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Australia

18 July 2025

Andrew Lewis
Australian Energy Market Commission

RE: Submission to the AEMC Pricing Review Discussion Paper

Dear Mr Lewis,

We appreciate the opportunity to provide a submission in response to the AEMC's Pricing Review Discussion Paper. Our feedback and analysis in this paper is informed through our deep experience in designing, manufacturing and delivering products and services that accelerate the world's transition to sustainable energy.

We welcome this review as a timely and necessary step to ensure that Australia's pricing framework evolves in line with the rapidly changing nature of the electricity system and consumer expectations. A key premise of this Review should continue to hold that tech-enabled customers can be a positive force for the grid, if they are empowered by the right policy, price signals, and product structures.

While we support the foundational principles of retail competition and price regulation, the current frameworks are no longer fit for purpose in a CER-rich future. Key structures like the Default Market Offer (DMO), traditional competition metrics, and static network tariffs reflect a legacy model of passive consumption. These mechanisms are now acting as unintentional barriers to the innovation, consumer engagement, and efficiency that CER-enabled services can unlock.

We recommend the AEMC consider seven core shifts to modernise the pricing framework:

1. Shift focus from price-based switching to value-based participation
2. Enable co-design of network tariffs with retailers
3. Align pricing signals across the supply chain
4. Develop a benchmark framework for CER customers
5. Reform the DMO/VDO to support innovation, not constrain it
6. Build a customer-facing comparator tool based on archetypes
7. Introduce fairer pricing for customers with flexible or non-firm network access

The NEO and NERO require us to deliver long-term consumer benefit in affordability, quality, reliability, and equity. These outcomes cannot be achieved by forcing CER services into a static pricing framework built for a past era.

We welcome continuing work with the AEMC and market bodies to test new frameworks, trial transparency tools, and co-design reforms that enable retailers to unlock the full value of CER for their customers and the wider system.

Sincerely

Emily Gadaleta
Senior Energy Policy Advisor

Specific feedback to Discussion Paper

Section 5: Enhancing Retail Competition to Deliver Products and Services That Customers Value

Retail competition is a necessary foundation for innovation – however the current framing of the issue by the AEMC should be expanded beyond the common ways of thinking being primarily informed via traditional retail offers and practices.

Competition analysis has been focused on price, not value

Traditionally regulators in Australia have been focussed on solving issues in a market where competition is still largely considered to be centred on acquisition discounts and static pricing structures. However, CER customers are not just looking for the lowest rate, they are seeking:

- Offers that support automation (e.g. EV charging during low-price windows)
- Participation in Virtual Power Plants (VPPs)
- Subscription-based services that offer predictable bills
- Access to dynamic tariffs that reflect when and how energy is used or exported

Yet these types of offerings remain niche, inconsistently available across retailers and jurisdictions, and difficult for consumers to compare. The market lacks tools, such as CER-specific comparison platforms or consumer education, to support meaningful engagement with these products.

For example, a customer with a battery and rooftop solar in NSW may find one or two retailers offering a dynamic feed-in tariff that rewards export during high-value windows. In contrast, a similar customer in QLD may be offered only flat FiTs and limited VPP options, even when the local grid is experiencing the same challenges and opportunities. This undermines the NERO principle of access to “quality energy services” and the NEO principle of efficient operation of the energy system. The market is not yet reflecting the diversity of consumer capabilities or enabling their full participation.

Switching isn’t the same as choice

We agree with the AEMC’s characterisation that switching is an imperfect proxy for competition. Customers are often overwhelmed by the number of plans available and unable to assess the value of dynamic products that interact with wholesale markets or network incentives. Worse, those who don’t engage, which can include time-poor or low-literacy households with CER, may end up on high-priced default plans that ignore their flexible capacity.

High switching rates are often assumed to reflect healthy competition, but research shows this can also reflect frustration, distrust, or disengagement. In CER contexts, switching rarely leads to genuinely different outcomes, especially when CER-specific offerings are limited or opaque. The ACCC’s Retail Electricity Pricing Inquiry (2018) warned that customers “face a confusing market with too many choices, too many conditions, and no easy way to compare offers.” This reduces their ability

to exercise informed choice, especially on non-price features. Additionally, Energy Consumers Australia (2024) reported that while 25% of Australians switch energy retailers every year, only a fraction understands the terms of their new plan — and most switch based on price, not service or product innovation.

AEMC's own research (EPR0064, 2021) concluded that even where innovation exists (e.g. for electric vehicles or solar storage), "customers often face difficulties accessing these offers or understanding their value proposition." In the United Kingdom, OFGEM's retail reforms similarly showed that excessive focus on headline pricing caused market churn without corresponding improvements in consumer outcomes (OFGEM Retail Market Review, 2015).

