SUBMISSION

AEMC THE PRICING REVIEW - DISCUSSION PAPER (EPR0097)

10 JULY 2025

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial (C&I) energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objective (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under AEMC's The Pricing Review - Discussion Paper.

The EUAA supports proposed rule changes where evidence points to an issue and the proposed rule change clearly leads to improved efficiency of markets and/or improved system security and where the costs and risks are appropriately allocated to those best able to manage them. The EUAA does not support approaches that lack evidence or require consumers to perform activities or take risks that are best managed by others.

We also often describe different user classes in the NEM such as residential, small to medium enterprise or C&I, as if they are operating in separate markets. They are not. They are all part of the same NEM ecosystem where the actions taken to change behaviour of one customer class (i.e. supporting Consumer Energy Resources (CER) such as solar PV or electric vehicles) can have serious consequences for other customer classes or market participants.

We understand the scope of The Pricing Review covers retail and distribution charges, tariffs and products for residential and small to medium enterprise. While this is a good starting point, we can envisage a future where C&I consumers are also offered products similar to the ones being discussed in The Pricing Review, i.e. products that are tailored to the commercial or industrial consumers preferences and energy literacy.

As general principles throughout our submission, we take into account that:

- Customers facing hardship need protection, probably with a flat retail tariff in a plan based on "average" consumption
- Maximising the flexibility of CER through appropriate tariff design that disincentivises using CER (e.g. charging an electric vehicle) during peak demand or network congestion and incentivises it's use during periods of energy abundance
- The need for "postage stamp" network pricing. i.e. having full cost reflective pricing would have negative impacts on many regional locations

- Avoiding the cross-subsidisations that are currently evident in the NEM
- Recognising that network charges are currently approximately 40% of a network bill, but this will grow as the energy transition proceeds.

It is from these perspectives that we make the recommendations outlined in this submission, that aim to reduce impacts to other participants and also provide a model for similar retail packages to be offered to C&I consumers.

