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

Dear Mr Potts

Consultation Paper – The pricing review: Electricity pricing for a consumer-driven future

Endeavour Energy appreciates the opportunity to provide feedback to the AEMC's consultation paper on the pricing review. We acknowledge that advances in technology and greater digitalisation offer new ways to price energy products and services, and support a closer examination of how electricity pricing structures can be optimised to meet future challenges and opportunities and to ensure the National Electricity Market (NEM) transitions in a customer-centric way.

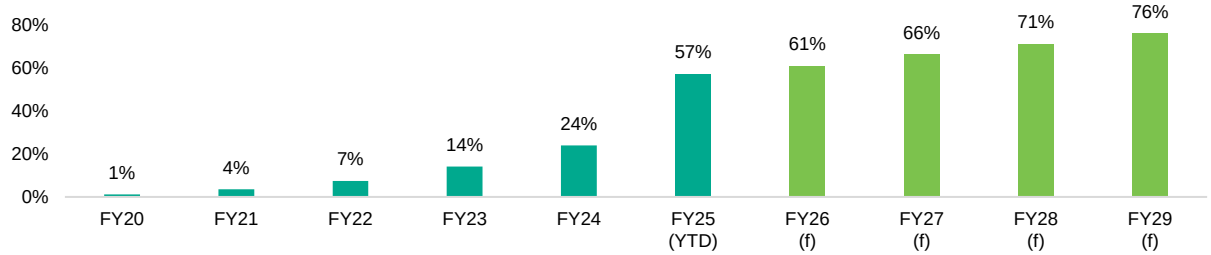
Tariff reform is starting to accelerate and is key to supporting an efficient energy transition

In 2014 the AEMC released the final *Distribution Network Pricing Arrangements* rule change requiring DNSPs to set prices that reflect the efficient cost of providing network services to customers. This included the substitution of an amended network pricing objective and a set of pricing principles. Under these arrangements Endeavour Energy has submitted, and the AER has approved, three Tariff Structure Statements for the interim 2017-19 period and the 2019-24 and 2024-29 periods respectively.

In the initial years the take-up of cost-reflective (CR) tariffs was slow. This reflected the majority of networks adopting CR tariff assignment policies that allowed retailers to control the pace of the transition along with a low penetration of enabling smart metering take-up for non-Victorian DNSPs. As a result, only four (of fourteen) DNSPs had more than 20% of customers on CR tariffs as at 30 June 2019[1].

In recent years, we have observed an increase in CR take-up with the majority of our customers now on a CR tariff (57%). We are forecasting 76% of our customers to be on CR tariffs by 2029 as non-CR tariff opt-out options are removed and the smart metering rollout accelerates.

Proportion of Customers on Cost Reflective Network Pricing



[1] Source: https://www.aer.gov.au/about/strategic-initiatives/network-tariff-reform

In approving our 2024-29 Tariff Structure Statement (TSS), the AER[2]:

> *..commended Endeavour Energy for submitting one of the best tariff structure statements that we had observed to date. We considered it provided a transition to tariffs that supports efficient use of its network, while including appropriate measures to manage adverse impacts to consumers.*

The underlying principles of our 2024-29 TSS, developed in consultation with key stakeholders, were transparency, empowerment, predictability and fairness. These principles align with the pricing principles which seek to balance economic efficiency (6.18.5(e) to (g)) with customer impacts (6.18.5(h) to (i)).

We recognise that the AEMC's pricing review has a strong focus on the customer impact principles, which the AEMC differentiate from economic efficiency ('efficient') and the effective impact of tariffs on the end user ('effective'). We agree that striking an appropriate balance between efficient and effective principles will be critical as the energy transition continues to accelerate, and that a dilution of either principle in promotion of the other will result in either the low take-up or customer responsiveness to CR tariffs or the high take-up of limited CR tariffs that do not yield the expected benefits of tariff reform.

From a distribution perspective, the forecast proliferation of CER has the potential to substantially increase network costs if not integrated efficiently. Conversely, well-integrated CER has the potential to better utilise the network, reduce future network investment and enable customers to improve electricity reliability while reducing overall household costs.

Network tariff reform is key to successfully integrating CER by signalling the efficient cost of network services, so these efficient costs are incorporated in the price of future energy services. Our TSS engagement showed that:

- our customers were overwhelmingly supportive of CR tariffs in principle (almost 90% of our Customer Panel) as they were keen to have more control over their bills and opportunities to save money;
- there was strong support among other stakeholders for expanding CR tariffs to include new technologies like CER, EVs, batteries and dynamic controlled load; and
- views were mixed in relation to the transition period that should be provided, with recognition of the importance of providing appropriate education to customers.

Our view is that the existing pricing objectives and principles have provided appropriate guidance to distributors and the AER to enable the development and approval of tariff structures that appropriately consider the efficiency and effectiveness of CR tariffs, as well as customer views.

