

10 July 2025

Mr Andrew Lewis
Executive General Manager – Consumer, Markets and Analytics
Australian Energy Markets Commission (AEMC)
Submitted via website

Dear Mr Lewis,

Pricing review discussion paper: Electricity pricing for a consumer-driven future

Endeavour Energy appreciates the opportunity to provide feedback to the [AEMC's Pricing Review Discussion Paper](#). We support an open and holistic review of electricity pricing arrangements to ensure customers have the choice and flexibility required to promote efficient energy choices and investments.

We note the review focusses on 'electricity pricing' which is broader than network pricing as regulated under Chapter 6 of the National Electricity Rules (NER). This is deliberately so to ensure regard is had to both the distribution network portion of customer bills that is regulated under the pricing rules and the overall electricity bill that is driven by the effectiveness of retail competition in the National Electricity Market (NEM).

The Discussion Paper reflects on the extensive feedback received from stakeholders, which suggests that electricity pricing may not be meeting the current and evolving needs of customers. To investigate the source of these challenges and potential solutions, the AEMC highlight three focus areas being retail competition, the network tariff-setting process and the role of network tariffs.

We consider that the existing pricing objectives and principles have provided an appropriate framework for distributors and the AER to develop, propose and approve tariff structures that balance the *economic efficiency* and *effectiveness* of cost-reflective tariffs. As noted in our response to the AEMC's consultation paper, it is useful to delineate between the primary role served by network pricing on the one hand, and retail tariffs on the other:

- *Economic efficiency*: **wholesale and distribution pricing** should signal the optimal placement, use and investment in generation and network infrastructure.
- *Effectiveness*: **retailers** can use their discretion and risk management tools and techniques to package wholesale, network and retail costs into price offers that appeal to the needs of end-use customers.

The Discussion Paper observes that "*data shows many consumers are satisfied with their current energy services. Some consumers are finding offers that align with their preferences and deliver value...*"¹ while also noting that "*many offerings that could meet consumer preferences are not available at scale, or to all customers*". In addressing this, it is relevant to recognise the different roles served by network pricing and retail tariffs (as outlined above). Against this backdrop, it is relevant to note that:

¹ AEMC Discussion Paper, The Pricing Review (June 2025) page 4, paragraph 15.

- Endeavour Energy's network pricing is informed and supported by extensive, prolonged and deep engagement with customers over many years; however,
- stakeholders (particularly those responsible for the effectiveness of electricity pricing) have raised, varied and, at times, contradictory issues regarding network pricing that appear unsupported by data regarding end-consumer views.

In light of this, and our support of the AEMC's desire to ensure customers have the choice and flexibility required to promote efficient energy choices and investments, we are concerned that some responses to the review may be of the nature of assertions without appropriate supporting evidence. Accordingly, we fear that the review may be at risk of responding to requests from interested parties to transfer risks that are best managed by the competitive retail market (which, as the AEMC's paper observes, is the *"cornerstone of our electricity market arrangements, as the interface between consumers and the electricity system"*),² to the regulated network pricing framework.

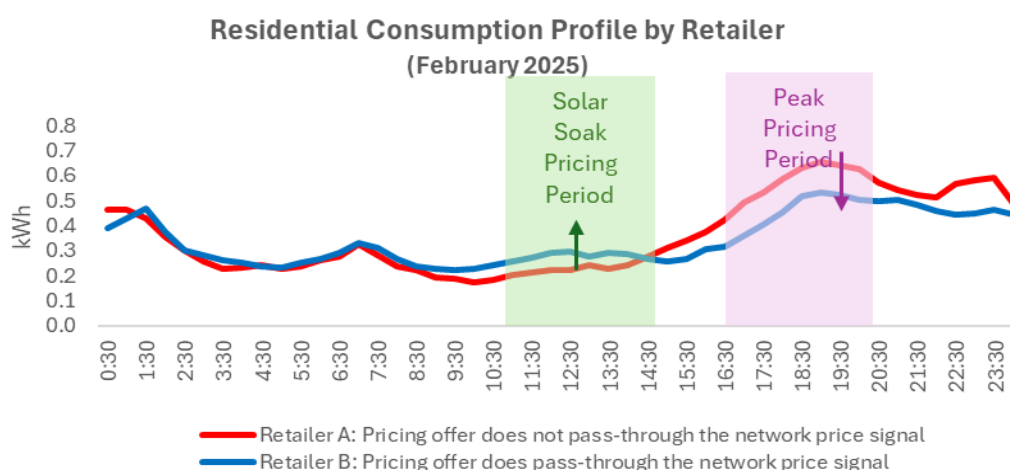
Importantly, the efficiency of network price signals should only be diluted where there is a legitimate need to do so in accordance with the distribution pricing objective and principles. We have deep concerns about a number of propositions suggested in the Discussion Paper which appear to run contrary to evidence and the distribution pricing objective and principles; please see **Appendix A** for our observations regarding these.

