariff structures are not rolled out immediately. In the case of Victoria, we are currently finalising design of CER tariffs which will only be introduced from 2026, whereas many other networks have introduced CER tariffs. These CER tariffs share the peak, off-peak and solar soak periods of standard TOU prices, whilst introducing export rewards and charges to encourage customers with flexible import and export capability to operate their CER in a manner that will reduce network costs.

   In addition, we are already seeing evolution in "sophisticated" services to ensure CER benefits are realised and shared amongst customers, and propose these may be more appropriate and effective than pricing reforms. These include flexibility services and rolling out dynamic service offerings, such as flexible exports. How these services evolve would be useful evidence of whether there is a gap in

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services to enable CER benefits and to meet customer expectations. These services will be rolled out across different jurisdictions at different times, but there is significant momentum to realise the opportunity of these capabilities, especially in Victoria. There is already work underway to enable these services and we welcome continued engagement on reforms to expand their take-up.

We note that significant work has been undertaken to improve the cost reflectivity of network tariffs over recent years in line with stakeholder expectations. We suggest that it may be too soon to determine if areas of the framework need reform or more time to evolve as new services and information become understood across the energy supply chain. Without stronger evidence and assessment of the benefits of various interventions, we caution against shifting the current approach to address short term challenges in the retail market.

We reiterate there are complicated trade-offs between cost reflectivity and simplicity of network infrastructure tariffs, including:

- **Retailers may prefer simplicity:** The paper indicates that some retailers have experienced difficultly managing the complexity of network tariffs. If this is currently preventing innovation of retailers' offerings, we are interested in collaborating with retailers on how to minimise this complexity and ultimately the barriers and costs preventing the retail market from delivering the services customers want. Over time, we expect greater automation will simplify retailer and customer interactions with these signals and enable delivery of new innovative retail offerings. As mentioned above, AusNet is looking forward to continuing to engage with retailers and other stakeholders on our proposed 2026-31 TSS.
- **Conflicting network vs wholesale signals at certain times:** The claim that network tariffs "unnecessarily conflict" with wholesale signals lacks sufficient evidence. It may instead indicate two valid but competing signals responding to different issues, where the stronger signal should indicate what response would achieve a larger benefit. More evidence is required to help assess if this is a conflict which needs to be resolved to achieve a certain outcome, or is just an intended outcome of a framework attempting to reflect the cost of two different types of energy infrastructure with sometimes different drivers. We note that other recent and current processes, such as the Integrating Price Response Resources, and the NEM review are focussing on unlocking further value from wholesale market which is more commensurate with the benefit of these services to the market. Proposed changes out of these processes may alleviates this issue to an extent if it is prevalent.

We do not support a drastic move away from network cost reflectivity in order to prioritise simplicity and lower costs for another part of supply chain. This would likely dilute any signal of network investment risk which is a key driver of customers' energy bills in the transition. The role of network tariffs is to signal the right incentives to promote efficient investment in the network, and an equitable recovery of shared network costs. While the current framework does not require all end use customers to engage with network pricing signals through their retail prices, it remains appropriate for retailers to develop product offerings, including simple offerings, whilst managing the price signals sent by network tariffs.

Overall the industry is making significant progress toward more cost reflective network prices and services, such as an ambition to expand dynamic signals and limits, but we think the current approach to tariff setting with peak and solar windows remains appropriate to reflect network constraints and efficient signalling of costs. Customers do not need to respond to these windows but there is value for many customers who have the opportunity to and support this remaining available on an opt-in basis.

We welcome ongoing collaboration and incremental improvement to capture value from CER and minimise total system costs. We anticipate over time greater value can be extracted from CER and this can be broadly enabled through the current framework and projects underway.

Sincerely,

N Cimdins

Nick Cimdins
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AusNet