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Dear Commissioners

Review into Electricity Pricing for a Consumer-Driven Future

EnergyAustralia greatly appreciates the opportunity to participate in the AEMC's review into Electricity Price for a Consumer Driven Future (*the Review*). This is a crucial piece of work to ensure the regulatory framework and the customer-energy relationship it governs is considered holistically to ensure that technology-driven evolving products and services are enabled, innovation is fostered, and that customers are provided the offerings they desire. We appreciate this work is considering an uncertain future, which limits the capacity of substantiation and assurance that the AEMC normally requires; however, we believe that there is a clear indication from historical preferences to consider both what a consumer-driven pricing future might look like and what existing regulation may be inhibiting it.

Customers want energy to be simple with predictable prices

Our submission will focus on these core principles, as we strongly believe that simple energy offerings and predictable prices are the customer preference the *review* should aim to achieve. A simple energy product is understandable in what the product the customer is purchasing is and what – if anything – is required from the customer, and price predictability is the confidence customers have in what they are expected to pay.

The preferences of simple products and predictable prices are not mutually exclusive. It is therefore important for the AEMC to not consider these preferences in solidarity, and instead aim to consider the interplay between simplicity and predictability that is most desirable to customers:

- *Simple offerings are those that provide stability and assurance*

  Customers want the prices they are paying to be reasonable in the context of providing the product or service; this assurance has been provided recently via regulators and governments, but this involvement is not essential if customers faith can be restored through predictable prices.

- *Price predictability can be preferable to variable prices (volatility of low to high prices)*

The desire for cheaper prices isn't an aversion to prices increasing. Customers understand they are purchasing a product and accept prices increase, they do not believe energy is immune from this economic reality. They want to be able to consider offers provided by a competitive market, and that this competition will foster cheaper prices overall. They will forego a desire to be on the cheapest price if the price they are paying is reasonable and what they expect.

- *Acceptance of complexity in energy products occurs at the correct value proposition*

  Complex products are undesirable when the value provided to customers is not satisfactory, this is exacerbated when the expected cost differs from the expectation. Simplicity therefore can be either a product that is easy to understand or one that provides assurance on the price outcome.

Notably, this does not outline a key preference for the cheapest price. We understand that price is a key consideration for customers when choosing their energy provider; however, we do not believe there is no customer expectation that they always receive the cheapest price available in the market. If this was the case, we would have a more active retail market, with customer churn occurring regularly. We observe that energy and the price paid for it is considered infrequently, generally when the price that customer's predicted is nominally different from their expectation.

Overall, we believe the general customer's preference is for predictability in the price they pay and a simple product; with any increase in complexity requiring a comparable return in value for the customer (suitably compensating them for any increased understanding and investment required).

EnergyAustralia's submission will predominantly refer to 'general customers[1]', based on our extensive experience in providing energy and energy products to our customers. EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory.

We acknowledge that there are cohorts of customers that will have views contrary to the 'general customer' response that we present in this submission. We believe it is important to consider the desires of the majority when considering the need for change, and that as part of considering the eligibility of potential change, assurance that no customer is left-behind and that suitability against all *Customer Archetypes* will be mandatory.

Why is there a need to change

Energy is an essential service, electricity and gas are needed to maintain a customer's quality of life. The purchase and continued consideration of these products however isn't a high priority, only becoming one when the price and product expectation do not meet the customer's understanding and acceptance threshold.

The belief that the energy industry is not working in the interest of customers permeates the public discourse, it sells newspapers, it shifts elections.

[1] *General customer* – our understanding of the consensus view, not segregated against Customer Archetype or segmented on vulnerability, solar customer, etc.

Unfortunately, there are several obstacles that are impeding the ability to appropriately meet the expectation of energy consumers:

- There is no governance or planning at a holistic oversight level across the energy industry to ensure the energy transition is achieved in a way that ensures the lowest prices for customers. Some elements have regulatory oversight (e.g. annual retail pricing for the subsequent year, network price paths for a 5-year period), but there is no responsibility for ensuring the entire market (collectively) operates in a manner that achieves the best outcome for customers.

- Volatile pricing impedes customer trust in the system, the lack of price predictability can come in many forms, such as, the reduction in the value of Feed-in Tariffs, and the complexity or uncertainty of demand tariffs (e.g. customers total usage may go down but depending on how their consumption has triggered the demand component their bill may increase).