Efficiency of network tariffs

We continue to make significant progress in our transition to more cost-reflective tariffs as we forecast 76% of our customers will be on them by 2029 as the smart metering rollout accelerates. Our most recent Tariff Structure Statement (TSS) for the 2024-29 period also introduced export pricing and tariffs tailored to new technologies such as batteries.

There was widespread stakeholder support for our 2024-29 TSS, which was highly commended by the AER. Feedback submitted in response to the AEMC's Pricing Review further supports the view that Time-Of-Use (TOU) tariffs with targeted peak windows and "solar soak" elements are likely to be tariff structures that customers can understand and respond to.

Pleasingly, in circumstances where retailers choose to pass through our tariffs to end-use customers so that they can engage with them and respond to the network pricing signals, we are starting to see an observable difference in consumption profiles (compared with customers who are not able to engage with the network pricing signal due to the retail tariff that they are on). This is illustrated in the chart below, which shows the difference between customers on our default energy-based TOU tariff (N71) (Retailer B) and customers on retail pricing offers that do not pass through the network tariff signal (Retailer A).



We will continue to monitor the impact of our tariffs and whether changes in consumer behaviour are observable, and will continue to work with retailers to support their effectiveness for end-use customers.

² AEMC Discussion Paper, The Pricing Review (June 2025) page 6, paragraph 25.

As flagged in the Discussion Paper and discussed further in Appendix A, there is a suggestion that networks should progress to offering more complex tariffs that reflect temporal and locational costs (primarily on an opt-in basis). While in principle we agree that locational pricing represents a meaningful shift towards more cost-reflective network pricing arrangements, we acknowledge the considerable costs and risks associated with its deployment. We discuss these issues below.

Administrative costs of material tariff proliferation

Endeavour Energy has 13 Bulk Supply Point connections to TransGrid's transmission network, 206 major substations, 33,000 distribution substations and over 1.1 million customers. Each of these represent different locational points on the network and each will have different and constantly changing levels and timing of constraint³. Accordingly, the point at which we draw the 'locational pricing' line will depend on the trade-off between administrative complexity and the potential market benefits.

Relevantly, we note that retailers have already signalled concerns in relation to managing the different locational pricing signals between 13 networks. If locational pricing were to be added within each network, this would increase the administrative burden exponentially. We also note that, as there is no guarantee that retailers will, in fact, pass through network tariffs to end-use customers (as is currently the case), it would seem administratively burdensome and therefore inefficient for networks to maintain multiple opt-in tariffs.

Temporal Pricing Risk

Locational pricing, particularly that which focusses on providing short term incentives, also increases the risk to consumers investing in consumer energy resources (CER) solutions.

Policy decisions and simple 'anytime' electricity price signals have incentivised CER uptake to-date, irrespective of the efficiency of this investment. We believe more cost-reflective pricing signals, including locational pricing signals, are likely to provide retailers and consumers with a more efficient signal to invest in CER at specific, constrained points in the network.

However, network constraints are temporal in nature and are influenced by the consumption and appliance investment decisions of a 'group' of aggregated individuals, rather than the individual themselves. A dynamic, locational price signal will adjust to reflect changes in the 'group' electricity profile, even if customers in this locational group are not being priced on the locational tariff. In this situation, an individual's investment in CER and the return they receive on this investment will be impacted by their neighbour's decision to invest in CER and the incremental impact this has on the locational network constraint. In this situation, a customer has no certainty as to the return they will receive on their CER investment. This outcome may run counter to Government policies and the commitment to accelerating the transition to renewable generation.

In addition to this risk, where the CER investment made within the locational group is insufficient to avoid network augmentation, the additional capacity built into the network then significantly reduces the locational incentive that customers relied on to make their CER investment in the first place.

