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Dear Commissioners

Review into Electricity Pricing for a Consumer-Driven Future

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia, of which around 59k customers are supported under our hardship program (EnergyAssist). EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000 MW of generation capacity.

EnergyAustralia greatly appreciates the opportunity to participate in the AEMC's review into Electricity Price for a Consumer Driven Future (*the discussion paper*). The AEMC has identified elements of network and retail pricing that may require change to achieve the desires of customers in an evolving energy system. We agree with the AEMC's assessment on what retail products customers desire and the improvements that could be made to network tariff settings. However, we believe a vitally important question has not been appropriately addressed: *what changes are needed to achieve the lowest reasonable cost energy transition*? This question is fundamental to ensuring that customers, government, and regulators are satisfied with energy products and pricing.

The AEMC should consider how the retail market outlook considered in *the discussion paper* could feasibly produce the network and retail changes needed without resulting in increased overall system costs. From a customer perspective, if customers are paying what they deem to be an acceptable amount, it's unlikely they're concerned about the complexity of energy pricing, and it is only when this cost threshold is exceeded that these concerns are realised. The AEMC must therefore consider if minor changes to existing regulation will be sufficient to achieve their intended outcomes, or whether a reimagined energy market is more suitable to achieve their desires and a lower cost energy transition.

We explore this further in the **Attachment**, outlining our perception of the network and retail energy market at present, the capacity to provide the options considered, and potential options that may be more suitable to achieve the outcomes, while prioritising a least cost energy transition.

We believe the AEMC's identification of the objectives needed to produce pricing outcomes sought by customers are largely correct. By improving network tariff design and ensuring regulation does not inhibit the development of desired retail products, an improved retail market should meet customers' expectations and needs. Additionally, we agree that by ensuring any change is developed to *achieve a lower cost energy transition*, the satisfaction of customers, governments, and regulators can be achieved.

In this submission we consider how the AEMC should:

- *Develop an energy regulatory framework that prioritises a lower overall system cost*
    - It is paramount to prioritise the option/s that enables the energy transition in the least cost. The value provided to incentivise Customer Energy Resource (CER) uptake and utilisation will require a framework that enables value to be obtained across the supply chain without increasing overall system costs.
- *Design retail price regulation that promotes customer preferences and doesn't inhibit innovation*
    - Retailers should produce products that customers desire. Regulation must therefore be careful to avoid inhibiting the innovation that can enable the product diversity that adequately reflects customer choice.
    - Customers prefer predictable pricing. The regulatory framework should focus on enabling the development of predictable pricing energy products, either through providing retailers assurance on future costs, or by enabling predictable pricing across the energy supply chain.
- *Develop a simplified network tariff development framework to promote CER uptake and utilisation*
    - The multitude of network tariffs and complex pricing constructs have not resulted in an optimum tariff construct; therefore, it should be considered that network tariff design can be as, or more, effective if tariffs are designed to be simple and consistent.
    - Network tariffs should be designed to reduce overall costs by sending signals to incentivise alternatives to the retailer, and retailers will manage this risk, as occurs with the wholesale market.
    - As a result, network tariffs should incentivise both the investment and effective utilisation of CER. This should be achieved by prioritising CER use in lieu of network spend. Retailers and aggregators will be responsible for producing retail offerings that are desirable for customers and can respond to the network's needs (for example, EnergyAustralia's Battery Ease product provides an incentive to customers for participation in our VPP, and these batteries can then respond to network signals).

If the AEMC, or any interested reader, requires further discussion or insight into the views presented please contact me on 03 9060 1361 or Travis.Worsteling@energyaustralia.com.au.

Regards

Travis Worsteling

Regulatory Affairs Lead

Attachment

Producing the retail products that customer's desire

Can we rely on competition in the retail market to deliver the mix of products and services that consumers value?

Competition can provide the mix of products and services that consumers value. The retail market has delivered diverse and innovative products, and indeed, many of the offers discussed in the AEMC's spectrum of customer choices have been available in the previous 10-years. The industry was developing these offerings at a time when regulation considered energy as the product it had been historically; a volumetric charge for energy consumption accompanied by detailed information provided on a bill. Customers were predominantly aligned with this perception as there was not enough impetus for the need to shift (the alternatives didn't reflect value to them, either price or in service).

As decarbonisation, decentralisation and digitisation affects energy supply costs and creates price instability, retail offerings will continue to evolve to meet customer's needs. In the face of this price instability, EnergyAustralia believes price predictability and fair value will remain a constant desire for customers.

The AEMC must therefore **consider how regulation can encourage predictable retail pricing outcomes that represent value for customers – i.e. a predictable bill at a reasonable cost.** This means regulation must start at the customer impact, and work backwards. Focusing on how pricing impacts a customer through their bill will require the AEMC to consider all elements of the energy supply chain that impose a cost on retail products. By prioritising predictable pricing that represents value for customers, regulation must aim for an energy industry that better forecasts, has more transparent and meaningful publicising, and is more capable of managing price instability on behalf of customers.

