



12 December 2024

Project Leader
Australian Energy Markets Commission
<https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Sir/Madam,

The pricing review (EPR0097)

CitiPower, Powercor and United Energy (networks) welcome the opportunity to provide feedback on the Australian Energy Markets Commission (AEMC) consultation paper *The pricing review: Electricity pricing for a consumer-driven future* (The pricing review).

Summary

- The proposed approach to the review is appropriate. Clarity is required whether the intention is to capture all customers, or only residential customers.
- The customer preference principles (CPPs) appear very economic focused. We would urge broader consideration of equity and simplicity. Electricity is an essential service and solutions should reflect this. Our customers have consistently told us they want fair access to renewables for all, regardless of whether the customer is an owner of CER
- This review should start and end with empowering customers through flexibility and choice. We encourage the AEMC to engage directly with grass roots customers to understand what they want. It is important learnings from other countries be incorporated to understand what the future may look like.
- Protecting customers is best served through providing flexibility and choice
- The greatest barriers moving forward are not just regulatory but also the vertical separation of the industry and lack of customer trust.

We encourage the AEMC in undertaking this review to ensure the review is customer driven rather than economic driven. To that end, we again emphasis the importance of grass roots engagement to inform the AEMC's decisions.

Do you consider that we should make any changes to our proposed approach to this review?

The networks are supportive of the AEMC's pricing review approach and consider it warranted given the substantial changes occurring in the electricity market, rapid development of new technologies and electrification.

At the highest level, we consider there are issues with interaction of network and retail pricing, the absence of necessary political will in the structural change to network tariffs and the resultant inequity it is generating between customer types.

The consultation paper appears to focus solely on residential customers. We find this a little surprising given the commercial and industrial customers consume the largest volume of energy on the network and create many of the network demand peaks. It is noted there is a lack of reference to embedded generation and storage customers who represent one of the fastest growing customer segments.

It would be appreciated if the AEMC could clarify the focus of its review. If larger customers are to be included (and we believe they should be), then consideration should be made of transmission pricing and avoided transmission payments.

What are your views on our proposed Consumer Preference Principles?

The consumer preference principles (CPPs) have been identified in isolation from the National Electricity Objective (NEO). Further explanation is required on how the CPPs align with NEO to assist stakeholders in understanding the AEMC's thinking.

Our experience through our most recent engagement to support our 2026-2031 Tariff Structure Statement (TSS) is that different customer archetypes will have different preferences. This is to be expected. Therefore we believe consideration should be given to a matrix of CPPs and customer archetypes.

Further, we would note through our current TSS engagement activity, we have heard a lot from all customer types on their preferences. Key preferences we have identified that the AEMC has not are simplicity and equity. These preferences have also featured in our engagement with the Victorian Government.

It is noted that the CPPs appear biased towards economic considerations. In previous submissions we have been critical of this bias, and we would again raise the point here. Electricity supply is an essential service and is considered by most as a basic right. It is therefore not socially acceptable to pursue complex, cost reflective solutions that may maximise economic benefits at the expense of cohorts of customers.

We found through our reset engagement and research that customers were not responding to time of use tariffs due to a lack of education and time. Hence, we need to be pragmatic about the idea of customers entering complex agreements and allowing third parties to take control of their energy resources. For example, we found over 49 per cent of our customers were not even open to third parties managing their energy needs.

We therefore strongly believe simplicity and equity are essential considerations and certainly something that our customers and stakeholders have supported, and prioritised, through our TSS engagement.

What are your views on our proposed Consumer Archetypes?

We support the customer archetypes proposed.

We want stakeholders to help us imagine the widest range of possible future products, services, and pricing structures. How might they look in the future?

Whilst we can not provide immediate assistance to the AEMC on this matter, we believe it would be beneficial for a study to be commissioned that identifies emerging products, services and pricing structures for electricity in other countries and as well as other utility markets. It is important that this work consider countries that like Australia, operate vertically disaggregated sectors i.e. transmission, distribution and retail functions are separated.