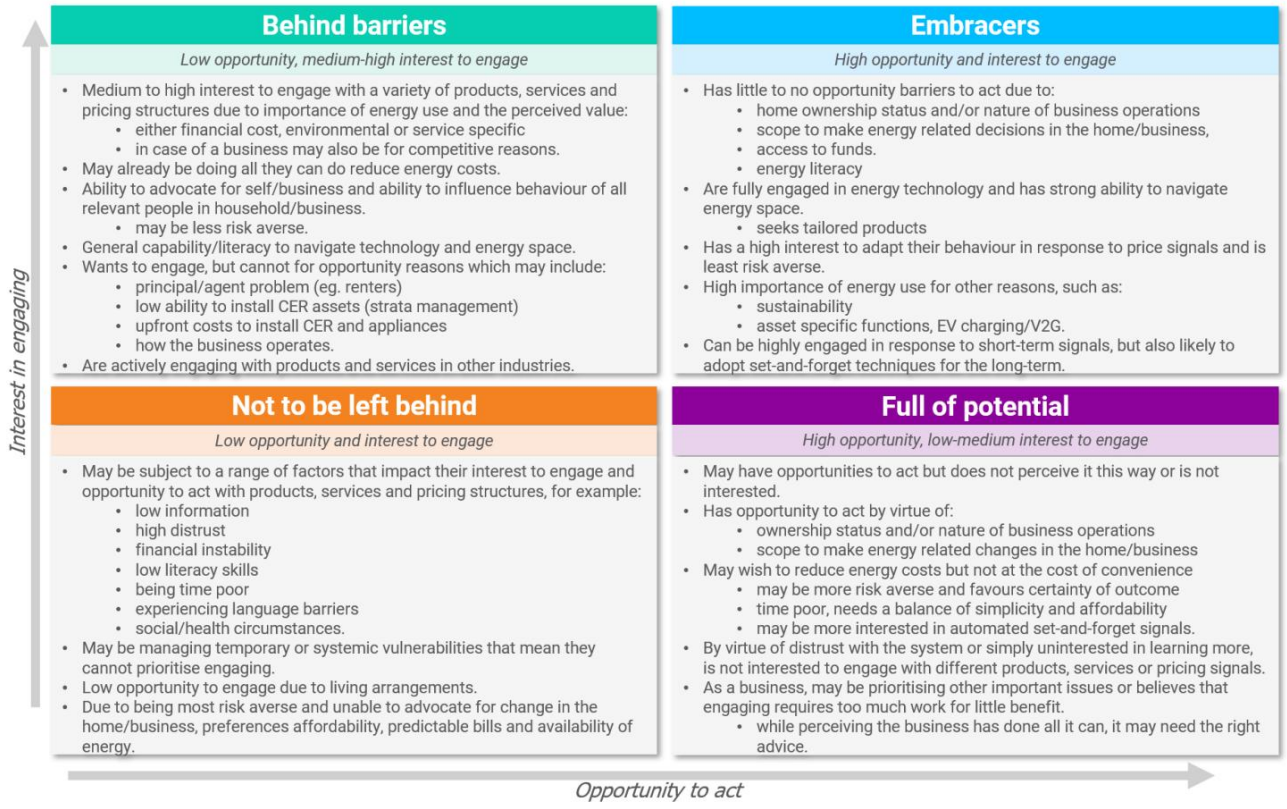
FOCUS AREAS OF THE DISCUSSION PAPER

While we agree with the three focus areas, being the Retailers, Retail-network interface and Distribution networks (DNSPs), we consider that what is missing from the discussion is the impending increases in network tariffs. With works well underway in NSW with transmission and REZ construction, the transition is costing more than it should with near zero transparency to consumers on the potential impacts of these costs to their electricity bills, creating an unknown tsunami of future network related costs that consumers are ill-prepared for. This is an important area for The Pricing Review to be open and transparent with regard to the likely change in electricity bills from the current 40% network charges to a likely 60% or greater component for network charges, limiting the ability of new approaches to actually reduce bills.

CONSUMER ARCHETYPES

We agree with the AEMC's consumer archetypes:

Figure 4: Updated consumer archetypes following stakeholder feedback



Not surprisingly, our members can also be distributed across the same consumer archetypes, with those with the lowest "opportunity to act" often bearing the cost as other consumers move on.

Within the C&I sector, as with residential and SME, many barriers to participating exist including:

- Available technologies do not provide the unique services and/or output they require
- Cost of participation within the site boundary requires significant re-investment and allocation of capital that may not be readily available.
- Capital cycles with the business do not readily align with the desired rate of participation indicated by government policy.
- Cost of participation outside the site boundary, such as significant network upgrades, are costly and would be borne by the customer. This external cost acts as a "dead weight" on the business case.
- International ownership and competing interests in decarbonising plant across the globe where Australian plant tends to take a "back seat".

While many of our members are "full of potential", they are met with similar financial or technological constraints met by the residential and SME consumers.

CONSUMER PREFERENCE PRINCIPLES (CPP)

We also agree with the AEMC's CPP:

Figure 3 Updated CPPs following stakeholder feedback

Not surprisingly, these CPP's are consistent with what C&I customers want out of the electricity system.

A SPECTRUM OF PRODUCTS

Again, we also agree with AEMC's spectrum of products:

Spectrum of potential future offering types

	'Basic'	'Everything in between'	'Sophisticated'
Customer value proposition	Simple, predictable, low engagement, low risk	Some predictability, some flexibility, depending on customer preferences	Cost savings, opportunity to better leverage CER investments and/or customer flexibility
Examples	• Flat rate offers where customers pay the same per unit price, irrespective of when it is consumed • Subscription prices where consumers pay a fixed price in exchange for using up to a predefined fixed consumption amount • Prepaid where costs of electricity are paid ahead of time at a frequency that suits the customer	• EV charging windows, V charging tariffs where customers can get a lower tariff just for their EV by charging during specified time periods, combined with a basic offering for the rest of their electricity consumption • Controlled load where a central party has control over when the device is used. For example, hot water heaters are often a separate controlled load circuit and charge at certain times for a discounted price. • Time-varying rates where prices vary with the time of day. These can be fixed over time such as such as time-of-use, which has pre-set peak and off-peak periods or dynamic, where prices can switch to higher pre-set levels during times of grid congestion. • VPP (participation-based) where customers get a set benefit for participating in a VPP, and the VPP bears the financial risk	• Full cost pass-through where customers are exposed directly to any underlying wholesale or network costs • VPP (performance-based) where customers have the opportunity to participate as a dispatchable aggregated resource in various markets, and get the risk and rewards of doing so.