- Existing price regulation (Victorian Default Offer and Default Market Offer) and related regulations embeds volatile pricing for customers because it only considers the price on a short term (1-year) basis. Additionally, this inhibits innovation of products that provide their benefit over a longer period. For example, a product that offers price predictability over a long term (multi-year) may look unappealing when regulation requires a comparison against products that are developed to be competitive against the short term regulated price.

What is needed to provide for customer preferences

We believe that change is needed to reinstate the economic drivers that can ensure retailer cost recovery and reasonable returns, thereby fostering long-term investment decisions (building generation), competition that will drive a lower costs energy system, and most importantly customer bills. It is unlikely this will require a completely new regulatory framework, it should be achievable by removing, amending, or adding to what already exists. Importantly, we (Rule Markers, Regulators, and energy industry participants) have primarily developed the market and frameworks to address identified and believed need at the time. Any change that occurs from this will be based on these learnings and must achieve the same benefits/outcomes; the focus of change should therefore be on the regulation and policy that hasn't achieved what it intended or could be improved.

Note: the options discussed below are not necessarily the preferred policy position of EnergyAustralia, they are purely for consideration as options to enable retailers to provide products that meet customer preferences.

Subscription offers can provide the simple products and predictable prices customer's desire

Customers want confidence in what they will pay, this is evidenced in many other industries, including subscription and fixed price plans, such as telecommunication and internet services. Historically this has been a difficult offering to provide to customers, as managing the volatility of wholesale and network prices created subscription products that were not price competitive against the existing price per kWh offerings.

In our opinion, a shift to a fixed price for a customer's energy is preferred, and subscription plans would be the more desirable offering. The energy industry has evolved significantly since subscription plans were last trialled (a few retailers offered this type of product in 2018[2]). Wholesale energy hedging practises of retailers are more advanced, and there are a range of recent and forthcoming initiatives that can provide a wealth of data to retailers on a customer's expected costs, such as, the Consumer Data Right, CER Data Exchange, and the Smart Metering Acceleration. We believe that increased certainty in the prices incurred and the returns available to retailers, will provide the assurance retailers require to produce competitive and more desirable subscription products.

Assurance of retailer prices and network tariffs consistency remain a variable that impedes a subscription plan, some potential considerations for addressing this are discussed later.

Subscription energy plans could be established as a standard/safeguard subscription offering by retailers. Conceivably, this could replace existing safeguard mechanisms; the Default Market Offer and the Victorian Default Offer. Additionally, each retailer could also be required to offer a 'safeguard subscription' offering specific to a geographic or distribution area, this offering being specific to each retailer would then allow customers to compare against other retailer offerings in the area.

Subscription plans in energy will differ from other industries as there are many more variables to consider in energy (aside from the varying costs of supplying energy). It would be necessary to cater for each customer's shifting consumption habits, and incentivise appropriate/desirable behaviour of customer's consumption/load. Based on preliminary thinking, we believe there are two main subscription offerings:

1. Basic/safeguard. Customer knows exactly what they will pay, and this will only change if their usage significantly changes or at the AER repricing event. Neighbours with different annual consumption would be paying the same amount (if they are with the same retailer and still classed within the same annual consumption threshold).

2. Load control and Load control +. A reduced price offering from the Basic/safeguard price if the customer provides some control of load/consumption. This could be limiting when an Electric Vehicle is able to charge or allowing a Hot Water Service to be turned on when the retailer determines. The price reduction would align with the amount of control and load/consumption shifting provided.

Each option would have a range of consumption threshold brackets, with some ability to shift between the plans if consumption was outside an acceptable adherence within a specific timeframe; this could be over/under the consumption threshold across two months.

Each option would have monthly/quarterly price assigned based on the customer's expected annual consumption, with the price set based on the retailers AER approved pricing. They would therefore be comparable against each other and other retailer offerings.

[2] On innovation, subscription tariffs and predictable plans, were examples of innovative structures previously offered - see AEMC, Customer and competition impacts of a default offer, 20 December 2018, p 40. These examples in the AEMC paper appear to have since been discontinued, highlighting the challenges that innovative pricing models may face in a highly regulated market.