Forecasting and publicising are easier concepts to consider, **the AER and/or AEMO should obtain and report on medium-term forecast price information across the energy supply chain:**

- The Nelson Review is currently considering how to develop solutions for long-term recovery of new generation costs, this could include markets that provide certainty based on generation capacity, and this will hopefully provide the insights needed for improved forecasting of wholesale energy costs;
- Distribution and Transmission networks can forecast years in advance[1]; and,
- With the improved information from the elements of the cost stack above, customers, policy-makers and other stakeholders will be able to form more **realistic forecasts of annual price movements or longer term price level expectations**, including as part of highly visible DMO and VDO determinations.

Aiming to improve pricing predictability will increase the understanding and acceptance of the price that customers pay and will allow retailers to better understand and account (hedge) for the costs that are forecast. This improved visibility of price requires mechanisms to enable predictability and achieve the expectations of customers' value.

[1] 'At 40 per cent of an average bill, network costs are a big component of bills and are continuing to grow quickly' - The Australian

Our submission will predominantly focus on price predictability and customer value in the elements of the supply chain that the AEMC has previously considered in *the Pricing Review*, Networks and Retail, however, we encourage the AEMC to consider what changes are required to the entire energy market framework to achieve longer-term price predictability and pricing outcomes that represent value for customers.

Where does the value come from to achieve the desired change?

The AEMC will need to create a lower overall cost energy transition, while providing the options that customers want, aligning with their expectations of fair value. Customers won't be satisfied with their energy product if they are receiving their desired pricing construct, but the price exceeds what they deem reasonable. This is an important framing of what value means, because value is the critical link between customer choice and the objective for a reduced overall system cost. Notably, customer value isn't specifically in price, it is across a spectrum of elements that customers desire (simplicity, predictability, trust, etc). However, we will predominantly refer to price when discussing value, as this has historically been a customer's key consideration.

Where does the value come from to both reduce overall system costs and provide either reduced cost retail offerings and/or attractive incentives for CER investment and operation?

There are four main avenues for providing value to customers on their energy product or pricing, and to incentivise the uptake and utilisation of their CER:

- Government – Could provide subsidies or fund mechanisms that reward the responses (load/demand-shifting) that are necessary to decarbonise the energy market. These options could be funded out of the taxation pool, avoiding a direct increase in overall energy costs. However, these schemes have historically been funded via requirements on retailers to procure certificates under green schemes or to fund the incentive mechanisms, such as the Feed-in Tariffs provided for solar export. *This is understandably outside the AEMC's remit.*

- Retailers – Energy products can be designed to reduce generation and network costs and/or to incentivise the uptake and appropriate operation of CER. This can only be funded through sufficient retail margins, or by increasing prices. While the current levels of focus on energy prices remains, it is not likely that retail prices would be allowed the increases necessary to support this function. To avoid perceptions of bias, we encourage **the AEMC to determine whether retail margins are suitable as a sustainable avenue to provide this value**, and if not, to consider if increases to retail margins could achieve desirable outcomes of providing value to customers while achieving a lower overall system cost.

- Wholesale Markets – Revenue obtainable from participation in the energy SPOT market or ancillary markets can stimulate investment and operation of CER, and could be attainable via retailer pricing constructs (This is an existing product by retailer Amber). The market signal can also be satisfied quickly, and the volatility of these markets generally exceeds the risk preferences of customers. Relying on higher energy or ancillary market prices to justify investment is also unlikely to result in a lower cost energy system.

- Distribution Networks – Tariffs or network services provision from CER/load-shifting can provide the incentive for increased uptake and appropriate operation of CER, this could be coupled with desirable retail offerings. The existing regulatory framework limits the ability for these services to be funded while achieving a reduced overall network cost. For example, incentive schemes may reward avoided augmentation or improved network outcomes, but this is applied through an increased recovery provided to the network by the AER.

Can retailers enable a lower cost energy transition and provide the spectrum of products that customers desire?

Retailers can enable a lower cost transition and produce the customer's desired energy products. However, there are changes required to the energy regulatory framework to promote this. Notably, identifying and developing mechanisms to allow increased incentives to customers to stimulate the necessary investment and operation of CER, and for the appropriate flexibility in retail energy regulation to allow for the development/innovation of products customer's desire.

