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

10 July 2025

To Ms Collyer,

The pricing review – Discussion paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) discussion paper on its self-initiated pricing review.

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, 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 that retailers will have an important role in the future energy market to support consumers to access value from the flexibility they can offer to the future energy market. ENGIE supports a redesign of network tariff structures that support retailers to design a suite of retail offerings that align with the preferences of a diverse customer base. To-date, distribution networks have not been successful in developing tariff structures that meet consumer expectations. This was most strongly highlighted in the Commission's 2024 rule determination that prohibits retailers from passing through the default network tariff structures that distribution networks had designed and received Australian Energy Regulator approval to implement.[1]

In this submission, ENGIE has provided feedback on the questions posed throughout the discussion paper.

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

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?

ENGIE is pleased that the Commission is considering how the regulatory framework can be redesigned in a way that does not act as a barrier to new and innovative products and services in the future. ENGIE agrees with the Commission's position that consumers should have the agency to choose the level of risk, cost and control that best suits their preferences.

In our submission to the consultation paper, ENGIE asked that the Commission prioritise ensuring a basic service offering continues to be available to consumers at a reasonable price.[2] ENGIE noted that consumers that are unable, or unwilling, to actively participate in the retail energy market will necessarily attract more regulatory oversight than other customer cohorts that have more scope to manage their involvement in the competitive market.[3]

In relation to the Commission's proposal to focus on enabling bookend products, ENGIE considers this workstream could overlap too much with the Department of Climate Change, Energy, the Environment and Water's (Department) Better Energy Customer Experiences review. The Department's review is directly considering questions about new energy products and services and the supporting regulatory arrangements to ensure that consumers are appropriately protected when purchasing these products and services. Rather than seeking to provide recommendations relating to the entry and regulation of competitive products and services, the Commission should instead focus on ensuring any recommended reforms to distribution network tariffs are compatible with an objective for consumers to be able to access products and services across the spectrum of offers between the identified bookend products.

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?

ENGIE agrees with the Commission that regulation of a competitive market should only apply to the extent that it addresses identified market failures. ENGIE supports the competitive market being prioritised and enabling retailers to tailor products and services to meet the preferences of a diverse customer base, which would ensure that prices trend towards efficient costs over time.

As noted in our response to question one, ENGIE contends that the Department's Better Energy Customer Experiences review is the appropriate workstream to assess the extent that regulation should apply to the supply of the products and services that consumers may access from the competitive retail energy market into the future. Consideration of retail regulatory and pricing arrangements in this review would distract

[2] ENGIE 2024, Submission – The pricing review: Consultation paper, 12 December, p. 3.

[3] Ibid.

from the most relevant focus area, which is the appropriate setting of distribution network tariffs to support competition and consumers in the future energy market.

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?

The setting of network tariffs should support retailers in their role as the primary customer-facing entity

As acknowledged in the discussion paper, around 80 per cent of a residential customer's electricity bill is comprised of network and wholesale costs, with each contributing around 40 per cent.[4] The Commission's forecasting suggests the proportion of network costs in a residential customer's electricity bill will continue to increase and will represent around half of an annual electricity bill by 2034.[5] Unlike wholesale costs, retailers do not have any tools to hedge against the variability of network tariffs on behalf of their customers. Rather than uplifting the overall price of their retail offers to manage the risks arising from tariff structure mismatches, most retailers currently pass through distribution network pricing structures to consumers.

Distribution networks are not customer-facing entities and only have limited engagement with customers on tariff design through their five-year revenue determination processes. It is clear that distribution networks have not been successful to-date in developing tariff structures that meet the expectations and needs of the broad customer base. For example, the Commission's final rules for the 'accelerating smart meter deployment' project decided to shield residential customers from the network tariff structures that distribution networks have set as the default tariff structures for customers with smart meters.[6] This was despite distribution networks having developed these default network tariff structures based on their engagement with consumers and with approval from the Australian Energy Regulator. ENGIE also notes that distribution networks have designed and introduced several opt-in or introductory tariff structures in recent years, which have achieved very low take-up from consumers.