Predictable prices can be achieved by designing network tariffs for the retailer instead of the customer

Distribution network tariffs are presently a contentious issue, the shift to cost-reflective pricing structures hasn't resulted in increased customer satisfaction and the benefits to network utilisation haven't been clearly demonstrated. However, we believe that distribution networks tariffs should still be designed to promote the efficient operation of their network, that customers satisfaction can be improved if the network tariffs were designed for the retailer, and that consistent tariff methodology is necessary and would benefit all parties.

Customer dissatisfaction is understandable, as distribution network tariffs have been in a state of near-constant development, and yet there has been little tangible benefit that customers can identify from their adoption of the increased complexity in tariff design. Customers predominantly choose retail offerings that don't reflect the underlying network tariff, preferring simpler retail tariff offerings. We are therefore in a situation where network tariffs are designed as a price signal to the customer, when that customer may not be able to respond, or to even see the price signal. Network tariffs should be designed for the party more likely to respond, and that is better equipped to understand the complexity and handle the volatility; the energy retailer.

EnergyAustralia, Essential Energy, and South Australia Power Networks commenced a project (facilitated by the Energy Charter) to explore this concept. We were collectively of the belief that improvements in network and retail tariff design could be achieved if we considered how the network tariff and retail offering could be designed to achieve customer preferences for predictable prices and simple energy products. This initiative has not finalised as we are still exploring conceptual designs and gathering supporting data; however, there are some early views forming. The initiative hasn't yet determined the structure of an optimal tariff, but has settled on the following outcomes as key objectives in the design:

- Network tariff designed for the retailer, not the customer

  If the network tariff was designed for the retailer, the design could be based on the retailer's entire customer load, it could be set based on capacity instead of consumption, or it could separate the network cost considerations from the components that reward changes in load/consumption.

  Ultimately, network tariffs designed for the retailers can be more complex than if they were designed for a customer. We can therefore protect customers from this complexity and volatility as we do with the wholesale energy market.

  Note: we do not imagine the network tariff would be only designed for the retailer, this could be something the customer receives if they desire, or this could be something an aggregator or customer agent is assigned. It might be more accurately described as designing tariffs for the party responsible at the connection point.

- Consistency in methodology

  Network tariffs don't need a different methodology - if there was such a notable difference between networks to justify different tariffs, this would also be identified within each distribution network. The

diversity of a distribution network that has urban and rural connections is more or equal to the differences between that distribution network and another.

The difference in each network is primarily in their costs and recovery of their Regulatory Asset Base. Network tariffs would still need to allow networks to recover their specific costs, but by designing a uniform network tariff with consistent methodology, we can remove the cycle of networks designing and implementing new tariffs; the only change necessary would be the value of return and cost amounts allowed.

The future won't need to achieve outcomes contrary to what is intended today. Distribution network tariffs should still provide value for the response the network seeks, and networks should still receive reasonable returns for their costs and be rewarded for the efficient operation and reduced capital spend of their networks. Network tariffs will remain governed by the principles of efficient operation that are established within energy regulation; network utilisation, operation within appropriate parameters, reduced capital expenditure, etc. The outcomes will still be achieved largely by sending a signal for the desired response by connection points on their network.

However, we believe that by designing tariffs with the retailer (*party responsible for the connection point)* in mind, and by ensuring a consistent methodology, retailers will be able to improve their ability to forecast costs, which will be necessary to enable them to provide subscription offerings.

We believe the changes above are potential options to achieve the outcomes desired by customers. To assess the feasibility of these options we suggest the AEMC consider the following:

- Why is price predictability favoured in other markets (telco, insurance, etc)? How did they achieve the transition, e.g. did the entire industry shift together or did customer choice drive the decision?

- Has price predictability in energy been achieved in international markets? How has this been achieved and has this delivered better customer outcomes and satisfaction?

- Consider how a weather-dependent energy system can provide predictability? How can we protect customers from the volatility caused by significant variations in the cost of generation (e.g. from wind droughts), while ensuring those that provide the energy (generation and retail) are not adversely affected?

The submission above outlines a potential future state for energy products. In the attached Appendix, we discuss our view on existing regulatory barriers that are inhibiting the outcomes customer's desire.

If you would like to discuss this submission, please contact me on 03 9060 1361 or Travis.Worsteling@energyaustralia.com.au.

