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Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

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RE: Accelerating Smart Meter Deployment Directions paper

Origin Energy (Origin) appreciates the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC) Accelerating smart meter deployment Directions paper.

Origin supports the accelerated smart meter rollout and recognises the critical role that smart meters will play in enabling the future energy system. We also agree that choice is paramount and that customers should not be forced to accept complex new network tariffs that they may not fully understand. This is noting the network pricing objectives set out in the National Electricity Rules require that network tariffs must be reasonably capable of being understood by retail customers if that tariff is passed on either directly or indirectly in the retail tariff.[1]

While agreeing the current arrangements do not allow for the meeting of these objectives and that more needs to be done, we have significant concerns with the proposed approach set out in the Directions Paper given that it will constrain retailers' ability to manage their exposure to network charges. This in turn increases risks, and potentially prices, while also undermining the original objectives of tariff reform to the extent most customers are likely to choose to remain on flat tariffs.

In our view a more appropriate interim solution is a moratorium on network companies assigning customers to cost reflective network tariffs. This will allow for more in-depth consideration of the current challenges as part of the AEMC's upcoming '*Electricity pricing for a consumer-driven future'* review. We see no downside to this approach. Customers would not be forced on to complex tariffs which is the primary objective, nor will retailers face increased risks which could translate to higher prices in circumstances where they are otherwise unable to manage such risks. From a tariff reform perspective, the outcome is not dissimilar to the AEMC's proposal where the most likely outcome is most customers remaining on a flat tariff given the challenges in obtaining explicit informed consent (EIC).

A pause in tariff reassignments would allow for a much-needed rethink on the objectives of tariff reform and consideration of the changes in the market relative to when the concept was first envisioned over a decade ago, while also allowing time to ensure any similar initiative is truly customer centric.

We discuss these issues in more detail below.

Proposed safeguards: Explicit Informed Consent and the requirement to offer a flat tariff

Under the AEMC's proposal a retailer would need to obtain a customer's EIC before changing their tariff structure. Given the lack of understanding of cost reflective tariffs, it is highly likely that uptake rates will be low.

Our experience of running neutral campaigns such as asking the customer if they would like to receive their bills and correspondence through email is an EIC response rate of about 5 per cent. We would expect response rates for something as complex as cost reflective tariffs will be much lower.

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[1] NER, r. 6.18.5.

As a result, the consequence of requiring EIC is that most customers will remain on their current retail tariff regardless of their underlying network tariff.

In addition, the AEMC is proposing that designated retailers must make a standing offer available with a flat retail tariff regardless of the underlying network tariff.

To manage cost risk, retailers treat network costs as a passthrough. These proposed safeguards will result in an outcome where it is probable that a retailer's network costs will be different to the network costs recovered from their customers. While some retailers may be able to manage this risk better than others, (the ability of which may vary over time) where this is not possible, the AEMC suggests retailers may choose to manage these risks by increasing retail price levels. This is not a good outcome.

It is suboptimal to address a network pricing issue by transferring the problem onto retailers. We are also strongly opposed to a regulatory imposition that does not allow retailers with a reasonable opportunity to manage their cost risk or results in an increase in customer prices, when both are avoidable.

A rethinking of tariff reform is needed

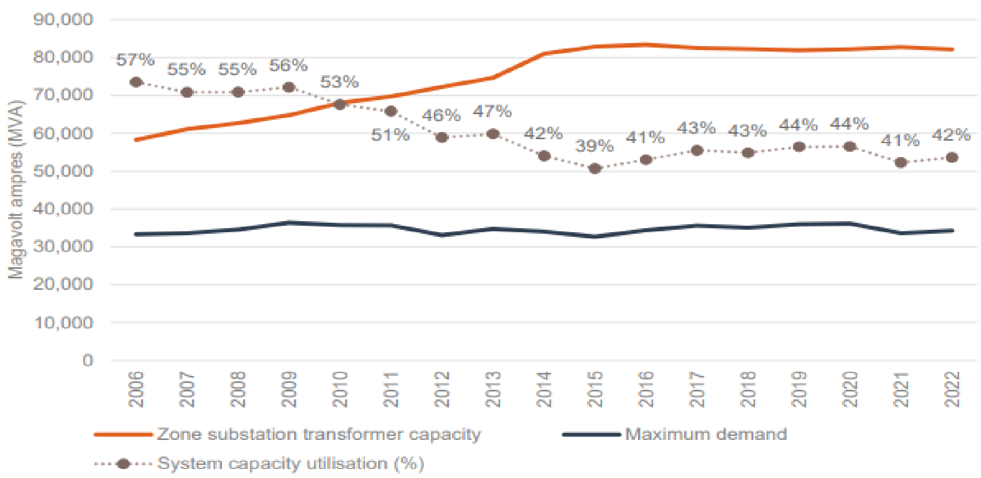
Initially, network tariff reform focused on signalling costs during peak demand periods (which historically drove network investment) and unwinding cross-subsidies. The Rules reflect this in the requirement for networks to derive network prices based on long run marginal cost (LRMC) i.e. forward-looking investment in additional network capacity to meet growing peak demand.