[4] Australian Energy Market Commission 2025, The pricing review – Discussion paper, June, p. 17

[5] Australian Energy Market Commission 2024, Residential electricity price trends 2024, November, p. 12

[6] Australian Energy Market Commission 2024, Accelerating smart meter deployment – Rule determination, November, p. 27

Tariff structures are most effective when they send clear price signals to the participants that are able to manage and respond to them. Energy retailers are the primary customer-facing entity in the energy industry and are best placed to develop and supply tariff structures that meet the expectations and needs of customers. Retailers are currently constrained in their ability to design tariff structures for their customers, due to the complicated network tariff structures and the significance of network costs that retailers are unable to hedge against. Despite this, there is some evidence of retailers developing bespoke offers, such as EV charging offers, that have strong overnight usage incentives that do not align with the structure of the underlying network tariffs.[7] As noted in our submission to the consultation paper, the key future flexibility products in the residential space are likely to be centred around hot water controlled load and EV charging.[8] In relation to controlled load services, ENGIE considers that retailers could create more efficient customer-facing offerings if distribution networks accommodated more common controlled load partner tariffs in their Tariff Structure Statements.

As will be discussed in more detail later in this submission, ENGIE considers that distribution networks should design their tariff structures for energy retailers and ensure there is sufficient flexibility in these tariffs for retailers to be able to develop customer-facing offerings that meet the wants and needs of a diverse customer base.

Retailers have typically found it challenging to engage in distribution network tariff setting processes

ENGIE acknowledges the Commission's finding that retailers have typically not played an active role in distribution network tariff setting processes since the 2021 rule changes. ENGIE agrees with the Commission's view that retailers find it challenging to engage in these tariff setting processes due to the time commitment to engage with all electricity distributors on separate processes. ENGIE also notes that there is little evidence that distributors have reflected retailer feedback in the design of network tariffs, which may have further discouraged retailers from prioritising their limited resources on these consultation processes.

If the regulatory framework were amended to require distribution networks to primarily design network tariffs for retailers, ENGIE contends this would incentivise retailers to more closely engage in the development of network tariff structures.

Network tariffs should be largely standardised across all distribution networks

ENGIE supports network tariffs being set in a largely standardised manner across all distribution networks. As will be expanded on in response to question four, ENGIE contends the primary network tariff should have a core focus on simplicity. The simple structure of the primary network tariff would enable retailers to more easily utilise this tariff as an input in the development of their own suite of retail tariff offerings

[7] For example, ENGIE has an 'EV Flex Charge' offer that provides customers with a 10c per kWh discount on their energy usage between 12am and 6am (AEST). Source: https://engie.com.au/residential/product/engie-ev-flex-charge

Several other retailers have similar offers with low overnight tariffs.

[8] ENGIE 2024, Submission – The pricing review: Consultation paper, 12 December, p. 4

aligned to the needs of different cohorts of customers. This approach would further simplify the consultation process between distribution networks and retailers on tariff design.

There will be a continued role for cost-reflective signals that manage peak utilisation and minimise the need for inefficient network augmentations. The form and value of these signals may differ between distribution networks due to the varying utilisation rates and locational costs in different parts of their networks.

In addition to peak utilisation, distribution networks will also increasingly need to manage the issues associated with minimum, and at times negative, demand. The introduction of export charges and emergency backstop mechanisms across several distribution network areas may continue to expand and become more onerous on consumers. To the extent possible, any necessary export charges should also be largely standardised across all distribution networks.

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

The current approach to network tariff design does not send price signals based on locational constraints

Network tariffs are primarily designed as a means for distribution networks to recover their revenue allowances for a five-year period, based on their historical investments and forecast operating costs. Network tariffs also include a design element that seeks to send long-term cost signals to consumers to encourage the efficient use of the network and minimise the need for future augmentations of network infrastructure.

As noted in our submission to the consultation paper, network tariffs are a blunt instrument that are set uniformly across the whole network region for all customers in a tariff class .[9] This approach does not reflect that peak utilisation rates and associated costs will differ across locations, which means that the current approach to setting tariff structures may not be incentivising consumer behaviour and investments that are proportional to the potential long-term costs in each location.