Administrative costs of upgrading billing systems

In addition to the administrative cost that will flow from tariff proliferation, there will also be a cost to billing systems to cater to multiple tariffs with dynamic tariff signals. Billing systems are good at applying a pre-defined price to a pre-defined consumption unit at a pre-defined time; however, they are not designed to manage real-time network signals. While we believe that billing system upgrades may be feasible to accommodate more flexible pricing solutions, this investment would need to be made across all network and potentially, all retail businesses. As this cost would be borne by customers, the cost and benefits of such an upgrade would have to be understood before any change were to be made to the Rules requiring the industry to move to this type of pricing.

Equity Risk

We assume dynamic and locational price signals would only ever apply to those retailers and customers that can opt-in and are able to provide a service through CER incentivisation. If applied on a mandatory basis, locational prices would be higher at those locations currently under constraint. This will exacerbate the

³ Time of day and time of year.

affordability problem for those customers who cannot access or invest in CER in these locations. This gives rise to the risk of stakeholder backlash and political intervention. We also note the stakeholder risks associated with a situation whereby customers in one location are paid more favourably for their CER than people in a different location (but possibly in the same suburb), as this is likely to be poorly understood by customers.

Conclusion

As established in the Discussion Paper and/or Appendix A of this response:

- most network costs are either sunk or unavoidable;
- distribution prices (for Endeavour Energy's customers) make up 26% the total bill;
- concerns have been raised with the complexity and cost of the transition to date by stakeholders;
- the costs of implementing and administering cost reflective network tariffs will materially increase as they tend towards locational and dynamic options; and
- there is a desire for a spectrum of tariff options to be available with the more advanced tariff options to be available on an opt-in basis.

In light of this, there is a very practical question about whether the progression of network pricing reform will meet its objective and, in fact, deliver benefits that exceed the associated costs of implementation. The portion of incremental costs to be signalled (i.e., avoided) is low; in contrast, significant costs may need to be incurred to offer more cost-reflective tariffs that only a portion of customers and/or retailers opt in to, with potentially no behavioural changes that reduce network or wholesale market costs.

We suggest that our existing suite of tariffs already strikes an appropriate balance between efficiency and effectiveness, and simply require more time and customer education and engagement to deliver the desired outcomes. Alternatively, if the AEMC consider the concerns raised to date to be well-founded, even more substantive reforms may be required to shift the focus of network pricing from customers to retailers.

In forming a view on the desired end-state of network pricing and its interaction with other components of the broader electricity pricing ecosystem (including retailers and generation), we recommend the AEMC have regard to the role of network support schemes and payments. If the principles of stability and simplicity are valued in the context of electricity pricing, network tariffs may not be the best avenue through which bespoke and dynamic signals are provided for addressing specific network constraints. In contrast, implementing network support schemes may be preferable to the costs involved in implementing sweeping tariff changes beyond their current level of sophistication.

We would be pleased to discuss our submission further. If that would assist, please contact Daniel Bubb, Manager Economic Strategy at Daniel.Bubb@endeavourenergy.com.au.

