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Mr Drew Butterworth
Australian Energy Markets Commission (AEMC)
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Mr Butterworth

Directions paper – Accelerating smart meter deployment

Endeavour Energy welcomes the opportunity to provide this response to the AEMC's proposal to introduce additional pricing safeguards for customers transitioning to a smart meter. These stem from concerns that support for the accelerated smart meter rollout could be undermined by the risk of consumers experiencing bill shock following a retail tariff change. Specifically, the proposed new safeguards would require retailers to:

- obtain explicit informed consent for any retail tariff changes within three years following the deployment of a smart meter; and
- offer customers with a smart meter a flat tariff standing offer.

We support proportionate and balanced pricing protections which provide for a transition to tariffs that encourage the efficient use of networks while including appropriate measures to manage adverse impacts to customers. In our view, customers should be able to choose from a variety of retail pricing options that best meet their needs and circumstances, and be provided with sufficient time and information so that they can make an informed decision about whether to take up a cost-reflective retail tariff.

Improved engagement and information from retailers can promote greater customer acceptance of cost-reflective tariffs

Cost-reflective pricing is critical to delivering a lower cost energy system. This is because consumption behaviours that better utilise the existing network and accommodate customer energy resources (CER) forecasts will ultimately defer or reduce the need for additional investment and deliver bill savings to customers.[1] Distribution Network Service Providers (DNSPs) are in the process of transitioning customers to time-of-use (TOU) and demand-based tariffs designed to encourage this change.

In addition, cost-reflective tariffs also promote fairer outcomes by ensuring customers are charged based on how and when they use the network. We consider that the benefits of tariff reform will increase as technological advancements facilitate more flexible connections, and as market and policy reforms are established to make it easier for customers to be rewarded for providing services from their CER.

Guided by the AER's Better Resets Handbook, Endeavour Energy's 2024-29 regulatory proposal involved an extensive stakeholder engagement program to help customers better understand how our proposed cost reflective tariffs and assignment policies would work and how they could impact different households and customer types.

[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.

Feedback from this engagement indicated that although many participants felt it would be difficult to change their energy use, broadly speaking, they preferred tariffs that gave them the ability to reduce costs by managing their energy behaviour. Significantly, survey responses revealed a majority of participants would choose a cost-reflective tariff, with only 13% preferring to remain on a flat tariff.

We recognise that the efficacy of tariff reform will be impacted by the extent to which retailers pass through cost-reflective tariffs to customers. Accordingly, we worked closely with retailers during our recent regulatory determination process to understand what support customers would need to facilitate the transition to cost-reflective tariffs, recognising that many customers might be concerned about experiencing bill shock following a change in a retail tariff change, particularly those who felt unable to modify their electricity usage.

We consider there remains scope for retailers to strengthen their customer engagement and educational materials to improve customer awareness and acceptance of cost-reflective retail pricing arrangements. We agree that the proposed requirement for retailers to obtain explicit informed consent will likely incentivise them to more actively promote the benefits of transitioning to a new retail tariff structure which, if coupled with competitive and innovative retail offerings, can help to alleviate customer concerns.

Flexible pricing arrangements allow retailers to manage any mismatch between cost-reflective network tariffs and flat retail offers

The Rules require DNSPs to consider and set cost-reflective network tariffs based on the long run marginal cost of providing regulated services to customers assigned to that tariff. Smart meters facilitate dynamic pricing signals and, relative to accumulation meters, enable more accurate and fairer cost-reflective network tariffs to be assigned.

We understand that some retailers have raised concerns about cost-related risks that might be introduced by the proposed safeguards arising from the mismatch between cost-reflective network charges and flat tariffs charged to customers. Discussions during the AEMC's webinar on this issue indicated that some retailers consider variable network cost structures cannot be adequately managed, with others arguing that retailers must be able to align their prices to match their cost stack.