We support the AEMC in refocusing competitive effectiveness indicators to include product diversity, functionality (e.g. orchestration, automation), and consumer outcomes, not just switching and pricing metrics. Market health should be judged not only by churn but by the range and uptake of offers that support system efficiency and consumer preferences.

The AEMC should differentiate between "switching activity" and "informed customer choice" in assessing market performance. Support should be provided for standardised information disclosure on orchestration functionality, automation compatibility, FiT volatility, and curtailment risk, especially for CER households.

As the CER sector grows, so too does the diversity of products, risk exposure, and pricing structures. However, there is no transparent baseline to compare what a "fair" CER-enabled retail offer looks like, particularly for customers who are exporting to the grid, participating in VPPs, or subject to dynamic export limits. This creates three problems:

- Consumers can't confidently evaluate the value of orchestration or automation features
- Retailers can under-deliver or over-promise on flexibility-based products
- Policy and regulators lack visibility into whether CER customers are receiving fair and efficient outcomes

The AEMC should explore the development of a voluntary benchmark framework to promote transparency, fair expectations, and efficient comparison in a rapidly growing part of the market. This could include indicative value ranges for orchestration participation and export flexibility to guide both retailers and consumers.

Regulatory barriers to innovation

We also observe regulatory frictions that directly limit the rollout of innovative retail products:

- Inconsistent consumer protections across jurisdictions increase compliance costs and discourage product standardisation
- Uncertainty around data access, CER visibility, and settlement arrangements restricts product design
- Static DMO/VDO structures limit incentives for differentiated CER service offers

We are acutely aware of the growing tension between the intended role of the DMO and its practical impact on innovation in the retail market, particularly for differentiated, value-adding services that support orchestration, automation, and flexible demand.

The DMO and VDO were introduced as safety nets to protect disengaged customers. However, in practice, these static benchmarks have become de facto price ceilings, especially in media coverage, regulatory pressure, and customer expectations. As a result, they are now shaping the competitive floor of the market, rather than simply setting a baseline. This is particularly problematic for CER-focused retailers for several reasons:

- **DMO/VDO does not reflect the true cost of delivering orchestrated or value-based services**

Products that enable active customer participation, such as real-time automation, dynamic export management, or bundling with grid-support services, require sophisticated data systems, digital infrastructure, and ongoing consumer engagement. These costs are not accounted for in the DMO methodology, which is largely based on legacy customer profiles with flat usage, limited flexibility, and low service expectations.

The recent reduction in the retail competition allowance (the margin added to account for the cost to serve and to enable innovation) has significantly constrained retailers' ability to recover costs associated with developing and operating differentiated offers.

- **Network costs are rising and dominate the bill**

As noted in the discussion paper and confirmed by AEMC's *Residential Electricity Price Trends* report, network costs already make up ~40% of a household energy bill and are projected to increase further. These are not costs retailers can control, discount, or optimise through retail operations.

Yet the DMO structure assumes that retailers can drive down total bills through competitive energy pricing, when, in fact, the flexible component available for competition is shrinking (recent reduction in retail competition allowance). With falling wholesale costs and rising network costs, the retail margin is increasingly the only "adjustable" lever, and that lever is now being restricted by a regulatory benchmark.

This creates a market design contradiction: retailers are expected to offer tailored, high-value services (especially for CER households), while operating within a static framework that leaves little room to invest in innovation, customer support, or product complexity.

- **The DMO/VDO framework assumes passive consumption, not CER participation**

The underlying DMO methodology is built around assumptions of relatively passive, uniform consumption profiles. It does not reflect the diversity of energy behaviours that CER households display, including significant export, time-shifting, or automated load management.

As more customers adopt CER, the disconnect between the benchmark and customer reality will grow. This risks distorting retailer behaviour, encouraging a race to the bottom on price and simplicity,

rather than incentivising deeper integration, automation, and support for CER coordination. We strongly urge the AEMC to consider the impact of the DMO/VDO frameworks on innovation and CER product development. In particular, we recommend:

- Recommending a review the role of the retail competition allowance in the DMO to ensure it reflects the true cost to serve modern, digitally enabled and actively participating customers, this could include an innovation margin or CER enablement factor
- Considering differentiated or supplemental benchmarks for CER-enabled households, which recognise the distinct service and technology layers required (more details on how to utilise previous archetype work below)
- Exploring mechanisms to decouple retail innovation from static price regulation, particularly where the majority of the bill is driven by regulated, non-retailer-controlled costs

If the NEM is to evolve towards a smart, flexible, low-carbon grid, retailers must be empowered not constrained to innovate. That requires a regulatory and pricing framework that supports measured risk-taking, investment, and customer-focused service models. The current static benchmarks do not deliver on that promise.