Yours sincerely



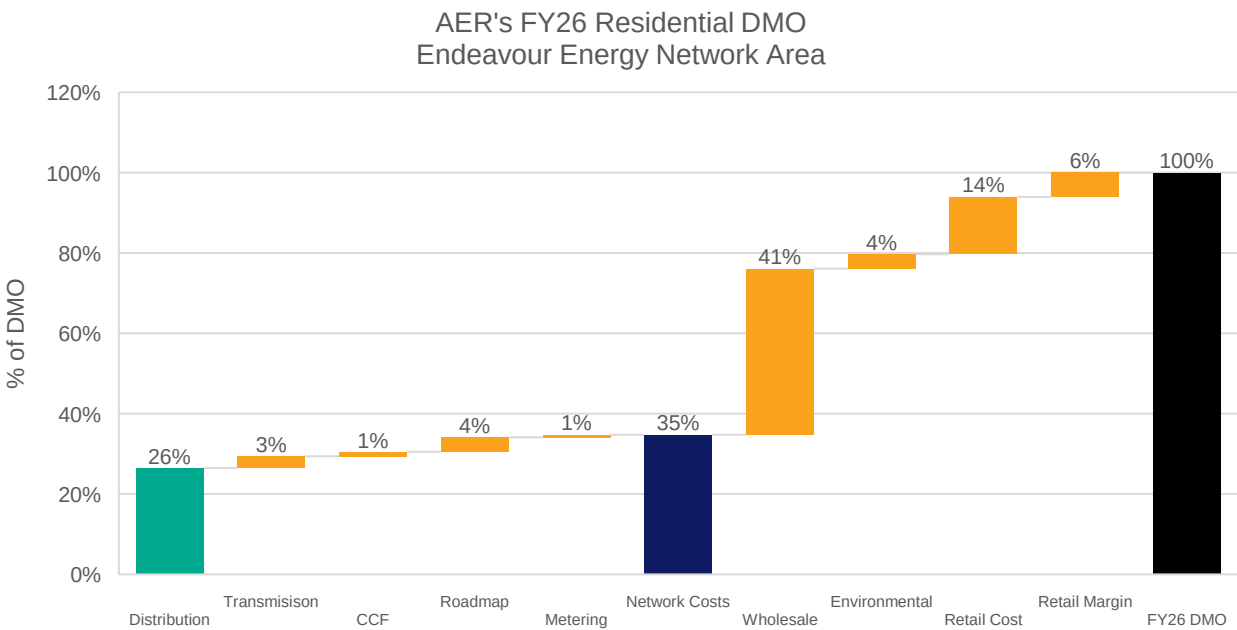
Francoise Merit
Chief Financial Officer

Appendix A – Detailed response to the Discussion Paper

“Network tariffs are the largest component of customers’ bills”

Two of the three review focus areas relate to distribution network tariffs based on the claim these costs are the largest component of customers’ bills and the weight of stakeholder feedback received to date. However, this claim is demonstrably false when reviewed in the context of the AER’s Default Market Offer for customers in Endeavour Energy’s network area.

As the AEMC will be aware, network prices are comprised of distribution network tariffs, designated pricing proposal charges (i.e. transmission cost recovery) and jurisdictional scheme amounts (i.e. jurisdictional government scheme cost recovery). The chart below illustrates the multiple contributing components of the AER’s FY26 Default Market Offer for residential consumers in Endeavour Energy’s network area. Notably, the distribution component of this price is 26%, significantly lower than the wholesale market component of 41%.



In the context of this review, we are discussing the distribution network pricing subset of the “Network Price”. It is this component of the network price that the concepts of long run marginal cost (LRMC) pricing and residual cost recovery apply as outlined in the Pricing Rules. Accordingly, it is unhelpful for submissions to seek to present a bundled network price that is inclusive of other components that are not subject to this review.

With respect to the distribution component of electricity prices, a significant portion of these distribution costs are fixed and would not be signalled through the variable component of a more cost-reflective network tariff, further reducing the proportion of the electricity bill that will be impacted by the network pricing focus of this review.

It is therefore questionable whether network pricing should constitute two of the three focus areas of this review given the scope and impact of distribution network tariffs has been overstated. While we are committed to promoting cost reductions through efficient pricing and improving equity, we consider other electricity price components have the capacity to also contribute to these objectives significantly.

As recommended in our previous submissions to this review, a more holistic view of network charges is required to fully consider the impacts of tariff reform on customers. While the AEMC’s Residential Electricity Price Trends 2024 report forecasts a decline in network charges over the next 10 years, we expect there to be a significant uplift in transmission costs and jurisdictional schemes. For residential customers in Endeavour Energy’s network, these bill components have increased by 89% over the three years FY23 to FY26 and we anticipate further substantial increases. There are significant equity and customer impact considerations associated with the recovery of these costs that warrants review and consideration.

“Network tariffs do not share the costs of paying for distribution infrastructure fairly”

A significant portion of distribution network costs are fixed. Allocating this cost to customers in a “fair” manner is challenging. As noted, where networks recover fixed charges from variable energy or demand-based charges, customers with CER can avoid paying these fixed costs to the detriment of customers without CER. The Rules require networks to consider the impact on consumers of unwinding historical network pricing structures slows the transition to more cost-reflective structures where these fixed costs are removed from variable tariff components.

Without a clearer definition of what is to be considered “fair” or more engagement from now interested parties in a Tariff Structure Statement (TSS) process, this seems a manifestly unreasonable characterisation of distribution prices.

“Different and changing network tariffs present a cost and risk to retailers”

There is a suggestion that network tariffs are complex and varied across the NEM, which imposes costs and risks on retailers that are then passed through to customers.