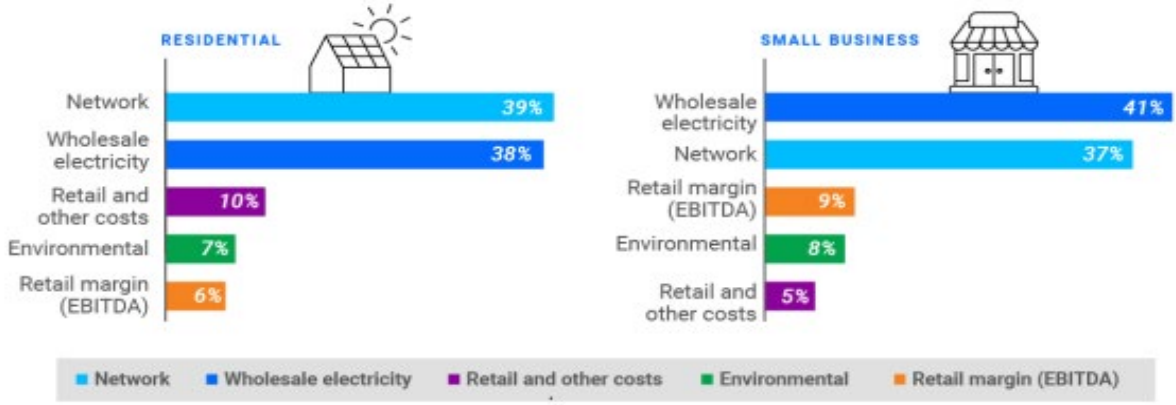
The AEMC's *Pricing Review* is the opportunity to develop a solution designed for the majority, while ensuring the appropriate protections and opportunities for increased customer participation remain.

The question we believe is crucial for the AEMC to consider is whether a spectrum of product offers is what is needed to meet customer desires and achieve an efficient, resilient, and sustainable electricity system. While we do not have a definitive answer, and certainly believe that customers prefer a range of offers, we do consider that **a reduced range of offers may meet the needs of most customers and be more effective at achieving an efficient, resilient, and sustainable electricity system**.

In considering how retailers can provide the solutions that customers desire and to achieve a lower overall system cost outcome, the AEMC must consider how to meet customer's preferences without adversely affecting the price of energy of all customers.

We refer to the ACCC cost stack referred to in *the discussion paper* as a general view of the cost breakdown in the sale of energy. This amount fluctuates annually, but is a good representation of the historical percentages of the cost stack.

Figure 2: ACCC cost stack of customer bills



To provide the range of offers the AEMC believe customers desire, retailers must either provide the value or incentive for customers to shift either to the product they 'prefer' or to incentivise an interaction that is desired, e.g., where we are seeking customer load-shifting or *approved use* of their CER. Without increasing the retail price component, this value is either coming from existing retail margins (~6%-9% EBITDA), cost savings from any of the cost stack, or revenue obtained from the cost stack (for example, energy markets or network services participation):

- Retail margin

  EnergyAustralia does not believe there is any ability within the existing retailer margins to provide the value needed for shifting to the products customers desire, and the solutions that will lower overall system costs. It is worth noting that there is already indication from Federal Government that retail margins will be reduced further[2] and the ACCC analysis that margins are 'at historical lows'[3]. In assessing whether retail margins are sufficient to provide the value needed to provide and promote customer choice, the AEMC should compare energy retail margins against other industries and consider whether those industries are achieving the sort of innovation and customer outcomes the AEMC believe are warranted, as well as against the costs expected in new generation to achieve the energy transition.

- Revenue obtained across the cost stack

  Value can be provided for desired actions across the cost stack. Wholesale energy can set a price or a mechanism for new generation, distribution networks can provide incentives for CER uptake and utilisation, and retail prices can be set to incentivise the response desired. Currently, a customer may benefit from their CER operation; however, this incentive to the CER customer predominantly results in increased overall system costs, as they need to set a price to drive the action and this price is either cross-subsidised by those that are unable to participate, or as an overall increase in the price.

- Savings across the cost stack

  Savings could be achieved across wholesale, retail, green schemes, or networks components of the cost stack. Reduced costs across one or many of these is the best opportunity to achieve the lower total cost energy transition and should be the prioritised by the AEMC when developing their solution. Reduced costs can come from many streams, operational efficiencies and increased competition in monopolised markets are two options to consider within the AEMC's expertise and remit. We will discuss each of these in detail further below.

The components of the retail cost stack need to be dissected further to understand the interplay between providing the sustainable value customers require and the need to achieve a reduced overall system cost. A simplified assessment based on the current frameworks would see the value provided to incentivise CER uptake (produce the products customer's desire) as an overall increase in costs:

[2] Power price curbs to aid consumers - AFR

[3] Bowen power switch to cull small energy retailers - The Australian

- Wholesale value – if this is revenue based on the spot market, this is a price set to procure the response of more or less generation. If there is enough of a long-term value proposition based on forecast spot market prices, it could stimulate investment in CER. There is arbitrage value attainable in the use of batteries but the wholesale price will still require significant volatility (high price events) for the arbitrage value to achieve the revenue returns required for both retailer and CER customer.

- FCAS value – participation in the FCAS markets is the least likely to increase overall cost comparatively, as they improve the operation of the National Energy Market as a whole. However, the value of FCAS market participation has reduced significantly in recent years, and basing return expectations on these markets should be done with caution.