Recommendation: Customer-facing comparator tool based on energy profile

We propose that the AEMC rework its own archetypes (p.27 of the Discussion Paper) into an interactive, survey-style revamped ‘energy profiles’ to be used via a customer comparator tool. This tool could map a user’s household characteristics and energy behaviours to an archetype and then recommend relevant retail offers, dynamic tariffs, and orchestration services.

The energy system is increasingly complex, but customer choice should not be. As the number of dynamic tariffs, VPPs, orchestration offers and flexible products grows, customers will need intuitive, empowering tools to navigate this complexity. By reworking the archetypes into a live, interactive comparator, the AEMC could give customers confidence, increase uptake of flexible products, and support retailers offering these services. This would:

- Improve consumer comprehension of available products
- Translate regulatory archetype analysis into an actionable customer-facing interface
- Increase engagement with CER-specific offerings
- Reduce complexity and cognitive load associated with comparing dynamic offers

The UK’s “Energy Made Easy” initiative (run by Ofgem and the UK Government) includes a simplified tool that helps consumers identify their energy profile and match with appropriate retail offers. Meanwhile, in the U.S., the California Public Utilities Commission has supported customer segmentation tools that help solar and battery users identify the most cost-effective time-of-use or net

metering plan based on historic usage. Both programs demonstrate that tailored comparison tools improve uptake of non-traditional plans and empower informed participation.

Section 6: Network Tariff-Setting Processes

Retail businesses operate at the frontline of integrating network costs into compelling products and services. Retailers regularly encounter barriers due to the current design and implementation of network tariffs across the National Electricity Market (NEM).

Tariffs are not designed for the way retailers interact with customers

The reality is that retailers, not networks, are the interface with consumers. Yet most tariffs are designed for a network logic that is disconnected from how customers experience energy. Retailers must convert complex and inconsistent tariff structures into simple, understandable offers. This becomes especially difficult when:

- DNSPs can maintain several tariff types across customer classes
- Tariff structures can change year-to-year
- Different regions apply incompatible naming and structure conventions

As a result, most retailers are forced to pass through simplified flat or time-of-use tariffs, even where more efficient cost-reflective signals exist at the network level. This stifles innovation and limits a retailer's ability to encourage behavioural change.

Retailers bear the risk and shield customers

As retailers package network costs into customer-facing products, retailers are the ones managing the risk of tariff mismatch, seasonality, and demand volatility. To offer subscription-based or flat-rate plans, retail companies must hedge against uncertain network costs, a risk made worse by inconsistent DNSP pricing updates. This leads retail entities to prioritise predictability over efficiency, which is at odds with the system-wide objectives of the NEO and reduces ability to pass through products and services based on customer preference.

No structured process for co-design

We strongly support the AEMC's proposition that DNSPs, and retailers need better forums for joint tariff development. Currently, consultation is often limited to formal submissions or brief webinars, with no obligation for DNSPs to consider retailer implementation constraints.

Tesla Position

We encourage the AEMC to consider:

- Introducing retailer-facing tariff design principles, ensuring tariffs are not only cost-reflective but commercially viable to implement

- Mandating structured DNSP-retailer collaboration during tariff setting processes, including product testing and cost-benefit analysis of complexity
- Supporting simplified, standardised tariff templates to reduce integration overhead and support national retail product deployment

These reforms would directly support the NERO by lowering consumer costs and improving service quality and the NEO by enabling efficient CER integration and demand-side management.

Section 7: Role of Network Tariffs

We agree with the AEMC's assessment that network tariffs are not currently delivering either fair cost allocation or efficient price signals. In a CER-rich future, this becomes a critical weakness in the market framework.

Signals don't reflect actual cost drivers

Tariffs often rely on coarse proxies, like fixed time windows or seasonal averages rather than dynamic network constraints. This means customers responding to price signals may not actually be helping the grid, or worse, may be moving in the wrong direction relative to wholesale conditions. For example, a dynamic solar export tariff may penalise exports during the day, even when local voltage constraints are not active disincentivising valuable rooftop generation.

Misalignment with wholesale and retail price signals

Some retail offers in the market already incorporate wholesale pricing volatility and offer products that reward FCAS response or dynamic export control. But when network signals are out of sync with these markets, it creates confusion and undermines participation.