** Some virtual power plants (VPPs) pay customers to participate, without customers being exposed to any penalties or rewards for performance. Customer participation in such VPPs may be limited to certain conditions, including timing and frequency. Other VPPs present opportunities for customers to participate in markets, with customers (or their software) determining the extent of the engagement. These customers are rewarded for performance.*

Again, these are the types of products that C&I are interested in engaging with form their respective retailers and/or financially responsible market participants (FRMP).

Of critical importance to this spectrum is defining the "bookends" correctly (i.e. the "basic" and "sophisticated") and therefore allowing "everything in between" to truly be a full spectrum of products that retail customers will engage with. If "basic" is too sophisticated, there will be basic products missed. Similarly, for the "sophisticated" product definition.

EQUITY IN CONSUMER PRODUCTS

Equity in consumer products has long been lagging behind what has been occurring in the market. Within all user classes of the NEM, whether residential, SME or C&I, there has emerged the "haves" and the "have nots", which broadly align to the AEMC customer archetypes of "Embracers" and "Full of Potential", and "Behind Barriers and "Not to be left Behind". The inequity arises from the current policies that cross subsidise the Embracers and Full of Potential with cash from the Behind Barriers and Not to be left Behind cohorts, making it more and more difficult for these latter two groups to be able to participate. We support an equitable split of the cost of building, operating and maintaining the NEM, with rewards for those who can participate without the current inequitable cross subsidies from those who cannot participate.

As an example, rooftop solar PV is one of the great success stories of the energy transition. According to the Clean Energy Regulator, 4 million Australian homes have some form of solar installed[1], reducing their household energy costs and playing an important role in reducing emissions. Historically, consumers have been able to make these investments due to the significant levels of government support through feed-in-tariffs (paid by other energy consumers) direct financial incentives such as the SRES (paid for by all energy consumers) and the avoidance of network charges through reduced grid consumption (and thus the network charges of other consumers is increased).

While it is true that households have invested heavily in "their" solar PV system, society (via either taxpayers or energy users) have also made a significant financial contribution. In many ways they are co-investors in the 4 million PV systems currently installed, but do not receive the equivalent benefit as the homeowner, especially given that non-solar owners are paying an increasingly larger share of the regulated network bill than solar owners who can avoid many of these charges. This is creating a significant equity issue that must be addressed.

Orchestration of CER, appropriate tariff and retail product design, community batteries and two-way network pricing can all assist in ensuring a more equitable transition.

In addition to the inequity described above, CER operating in a "Lasse Fare" manner results in a more volatile energy market that is harder to predict and manage. Technical volatility results in the need for market intervention by AEMO, increased expenditure on new technologies to address system strength and technical constraints on energy resources both large and small (i.e. small-scale technical constraints such as the "back stop" mechanism). There is also financial volatility (i.e. a more volatile spot price) and economic constraints imposed on bulk energy providers which leads to higher risk premiums in PPA's to manage increasing price and volume risk.

We observe that many large C&I customers have entered into long-term PPA's with large scale VRE facilities as a central piece of their decarbonisation strategies and ESG/Net Zero commitments. Apart from the spot price volatility adding to increased risk in wholesale contracting, daytime low and negative demand is impacting the output of large VRE developments, especially large scale solar who have coincident generation profile as rooftop PV. This is largely because residential PV does not face a financial or technical penalty and is therefore insensitive to price movements and it is bulk energy supply from wind and solar that is economically constrained.

We have been advised by member companies that many of these large scale VRE projects are not able to deliver on forecast output as they are either constrained off by this coincident generation or they pull back production to manage negative price risk. This results in an "under delivery" of environmental products such as LGC's that the customer relies on to demonstrate scope 2 emissions reductions. Many report they are subsequently forced into the LGC spot market to "top up" what was not delivered.

Our hope is that with the right distribution tariff design and retail product offerings, these issues will be resolved.

