Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

12 September 2024

To Ms Collyer,

Accelerating smart meter deployment – Directions paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) directions paper for the acceleration of smart meter deployment.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, diesel peakers, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia. ENGIE provides its retail customers with access to innovative products that have a focus on consumer energy resources (CER), such as residential virtual power plants (VPPs) and electric vehicle (EV) charging.

ENGIE is supportive of reforms to accelerate smart meter deployment that can bring forward benefits of smart metering. However, we are concerned that the Commission's proposed new customer safeguards would substantially increase the network cost risk incurred by energy retailers, which would likely be passed through to customers through higher energy bills. In this submission, ENGIE has set out an alternative approach to implementing new customer safeguards, which would enable customer choice and avoid inefficient costs flowing through to customer bills.

ENGIE considers that efforts to maintain the social licence for the accelerated smart meter rollout should extend beyond tariffs and involve widespread government-led information campaigns about the acceleration program and the benefits of smart meters. The proposed removal of consumers' right to opt-out of a smart meter installation is the key risk for the social licence of the acceleration program and has not yet been adequately addressed by the Commission or the Australian Government. We expanded on these issues in our submission to the draft determination in May 2024.

Network tariff structures need to be in scope of this review

ENGIE does not agree with the Commission's reasoning for excluding network tariff arrangements from this rule change consultation. If there is a government policy position that all customers should be able to opt-out of cost-reflective tariff structures, this should be actioned comprehensively across the industry through restrictions on both retailer and distributor tariff reassignment arrangements. By focusing solely on retail tariff arrangements, the Commission's proposed rule change will increase the risks faced by retailers, which will likely result in an additional risk premium flowing through to flat-tariff retail offers. In our view, this is an inefficient outcome that could be avoided by taking an industry-wide approach to tariff reassignment arrangements.

Unlike other volatile costs that retailers manage on behalf of customers, such as wholesale costs, retailers do not have any tools to hedge against the variability of network tariffs on behalf of their customers. As a result, a prudent retailer may uplift the overall price of their flat-tariff energy offers to manage the risk of tariff mismatches and may also avoid supplying customers that have potentially risky consumption profiles to the extent possible. The potential for higher retail prices arising from mismatches between network and retail tariff structures has been acknowledged by the Commission in the directions paper and by the Australian Competition and Consumer Commission (ACCC) in their most recent Inquiry into the National Electricity Market Report.[1] This risk is exacerbated by historically low retail margins in the retail energy sector[2], which provide retailers with very limited scope to absorb additional risk and operate a sustainable business.

While some customers may incur lower network costs by moving to cost-reflective network tariffs, this is unlikely to be true across most of the customer base. Under the Commission's initial proposal, customers would have more transparency about whether they would receive higher or lower bills under different network tariff structures and would be able to self-select the network tariff structure that minimised their electricity bills. As a result, customers that are likely to be worse-off on a cost-reflective network tariff structure are those that are most likely to choose to remain on a flat-tariff retail structure for as long as possible. The design of the Commission's initial proposal may also result in an increase in the overall level of network prices, as the increased ability for customers to self-select their network tariff structure may result in distribution network service providers (DNSPs) recovering lower revenue than forecast from their current suite of network tariffs.

ENGIE urges the Commission to not introduce customer safeguards that are designed in a way that may result in higher retail prices. In this submission we have proposed some alternative solutions that would avoid this inefficient outcome. While we agree with the Commission that this current review is not the

[1] Australian Competition and Consumer Commission 2024, Inquiry into the National Electricity Market – June 2024 Report, 3 June, p. 61

[2] Australian Competition and Consumer Commission 2023, Inquiry into the National Electricity Market – December 2023 Report, 1 December, p. 34

appropriate vehicle to consider broader reforms to network pricing arrangements, we consider that transitional arrangements could reasonably be implemented while the broader review is conducted.

