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Mr Mitchell Potts
Australian Energy Markets Commission (AEMC)
Level 15, 60 Castlereagh St,
Sydney NSW 2000

Dear Mr Potts

Draft terms of reference – Electricity pricing for a consumer-driven future

Endeavour Energy supports the AEMC undertaking a holistic review of the network and retail pricing arrangements needed to support the energy transition and appreciates the opportunity to provide feedback on the review's draft terms of reference (draft TOR).

Customers continue to drive the decarbonisation of the energy system through their investment in customer energy resources (CER) with expectations that electric vehicles (EV) will reach 50% of new car sales by 2030 and every second household will have rooftop solar by 2040. CER is also forecast to contribute almost half the National Electricity Market's (NEM) capacity and about a fifth of total energy consumption by 2050.

It is therefore appropriate the review focusses on the role that electricity pricing will play in promoting the efficient use of CER and how it can support the diverse needs of customers through the energy transition.

The pricing principles remain appropriate to guide efficient network investment and pricing outcomes during the transition to a high CER future

The AEMC's *Access, pricing and incentive arrangements for distributed energy resources* rule change (2021) represented a major development in tariff reform in that it expanded the scope of distribution services to include export services and removed the prohibition on Distribution Network Service Providers (DNSPs) from pricing these services.

The rule change enables DNSPs to efficiently integrate existing and future levels of CER by sending price signals to encourage consumption behaviours that better utilise the existing network and reduce the need for additional investment to deliver bill savings to customers.

The potential for tariff reform to impact forecast network expenditure is likely to increase as technological advancements facilitate more flexible load and market and policy reforms are established to make it easier for customers to be rewarded for providing services to networks from their CER. In addition to allowing customers to make better decisions about how to manage their electricity usage, cost-reflective tariffs promote fairer outcomes by ensuring customers are charged based on how and when they use the network.

As part of our 2024-29 regulatory determination and following extensive stakeholder consultation, we developed cost-reflective two-way tariffs which provide CER customers the opportunity to be rewarded for exporting at times when the network needs it, or charged if their exports contribute to minimum demand constraints. We note that other DNSPs have followed suit with 'solar sponge' tariffs to incentivise consumption during periods of excess solar generation.

The efficacy of these reforms will be impacted by the extent to which retailers pass through cost-reflective tariffs to customers. We therefore work closely with retailers during the regulatory determination processes to understand what support customers may need to facilitate the transition to cost-reflective tariffs and ensure customers can benefit from the long-term savings these tariffs can provide.

Managing the transition to cost-reflective network prices

Developing tariff structures to optimise CER use is a key priority of the market bodies as detailed in the National CER Roadmap. Cost-reflective network prices are necessary to better reflect underlying electricity supply costs and to provide customers with efficiency signals that will lower future supply costs and better integrate future CER.

DNSPs are in the process of transitioning customers to time-of-use (TOU) energy or demand-based tariffs to achieve the policy objective set out above with progress varying across the NEM[1]. Reforms to accelerate smart metering deployments by 2030 will facilitate the transition and enable the provision of more dynamic price signals. As a result of the impending smart metering final rule, we expect approximately 71% of our customers will be on cost-reflective tariffs by 2029, up from 8% in 2022.

In addition to metering, a successful transition to cost-reflective tariffs also requires extensive stakeholder engagement to achieve social awareness and customer acceptance of new pricing arrangements. As mentioned, we consulted extensively in developing our tariff structures and assignment policies for the 2024-29 regulatory determination through a collaborative and co-designed approach, aligned with the AER's Better Resets Handbook.

We remain committed to engaging with our customers and stakeholders as part of our business-as-usual activities to better understand their views and to identify opportunities to help them manage the transition to cost reflective tariffs. For instance, we are preparing a tariff awareness campaign and have conducted several workshops with a variety of customer focus groups to test and seek feedback on materials that we plan to distribute to stakeholders as part of this campaign.

We appreciate that many customers will continue to have reservations about transitioning out of their existing tariff arrangements, particularly those who feel they are unable to modify their consumption or access CER. We note that these concerns have resulted in a delay to the smart metering reforms as the AEMC consults on the merit of additional customer safeguards to manage the risk of bill shock following a change in a retail tariff change.

We recognise that Federal and State Governments play an important role in supporting vulnerable customers through rebates, concessions and/or protections to address cost-of-living pressures. More generally, however, we consider retailers are best placed to manage the risks of the transition to cost-reflective tariffs so that customers may realise its benefits. This is because:

- the regulatory framework allows retailers to use their discretion to apply their risk management tools and techniques to package wholesale, network and retail costs into their price offers to end-use consumers; and
- retailers have successfully managed the complexity and volatility of wholesale market risk since the NEM was established, and this is far greater than that associated with TOU and demand-based pricing. By way of illustration, using the AER's Default Market Offer (DMO) for residential customers in our network area, wholesale market costs are the most significant contributor to customers energy bills (42%). Wholesale market costs reflect

[1] Distributors report between 5% and 45% of their residential customers are on cost-reflective network tariffs in 2022 per the AER's 2023 Electricity Network Performance Report.

real-time, 5-minute intervals that can range from $0 (or negative) to $17,500 per MWh during a day. This is compared to network pricing structures which typically include 3 to 4 variable prices that apply over the course of any given day with prices and time known to retailers at least 12-months in advance of their application with far less volatility.[2]

Accordingly, we consider that the onus should remain on retailers to provide innovative products and service offerings at the right price to unlock the value of CER, and ensure that customers can benefit from their investment. Competitive tension will ensure that retailers that best differentiate themselves as product innovators and risk managers will best serve consumers and the market.