How could electricity products, services, and pricing structures be presented to serve future consumers?

We consider this a question for customers, not the industry or regulators. Our view is products and services should be designed to empower customers, not maximise economic outcomes. To that end, we believe the pricing review would greatly be assisted by AEMC engagement with end-use customers as opposed to consultants or industry.

How could consumer protections be balanced to enable further innovation in a future retail electricity market?

A key to maintaining protections for customers is choice. We believe that provided customers have choice, accompanied by education/information, they will make the choices that are best for them.

Unfortunately through engagement on our TSS, we repeatedly heard customers have not been provided with relevant impartial education/information. Energy markets have relied on retailers to provide impartial education/information to customers, however providing this impartiality naturally conflicts with the commercial interests of retailers.

Going forward, we believe it is important that customers can rely on parties other than retailers to receive advice and information. For our part, we have included a Customer Assistance Package as part of our regulatory proposals which includes energy literacy programs targeted at welfare agencies and end use customers residing in our networks. Our program however is constrained to our networks only, and the discretion of the Australian Energy Regulator (AER). We would therefore like to see the AEMC consider a broader role for distributors in educating customers. This makes sense as most customers will remain a lifelong customer of the distributor and network charges are regulated by the AER. This means distributors are ideally placed to assist in education process whether that be through intermediaries or directly with customers.

What barriers will need to be addressed to deliver future consumers a meaningful and beneficial range of products, services, and pricing structures? How might we consider addressing those barriers?

Engagement work we have undertaken to support our regulatory reset has demonstrated a lack of trust in the energy sector. There is no confidence that the industry or government will act in the interests of customers in the context of energy markets. Further, many of the energy transition reform benefits touted by government and regulators have failed to deliver for customers but increased costs.

This lack of trust makes it challenging to progress and gain acceptance of new products and services. What we consider essential is that for customers to accept and embrace new products and services, the benefits must be clearly identifiable and tangible. Further, advocacy for those new products and services needs to come from a party that customers trust. That will not necessarily be an industry participant.

Whilst this review will no doubt focus on regulatory barriers, we don't believe they are significant, and the more pertinent consideration is the absence of trust.

What should network tariffs look like in the future?

We do not have a firm view on what a future network tariff should look like. However, it is expected The pricing review will focus on the need for greater cost reflectivity. If that is the case, it is important cost reflectivity is traded off against the needs for fairness/equity, customer protections, ability of customers to understand the tariff (and see it), retailer ability to manage risk and the degree of control the network/retailer has over a particular supply.

It should be recognised that network tariffs are not the only form of price signal. They also occur through network support agreements.

Another trade-off is between providing networks with the autonomy to propose any tariffs they see fit subject to stakeholder engagement, with some form of convergence of network tariff structures over time based on collective learning. Pricing structures in the wholesale market are aligned across the National Electricity Market and no one is suggesting that these should be different in each jurisdiction in the interests of flexibility and innovation.

How should the role of energy supply businesses evolve to meet customer and energy system needs in the future?

Distributors will increasingly play a more complex role of facilitating two-way distribution grid, with evolving customer energy resources (CER), managing emerging issues such as minimum demand, and enhancing the efficient utilisation of the grid – to deliver customer value.

What changes might be required in the future to the interfaces between different energy supply businesses?

As referred to earlier, the starting point for this review should be about providing customers the flexibility and choice they desire. It should not start from what regulatory changes can we make.

Do you have any feedback on our proposed assessment criteria

The challenge for the AEMC will be balancing the criteria and not allowing the review to drift into an economic puritan's paradise.

The most important overarching consideration should be to support building trust in the industry, both with customers, stakeholders and government to avoid fragmentation and polarisation of the energy transition and pricing across the NEM.

If you have any questions, please contact Mark de Villiers on 0414 323 980, MDevilliers@powercor.com.au.

Sincerely,

A handwritten signature in blue ink, appearing to read 'B. Cleeve', with a small horizontal line underneath.

Brent Cleeve
Head of Regulatory Policy and Compliance
CitiPower, Powercor and United Energy