Regards

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Regulatory Affairs Leads

Appendix

Feedback on Consumer Archetypes

EnergyAustralia's consumer research is broadly aligned with the Consumer Archetypes discussed in the AEMC's paper. However, we note that these Consumer Archetypes reflect the customers of today, and it is difficult to predict how customers might change over the mid to long term.

Current barriers to CER propositions

While we appreciate that the AEMC's approach is to begin with future products and pricing and to work backwards to barriers, we also consider there are some barriers today to customer products involving CER which are limiting the economic value of those offerings for customers and their sustainability for retailers; limiting the ability to innovate flexibly or limiting the ability to market those products. These are likely to persist and should be factored into the AEMC's recommendations.

1. Victorian Default Offer/Default Market Offer potentially hinders innovation

The VDO and DMO as the regulated price and reference price against which all electricity products are compared, along with other comparison type obligations like the best offer, works well in a stable market dominated by homogenous electricity plans that can be compared like-for-like. However, in a context where the clean energy transition might mean electricity costs are volatile year to year, and where the proliferation of CER will lead to increasing product differentiation, the VDO/DMO and other comparison type obligations might hinder innovation. For example, there is little point in comparing a CER based product which bundles the cost of the CER into the electricity tariff over a seven-year contract, with the DMO and VDO which is based on the cost of electricity alone and is reset every year. An example of this is our Solar Home Bundle product.

In the short term a quick solution might be to introduce an explicit exemption for innovative products that cannot be compared to the VDO and DMO or against standard best offers. However, a more strategic approach will need to be considered in the mid-long term.

Even if the VDO/DMO and best offer obligations do not apply to innovative products based on CER, the AEMC will need to consider if the VDO and DMO dampen innovation in broader indirect ways. We observe the impact of the DMO and VDO on standard, homogenous electricity plans. Since the introduction of the DMO and VDO, market offers have increasingly clustered around the VDO and DMO, along with a reduction in discounts below and offers above the default offers.[3] This suggests increased pressure to price close to the VDO and DMO to avoid the risk of eroding market share which in turn reduces retailer margins. For example, the ACCC in its most recent National Electricity Market Report (November 2022), noted retailer margins have reduced to just $35 or 2% in 2021-2022 for the average residential customer.[4] This is a reduction of 33% in real terms from the previous financial year. This impact might be at the expense of innovation, for example, investment in customer aps, customer research or non-price benefits for customers etc. Further, even if the VDO and DMO do not directly apply to innovative products, innovative products indirectly compete with the

[3] ACCC, Inquiry into the National Electricity Market: December 2023 Report, p47.
[4] Inquiry into the National Electricity Market

VDO and DMO. For example, the purchase of CER as a source of electricity supply alternative to the grid, is ultimately measured against the cost of grid supply (which is regulated by the VDO and DMO).

2. **Cost of metering is still a persistent issue**

For our Solar Home Bundle Product[5], we need to install a second market compliant meter (type 4 meter) to **[*Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law/ sections 223 and 234 of the National Energy Retail Law]*** measure the flow of energy from solar PV and battery to be able to bill the customer in line with the product construct and to meet the billing requirements under the NERR.

The Flexible Trading rule change identified issues around high-cost metering, but its solution did not extend far enough. It introduced arrangements to recognise in-built measurement capability in CER devices (e.g. EV chargers, inverter meter in solar PV and batteries via a new class of Type 8B meters). However, it limited the benefit of this to use where a secondary settlement point is deployed for small customers. We strongly support removing this SSP pre-requisite, to allow the use of type 8B meters in *both* behind the meter applications (like our SHB product) and also at the primary connection point to the distribution network i.e. at the NMI for small customers (where Type 4 meters are currently required). Given Type 8B meters will be allowed for billing and settlement purposes at the SSP, there is no clear rationale to then not permit these meters in other contexts. This would allow providers to successfully avoid the cost of a second meter, making the fixed costs of CER solutions lower for the customer.

We note that PLUS ES is testing this idea for its EV chargers on poles initiative, under the AER's regulatory sandbox, but this is not as broad as what we propose above.[6]

For completeness, we note that the real time data access rule change does not assist here, as our SHB product needs to measure the output and usage of the CER. We see the most efficient solution as enabling the CER in-device measurement capability in more contexts to avoid the cost of the installation of a second meter.

