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

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Pricing review: Electricity pricing for a consumer-driven future, discussion paper (**discussion paper**).

AGL welcomes the opportunity to comment on the AEMC's reflections of the views so far provided through the initial stages of consultation. The discussion paper appropriately captures the problems and challenges the market currently faces to continue the future energy services transformation.

Building on our previous submission to the consultation paper, a key focus of our submission is to provide further commentary on the current and future market challenges with traditional products and the improvements needed to ensure all customers benefit from a high CER future.

AGL's submission raises three key points:

1. **Protect Access to Basic Products** - Basic electricity offers must remain simple, fair, and accessible to all customers, especially those without CER, ensuring equity and a trusted fallback option.
2. **Enable Retail Competition with Strong Consumer Protections** - Competitive markets are best placed to deliver innovative products and services, but structural reforms should be considered to ensure all customer types benefit fairly.
3. **Reform Network Tariffs for Clarity and Efficiency** - Default network tariffs must be standardised, easy to understand, and actionable, with alignment to regulated retail offers.

Attached to this letter is our response to the questions raised in the discussion paper. If you have any queries about this submission, please contact Kyle Auret on 0498 003 090 or kauret@agl.com.au.

Yours sincerely,

Ralph Griffiths

General Manager Policy and Market Regulation

Attachment: AGL response to the AEMC Pricing review, discussion paper

About AGL

Proudly Australian for more than 185 years, AGL supplies around 4 million energy services. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market (NEM), comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. AGL is also innovating on a broad suite of products and services to drive distributed energy resources (DER) adoption and deliver value for customers.

As of FY24 AGL had 1.25 GW of decentralised assets under orchestration, with a FY27 target of 1.6 GW. Most of these assets are installed behind the connection point, and include residential batteries and solar, as well as flexible loads and backup generation systems at commercial and industrial customer sites.

If the Review focuses on enabling bookend products (from basic to sophisticated), is this sufficient to enable the range of products and services that will meet consumer preferences and lower system costs?

AGL agrees with the AEMC that directions that future retail markets may evolve in cannot be predicted with confidence now, and therefore the review's focus should be to facilitate market and regulatory framework that enables a variety of offerings and outcomes. The directions paper correctly identifies that customers will choose future retail products on a spectrum of potential products, from simple basic offerings to the more sophisticated.

Whilst many basic products may incorporate potential value for some customer flexibility, for example simple time of use plans, the focus of these products is the provision of a default supply. No CER capabilities or customer flexibility needed to access these products.

Electricity will remain an essential service in the future. No matter what alternative supply arrangements exist, customers should retain a default right to access energy services from the distribution network through a financially responsible market participant (in the case of smaller consumers, a retailer) and rely on the customer protections necessary to safeguard this essential service. There should always be a safe harbour for customers to remain on, or revert to, a traditional, or 'basic', supply arrangement at any time.

AGL supports the important role that the DMO and VDO play in providing a fair and efficient price for customers unwilling or unable to participate in the competitive market to secure better offers, and in providing a reference to help all customers compare plans in the market. The regulated price framework should focus on simple flat rate and simple TOU products. Simple TOU pricing has potential to better reflect the cost of supply, creating a path for regulated tariffs that treat both solar and non-solar customers more fairly.

When a regulated price is in the form of a tariff cap, all electricity networks should be required to provide the same tariff to matching the regulated tariff price structure. These tariffs should be designed to be simple, actionable, and fair. To maximise simplicity and customer understanding default network tariff structures should be standardised for each state jurisdiction.

Customers (and retailers) should be able to opt for a network tariff aligned to the regulated standing offers at any time. Additionally, networks should be restricted from changing a customer's tariff within 12-months of the installation of a new smart meter. This allows a minimum time for the customer (their retailer or agent) to collect data that can inform them in their choice of tariff. Of course, a customer should be free to choose to move network tariff at any time, as they may have additional information to guide them, for example they may have purchased a relevant CER.

In addition to regulated default offers (DMO/VDO), retailers can be expected to retain a range of basic market offers. Even with the expected ongoing and rapid growth in customers with CER over the next decade we expect

that half of customers by 2035 will not have solar, a battery or on premises EV charging. Some customers with high levels of CER are also likely to decide that a simple time of use product best meets their needs and enables them to schedule and control their CER directly around their daily priorities.

Starting with the basic supply option is critical as this frames the default features of the market to ensure the principles of equity and fairness are preserved. Importantly this ensures the benefits are balanced across all customer types and not unduly benefiting customers with CER to the detriment of customers on traditional supply arrangements.