However, there is evidence to suggest that capacity to meet peak demand is no longer a critical issue.

At its most fundamental, network utilisation measures how well a network's assets have been used to meet maximum demand. Figure 1 below demonstrates that since the early 2000s, network capacity and network utilisation have improved significantly. Additionally, Figure 2 demonstrate that maximum demand per customer has trended lower over the same period.

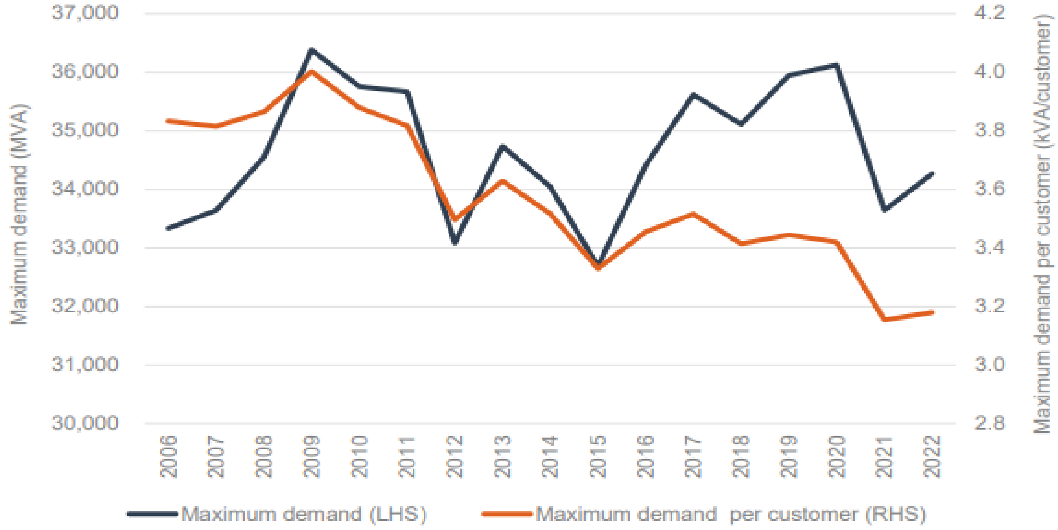
Furthermore, because of greater penetration of consumer energy resources (CER), the need to curb peak demand has diminished and instead networks are now faced with the problem of trying to increase the capacity of their networks to host more solar.[2]

Figure 1: Total distribution network utilisation[3]



[2] For example, see SAPN 2025-30 Regulatory Proposal – Attachment 18 Tariff Structure Statement, p. 9.
[3] AER, 2023 Electricity network performance report, p. 26.

Figure 2: Maximum demand and maximum demand per customer[4]



Given the dynamic shift in how customers consume and the growing penetration of CER there is clear evidence to suggest that LRMC based network charges may not accurately reflect the current nature of network costs. For these reasons we consider there is a strong case for a rethinking of the underlying rationale for the approach to tariff reform.

Pausing network tariff reassignments is the logical response

Given the customer confusion around network tariff structures and the need for a rethinking of the approach to tariff reform, in our view the most appropriate interim solution would be a moratorium on networks assigning customers to a cost reflective network tariff until the AEMC has completed a more thorough consideration of this issue and potential solutions as part of its 'Electricity pricing for a consumer-driven future' review.

There would be no detriment to either the customer or networks from a moratorium. Furthermore, it would eliminate the cost misalignment risk being imposed on retailers and therefore the risk of increased costs to customers.

We also believe this approach would not limit networks from offering complex network tariffs. However, these should be available on an opt-in basis to enable the retailer to match the network and retail structures.

If you wish to discuss any aspect of this submission further, please contact Sean Greenup (sean.greenup@originenergy.com.au).

Yours Sincerely,

Steve Reid
General Manager, Regulatory Policy

[4] AER, 2023 Electricity network performance report, p. 27.