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Australian Energy Market Commission
Level 15
60 Castlereagh Street
Sydney NSW 2000

Submitted electronically

Re: Consultation Paper - The pricing review: Electricity pricing for a consumer-driven future (EPR0097)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission's (the Commission's) consultation paper for the pricing review.

The Commission is well aware that this review comes at an important stage of the energy transition. It is an opportunity to lay the foundations for a customer focused approach that allows all consumers to benefit from more active participation in energy markets. This includes those consumers able to invest in Consumer Energy Resources (CER) and those who benefit in other ways without owning such resources. They may shift consumption patterns in response to price signals. Alternatively, they can benefit from reduced wholesale prices, or network and other system costs over the longer term.

However, the transition is in its very early stages. The scale, form and timing of more active consumer engagement remains highly uncertain. The identification of consumer archetypes is a valuable analytical tool but the proportion of consumers that fall within each category and how it shifts over time cannot be known with any certainty. Factors such as technological change, an increased volume of meter data in line with a greater penetration of smart meters across the NEM, or significant movements in prices are all potential drivers. This uncertainty limits how certain the Commission can be of its findings and how detailed it can be with any recommendations. The Commission seeks to 'anticipate and prepare for change' but within a highly uncertain environment.

As such, the Commission may need to focus instead on developing principles that guide regulatory processes into the future, such as a commitment to retail competition and a more consumer-focused approach to network pricing.

Importance of retail competition

We welcome the Commission's assertion that effective retail competition will deliver a broad range of retail products that reflect consumers' evolving needs and preferences. Retailers' primary role is to assist consumers manage risk. This means maximising the value of CER

investments through optimisation and self use, demand response, wholesale or FCAS market participation, or network support. It also means assisting consumers to understand the implications of their consumption choices through data and advice, and discussions around the most appropriate pricing structure for their preferences and circumstances. Effective competition means they are accountable to consumers if they do not deliver efficient and effective offerings.

Retailers are, however, only the supply side and service offerings will be dictated to some degree by what customers want and when they want them. The Commission will be aware of some of the products that are starting to emerge, which allow consumers to participate in wholesale markets, for example. Furthermore, the consumer response to declining feed-in-tariffs, distribution network export charges and subsidies for residential batteries in the coming years will be instructive.

On the other hand, the Commission will also be aware of some examples of misunderstandings between consumers and the service providers about the precise terms and conditions of their contract. For example, we know of some instances where consumers appear to have entered into agreements with their retailer to relinquish control of a battery or electric vehicle to allow for market participation but have been uncertain about the volume of exported energy that would be used.

This highlights the importance of an appropriate framework for consumer protections and we support the reassessment of the scope of energy regulation. Our submission to the Department of Climate Change, Energy, the Environment and Water's *Better Energy Customer Experiences* review argued for a framework that applies appropriate protections to the sale and supply of an essential service, i.e. energy.

This means that any entity involved in the sale and supply, including the ability to interrupt an essential service should comply with core regulatory obligations. This includes notifications of interruptions, explicit informed consent, information obligations relating to price and other terms and conditions, and membership of an ombudsman scheme. This means all energy consumers enjoy common protections, irrespective of how they receive their energy and those experiencing payment difficulty or challenges in participating in the market can receive targeted support. This is analogous to the extension of core protections to consumers residing in embedded networks. Furthermore, it would be competitively neutral.

Energy regulation is then augmented by the Australian Consumer Law, which covers the sale of goods and services, including CER and smart appliances. The latter are not, in themselves, essential services but their sale should be regulated. Further protections are available through privacy, safety and financial services regulation. This framework is essential to build and ensure consumer trust in the energy transition.

We also welcome the Commission's acknowledgement of the potential impact of regulation on innovation and competition, including the range of products that retailers bring to market.

In particular, we encourage the Commission to consider the policy framework for regulated retail pricing and how it operates in practice. This includes its absolute level, how it interacts with other consumer protections (such as the requirement in some jurisdictions for retailers to offer flat pricing structures irrespective of the underlying network tariff) and Default Market Offer (DMO) reference pricing.

Areas of focus should be whether retailers are incentivised to develop innovative products. There may be little opportunity to capture and share the gains of more innovative pricing offerings while it may also be difficult to explain their potential benefits under existing benchmarking and information provision requirements. The DMO functions less well as a reference price under more complex pricing structures and for CER owners because it requires a range of assumptions about the volume and timing of consumption.

Network pricing

Network tariffs should recover sunk costs while encouraging efficient use. In our view, behavioural change will occur if price signals are simple, stable and predictable. This has not always been the case with network pricing to this point. For example, one of the problems has been the frequency of changes across a regulatory period.

We acknowledge that these principles necessarily lead to some trade-offs in terms of the signals that prices will send about network utilisation within and between different networks. It is clear that this results in some transfers between consumers and misalignments between wholesale peaks and network peaks, and misalignment with different peak periods across networks. However, the Commission's detailed discussion of the practicalities for retailers illustrates why this is warranted. Moreover, there are issues of consumer comprehension and acceptance, which are important if the objective is to encourage behavioural change. Some common tariffs, particularly Time of Use may not be as economically efficient but are more intuitive and seem fairer than something like a demand tariff for many consumers.

A further issue is network assignment policies. We have consistently recommended that consumers should be able to understand their consumption profile before deciding whether they want to face a sharper price signal. This means delaying reassignment following an event such as smart meter installation for a period of 12 months

We continue to recommend a more defined role for retailers in tariff development, particularly if the objective is to encourage behavioural change. Retailers own the customer relationship, meaning they are responsible for explaining pricing and providing information about usage including energy efficiency. This means retailers can provide valuable insights to networks about the potential effectiveness and other implications of different price structures or how to achieve a reasonable and customer focused path to more complex pricing.

About Red and Lumo

We are 100% Australian-owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia, and the ACT to over 1.5 million customers.

Should you wish to discuss any aspects or have further enquiries regarding this submission, please contact me on 0438 671 750.

Yours sincerely

A handwritten signature in black ink, appearing to read "G Hargreaves".

Geoff Hargreaves

Manager - Regulatory Affairs

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