Expanding the scope of the review to enable more holistic consideration of network charges and facilitate greater customer transparency

We consider a more holistic view of network charges is required to fully consider the long-term impacts of tariff reform on customers. Specifically, there is forecast to be significant growth in transmission network investment and the costs associated with jurisdictional schemes to support the construction and connection of large-scale renewable generation.

The AER recently noted that this uplift in transmission network level investment was placing upward pressure on network charges.[3] The impact has become particularly pronounced in NSW following the introduction of the NSW Energy Infrastructure Roadmap (the NSW Roadmap). By way of illustration, in FY24, DNSPs were required to recover $138m from customers in addition to the $295m recovered for the Climate Change Fund[4]. This amount has risen by approximately 150% in FY25 to $341m and is expected to increase further in subsequent years.

In FY25, the portion of total network costs we will recover from our customers attributed solely to our distribution network will fall from 75.1% to 69.8% compared to FY24. This reduction is driven by substantial increases to transmission network and jurisdictional scheme costs which, combined, materially exceeds the comparatively modest increase in distribution network costs, as illustrated in Table 1 below.

Table 1: Endeavour Energy revenue drivers

Allowed revenue ($m)[5]	2023–24	2024–25	$ change	% change
Distribution revenue	908.68	998.46	89.78	9.88%
Transmission revenue	159.98	220.98	61.00	38.13%
Jurisdictional scheme revenue	141.81	210.60	68.79	48.51%
Total network revenue	**1210.46**	**1430.04**	**219.57**	**18.14%**

In other jurisdictions we have observed customer concerns with jurisdictional scheme bill shock. For instance, in FY22 the ACT's jurisdictional schemes contributed approximately 85% of the

[2] Endeavour Energy's FY25 default residential TOU tariff (N71) has a variable price low of $30 per MWh and a high of $208 per MWh.

[3] AER, 2024-25 Default Market Offer, Final Determination, 23 May 2024, p.16

[4] Since 2007, NSW DNSPs have been required to make contributions to the Climate Change Fund which delivers programs to address the impacts of climate change, encourage energy saving activities and increase public awareness and acceptance of the importance of climate change.

[5] Includes revenue impacts of incentive schemes and under/overs true-ups.

average $241 increase in network costs for residential customers and 79% of the average $1475 increase in network costs to small business customers.[6]

Customer perception of, and response to, distribution network tariff reform is intrinsically linked to the impacts of whole of network pricing outcomes. As distribution charges and network charges are bundled, it is unlikely that customers will delineate between these, and we would therefore welcome increased transparency between the components of network charges, an issue a broader review could consider.

We suggest the review should consider the adequacy of relying on a distribution level cost recovery mechanism in the context of increasing contributions from transmission networks and jurisdictional schemes. This is because:

- under the current DNSP cost recovery model, there is a considerable risk that customers may be incentivised to inefficiently connect directly to the transmission system to avoid paying for these charges, thereby shifting the cost burden to residential and small business customers connected to the distribution network; and
- this would also compound the price disadvantage faced by distribution customers who effectively subsidise the contributions of specific large customers and industries who are exempted from paying jurisdictional charges[7].

Given this context, there may be benefit if the review were to contemplate whether, in particular circumstances, new arrangements could be established to recover jurisdictional costs through TNSPs to ensure that large energy consumers that are directly connected to the transmission network pay their fair share of energy transition costs.

In summary, we consider network pricing reform risks becoming an increasingly contentious issue for CER and non-CER customers alike, amplified by increases in transmission costs driven and state-based schemes aimed at promoting investment in renewable energy and related network infrastructure flowing through to customers in their energy bills. We therefore suggest that the AEMC's review might contemplate how network pricing should evolve to best manage these impacts, whilst simultaneously promoting the energy transition and the amended National Electricity Objective.

To discuss our submission further, please contact Daniel Bubb, Manager Economic Strategy at Endeavour Energy via email at daniel.bubb@endeavourenergy.com.au.

Yours sincerely

Emma Ringland
Head of Regulation and Investments

[6] AER, Statement of reasons: Evoenergy's Annual Pricing Proposal, May 2021, p.1-2.

[7] For instance, large customers using electricity in the production of green hydrogen or involved in an activity identified as both emissions intensive and trade exposed are afforded conditional exemptions from the NSW Roadmap costs. Similarly, once implemented, jurisdictions will be able to exempt certain persons from charges relating to the Orderly Exit Management Framework, requiring their allocation of costs to be redistributed to other non-exempted customers.