- Network value – the expected costs forecast to facilitate the energy transition are enormous. An example: AusNet[4] has requested ~$3 billion in the next network determination alone to commence their preliminary work needed. Despite assertions from the distribution networks that they can achieve a cheaper energy transition[5] there is little public information on the total distribution costs expected to achieve it, even a modest extrapolation of AusNet's costs will likely see >$40 billion in distribution costs across the NEM by 2035. Notably, it is highly unlikely this cost will be solely in fundamental upgrades. As an example, analysis of NSW Distributors by Tahu Consulting found the four networks earned $1.7 billion over their last regulatory period, instead of the $613 million guaranteed by regulation[6]. It is conceivable then that there is value attainable for improving the network or reducing the need for augmentation. Unfortunately, the current regulatory framework doesn't adequately compensate CER for its actions that have beneficial network outcomes, with this cost transfer currently a cross subsidy from other customers on the network.

- Green schemes – while these schemes are designed to incentivise the uptake of renewable energy/CER and to improve energy efficiencies, the cost of these schemes is reflected in increased energy prices as the requirement to participate (purchase certificates, etc) is imposed on energy retailers.

- Retail - All the costs above are viewed as retailer costs, simply because they form components of what appears on the energy bill. There is a misconception that the energy bill and its associated price rises are the retailer's fault. If retailers were to provide value to the customer, from reduced network or wholesale charges, or other reductions in their costs, the retailer would need to consider whether to provide the full benefit to that customer or to share it across their customer base, and the retailer itself; the decision on this allocation will greatly impact how much value the CER customer actually receives. This is the tension between what is fair and what is equitable when it comes to value.

In summary, currently CER benefits (obtainable value in the retail cost stack) are mostly about avoided cost, which doesn't necessarily translate to a real revenue stream that can be shared with customers. While avoided cost will result in a reduced overall system cost, the AEMC need to consider that the value needed for the development and uptake of energy products that customers desire will either come at the detriment of achieving a lower overall system cost or **will require the development of an energy regulatory framework that can achieve both outcomes**.

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[4] Flexible exports and solar soaks - RenewEconomy

[5] Distributors are the 'missing middle' in the future of energy - AFR

[6] Street fight over EV chargers could hit all power bills - AFR

Energeia assessment

The discussion paper referred to the assessment conducted by Energeia that indicated value can be provided to customers to incentivise uptake and operation of CER in lieu of grid-scale generation and avoided network augmentation. We dispute that the value proposed by Energeia can be provided to a CER customer without increasing the costs to other customers.

The AEMC referred to the Energeia study conducted for the Unlocking Consumer Benefits through Flexible Trading rule change, claiming that a single 10 kWh battery in NSW could save the electricity system over $800 in wholesale, network, and ancillary service costs in a year (requiring the battery to respond to high wholesale costs, FCAS markets and network congestion).

EnergyAustralia agrees that there is value that can be derived from Virtual Power Plant (VPP) aggregation in wholesale, network, and Frequency Control Ancillary Service (FCAS) markets, but we are concerned that suggesting an $800 annual value establishes – in our understanding – a greatly overestimated value for customer participation in a VPP. On this basis, the Energeia assessment should not be used as the basis for considering what is attainable value for CER.

Energeia estimated $729 in additional benefits compared the existing retailer VPP offerings against a future that was reliant on first order impacts (i.e., the value erodes with greater participation), based on AEMO's 2023 Step Change Scenario. This assessment is based on AEMO's speculative transition forecasts, and considers regulatory reform developments that will create additional revenue from networks and wholesale markets, and assumes absolute value of the CER interaction is be provided to the customer.

We will not prosecute each of the elements in Energeia's assessment, but will suggest that $729-$800 should be considerd as a maximum 'cash' value attainable, with it very likely that the realisable amount is significantly less.

How has regulation impacted the ability of the retail market to produce desired products and services?

The AEMC sought views on whether competition can provide the types of products that customers desired, and while we have outlined our views on value as an impediment, regulation has equally impacted the retail market's capacity to produce the offerings that customer's desire and value.

Price regulation (DMO and Victorian Default Offer) and the AER Billing Guideline[7] are the most obvious examples of regulation that has not been successful in driving *the best outcome possible for providing solutions that customers desire, at a cost as low as possible*. These two reforms have reduced the diversity in product prices and offers. The objective of these reforms wasn't to limit the competitive market's development of products that meet customer's preference, it was to improve customer outcomes by increasing clarity on the price that is paid. This was supported under both the DMO and VDO by providing information to customers on what a fair price was, and the AER's Billing Guideline aiming to simplify billing, making it easier to compare between retailers.

However, in summation, these reforms only eventuated in reduced diversity in pricing, billing that isn't any easier to understand, retail prices that have been unsatisfactory to Governments, and a more homogeneous energy offering. Crucially, they haven't resulted in notably improved perceptions of energy as a product.

[7] Better bills guideline - Version 2 | Australian Energy Regulator (AER)

As CER ownership grows over the medium to longer-term, and as retailers strive to present value and price predictability for customers, retailers should not be required to reference all their products off the DMO/VDO price. While, the DMO/VDO reference price is a suitable comparison for a simple grid energy product (that is, presents value based on volumetric energy from the grid to the home), it is unable to express other forms of value, including value from all the energy devices in the home. Forcing comparisons that do not make sense will not support predictability, trust or customer agency – essential elements if competition is going to deliver the mix of products and services that consumers value.

