Progressive Green PTY LTD T/A Flow Power
ABN 27 130 175 343

# The pricing review

## Flow Power submission on discussion paper

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Ground Floor, 109 Burwood Rd, Hawthorn, VIC 3122 hello@flowpower.com.au 1300 08 06 08 flowpower.com.au

## About Flow Power

Flow Power is an electricity retailer that works with energy customers throughout the National Electricity Market (NEM). Together with our customers, Flow Power is committed to our vision of creating Australia's renewable future.

We empower customers to take meaningful action. By providing energy knowledge and innovative technology, we are delivering smarter ways to connect customers to clean energy to make our renewable future a reality. We provide our customers with:

- Engineering support, access to live data and transparent retail tariffs that reward demand flexibility and encourage electricity usage at times of plentiful renewable output.
- Hardware solutions that equip customers with greater information, visibility and control over energy use.
- Access to renewable energy, either through distributed solar and storage installed on site, or through a power purchase agreement with utility-scale wind and solar farms.

We believe that by equipping customers with these tools, we can lower costs for all energy users and support the transition to a renewable future.

## Overview of submission

Thank you for the opportunity to provide a submission on the discussion paper for the AEMC's pricing review. This submission sets out Flow Power's views on the three focus areas of the paper. The key points in our submission are:

1. The existing retail market arrangements enable retailers to develop and sell electricity services that meet consumers' diverse needs. While some issues remain, they are largely being addressed by existing initiatives.
2. The AEMC should focus its attention on the retail-network interface and distribution networks, specifically how tariffs are set and how network costs are recovered. We propose three solutions:
    a. Standardise the network tariff setting process NEM-wide.
    b. Design network tariffs for retailers and allow retailers to allocate tariffs to customers.
    c. Regulate what network costs can be recovered by which network charges.

If you have any queries about this submission, please contact me on (02) 9161 9068 or at Declan.Kelly@flowpower.com.au.

Yours sincerely,

Declan Kelly

Manager, Market Transition

Flow Power

# Retailers

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

Yes. In Flow Power's view, the existing retail market arrangements enable retailers to develop and sell electricity services that meet the diverse needs of the customer archetypes identified by the AEMC. Flow Power's business model is one of many innovative approaches that see technological improvements and the falling cost of renewables as a way to help customers lower their electricity bills and engage in the energy transition.

As the AEMC notes, the key challenge is striking the balance the regulatory framework that enables innovation, low barriers to entry and competition against price regulation and consumer protections. For example, obligations such as best-offer obligations are best applied to fixed-rate retail offers, but are harder to apply to more dynamically priced retail offers. While there are some areas for improvement, there are separate initiatives underway to address them.

For this pricing review, the AEMC should focus on addressing matters relating to the retail/network interface and network pricing, discussed below. Network costs are a significant portion of a customer's electricity bill, and there are no NEM-wide initiatives underway to address some of the fundamental issues identified in the paper.

# Retail-network interface

**Question 3: How can better outcomes for consumers be enabled through network tariff setting processes?**

## Standardise the network tariff setting process NEM-wide

### *Problem*

The number and structure of network tariffs differs between DNSPs, sometimes significantly, and they are reset every five years on a staggered basis. This creates complexity, costs and risks for retailers, energy service providers and large energy users, particularly those who operate across network areas. Engaging in each DNSPs' tariff reset process can be a time-consuming and complex undertaking; the AEMC notes that levels of retailer participation in these processes is low. Similarly, significant AER resources are spent assessing 13 DNSP tariff structures at each reset. The same challenges exist with trial tariffs, which are developed, assessed and applied on a per DNSP basis.

While each network business is geographically different and has a different cost base, their objectives and the issues they face are broadly similar, as are the tariff structures and trial tariffs that can be used to solve those issues.

### *Proposed solution*

Increase efficiency, industry engagement and consumer understanding by taking the tariff structure setting process out of DNSPs' regulatory reset process. Specifically:

- Create one tariff structure setting process NEM-wide, with resulting tariff structures to apply across the board for a specific period, e.g. two years. Tariff structures would be consulted on, reassessed and reset every two years to ensure they remain fit for purpose, but with safeguards to protect against radical changes.
- Standardise tariff customer classes.
- Set a cap on the number of tariffs available under each customer class. In our view, no more than three tariffs are needed for each customer class to accommodate the breadth of consumer preferences and network issues. Consideration of the AEMC's customer archetypes could be helpful in this regard.
- Standardise the trial tariff setting arrangements so that trial tariffs are developed, assessed and applied across all DNSPs.
- The only permitted variation across DNSPs would be, if necessary, the time windows that apply to different charging components, e.g. to account for differing network peak periods, timing of peak solar irradiance, etc.
- Retain the existing price setting arrangements – that is, the ability for each DNSP to adjust the prices associated with each tariff annually through their pricing proposals.

