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Australian Energy Markets Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Via email: www.aemc.gov.au

The pricing review – Discussion paper (EPR0097)

CitiPower, Powercor and United Energy (networks) welcome the opportunity to provide feedback on the Australian Energy Markets Commission (AEMC) consultation paper *The pricing review, discussion paper, June 2025* (discussion paper).

Consideration of equity

The discussion paper states the AEMC has recently implemented new guidance, and updated its assessment criteria, to ensure issues of equity are consistently and transparently addressed in a structured way across all changes and reviews of the National Electricity Rules (Rules). We welcome this new feature of the AEMC's assessment framework and would welcome its application in other Rule changes currently under consideration such as Integrated distribution system planning, Real time data for consumers and the forthcoming distribution system operator (DSO market review).

Equity has been interpreted in different ways. What we mean by equity in pricing includes the following:

- customers are not exposed to price signals they don't understand
- customers (especially those facing financial hardship) are protected from significant price increases, even if this would be more cost reflective
- perceptions of fairness, for instance equal access to products and services.

Some pricing examples which might be economically efficient, but are likely to be regarded inequitable include:

- charging customers in one area less because the network has significant spare capacity and charging customers in another area more because there almost no spare capacity
- only offering a basic residential or small business network tariff in areas where there is significant spare capacity
- providing customers with a tariff discount in areas where a community battery has been installed by the distributor or a third party – sometimes called a local use of system (LUOS) tariff because the battery is able to reduce reliance on the upstream network some of the time
- recovering residual costs from all residential customers through a common fixed charge which reduces the ability of customers facing financial hardship to manage electricity costs. Low usage consumers such as retirees or single parents will face a bill increase and large and often wealthy users a bill decrease.

Through our engagement program to support our 2026-2031 regulatory reset, our customers have repeatedly told us they want *everyone to have access to affordable and equitable electricity*. An example of where equity was an important consideration in pricing was our proposed network-wide residential customer energy resource (CER) network tariff, currently under consideration by the Australian Energy Regulator (AER).

Based on our engagement with customers and communities, we concluded it would be perceived inequitable if a new residential CER network tariff with export rebates was only offered in areas where a demand-response was required to defer or avoid identified future network investment. In this scenario, the residential CER network

tariff would have only been available to a small number of customers consistent with Figure 11 in the discussion paper which shows that on most parts of the network there is ample headroom. A network tariff available to only a small number of customers is less likely to be adopted by retailers and would not be considered supportive of the Victorian Government's preference for network tariffs that promote the adoption of home energy storage across the network.

The consequence of making our residential CER network tariff available network wide is that cross-subsidies are introduced, and the price signals must be more muted to avoid the cross-subsidies being material.

Another example of where equity been a consideration in the NEM is the exposure of small and medium customers to demand charges which can be an efficient way of signalling and allocating network costs. The evidence is that when a network charges a demand charge, the retailer will pass it through to the customer. The evidence is also that demand charges are generally regarded as punitive and unfair by many small and medium customers. For this reason, there has been a move away from mandating small and medium customers to pay demand charges.

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?

Enabling bookend retail products is a necessary pre-requisite to meeting consumer preferences and lowering system costs but should not be the only pre-requisite. Enabling the bookend retail products doesn't necessarily mean that networks should offer a menu of network tariffs to retailers since this may not be efficient or equitable. For instance:

- a menu of network tariffs enables a menu of retailer offers which means greater opportunity for engaged customers to minimise costs, leaving customers who are less able to understand and engage paying more
- providing customers with options which allow some customers to largely avoid paying network costs (e.g. high demand low usage customer selecting a variable energy rate tariff) will place an unfair burden of cost recovery on customers who are unable to avoid paying network costs (e.g. a flat consumption profile).

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

Effective retail competition is an important pre-requisite to deliver the mix of products and services that consumers value. We would note however there is anecdotal evidence retail markets in some customer segments are not always competitive, and that in some circumstances, customers lack agency to make the best decisions.

We would advocate there be continual monitoring of competition in retail markets by customer segment. This is especially true for customers who maybe experiencing vulnerability. We would also urge a renewed focus on providing customers greater agency through independent data and advisory services and education.