[1] https://cer.gov.au/news-and-media/news/2024/december/australia-reaches-4-million-small-scale-renewable-energy-installations

DISTRIBUTION TARIFF STRUCTURE

We understand that distribution tariffs are currently developed mostly for the end consumer, however it is our understanding that while DNSP's develop a range of tariffs to send price signals to consumers, the full suite of network tariffs are rarely passed through by retailers. Resolving this issue may create a conundrum:

- By not offering all distribution tariffs available, a retailer either
    a. does not pass through a price signal for expected behaviour of consumers or
    b. does not have the best product for each of its customers that best meets their needs.

    Both of these issues either increases the cost for other consumers or the customer themselves.

- Forcing all retailers to offer all network tariffs offered by a DNSP is likely to cost the retailer more and therefore cost consumers more without a rationalisation of DNSP tariffs.

This highlights a disconnect between DNSPs, retailers and consumers.

From this perspective, we support AEMC's proposal for the DNSPs to develop network tariffs for retailers, however these do not need to reflect the products that retailers want to sell. These retailers focussed tariffs should send a price signal to the retailer that are cost reflective. It is the retailers role in the energy industry to take the distribution tariffs and the wholesale prices and develop products for consumers.

We agree with Energy Consumers Australia's submission that states:

> *"By designing network tariffs for electricity customers, rather than retailers who need to manage the costs and risks of the total retail offer, networks are foreclosing on opportunities to create differentiated and cost-saving products for retail customers."*

In our opinion this will require a larger portion of the distribution tariff being a fixed connection charge (e.g. a fixed charge for up to X kWh consumption) and a smaller portion being consumption based (the marginal cost to supply above X kWh). Similar to water tariffs, the marginal coast of supply could have multiple bands above X kWh.

Without a detailed benefit to cost analysis, it is difficult to form an opinion on whether retailers should manage localised grid congestion. Our comments throughout this submission regarding retailers managing grid congestion are theoretical and should not be read as supporting this concept or otherwise.

One way that retailers could manage grid congestion is by DNSP's sending the signal to retailers via dynamic tariffs when there is network congestion, retailers who are the primary contact point for residential and SME consumers are able to convey those signals either through appropriate product design (to send price signals to shift consumption or pay) or through individual engagement. Although, again, we would need to see a benefit to cost analysis to support this.

NETWORK RETAIL INTERFACE

A current problem within the NER/NEL is that networks do not have contact details for consumers connected to their networks, but are expected to convey congestion information to those consumers. This engagement process "could" be another role for the CER Data Exchange, where dynamic tariff information is pushed to the data exchange, received by retailers and conveyed to their customers, however we would need to see a benefit to cost analysis to support this.

Currently, retailers are not obligated or encouraged to pass through all tariffs provided by DNSPs, due to the extensive number of network tariffs on offer and the cost to retailers of delivering products for all network tariffs presented.

As was mentioned above, a simplification of network tariffs that are cost reflective would make the passthrough of network tariffs less costly and enable better product design by retailers.

Theoretically having a network tariff signal to retailers could allow retailers to manage both wholesale market risk and network congestion risk in a co-optimised fashion allowing for the separation of the two event types, which often send opposite price signals coinciding with each other. Retailers co-optimising price signals in its product offerings could mean that the correct price signal is sent at the correct time. This may result in the most economically efficient outcome for managing both demand and network congestion, however more work needs to be done to expand on this.

While the above is the situation in the electricity sector, we need to be careful when comparing to other industries that provide a similar spectrum of products to those proposed. For example, in the telecommunications sector, plans with limitations on data are common, with more data costing more. However, data is "wanted" in modern society but not necessarily "needed". Electricity on-the-other-hand is needed for life-support systems, heating and cooling, including refrigeration for food safety. The need for heating, in particular, will become more prominent as residential and SME consumers electrify. The difference between a "want" and a "need" needs to be incorporated into the spectrum of products on offer by retailers, and by extension the distribution tariff designs, to ensure reliable, affordable and secure access to this needed product.