As we have previously noted in submissions to this review, retailers have successfully managed the complexity and volatility of the wholesale market which accounts for the largest contribution to customers electricity bills. Wholesale market costs reflect real-time, 5-minute intervals that can range from \$0 (or negative) to \$20,300 per MWh during a day. This is compared to network pricing structures which typically include 3 to 4 variable prices that apply over the course of any given day with prices and time known to retailers at least 12-months in advance of their application with far less volatility. By way of example, Endeavour Energy’s FY26 default residential Time-of-Use (TOU) tariff (N71) has a variable price low of \$34 per MWh and a high of \$218 per MWh.

It is difficult to understand how the prices of 13 distributors across the NEM represent a greater cost and complexity than the wholesale market. Regardless, the role of the retailer is to manage risk, and consumers pay the retailer for this service. The function of a competitive market in this context is to expose those retailers who cannot manage network pricing risk on behalf of their consumers, enabling consumers to decide if they need their retailer to manage network pricing risk on their behalf or not. Network price signals should not be regulated for the purpose of protecting retailers who cannot manage network price risk in a manner that is valued by their consumers, as this would defeat the very purpose of a competitive retail market.

We acknowledge that distributors have a role to play in supporting the effectiveness of network tariffs. It is important that network tariffs do not impose undue costs on retailers to receive and disseminate to consumers. There is a collective learning that is occurring across the industry that is resulting in the simplification, convergence and refinement of network tariffs in response to retailer feedback (as outlined further below) across the NEM. We are concerned, however, that the review risks skewing this balance between efficiency and effectiveness. Effective tariffs should be capable of being understood and actioned (if desired) by customers not simplified to support retail profitability:

the more customers that retailers can develop a product or service for, the more likely the product or service is to be profitable.

While regard must be had to the extent to which networks impede or support the ability of retailers to effectively manage network pricing risks, this must not become an exercise in transferring risks that are best managed by one segment of the industry to another, as this would result in an inefficient and uneconomic outcome.

“Inconsistency in network tariff structures across reset periods and distribution areas may result in higher than necessary costs for consumers.”

This statement is accompanied by an important caveat – *where these differences do not reflect underlying cost differences or retailer preferences*. However, in practice, we do not see evidence of network tariff structures varying for reasons other than network cost differences and/or consumer and retailer preferences. The only exception to this may be earlier TSSs that were subject to the limitations of enabling technologies such as smart meters.

Elsewhere in the Discussion Paper, a concern is raised that network tariffs may fail to keep pace with the customer behaviour and technological change the industry is experiencing. It is unclear how networks will keep pace with changing customer behaviour if varying a default tariff offering twice in the 10-year period

covered by our 2019-24 and 2024-29 TSS's is viewed as an unacceptable level of change for retailers to manage.

Specifically, by highlighting the change in Endeavour Energy's default tariff offering in the last two TSSs, the AEMC appears to characterise responding to stakeholder feedback as a negative outcome for consumers. We would disagree with this characterisation, and instead consider it a reflection of the distribution pricing rules operating as intended to balance the efficiency and effectiveness of our tariffs. Our 2024-29 TSS has been widely recognised as being of high quality and responding to feedback provided by stakeholders, the AER⁴:

...commended Endeavour Energy for submitting one of the best tariff structure statements that we had observed to date. We considered it provided a transition to tariffs that supports efficient use of its network, while including appropriate measures to manage adverse impacts to consumers

Our previous TSSs were also product of robust AER review and detailed engagement.

Furthermore, we note for completeness that the Discussion Paper omits the fact that Endeavour Energy offered flat, TOU and demand tariffs to retailers on request over this period. For clarity, we simply nominated a default tariff that was applied only if the retailer failed to select a valid tariff when establishing a new customer or an upgrade to the consumers meter was made⁵.

Given the rate of change in the industry in response to customer preferences and use, it is unrealistic to expect network tariff structures to remain constant over time. Network prices are designed to signal the forward-looking, economic cost of network use. By their very nature, these costs will change over time as consumer preferences, household appliances and responses to incentives change.

The increased penetration of smart meters has only recently enabled networks and retailers to more accurately signal costs to consumers, and we acknowledge that there will be a transition period as consumer preference for price signals is revealed. At the same time, mass uptake of CER is changing the underlying cost signals that need to be reflected in network tariffs.

“Network tariffs are not designed for retailers and may limit retail offers”

It is unclear what the evidence for this statement is, however it follows a similar theme to the above statements that suggest distribution prices are an unreasonable impost on retailers to manage. Again, it is unclear why this is the case as conflicting complaints are made regarding the adequacy of existing network tariffs versus their complexity and variation between networks and through time.