EnergyAustralia has experienced difficulty in developing and bringing to market innovative retail products, primarily due to complexity or limitations from complying with the current regulatory framework. While we accept and appreciate that the regulation was intended to protect the best interests of energy customers, the evolving energy industry finds itself in a position where regulation designed in the context of volumetric charge of energy consumed is no longer suitable for the diverse range of customer needs and preferences. Below we outline some key regulations that have impeded the development of innovative energy retail products:

- Billing Guideline – Retailers are required to provide an extensive list of information to customers. This information is not always suited to innovative energy products and trying to make these products fit can be confusing or misleading. For example:
    - Better offer – Retailers are required to compare the annual total costs of a customer's current plan against the annual total cost of 'the lowest generally available plan'. This basic calculation does not allow for the benefits of VPP participation or load-shifting to be accounted for. For example, if a retailer plan includes an element of load-shifting (restricting charging an Electric Vehicle during peak energy days, or operating a battery based on wholesale market value) this variable operation cannot be accurately calculated. This will result in plans that are more expensive in retrospect being promoted as the 'better offer'.
    - Information requirements – Retailers must include all the information required in the AER's Billing Guideline on a customer's bill, with no ability to allow for simplifications to support innovative product offerings. If a customer wants to receive a subscription/simple type offering from their retailer, we cannot create a simplified bill to suit the customer's desire. Information is not knowledge; and in this example information overload is a problem for customers as it impedes their ability to understand their bill, causing increased distrust in the energy industry.
- DMO – The variety of customer load shapes cannot be accounted for in DMO comparisons. Aside from the well documented limitations faced with new distribution network tariffs (such as demand-based tariffs), the DMO is also not able to account for varying customer load shapes that occur when a customer is participating in a VPP. This results in DMO comparisons misrepresenting the customer's retail product. As by definition a VPP is a demand response mechanism, it is not possible to forecast exactly how a VPP will operate in the future and the total cost of the retail product will not accurately represent the comparison against the DMO.
- Scripting requirements – Required information when discussing a customer's plan or prospective plan are a source of dissatisfaction and confusion by customers, while the intent is understandable, the prescription of the extensive information are both an undesirable interaction for the customer and a constraint for retailers when considering innovative products that don't suit the existing scripting.

Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law/sections 223 and 234 of the National Energy Retail Law.

The AER has the capacity to grant sandboxing or exemption arrangements, and these can be used to address some of the limitations described above. However, participation in these processes can be both restrictive and ineffective, and both impose a time and resource constraint. **EnergyAustralia suggest the AEMC consider changes to regulation to allow and support retail innovation, and avoid requiring an AER exemption or sandboxing approval for this.**

From a retail perspective, we believe there are a range of options to achieve beneficial outcomes for customers that result in overall system cost reductions. From minor changes in the short term to medium term changes that have a better capacity to achieve the AEMC's objectives.

We explore below how holistic regulatory change aimed at reducing costs can achieve the AEMC's intended outcomes.

Future market design options

While changes to the regulations above should improve retailers' ability to innovate, it is doubtful this will be sufficient to enable the evolution of the energy retail market needed to meet the desires of customers as outlined in the AEMC's customer archetypes, and the expectations of lower overall system costs from government.

Broader reform is needed to achieve the intended outcomes of energy market stakeholders. For this to occur, the AEMC must consider change holistically. We explore below potential changes to retail and network pricing that aim to achieve the desired outcomes of the AEMC and energy market stakeholders.

However, the AEMC should consider how existing and forthcoming regulatory initiatives (such as, the Consumer Reforms package from the Energy Climate and Change Ministerial Council and the DMO Review[8] by DCCEW) may intersect or impact this *Review*. The scale of change in the industry is immense, and the AEMC must consider how these reforms interact and how to ensure that any new regulation compliments the existing regulatory framework, to minimise the implementation impacts on the industry and to prioritise a lower overall system cost.

Limit prescriptive regulation to basic energy products, allowing the development of innovative CER products