We recommend a moratorium on network tariff reassignments until a broader review is completed

ENGIE considers there is a role for cost-reflective network tariffs and consumers being incentivised to more efficiently utilise the capacity of distribution networks. For that reason, ENGIE welcomes the Commission's self-initiated review into 'electricity pricing for a consumer-driven future', which will consider how current arrangements for network and retail pricing should evolve or be redesigned. It is critical that any network tariff signals and structures can be reasonably understood by customers and that complex tariff structures are targeted to customer cohorts that have access to smart technologies that can be used to optimise consumption to more efficiently utilise the network.

We recognise that the Commission's review into 'electricity pricing for a consumer-driven future' will not conclude until early-2026 and will require a subsequent implementation period. In the meantime, ENGIE recommends the Commission implement a moratorium on default network tariff structure reassignments for customers following the installation of a smart meter. As the moratorium would be linked to the review into 'electricity pricing for a consumer-driven future', it should be lifted at the time the reforms from that broader review are implemented.

A moratorium on network tariff reassignments would avoid retailers being exposed to the risks of network pricing volatility. This outcome would be in the best interests of customers, particularly in the context of current cost-of-living concerns, as flat-tariff retail prices would not increase as a direct result of the design of the reform.

ENGIE does not envisage that DNSPs would be negatively impacted by a short-term moratorium on network tariff reassignments. The AER approves a maximum allowable revenue for DNSPs in each regulatory period, which provides certainty to DNSPs of the revenues they can achieve. Relevantly, if the Commission's position that cost-reflective network tariffs result in lower network costs for some customers is accurate, the DNSPs would actually have a lower risk of not achieving their revenue requirements during a short-term pause on reassignments to cost-reflective network tariffs.

An argument against pausing network tariff reassignments may be that it could result in less efficient network utilisation. In response to this, ENGIE notes that this risk would also eventuate under the Commission's initial proposal that shields consumers from network price signals unless they opt-in to cost-reflective retail tariff structures. More broadly, network utilisation is unlikely to be a significant concern in the coming years, as the Australian Energy Regulator's (AER) reporting suggests that current utilisation rates mean that DNSPs may be well placed to accommodate increases in demand over the coming years without the need for major investment.[3]

As a second-best alternative, network tariff reassignments could be paused for 12 months after a smart meter installation

If the Commission is not willing to introduce a short-term moratorium linked to the outcomes of the 'electricity pricing for a consumer-driven future' review, ENGIE recommends a 12-month pause on network tariff reassignments after the installation of a smart meter.

While the Commission proposed a three-year explicit informed consent period for retail tariff reassignments in the directions paper, we consider that a 12-month period is sufficiently long for retailers to accumulate consumption data to provide customers with a meaningful comparison between their energy bills under a flat-tariff and cost reflective retail offer.

To be clear, under this alternative recommendation, ENGIE would not support the introduction of a new rule requiring designated retailers to offer flat-tariff standing offers as an option to all customers with smart meters. This is for the same reasons expressed earlier about the risks that retailers face from a mismatch between retail and network tariff structures. If that proposed rule were to be implemented, it is critical that the AER includes an uplift in the Default Market Offer for flat-tariff standing offers to reflect the risk premium that retailers would be exposed to. This will be particularly important for smaller retailers that already face significantly higher retail operating costs than the tier one retailers[4] and would face the most risk from mismatches between retail and network tariff structures.

Concluding remarks

ENGIE urges the Commission to reconsider the consumer safeguards set out in the directions paper and to adopt an alternative approach that enables customer choice and avoids inefficient costs flowing through to customers via higher retail prices. ENGIE has put forward an alternative recommendation, which would enable the Commission to introduce transitional safeguards while it completes a broader review into long-term arrangements for network and retail pricing.

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[3] Australian Energy Regulator 2023, State of the energy market 2023, 5 October, p. 133

[4] For example, see Figures C8.6 and C8.8 in the ACCC's December 2023 report. Available at;
Australian Competition and Consumer Commission 2023, Inquiry into the National Electricity Market – December 2023 Report, 1 December, https://www.accc.gov.au/about-us/publications/serial-publications/inquiry-into-the-national-electricity-market-2018-25-reports/inquiry-into-the-national-electricity-market-report-december-2023

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0436 929 403.

Yours sincerely,

Matthew Giampiccolo

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