3. **High capex of solar PV and battery assets is the main barrier to customer uptake**

The main barrier to CER uptake is the high investment in the assets that customers need to make. The approximate costs to cover for both solar PV and battery assets is over $16,000 for residential customers. EnergyAustralia's Solar Home Bundle product tackles this issue. Solar PV and battery is installed at no upfront cost to the customer, these assets are optimised for the customers benefit and for a broader VPP, and at the end of 7 years the customer is transferred ownership of these assets.

[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law/ sections 223 and 234 of the National Energy Retail Law]

[5] Our Solar Home Bundle product involves customers paying the same per kWh price for 7 years. This product includes us paying the upfront cost to install solar PV and a battery, that we can control on behalf of the customer in response to real time prices, and we do so in order to minimise the cost of the customer's energy purchases and their total energy bill.

[6] https://energyinnovationtoolkit.gov.au/article/proposed-trials/plus-es-trial-waiver-application

We do not have a clear solution to this issue but recommend the AEMC be cognisant that as energy products expand into assets of material value, regulation in other sectors like financial, will limit the ability to innovate in the energy sector, or their interaction with the energy regulations may raise barriers not previously contemplated.

There is also the issue around high cost. To assist with lowering barriers on the investment cost, until the cost of residential batteries in particular reduces, the role of government subsidies via schemes will be critical. **[*Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law/ sections 223 and 234 of the National Energy Retail Law]*** One potential opportunity is the SRES, which should see a continued role beyond 2030 to support battery investment and this is currently not in place. Other state schemes also can play a role - we note the NSW Peak Demand Reduction Scheme (BESS 1) is a leading example, but that other states including SA (only supports VPP sign up and not the purchase of a battery), Victoria and Queensland could introduce similar support. The AEMC could lead a policy mandate in this area.

Fundamental principles for the future regulatory framework

We believe the below principles, while basic, are essential for the future regulatory framework:

- For innovative and **CER based products**, flexible regulation is key to future proofing the regulatory framework. We support the AER's recommendations as part of its Review of consumer protections for future energy services, to adopt a **principles-based approach to regulation** of these products. We encourage the CER Taskforce to carry forward this approach in progressing the AER's recommendations.
- The future regulatory framework must maintain a **level playing field**, whereby providers supplying the same service, are regulated in the same way. The risk is that traditional retailers are burdened with additional regulatory requirements, whereas new providers that are not authorised retailers are not.
- **Regulatory harmonisation across the states is key** to building the scale required for VPPs. This includes harmonisation across regulations and market structure/roles in the market. Our Customer Assets business is facing potential inefficiencies and increased transaction costs around the differences between the jurisdictions, including needing to commercially negotiate with Metering parties in the NECF versus distributors in Victoria. Regulatory harmonisation should be across all regulation including energy efficiency/productivity schemes, concessions, along with the core retail and wholesale regulation in the NECF and relevant Victorian codes.
- The **regulatory sandbox is critical** and the national form of the regulatory sandbox must be extended to Victoria. Further, all forms of energy regulation outside the national customer energy framework e.g. frameworks administered by the ACCC (DMO code) must be covered. We see the regulatory sandbox as a mechanism to provide for a flexible evolution of the rules i.e. where providers can quickly request for certain rules to be waived or made (up to 5 years), and if the trial is successful then a full and permanent rule change can be sought. **However, the sandbox could be further improved by:**

    - **Providing greater certainty for those seeking a trial waiver or trial rule change**. At the moment, to use the trial waiver or trial rule change process, providers need to accept that

their waiver/rule change only lasts up to 5 years with one year extensions. They have no certainty that after, a permanent solution via a full rule change will be made. So, for example, this means that if Retailers install a cheaper meter that does not comply with the NERR, after 5 years they face the risk of needing to then replace their meter with a compliant one, unless a permanent full rule change is made. This risk of "asset stranding' might deter use in these tools. Another approach would be to provide greater certainty, whereby all the products and customers that were signed up to the trial continue to benefit from the waiver/rule change on a permanent basis, but new customers cannot be added.

- **The AER could provide greater clarity on when the sandbox can be used when a rule needs to be waived because compliance with the rule makes a product uneconomic**. We understand that the sandbox can be used to install a cheaper, currently non-compliant meter, like PLUS ES's current application. However, what is less clear, is whether a Retailer can for instance submit for a trial waiver to not comply with any billing requirements under the NERR, because it will generally increase its costs and make an innovative product uneconomic.