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 of 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?**

Networks should consider retailer feedback when designing network tariffs because:

- distributors may not be aware of network tariff implementation issues being experienced by retailers
- where there is a choice of network tariff, it is most commonly retailers that make the choice on behalf of the customers. It would therefore be a lost opportunity for a distributor to introduce a network tariff which retailers do not intend to utilise.

However, there is a limit to how far networks can consult with retailers:

- competition laws create legislative barriers to competitors discussing, reaching or giving effect to any agreement or understanding related to pricing
- different retail business models and customer products is a sign of a healthy competitive retail market, however, this means there is a limit to how far distributors could go in assessing the impacts of potential network tariffs on retailers
- networks would need to consult with retailers individually and risk accusations of preferential treatment of specific retailers
- networks often receive conflicting feedback from within the same retailer. Examples include differences in preferences amongst retailer strategy, regulation, marketing and billing teams.

We urge the AEMC not to impose unrealistic retailer impact principles on distributors.

Neither should network tariffs be required to be designed based on the request of retailers. Retailers' objective is to maximise their profit. Profit maximisation is unlikely to align with the National Electricity Objective or the long term interests of our customers. For instance:

- retailers may not care about reducing future network investment through price signals. Their focus understandably is on minimising retail risk
- larger retailers could use retail-driven network tariffs as an opportunity to stifle retail competition through advocating for network tariff reform that which supports their business models at the expense of smaller innovative retailers.

One issue where retailers agree, is better alignment of network tariff structures across distributors. We have some sympathy for this view. While tariff reform is a slow process, we believe that there is merit in some convergence of network tariff structures across the National Electricity Market (NEM), balanced by flexibility and innovation to enable network pricing to adapt to the evolving energy market.

Question 4: What role can network tariffs play in meeting customer preferences while also efficiently and effectively contributing to lower overall costs?

Our experience has been that there is a tension between network tariffs meeting customer preferences and contributing to lower overall costs.

Our stakeholder engagement to date has, based on the available evidence, assumed that default network tariffs are reflected in retail offerings, and the customer impact principle therefore requires us to present the bill impact of proposed network tariff changes on a pass-through basis. Any tariff change results in immediate winners and losers, and highlighting losers often restrains tariff changes. This has resulted in our default network tariffs across all customer segments only moving incrementally towards cost-reflectivity. Additionally, the same default network tariff structures for residential and small business customers have been adopted in Victoria to meet customer preferences, but at the expense of cost-reflectivity.

Determining the balance between customer preferences and cost reflectivity is ultimately a policy decision. Previous Rule changes have focused on efficiency and as noted above, we are pleased that the AEMC in this market review will consider equity given the very clear feedback our customers have given us that affordability and equity are priorities. It's noted the absence of consideration of customer preferences has, in a Victorian context, resulted in the Victorian Government intervening in the tariff setting process on the basis they don't believe the Rules strike the right balance for customers.

Whilst our network tariffs fall short of being economically efficient, we have implemented and are planning to implement more demand management alternatives. Demand management alternatives offer an opportunity to make more meaningful impact on customer behaviour and future network costs. Coupled with demand management alternatives, we are continuing to closely study future customer behaviour through our partnership with Monash University in the development of the *Future Home Demand* report and our participation in the RACE for 2030 *Designing Future Networks*.

We already have in place demand management alternatives including:

- low-cost network optimisation
- controlled load hot water which allows us to control hot water heating remotely
- dynamic voltage management system (DVMS)
- flexible connections for high voltage generators, storage and potential other flexible loads where the connection agreement provides us with the right to control imports or exports under certain circumstances.

For the next regulatory period, we have further demand management initiatives that include:

- flexible export services for small customers
- building capability for flexible load connections
- extending flexible connections to low voltage connected generation, storage and potential other flexible loads
- a platform to procure network support which is paid for direct to the customer.

These initiatives have advantages over network tariffs in better managing the network through firmer demand management outcomes rather than relying on network tariffs to drive customer behaviour. They can be targeted to specific network locations where there is identifiable avoided or deferred network augmentation cost. They can be tailored to specific circumstances including financial arrangements, timing and duration and lastly do not rely on the retailer passing through cost-reflective network tariff pricing signals.

We would be pleased to discuss this submission with the AEMC should that be of assistance. In the first instance, please contact mdevillers@powercor.com.au or on 0414 323 890.

Yours sincerely,



Lauren Fetherston
Head of Regulatory Policy and Compliance
CitiPower, Powercor and United Energy