Tesla Position

We support:

- Moving towards dynamic tariffs where they align with observable system needs
- Allowing retailers to receive and manage the network price signal, enabling retailers to smooth complexity for customers
- Designing tariffs to support multiple simple customer outcomes: bill predictability, opt-in flexibility, or subscription-style control

These design choices would ensure the NEO goal of efficient investment and operation of the network and the NERO objective of enabling service models that match diverse consumer preferences.

Recommendation: Recognising the Value of Flexibility in Non-Firm Network Access

As dynamic and non-firm access models become the default pathway for integrating CER, there is a growing gap between the level of service provided to CER customers and the static, full-service charges they continue to pay. Customers who accept dynamic export limits, participate in orchestration schemes, or are otherwise subject to network-led curtailment are materially contributing to system efficiency, often at the cost of reduced export revenue, degraded asset payback periods, and lower service reliability.

Unlike wholesale market participants, who may be eligible for compensation under clause 3.15.7 of the NER when complying with a direction from AEMO, CER customers have no parallel pathway to recover foregone value or be recognised for their contribution to grid stability. While this may be accessible through the Integrating Price Responsive Assets into the NEM for the wholesale component, no such option exists for the network component.

We recommend the AEMC explore two possible mechanisms to address this emerging inequity and provide value recognition for customers engaging in non-firm, flexible services:

1. Reduced Daily Supply Charges for Non-Firm Access

Customers who accept reduced access rights through flexible connection agreements or dynamic export tariffs should not pay the same fixed network charges as those receiving full, unconstrained service. A differentiated supply charge would:

- Reflect the lower utilisation or service level being provided
- Incentivise greater uptake of flexible access schemes
- Support customer equity as CER penetration grows

This approach mirrors the UK's "flexible connection" reforms, where distribution networks offer reduced connection costs or tailored tariffs in exchange for curtailment rights. It also aligns with broader NEO objectives by promoting efficient investment and use of the distribution system.

2. Curtailment Compensation Framework for DNSP-Initiated Actions

Alternatively, or in parallel, the AEMC could consider a new compensation mechanism for DNSP-led curtailment, modelled on existing frameworks for market directions. This could involve:

- Event-based compensation when exports are curtailed beyond a threshold
- Standardised credit values administered via retailers or VPP aggregators
- Inclusion of compensation or curtailment impact in retailer disclosure obligations

A compensation framework for DNSP-initiated CER curtailment could even adopt similar principles to existing SAIDI/SAIFI service standards, recognising that constrained export service, like outages, represents a material loss of value to customers. Standardised crediting linked to curtailment events

or orchestration participation could provide a transparent and fair mechanism for recognising this impact.

International precedents support this approach. In California, compensation for DER curtailment is under active policy consideration as part of interconnection and tariff reforms. In the UK, customers under Active Network Management schemes receive transparency on curtailment frequency, with some exploring offset mechanisms through network charges.

The AEMC's pricing review provides a timely opportunity to establish policy foundations that recognise and reward customer flexibility. As CER uptake accelerates, failing to address the value gap for dynamic customers risks undermining trust and slowing participation in dynamic schemes.

We encourage the AEMC to explore both options in parallel, pricing relief and compensation, and to work with DNSPs, retailers, and consumers to co-design trial frameworks that can inform enduring reforms.

Conclusion

The NEO and NERO require us to deliver long-term consumer benefit, not just in affordability, but in quality, reliability, innovation, and equity. CER customers are ready to lead that future and are already making the upfront investment, but they need a pricing framework that supports their participation.

The CER transition presents a rare opportunity to reshape how customers engage with the grid. But the current regulatory frameworks are not yet equipped to unlock this opportunity at scale. We recommend that the AEMC:

1. Expand the competitive focus beyond switching to value-based participation, especially for CER-customers
2. Create a structured and consistent framework for tariff co-design between DNSPs and retailers
3. Ensure pricing signals are fair, simple, and aligned across networks, wholesale markets, and retail products
4. Consider a benchmark framework specifically for CER customers to improve transparency and market discipline without constraining innovation
5. Harmonise consumer protections for flexible, bundled, or automation-based services across jurisdictions, noting that this is the focus of other workstreams across market bodies and governments
6. Support the development of customer-facing tools, such as survey-based comparators informed by behavioural archetypes, that help households navigate an increasingly complex energy service landscape

7. Explore mechanisms to ensure fair outcomes for customers who accept flexible export or load conditions, including:
    - Reduced daily supply charges for non-firm access customers
    - Standardised credits for DNSP-initiated curtailment events, building on existing SAIDI/SAIFI service standard frameworks

We thank the AEMC for progressing this review and look forward to working with you as these reforms take shape.