We agree with the AEMC that retailers will not be universally worse-off facing a cost-reflective network tariff that they cannot directly pass on to customers and consider they are well placed to manage the risks of the transition to cost-reflective tariffs. This is because the regulatory framework allows retailers to use their discretion to apply their risk management tools and techniques to package network tariffs with their wholesale and retail costs into their price offers to end-use consumers.

This flexibility also extends to retailers being permitted to charge higher retail prices up to the AER's Default Market Offer (DMO) to reflect the increased risk faced. However, it is important the challenges of managing these cost risks are not overstated, particularly as the consent obligations are time limited and are only relevant to the portion of customers who prefer a flat tariff.

We note that retailers have successfully managed the complexity and volatility of wholesale market risk since the National Electricity Market was established, and this is far greater than any cost risk associated with TOU and demand-based pricing. By way of illustration, using the 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 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]

Furthermore, the variable portion of the network price (i.e. the network charge after removing the impact of the network fixed charge) is a significantly lower driver of a consumer's bill than the wholesale market price. Variable network charges account for 25% of the DMO for residential consumers in our network area, relative to 42% for wholesale market costs.

[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.

Accordingly, we consider that the onus should remain on retailers to provide innovative products and service offerings at the right price to ensure that customers can benefit from a transitioning energy system. Competitive tension will ensure that retailers which best differentiate themselves as product innovators and risk managers will best serve consumers and the market.

Basic power quality data arrangements should commence sooner to enable networks to better manage CER integration

Coinciding with the release of the directions paper, the AEMC also provided DNSPs with indicative commencement dates for the key provisions consulted on throughout this rule change. This update advised that basic power quality data (PQD) access arrangements would commence on 1 July 2026, representing a 12-month delay from the draft rule and contrasting with the LMRP provisions which were only delayed by five months. It also marks the third change to the commencement date since the rule change request was submitted which proposed allowing DNSPs to access basic PQD from 1 July 2025, with limited explanation on the rationale for changes on each occasion.

As stated in our response to the draft rule, access to PQD is increasingly critical for efficient distribution network planning and operation in the context of a high CER future.[3] Projections of continued strong growth in CER uptake accentuates the value of PQD for network management. We therefore urge the AEMC to consider bringing forward the commencement date for basic PDQ access.

To the extent the delay aligns with the timing of the Australian Energy Markey Operator's (AEMO's) data exchange framework, we reiterate our view that the commencement of basic PQD access provisions should not be contingent on the implementation of AEMO's centralised platform. That is, existing data exchange mechanisms demonstrate the technical capabilities are in place among major metering service providers[4] to support data exchange which can be leveraged to deliver the basic PQD service much sooner than the revised commencement date.

To alleviate any cost or capability concerns among smaller metering service providers whose provision of basic PQD would be comparatively inconsequential for DNSPs, we suggest they could be afforded greater flexibility to comply with obligations. For instance, they could be allowed to provide basic PQD on a "best endeavours" basis (perhaps outside AEMO's updated service standards) without risk of pecuniary penalty, or benefit from a transition period which exempts them from obligations for a defined period of time.

It would also be impracticable for all participants to uniformly "cutover" to AEMO's platform from a single date and a gradual transition from existing peer-to-peer exchange may be more palatable for participants. We note that these alternative exchange mechanisms will need to be retained for advanced PQD services and continue to operate in conjunction with any centralised exchange platform.

Accordingly, in view of the criticality of improving DNSP visibility of increasingly complex and dynamic power flows within their low voltage networks, we consider basic PQD arrangements can and should commence sooner than the proposed deferral to mid-2026.

To discuss our submission further, please contact Patrick Duffy, Manager Regulatory Transformation and Policy via email at patrick.duffy@endeavourenergy.com.au.

Yours sincerely

Emma Ringland
Head of Regulation and Investments

[3] Endeavour Energy, Submission to the AEMC's Accelerating smart meter deployment draft rule determination, 30 May 2024, p.8

[4] PlusES, Intellihub and Bluecurrent collectively account for over 95% of smart meters in our network area.