RETAILERS

Competition and Product Offerings

We have read and heard in consultations on The Pricing Review that competition in the retail sector is strong as evidenced by the retailers suggesting that there is already the full suite of proposed products being delivered to consumer. However our observation is that while retail products exist in each of the categories described in The Pricing Review, these are offered by very few retailers (usually small niche retailers) and that the bulk of retail offerings reflect traditional style retail products that consumers are saying are no longer suitable.

However, the fact that the market bodies and governments are implementing system security, demand response and capacity schemes suggests otherwise, i.e. if retailers were truly offering the full range of products described in The Pricing Review, then the generation and firming would be meeting the needs of the consumers and

government/market body intervention would be unnecessary. Additionally, that consumers in general are struggling to find the products they need (i.e. electricity when I need it, not when you can supply it) at an efficient cost is further evidence that competition is not working to the extent it should. Added evidence is the penalty paid by "loyal" customers who are shifted to higher-priced plans after completing their introductory "new customer" lower priced plan and the lack of follow-up by retailers to keep those customers loyal. These retail practices are also evident in the C&I sector further demonstrating a lack of competitive drive in the retail sector to develop products that meet the requirements of consumers and therefore deliver the electricity infrastructure, including generation and firming capacity that consumers require.

However, we believe the types of reforms being suggested in this Discussion Paper may alleviate these problems, through network tariffs designed for retailers and the spectrum of proposed products to be offered by retailers rather than the current "100% consumption-based" retail products.

It is also disappointing to read in the Discussion Paper that the ACCC found there remain many customers in the NEM on plans that exceed the Default Market Offer (DMO) or Victorian Default Offer (VDO). Our recommendation is that the responsible retailers should be forced to transition these customers to the DMO or VDO where relevant (noting that Tasmania and Northern Queensland have similar protections through jurisdictional pricing oversight without setting a limit). This also demonstrates poor competitive tension within the retail sector as those consumers who do not actively interact are perceived as "stable customers" and do not attract the attention they require from retailers.

Consumer Protections

We also read that retailers claim that they do not adequately deal with new energy services and constrain product offerings due to the cost of compliance. While this may be the case (to a point), verification of these statements in the form of examples is not provided in the Discussion Paper.

From EUAA's experience, we can see that every jurisdiction having different consumer protections would be costly to retailers, and complying with consumer protections may limit residential wholesale exposed product offerings.

From this perspective, it would be good to see consistency across jurisdictions in consumer protection and a range of consumer protections aligned with the risk of the product offering, provided retailers are transparent and open about what the customer is signing up to. We have members who have experienced wholesale exposed contracts and/or PPA's where the intricacies and risks of the product were not fully explained up front by the retailer.

NEXT STEPS

While we understand that certain market participants would prefer to receive targeted papers on specific topics i.e. Network Tariffs, Network-Retailer Interface, Retailer Products etc, we consider that this approach may result in inconsistent design of individual packages and will make it extremely difficult for stakeholders such as the EUAA to be able to link the themes and recommendations across a number of papers. Additionally, this could also lead to either "rushed" papers to fit within a pre-determined timeline, or a lengthy process that will continue indefinitely.

For these reasons, we strongly recommend that the AEMC proceed to a cohesive and all-encompassing Directions Paper, potentially with each of the "targeted paper" topics as individual chapters. Following the Directions Paper consultation, we recommend proceeding to a Draft Report.

CONCLUDING REMARKS

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the NEO so that our members can continue to provide a fit for purpose product for their customers.

Embedded in this statement is an understanding that all consumers are part of the same NEM ecosystem, where the actions taken to change behaviour of one customer class (i.e. supporting CER such as solar PV or electric vehicles) can have serious consequences for other customer classes or market participants.

With the scope of The Pricing Review covering retail and distribution charges, tariffs and products for residential and small to medium enterprise we view this as a good starting point where we can envisage a future where C&I consumers are also offered products similar to the ones discussed, i.e. products that are tailored to the commercial or industrial consumers preferences and energy literacy.

While we are generally supportive of the current direction of The Pricing Review, we consider that after the Final Report, each of the topics will require extensive development and analysis of the benefits and costs prior to gaining broad acceptance and therefore implementation.

The EUAA welcomes further discussions around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.

Andrew Richards
Chief Executive Officer