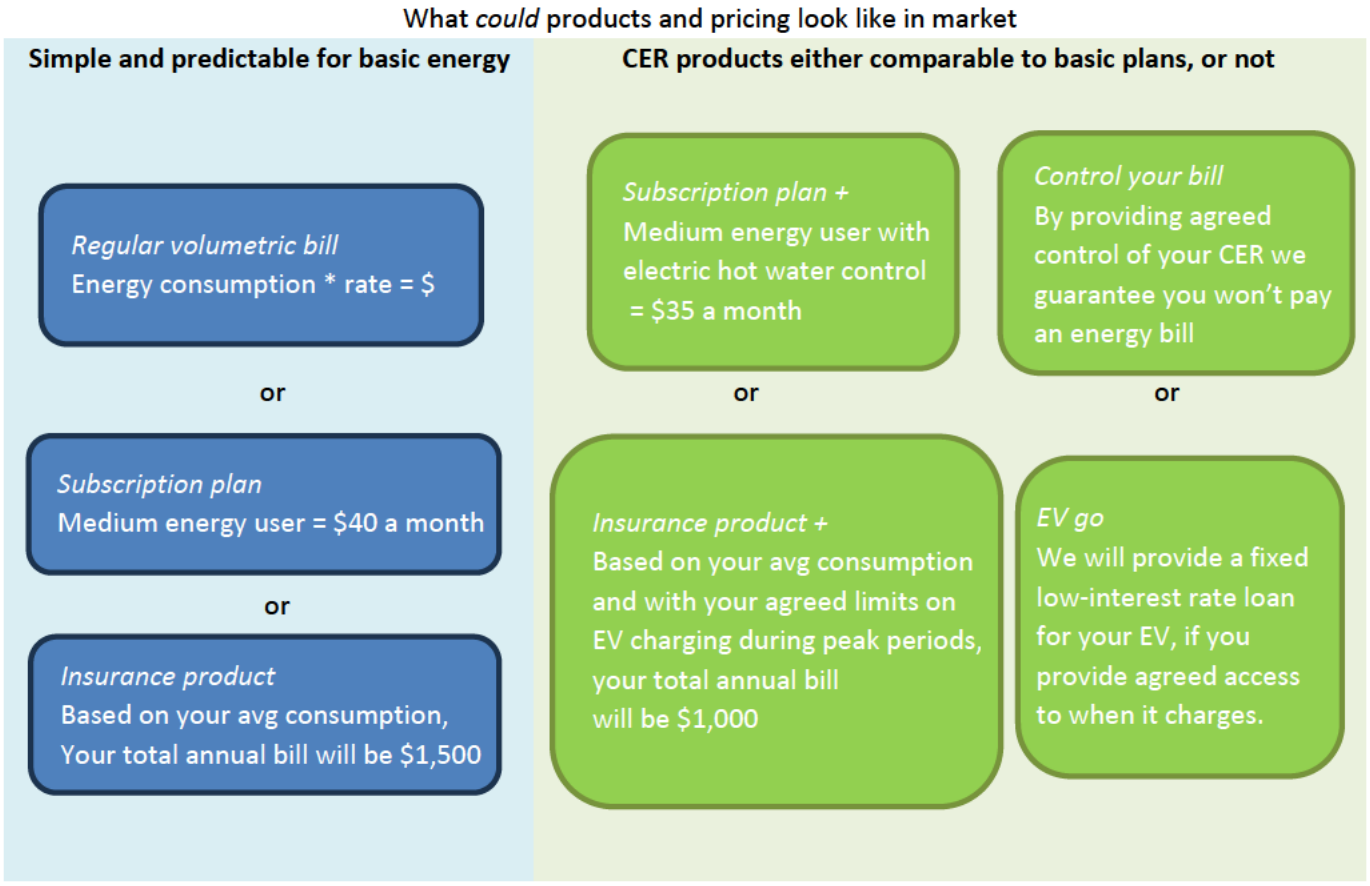
We believe it is possible to achieve energy industry stakeholder's desired outcomes by limiting the regulation of retail pricing constructs to two primary segments. This can be achieved by separating regulatory consideration between basic (simple, volumetric) and sophisticated (CER) energy products. This would enable retail regulation that prioritises simplicity, predictability, trust, sustainability, and provide the incentive for CER uptake.

As an example, the outline below presents a range of offers that prioritises the outcomes sought by customers, the expectations of governments, and the desires to achieve a lower cost energy transition. It is not representing an infallible solution, but a suite of customer options that can lead to the desired outcomes of energy industry stakeholders.

Simple, predictable, trusted pricing

Basic energy products	CER products
A fair deal for customers supported by regulator approved reference prices	Cost less than the basic product, or provides something customers value more than the cheapest price

[8] Consultation on reforms to the Default Market Offer - Department of Climate Change, Energy, Environment and Water



1. **Basic/safeguard pricing**

   - What would this look like?

   Basic/safeguard pricing is the realm of price assurance by regulators, with reference pricing regulation (DMO/VDO and the requirements to compare against these) providing assurance to customers that they are receiving a fair price. This is the space where energy offers should be simple, and retailers should aim to produce offers that achieve the predictable pricing that customers desire.

   Competition in this space and reference pricing regulation will put downward pressure on prices, and the existing consumer protections in this space will remain fit for purpose. Ultimately, there will be little change from a regulatory perspective, and it will be the imperative of energy retailers to produce the offerings that customers desire. If this is subscription or insurance type products, then retailers will need to build the systems and process to develop these solutions in a way that is cost competitive against the status quo (volumetric charging).

   Regulation has predominantly been developed for this cohort of customers, therefore it's reasonable to determine that it remains suitable for customers that want their energy market engagement to remain in the space of '*a simple energy product meets my needs*'. For customers wanting a basic energy product the AEMC must only consider whether existing regulation will impede the ability to provide the simple product they desire, **we recommended the AEMC consider changing the remit of the AER Billing Guideline to limit**

its application to customers that want a 'volumetric' energy product, thereby allowing a range of other 'simple' products to be developed.

2. CER pricing

- Why separate basic/safeguard from CER pricing?