Basic offers provide a foundation that enables customers to assess the value of alternative product offerings and the merit to make financial investments to access CER. Balance must be achieved to ensure basic offerings remain a central and trusted option. Without this, the customer incentives to pursue more sophisticated offerings will be distorted and lead to inefficient outcomes for the market and ultimately customers as a whole. As noted in the discussion paper and discussed in response to question 4, issues such as network cost transfers must be avoided and the network value of CER must accurately reflect network benefits.

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

Retail competition, within the guardrails provided by strong customer protections, will deliver the best mix of products and services that customers value. We support the AEMC's position that the Review must focus on how we can improve the effectiveness of competition to deliver for customers and target regulation only where the market falls short.

The rapid uptake of a diverse range of CER is leading to the emergence of various customer types that will use energy differently and want different services to meet their needs. The Governments new 'cheaper home batteries' program will accelerate this as it will significantly accelerate uptake of batteries, complementing Australian's consumers strong uptake of solar.

The retail market is actively engaging customers to maximise the value of the CER. Retailers are strongly motivated to grow their capability and are best placed to engage customers with new products and services that integrate wholesale and network value. Our previous response to the consultation paper outlined the extensive initiatives, trials, and innovative products AGL already have underway or available in the market. This month AGL also launched our Community Power program[1] to deliver on our commitment to finding innovative ways to share the benefits of the energy transition with customers regardless of asset ownership. Whilst we consider this demonstrates the central role of competitive markets in delivering for customers, we support the AEMC assessment of the structural features of the competitive market and whether structural change is needed to appropriately balance the customer benefits of competition for all customers.

Price dispersion

A level of price dispersion is in all customers interests, reflecting competition and innovation in the retailer cost efficiency frontier. The market structure must strike the right balance to ensure the degree of price dispersion benefits customers overall. The degree of customer price dispersion results from a mix of cost, market structure and competitive dynamics.

Price dispersion can play an important role in competitive markets and enables many customers to benefit from prices below average costs, and price dispersion can benefit all customers within a retailer by reducing average costs for all customers. However, price dispersion can also have a negative effect where less engaged or more loyal customers pay more.

[1] https://www.agl.com.au/residential/energy/community-power

AGL notes the package of ECMC initiated rule changes that will introduce new consumer protections this year to ensure customers do not pay more than is reasonably required. Several of the changes seek to alter the market structure by changing how retailer costs are recovered across market contract customers. These changes are targeted to address specific practices in the market. AGL supports the objectives of these reforms, notwithstanding some reservations in the proposed solutions. These changes will also complement planned changes to the DMO and are likely to reduce price dispersion. Greater consideration is needed on the current market structure and outcomes to assess if the current levels of price dispersion are appropriate.

How can better outcomes for consumers be enabled through network tariff setting processes?

As set out in the discussion paper, network tariffs ideally encourage equitable network costs contributions while at the same time providing signals to improve network efficiency and reduce future network investment costs.

The practical reality of implementing complex network charges to mass market customers has demonstrated the limitations of achieving network and system wide objectives through the current network tariff setting processes. In the case of default network tariffs, an alternative framework is needed to simplify tariff structures and achieve greater consistency across all distribution network businesses.

The primary objective of default network tariffs should be to derive 'basic' customer products that are simple, actionable and fair. As noted above, the default network tariffs play a central role in ensuring these 'basic' products remain an equitable and trusted alternative for customers unwilling, or unable, to take up more sophisticated products. We consider the framework should include three key features:

1. Default tariffs structures are set by a central authority in consultation with distribution networks, retailers, customer advocates and other interested parties.
2. Default tariff changes are only implemented when they are likely to result in material and desirable change in network use.
3. Default tariff structures are the same across all distribution zones and align with the structure of regulated standing offers.

Network tariffs are a critical input to end customer prices, generally the network tariff is largest cost component of customer bills. Network tariffs should be:

- **Simple**: Tariffs should be straightforward and easy for customers to comprehend, enabling them to make informed decisions about their energy consumption.
- **Actionable**: Customers should be able to understand and respond to price signals, such as time-of-use tariffs, to potentially reduce their energy bills by shifting usage to off-peak times.
- **Fair**: Tariffs should be designed to recover network costs equitably, avoiding unfairly burdening certain customer groups, especially those who may have limited ability to adjust their energy usage patterns.

These principles remain critical to effectiveness and cost minimization where network tariffs are primarily designed for retailers as intermediaries rather than directly for customers. Part of retailers' role is to incorporate and package network costs and risks together with wholesale and other inputs to develop simple products that work for customers. There is a strong case for network tariffs to be designed more directly with retailers, and we would be open to explore options for network tariffs to be applied at the retailer rather than individual NMI level.

