

Mitchell Potts

Australian Energy Market Commission

Submission made online at [www.aemc.gov.au](http://www.aemc.gov.au)

22 August 2024

Dear Mr Potts,

**Subject: EPR0097 Draft Terms of Reference - *Electricity pricing for a consumer-driven future market review***

SA Power Networks welcomes the opportunity to provide feedback on the AEMC's Draft Terms of Reference for the *Electricity pricing for a consumer-driven future market review* (the Review).

We strongly support the initiation of the Review, with future pricing models playing a pivotal role in the efficient integration of CER into the future energy system. We support the three key focus areas identified in the Draft Terms of Reference and recommend further consideration of specific reforms.

**Market arrangements**

As we progress to a distributed and flexible energy system, there is an increasing need for a range of energy products to suit the ever-growing diversity of energy consumers, with traditional use-of-system volumetric or demand tariffs forming just part of a future suite of offerings. We envision that future energy products may range from simple, "one-size-fits-all" subscription-based models to advanced bi-directional pricing signals, varying in both time and location. We note the Review's aim to consider this future range of energy products and services and suggest that focus be placed on value-based product design, balancing the cost and complexity of implementing a given model with the benefits unlocked for customers and the wider energy system.

**The role of distribution networks**

We note the AEMC's recognition that the expanding role of distribution networks must be considered in parallel with future pricing models for a distributed energy system. As the Review explores how distribution networks can best enable and incentivise the right product, service and demand mix for customers, we recommend that:

- the expanding direct interface between the distribution network and the customer be considered, including from a technology, energy advisory and service choice perspective, and;
- that consideration of the role of the distribution network and the future role of distribution system operators (DSO) should also extend to considering the role of a DSO in enabling efficient demand and supply outcomes from a whole-of-system perspective, rather than solely within the context of distribution network expenditure counterfactuals.

Specifically, we recommend that the Review consider the need for reform in the regulatory framework with regard to the incentives and cost recovery mechanisms associated with the future pricing and network operation models of a DSO. The advent of price-responsive CER, widespread implementation of DOEs and potential local flexibility markets could lead to the avoidance of significant amounts of network augmentation expenditure. New incentives will be required for DSOs to utilise these flexibility services as an alternative to network capacity augmentation, and new cost-recovery models will be required to ensure efficient and equitable recovery of the costs to procure these services. We

recommend that the Review consider where precedent for this reform may exist in other markets, particularly the flexibility incentive framework deployed in the United Kingdom by Ofgem.

### **The role of energy retailers and energy service providers**

Energy retailers have historically been the primary interface to energy customers, but as our energy system becomes increasingly distributed, we expect that customer agents such as CER aggregators, energy management technology vendors and energy advisory service providers will play a growing role, particularly in managing the customer's interface to and interaction with the wider energy system. Noting that these parties have not historically been included within the regulatory framework, we recommend that consideration be given in the Review to formalising the roles that they will play within the future energy system.

SA Power Networks is currently exploring future co-designed holistic energy service offerings for a CER-focused energy system via our *Energy Masters* pilot project<sup>1</sup>. By partnering with key stakeholders across the energy retail and energy service provider industries, we seek to explore a series of simple, customer-facing energy offers presented by an energy retailer or energy service provider which combine signals to efficiently utilise the network with market-based rewards and behind-the-meter optimisation services. We would be happy to engage with the AEMC as learnings are produced from this pilot suitable for inclusion in the Review.

### **Parallel reforms**

We note the AEMC has identified parallel reforms relevant to this review, including rule changes, regulatory guidelines and CER trials. We encourage the AEMC to expand their consideration of related reforms to include:

- The *Improving consideration of demand-side factors in the ISP* rule change<sup>2</sup>, in efforts to best account for the impacts of future pricing models on long-term system planning;
- *The time is now: Getting smarter with the grid* report published by Energy Networks Australia and LEK Consulting<sup>3</sup>, outlining key reforms including greater flexibility in the application of network pricing.

We look forward to continuing to engage constructively with the AEMC and other stakeholders throughout the Review, collaborating to realise the lowest cost whole-of-system approach to delivering the energy transition. Should you have questions on any aspect of our submission, please contact Liam Mallamo, Future Networks Engineer, at [liam.mallamo@sapowernetworks.com.au](mailto:liam.mallamo@sapowernetworks.com.au).



Jessica Morris

Chief Customer & Strategy Officer

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<sup>1</sup> ['Energy Masters' project: South Australians to benefit from smart and flexible homes \(sapowernetworks.com.au\)](https://www.sapowernetworks.com.au)

<sup>2</sup> [Improving consideration of demand-side factors in the ISP | AEMC](#)

<sup>3</sup> Energy Networks Australia and LEK Consulting (2024) *The time is now: Getting smarter with the grid*. Available at: <https://www.energynetworks.com.au/assets/uploads/The-Time-is-Now-Report-ENA-LEK-August-2024.pdf>.