The proposal for regulation to priories basic/safeguard pricing products isn't to erode protections of CER products, it is to ensure that there is a fair offer available to the customers that don't or can't participate in more complicated pricing options, and vitally so that retailers can focus their attention on the cohort of customers that are crucial to the energy transition.

The propositions for CER (such as participation in VPPs) are currently insufficient to stimulate the CER uptake required for the transition, as '*the model delivers limited monetary value back to the household*[9]*'.* Providing attractive incentives is required to promote the uptake and utilisation of CER, it is widely acknowledged that CER uptake and utilisation is fundamental to enable the energy transition, and therefore the priority of the retail competitive market should be in producing the offerings that enable this.

CER pricing can be designed as a simple subscription offering or as a more complex product, but the main objective is to incentivise the uptake and appropriate utilisation of CER. It will require the optimisation of all available revenue sources and the operation of effective competition to ensure that value propositions can be presented that both stimulate investment and support the orchestration of customer's CER.

The value proposition will be more than an attractive price, it will also be in altruistic participation in the transition, and trust that their energy service provider is acting in their best interest.

Limiting regulation on CER pricing/products is required to allow for the market to evolve, for retail offerings to be malleable to the needs and desires of customers for products and services that are fluid in their development. Regulation has a place in the CER space, but any regulation must be conservative in its scope to avoid unintended consequences that impact the development and innovative products that customers desire. As outlined above, there are already examples of where regulation has impacted innovation and product development, the AEMC should therefore consider how it can develop regulation that fosters innovation while providing a reasonable level of protection.

DCCEEW is currently exploring the regulation of CER products under its BECE[10] consultation and **we encourage the AEMC to support a design that allows it the ability to develop regulation for CER products that limits regulation to reasonable protections, with a preference to avoid prescriptive regulation.**

The scope of product offerings in the CER pricing segment should be diverse, this is the realm of sophisticated offerings and where innovation should thrive. EnergyAustralia believes that these products should have minimal prescriptive regulation imposed, as these products will be in a state of rapid evolution and – as described above – prescriptive regulation is largely not suitable for them.

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[9] Household battery subsidy - AFR

[10] Better Energy Customer Experiences - Department of Climate Change, Energy, Environment and Water

The focus for regulating these products should therefore be that the product is designed in the interest of the customer and that they are aware the important information on how it will operate; for example, if the product involves some control of their CER, they will need to know and agree to when and how this occurs.

- How is it an improvement?
    - Overall system costs are reduced as competition for current or prospective CER customers will stimulate the investment and desired operation of CER.
    - Government/Regulators can be confident that it is a customer's choice to select this form of product, they are aware of what they are choosing and have decided it is preferable compared to the basic/safeguard price. With incentives more effectively targeted at CER, the transition can occur at a reduced cost, with all customers benefiting.
    - Retailers are provided more freedom to innovate and allow an effective competitive market drive lower overall system costs with increased customer satisfaction.
    - Customers have greater access to products that will better reward their investments or aid in their investment decisions.

Network tariff designed to recover costs and incentivise CER uptake

How can better outcomes for consumers be enabled through network tariff-setting processes? And, what role can network tariffs play in meeting customer preferences while also contributing to lower overall costs?

Simply, network tariffs must be designed to reduce overall costs, and they can achieve this be prioritising CER investment and utilisation over their own capex.

To achieve this the AEMC should consider:

- how network tariffs are designed;
- whether there is need for a range of network tariffs or if network cost recovery signals to avoid augmentation can be achieved with only one or a few tariffs; and,
- whether the existing network cost recovery paradigm remains suitable to achieve reduced network costs.

In considering the questions above, EnergyAustralia believes that the following changes would have beneficial outcomes for operational efficiency, customer satisfaction, and reduced overall system costs:

1. Consistent network tariff design

The Energy Charter facilitated a project in which EnergyAustralia, Essential Energy, and South Australia Power Networks explored developing a network tariff for retailers. While the project is ongoing, to date the project has provided us with insight into the development of network tariffs, including the difficulties

in developing tariffs that achieve the cost-recovery required for networks, while providing incentives for desired network outcomes, and ensuring this is results in lower overall network costs without cross-subsidisation.

While we strongly believe that networks have developed tariffs in both the interests of customers and following the requirements of the regulatory framework. We also acknowledge that despite numerous tariffs being designed over the previous 20-years, there is no obvious design that has tangible benefits to reduced network costs, is sustainable from a cost-recovery perspective, and being suitable for all customers and distribution networks. We do not believe this means that there isn't a tariff that can achieve this.

Ultimately, the desire for cost-reflectivity and tariffs designed for customers hasn't produced the desired outcomes. The intention was appropriate: network tariffs should be aimed at reducing network costs and improving network outcomes, and should be developed for the party that will respond to it. However, this intention has not been sufficient to develop a network tariff that can achieve this, while providing accurate cost-recovery and avoiding cross-subsidisation.