The advantages of this approach are:

- Interested parties only need to engage in one tariff setting process every two years. This is likely to result better engagement from industry and consumer representatives.
- Similarly, AER resources are consolidated into a single process.
- Retailers, energy service providers and consumers get NEM-wide consistency in the number and structure of available network tariffs and trial tariffs, driving greater efficiency.
- It helps answer the question of who network tariffs should be designed for because it applies greater AER/industry/consumer focus on that decision.
- It simplifies government initiatives that help customers understand and respond to network tariff signals and compare retail offers.

## Design network tariffs for retailers and allow retailers to allocate tariffs to customers

### *Problem*

The rules enable DNSPs to design tariffs structures either for customers or for retailers. The result is a range of different approaches to tariff setting within and between DNSPs, creating complexity for retailers and inefficient outcomes for consumers. And, under the current arrangements, DNSPs have the most

control over which network tariff customers (particularly small customers) are allocated to. DNSPs can choose to reassign customers to a different tariff, and retailer-initiated tariff change requests can be drawn out .

The result of these two issues is that retailers and consumers lack control over the network charging parameters of their electricity consumption. This outcome makes it difficult for electricity retailers to fulfil their responsibility i.e., to design electricity services and offers that consumers value.

### *Proposed solution*

Amend the rules to:

- require network tariffs to be designed for retailers, and
- give retailers greater control over which network tariffs their customers are assigned to. For example, allow retroactive changes to the network tariff assigned to a customer to align with customer transfer timing. Additionally, obligate DNSPs to process a tariff change request.

The advantages of this approach are:

- It aligns well with the proposal above to standardise the tariff setting process NEM-wide. A single, standardised process will focus time and attention from across industry, consumers (and their representatives) and the AER in the one forum, enabling the sector to agree upon a smaller, standardised set of tariffs that are ultimately designed for retailers to integrate into products for consumers with significant consumer input.
- It enables the development of more complex tariffs, e.g. those with demand charges, and for those tariffs to be used if innovative retailers are keen to take those on (such as for products marketed at customers with home batteries), but does not force that complexity onto customers who cannot or do not want to respond to that complexity.

## Distribution networks

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

### Regulate what network costs can be recovered by which network charges

### *Problem*

The discussion paper makes some very good points about the flaws of network revenue setting and the flow on impacts for tariff design and cost recovery. We agree with the AEMC that volumetric tariffs:

- do not generally appear to be well linked to local network congestion and constraints
- can be poorly aligned with wholesale market signals, and
- are likely being used for broader cost recovery.

The South Australian example in the paper reflects Flow Power's experience and highlights the challenges of developing innovative retail products when underlying network signals counteract or significantly diminish wholesale price signals.

Another example that is not discussed in as much detail in the paper is broad windows for setting demand charges, particularly those levied at commercial and industrial customers. Demand charges are often set up to be highly punitive, including features such as:

- A peak demand charge window extending from early morning to late evening.
- A rolling 12-month charge set by the highest demand in that window.

These demand tariffs actively discourage flexibility and incorporation of flexible assets such as BESS. The concern for customers is by engaging in demand flexibility and shifting load into the middle of the day where there is excess renewable generation and low wholesale prices, this action may set a new peak demand and materially increase electricity costs through a demand charge. The same applies to BESS, where charging a BESS optimally against the wholesale market may lift peak demand, which would collapse the returns on that BESS.

In our view, many of the problems identified in the paper stem from the fact that there are no clear rules around what type of costs DNSPs can recover via the different tariff components, i.e. daily charges, volumetric charges, demand charges, etc. A lack of clarity here makes it difficult for retailers and energy service providers to communicate with customers about what costs the various components recover. It creates uncertainty around whether a customer's actions, e.g. demand flexibility, will have an impact on lowering those costs. It can also result in very different charging arrangements between DNSPs, again creating complexity for parties who operate across network areas.

### *Proposed solution*

Implement clear rules, either through the NER or AER guidelines, on what network costs can be recovered via which type of charges. Such a rule could be tied in with the NEM-wide tariff setting process recommended above, so that there is alignment and consistent application between DNSPs. At its core, this may mean:

- daily charges would be used to recover fixed, sunk costs
- volumetric charges would be used to recover the marginal cost of transporting an additional kilowatt-hour to or from a customer
- demand charges would be used to signal the cost of, and fund any future investment required to meet peak demand
- export charges would be used to manage costs associated with voltage and reverse power flow issues.

Further consideration would need to be given to how local network congestion could be signalled in a cost-reflective manner.

DNSPs would be required to demonstrate, through the regulatory reset process, how their revenue requirement will be allocated between these charging components. DNSPs' annual pricing proposals would need to show evidence of underlying cost changes and how those flow on to changes in the various charging components.

The advantages of this approach are:

- It aligns more closely with the concept of cost-reflective network pricing – because the network charges that customers pay reflect how they use the network and the associated cost drivers.
- Increased clarity creates greater retailer understanding about underlying network costs, which improves their ability to develop products and services that consumers understand and can respond to.