We acknowledge there are complex tradeoffs for policy makers and regulators in defining 'fair' and 'efficient' network tariffs. The revenue that network businesses recover through tariffs reflects the outworkings of a complex regulatory model. Network tariffs recover a mix of sunk investment costs (adjusted for inflation and interest rates), incentive payments, and allowance for anticipated future investment requirements. In addition to recovering costs, network tariffs should efficiently inform future energy use to maximize productivity and minimize future network costs.

Minimising future network costs is critical as any additional investment approved for inclusion within the regulated asset base comes with a long and expensive tail of cost to all customers' energy bills. Coordinated policy action and uptake of CER has suppressed distribution peak load growth for approximately 15 years, however there are signs that without strong ongoing focus peak load growth is about to return. Simple, actionable network tariffs have an important role to play to improve network utilization and minimise network costs for the benefit of all customers.

There is also a broader need to holistically assess the suite of potential regulatory levers and mechanisms to improve real-time network efficiency and efficient forward network planning and investment. To effectively undertake this assessment, the industry must better understand how the technical operating envelope is defined and managed, the factors that drive network investment planning and decisions and how system and network planning requirements can be most effectively addressed.

Network tariffs provide one tool. Tailored incentives or payments for aggregators and retailers are also required to optimise network productivity. Incentives and contracted payments can more directly target specific issues including critical peak demand and localised congestion and voltage issues.

Whilst networks play a central role in planning and managing the network, Retailers have the necessary customer insights and data, investments in technology, and ability to simplify customer interactions required to achieve behavioural change where possible and enable customer participation that aligns with network and system requirements.

Networks and retailers will need to evolve current frameworks to identify network value and design network tariffs and contracts to reward customers for the value their CER can create (or price costs). Valuing the direct benefit or costs from use of CER at specific premises is inherently difficult, however at the system level it is evident there are huge opportunities in better coordination of CER and shifting load patterns.

At a minimum, network tariffs targeted at customers must be designed so that they can be readily integrated into retail tariffs so that customers can understand and take action to respond to the price signal. This will require a regulatory framework that provides retailers with a greater say on tariff design and their ultimate regulatory approval. Currently, there is minimal regard as to whether retailers will reflect the network pricing structures in the products available to customers.

What role can network tariffs play in meeting customer preferences while also efficiently and effectively contributing to lower overall costs?

As noted, there are complex tradeoffs for policy makers and regulators in defining 'fair' and 'efficient' network tariffs. The majority of network costs at any time are sunk and will be recovered from customers no matter how they respond to network tariff structures. However, avoidable augmentation costs can grow quickly with peak demand. After a 15-year hiatus, peak demand growth appears poised to return without appropriate network tariff signals. Regulators and policy makers should set network tariff structures or at least provide strong guidance as network owners face a fundamental conflict given the direct link between RAB growth and long-term profit growth. Reforms to address the capex bias in the regulatory system would also help.

We agree with the AEMC's concerns regarding the fundamental issues with the current framework that are causing network cost transfers between customer types and inefficient consumption incentives. There are significant challenges in how to structure a fair and efficient cost recovery arrangement across all customers that use the network so differently but are equally reliant on access to it.

Furthermore, the application of a volumetric tariff price signal demonstrates that there are limitations to this tariff structure. Whilst these limitations must be recognised, the price signal still performs an important role in shaping customer behaviours and driving long term network use efficiencies.

Alternative measures such as network demand charges sought to resolve this issue by transforming the network cost recovery framework to measuring a customer's maximum use of the network over a given period. However, this measure also demonstrated significant limitations in terms of a customers' ability to understand the price signal and their structure did not help enable meaningful response for efficient network use below the maximum use amount.

Whilst there are limitations in the volumetric tariff price signal, the issues are exacerbated when network prices vary significantly between time windows. These sharp price signals exacerbate the issues of inequity of those that are unable to respond and drive inefficient network use behaviour.

A simple and measured TOU tariff pricing structure is best placed to inform efficient consumption behaviours without causing excessive complexity or equity issues.

As noted in the previous question, the current network tariff setting processes must change to appropriately identify network requirements and the value CER can provide. Network price signals must incentivise the use of customers CER that benefits the system and avoids future network augmentation. These benefits must be shared with all customers. A network tariff framework that facilitates transfers between non-CER and CER customer types is not equitable or efficient.

Customers deserve simple, actionable and fair network tariffs applied consistently across distribution networks, at least within each jurisdiction. Customers have also been required to pay for an extensive, and recently accelerated, roll out of advanced metering infrastructure. Reducing network costs and improving network productivity has been a key rationale for the mandatory rollout of AMI nationally. This customer investment should be respected and leveraged to design regulated network tariffs that utilise the capability to price efficiently, as well as fairly, to ensure customers never again need to fund an expensive augmentation to meet a narrow peak demand in an otherwise underutilised network.