As the Commission highlights in the discussion paper, there are only a small proportion of network zone substations in each distribution network that reach maximum peak demand levels close to the rated capacity.[10] The Australian Energy Regulator has also published data on broader network utilisation, which shows that maximum demand and utilisation have been relatively flat since 2014.[11] These datapoints suggest that most consumers are not in locations that are at risk of significant network congestion in the short to medium term, which may suggest there have been limited consumer benefits from the mandated transition of consumers to default time-of-use and demand network tariff structures.

[9] ENGIE 2024, Submission – The pricing review: Consultation paper, 12 December, p. 7

[10] Australian Energy Market Commission 2025, The pricing review – Discussion paper, June, pp. 78 -79

[11] Australian Energy Regulator 2024, 2024 Electricity and gas networks performance report, September, p. 42

Network tariffs should be set in a way that minimises cross-subsidies between consumer cohorts

ENGIE acknowledges that volumetric tariffs may be less cost-reflective than fixed tariffs in relation to the recovery of historical costs and most operating costs. While this may not have been a significant concern in the past, ENGIE agrees with the Commission that consumers with CER may be able to increasingly avoid volumetric tariffs and shift the recovery of network costs onto other consumers without CER, including vulnerable consumers.

Consumers with CER should pay less for network services to the extent that the use of their CER contributes to the future reduction of network costs, such as through avoided network augmentation or maintenance. However, it is important that network tariffs are set in a manner that minimises cross-subsidies between consumers. ENGIE would support the Commission further considering the future usefulness of volumetric network tariffs in a high CER future.

Network tariffs are not currently dynamic enough to align with wholesale market signals

ENGIE agrees that network tariffs can undermine the usefulness of wholesale market signals. As network tariff structures are set in five-year blocks, they are currently not well-suited as a tool to respond to the dynamic nature of the electricity market. As will be discussed further below, the introduction of more locational-based and dynamic network signals may minimise the risk of conflict between network and wholesale cost signals in the future.

Network tariff design should prioritise simplicity and provide incentives for shifting consumption and export

As noted previously, network tariffs are currently set to achieve two primary goals – to recover historical costs and to send long-term cost signals to consumers. ENGIE's view is that future network tariffs should be designed solely to recover historical costs in a fair and reasonable manner. This would involve a simple tariff structure, potentially with a fixed and volumetric component, that would provide the basis for retailers to develop their own suite of retail tariff offerings aligned to the needs of different cohorts of customers.

In relation to signalling behavioural change to improve network efficiency and utilisation, ENGIE contends that this is achieved most usefully outside of the primary network tariff design. Rather than the current approach that provides a reduction in network costs (through the design of the tariff structure) to consumers that undertake the desired behavioural change, a future design could involve dynamic financial rewards more closely linked to the locational congestion costs associated with the network zone substation. The rewards provided to consumers would be lower than the associated cost of network augmentation and maintenance that is deferred by the consumer behavioural change.

This approach would provide consumers with incentives to participate in flexibility services through the use of controllable CER devices and smart home appliances. Since 2014, when long-run cost signals began being included in network tariff design, technology has changed significantly and the retail energy market is

shifting to more of a two-way market with greater participation from consumers. The increasing uptake of controllable CER devices and smart home appliances will create opportunities for greater orchestration to meet both market and network needs. ENGIE sees retailers as the main interface with customers and the primary facilitator of retail flexibility that can be made available to distribution networks as an alternative to costly network augmentation.

The tariff design described above, comprised of a simple network tariff with additional incentives available for consumers that directly contribute to avoided long-term network investments and maintenance costs, would acknowledge that most consumers want simple energy offerings and a straightforward and reasonable price for energy. Instead of the current tariff design that effectively punishes consumers that do not change their behaviour, an incentive-based approach would support consumers to continue using electricity and their CER devices in the way they prefer and minimise the risk of cross-subsidies.

Concluding remarks

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

Yours sincerely,

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