Setting aside whether distribution prices limit retail offers in any way we would note that there is a trade-off between simplicity and efficiency when designing network and retail prices.

Retailers have indicated a desire for simple network tariffs that are consistent across all networks. Although there does not appear to be consensus on what is meant by “simple” or “consistent” we consider our current tariff structures to be aligned with the preferences of major retailers.

For instance, AGL expresses a desire for:

A TOU tariff with a relatively short peak window is an example of a cost reflective tariff structure that is simple and actionable and can inform efficient use of the network.

Similarly, Origin prefers:

.....simpler TOU and solar sponge tariffs can be just as effective at shifting consumption

However, both also flag an interest in more dynamic and complex offerings to be made available to customers on an opt-in basis⁶.

Similarly, from a consumer perspective the AEMC notes a preference for choice as well:

⁴ AER, Final Decision – Endeavour Energy Electricity Determination 2024-29: Overview, April 2024, p. vi

⁵ We also wish to correct an error contained in footnote 98 of the paper. Endeavour Energy's initial 2024-29 proposal included a two-year transition for customers. Following stakeholder feedback this was reduced to a 1-year transition.

⁶ AGL Submission to AEMC Consultation Paper – 20 December 2024; page 3.

Origin Energy Submission to AEMC Consultation Paper – 19 December 2024; page 2

we can consider they would want to choose retail products on a spectrum: from the most 'basic' which provides some degree of price predictability and is relatively easy to understand and engage with to the most sophisticated which provides consumers with a greater opportunity for both risk and reward.

Aspiring to network tariffs that reflect temporal network costs by specific location seems to be at odds with concerns that have been raised with the complexity of TOU and demand tariffs by some stakeholders.

It may be argued that networks should provide a spectrum of tariff options for retailers to choose. Endeavour Energy has provided a choice to retailers since 1 July 2019. During the 2019-24 period, retailers were free to elect a flat 'anytime' energy-based tariff, an energy-based TOU tariff or a demand-based tariff. For the 2025-29 period, the option to keep interval metered customers on the flat energy-based tariff was removed, however the option to elect an energy-based TOU or demand-based tariff remains. It was hoped that through providing this optionality, retailers would reveal their tariff preference⁷. This strategy is not without risk in that allows retailers to select the lowest cost tariff offering by virtue of the customers prevailing consumption profile and CER status. While this provides a saving for the specific customer, if the customer does not respond to the price signal there is no saving in long-run network costs.

If there is a spectrum of tariffs for either customers or retailers to choose from it would presumably range from non-cost-reflective to cost-reflective. While we support customer choice, care must be taken in where the spectrum commences and whether this supports or exacerbates the risks faced by vulnerable customers.

For example, a high CER customer could choose a 'flat' tariff as it offers the highest price their solar is producing, maximising their return to self-consumption (over what the market would say this self-consumption is worth). Conversely, a customer with high midday load (small business say) would choose a TOU pricing option as they do not consume in the evening peak. Both customers would minimise their bill for no behavioural change meaning there would be no offsetting reduction to wholesale market and/or network costs from which to fund this individual benefit. This raises a question as to how to offer choice while preserving economic efficiency rather than introducing self-selection bias.

In addition, there are several costs and risks associated with locational, dynamic network pricing as previously outlined in the cover letter. The implication is that the cost-benefit value of these tariffs may not be justified if they are offered on an opt-in basis only (save outside of as a transitional or introductory measure).

Beyond the spectrum of network tariff options for end-use consumers, there is also the suggestion that pricing to the retailer (at an aggregate level) could overcome the complexities and uncertainties of the current framework:

If the network tariff was designed for the retailer, the design could be based on the retailer's entire customer load, it could be set based on capacity instead of consumption, or it could separate the network cost considerations from the components that reward changes in load/consumption. Ultimately, network tariffs designed for the retailers can be more complex than if they were designed for a customer. We can therefore protect customers from this complexity and volatility as we do with the wholesale energy market.

We would be interested to understand how such an approach could work in practice, noting in particular the challenges associated with more cost-reflective network tariff offerings the industry may trend towards.

⁷ Currently, Endeavour Energy has 260,000 residential customers on our demand-based tariff and 280,000 residential customers on our energy-based TOU tariff.