We believe that the design of a network tariff has been over complicated, with many and diverse network tariffs available resulting in negative customer outcomes without any tangible benefit in reduced distribution network costs. Therefore, **EnergyAustralia believes that network tariffs should be designed uniformly with a primary aim of lowering overall system costs.**

A uniform tariff design can incorporate the views of networks, industry experts, and other energy market stakeholders. The AEMC or AER could collate views from industry experts to produce a guideline or set of expectations for tariff design. Ultimately, the tariff design output shouldn't rely on developing a perfect network tariff, it should only be required to develop a tariff/s that:

- Is consistent throughout the NEM distribution networks
- Prioritises a lower overall system, by reducing network costs from improved network operation and avoided augmentation
- Enables cost recovery by distribution networks

We discuss how this can be achieved in the following sections.

2. Network tariffs designed for the retailer

Designing a network tariff for a retailer can allow for tariff design based on a 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. Importantly, designing for the retailer can allow for tariffs that can rely on retailer/aggregator/energy service provider's goals to reduce their costs as the driver to facilitate lower network costs. Network tariffs designed for the retailers can be more complex or associated with higher financial ramification than if they were designed for a customer.

We would recommend the development of accompanying regulation to ensure that retailers protect customers from non-causational impact; e.g. living in an area under constraint should not be priced to the customers that had no choice in this, but a customer upgrading their site for solar or battery could face the cost of their decision. Requiring retailers to base their retail offerings on solely direct customer impacts would ensure that cost-reflectivity is then only reflected when it is equitable to do so. Alternatively, the regulation could require retailers to absorb all their network costs and smear these costs evenly across customers or cohorts of customers (e.g. small, medium, and large users).

Essentially, this would be replace the 'customer impact' consideration from networks in their tariff design and put the responsibility on retailers, aligning with our existing obligations for customer protections and producing retail products that shield our customers from the volatility of the wholesale energy market.

3. Networks required to prioritise CER to address constraints and avoid augmentation

It is easy to imagine the significant cost networks forecast are needed to achieve the energy transition can somehow be partially provided to CER customers as an incentive, reducing the total network costs and benefiting all customers; however, achieving this is practise is difficult, networks don't have future augmentation costs as a bucket of money that is able to be apportioned to CER customers operating in the best interest of the network. These augmentation costs are either incurred or not, avoiding them can result in achieving an incentive mechanism set by the AER (EBSS[11], CESS[12], DMIS[13]) but in both instances (incurred or not) the end outcome is an increase in network costs; either increasing the RAB due to network augmentation, or in increasing the return provided to the network via an incentive scheme.

EnergyAustralia suggests the AEMC consider if changes should be made to the AER incentive schemes to ensure that if network benefits are achieved via CER, that the customer/s benefit accordingly.

Designing a network tariff should achieve two clear functions, providing recovery of long-term investments, and a way to signal the responses the network needs for current or forecast constraint or needs. This can be by designing entirely cost-reflective prices that are locational and changing based on the network conditions at any point in time, or it could be a predominantly static price for the recovery of long-term investments with a separate mechanism to elicit the response needed. Across the spectrum of tariff design options, the constant should be a priority to reduce network costs by incentivising CER uptake and utilisation.

Prioritising CER in a network tariff design may be too complicated, without inappropriate cross-subsidisation or increases in overall network costs. Therefore, the AEMC should consider that the incentive for CER uptake and utilisation does not need to be a component of the network tariff, the network tariff could be designed purely for cost recovery with a separate mechanism for the desired CER outcomes.

This separate mechanism could look like an expansion of the existing RIT-D[14], with a greatly reduced threshold for networks to consider non-network solutions. **EnergyAustralia recommends the AEMC consider how this could be facilitated by a requirement for networks to <u>always</u> consider CER alternatives**

[11] Efficiency benefit sharing scheme (EBSS) | AER
[12] Capital expenditure sharing scheme (CESS) | AER
[13] Demand management incentive scheme and innovation allowance mechanism | AER
[14] Regulatory investment test for distribution (RIT-D) | AER

when addressing network needs, either through tendering processes or via the functionality of the in-development CER Data Exchange[15].

Requiring the prioritisation of CER to address network costs, either in tariff design or via another mechanism, will ensure lower network and overall system costs (reducing the need for additional generation). These cost savings will be realised by both those that are investing in CER and those that cannot.

We encourage the AEMC to consider the proposals above as an option to achieve the desired outcomes of all participants, and while we accept there are many ramifications that would need to be considered for such a change, we urge the AEMC to be bold in considering significant changes to the energy industry that are more likely to achieve a lower overall system cost and meet the demands of energy industry stakeholders.

Don't let perfect get in the way of good

The opportunity in *the Pricing Review* is to achieve the best outcome possible for providing solutions that customers desire, at a cost as low as possible. Ultimately, the satisfaction of energy consumers, regulators and governments comes down to the perception of fair value. In the interest of achieving regulatory reform that produces the outcomes sought by the AEMC, the 'good' would be ensuring a lower cost energy transition for all, and the 'perfect' would be achieving that while providing the spectrum of products that customers desire.

[15] CER Data Exchange | AEMO