A broader review of prices is warranted to consider customer outcomes

Although network tariff reform will be an important aspect of a successful energy transition, we acknowledge that customers' concerns with electricity prices are likely to be broader than only distribution pricing. Currently, Endeavour Energy's distribution charges contribute approximately 27% to our average residential customer's electricity bill. The AEMC's Residential Electricity Price Trends 2024 report forecasts a decline in network charges over the next 10 years. At the same time, we expect there to be a significant uplift in transmission network investment and rising costs associated with jurisdictional schemes to support the construction and connection of large-scale renewable generation.

The AER recently noted that this uplift in transmission network level investment was placing upward pressure on network charges.[3] The impact has become particularly pronounced in NSW following the introduction of the NSW Energy Infrastructure Roadmap (the NSW Roadmap), noting that in FY24, DNSPs were required to recover $138m from customers in addition to the $295m recovered for the Climate Change Fund.[4] In

[2] AER, Final Decision – Endeavour Energy Electricity Determination 2024-29: Overview, April 2024, p. vi

[3] AER, 2024-25 Default Market Offer, Final Determination, 23 May 2024, p.16

[4] Since 2007, NSW DNSPs have been required to make contributions to the Climate Change Fund which delivers programs to address the impacts of climate change, encourage energy saving activities and increase public awareness and acceptance of the importance of climate change.

FY25, this amount has risen by approximately 150% to $341m and is expected to increase further in subsequent years.

Customer perception of, and response to, distribution network tariff reform is intrinsically linked to the impacts of whole of network pricing outcomes. As distribution charges and network charges are bundled, it is unlikely that customers will delineate between these charges. We would therefore welcome increased transparency between the components of network charges and suggest this might be an issue that a broader review could consider.

Consistent with our submission on the draft terms of reference and the review's stated focus on consumers, we consider that the AEMC's review should extend beyond distribution pricing and retail offerings and should also consider the adequacy of relying on a distribution level cost recovery mechanism in the context of increasing contributions from transmission networks and jurisdictional schemes. This is because:

- under the current DNSP cost recovery model, there is a considerable risk that customers may be incentivised to inefficiently connect directly to the transmission system to avoid paying for these charges, thereby shifting the cost burden to residential and small business customers connected to the distribution network; and
- this would also compound the price disadvantage faced by distribution customers who effectively subsidise the contributions of specific large customers and industries that are exempt from paying jurisdictional charges[5].

Given this context, and the desirability of energy equity, the review would benefit from considering whether new arrangements could be established to recover jurisdictional costs through transmission networks to ensure that large energy consumers that are directly connected to the transmission network pay their fair share of energy transition costs.

There ought to be greater clarity and consistency regarding the role of each participant, and the objectives and principles they are promoting

The consultation paper refers to 'electricity pricing' as referring to network and retail tariffs and the interaction between the two, with a focus on implementing reforms to guide the optimal design and offering of electricity products and services for customers. This intent underpins the five Consumer Preference Principles (CPPs)[6] and five assessment criteria[7] the AEMC have developed to guide the development of policy recommendations in this review.

We are concerned that these additional factors may complicate (rather than clarify) the objective of pricing reform. We recommend instead that the review start with an assessment of the existing pricing objective and pricing principles to determine whether amendments are required. This would enable stakeholders to benefit from understanding how each of the CPPs and assessment criteria are intended to relate to, and advance, the existing objective and principles, and would in turn help to promote an appropriate balance between efficiency and effectiveness.

The review may also benefit from more clearly delineating between network pricing and retail tariffs as each of the CPPs and assessment criteria are more directly related to either network pricing or retail tariffs, rather than both. Separating these aspects of electricity pricing will support an assessment of which party is best placed to promote the pricing principles. By way of illustration:

[5] For instance, large customers using electricity in the production of green hydrogen or involved in an activity identified as both emissions intensive and trade exposed are afforded conditional exemptions from the NSW Roadmap costs. Similarly, once implemented, jurisdictions will be able to exempt certain persons from charges relating to the Orderly Exit Management Framework, requiring their allocation of costs to be redistributed to other non-exempted customers.
[6] These comprise: value for money, availability, meaningful options, simple engagement and appropriate protections.
[7] These comprise: outcomes for consumers, principles of market efficiency, innovation and flexibility, implementation considerations, and principles of good regulatory practice.

- in relation to the goal of *economic efficiency*, the existing model, involving wholesale market and distribution pricing, is best placed to promote this, in light of the objective of optimising the placement, use and investment in generation and network infrastructure; whereas
- in relation to the goal of *effectiveness*, retail tariff offerings are well suited to manage this, since retailers can use their discretion to apply their risk management tools and techniques to package wholesale, network and retail costs into their price offerings for end-use consumers.[8]

Relatedly, the consultation paper poses several questions on the product and service offering trends and ideal future states. We consider that such outcomes are likely to be most effectively dealt with through the operation of the competitive retail market, given the rapidly changing nature of the energy sector. That said, based on current trends, it may be reasonable to assume that the proliferation of data, automation and artificial intelligence will enable networks and retailers to introduce more dynamic pricing that better reflects current market and network conditions. In such circumstances, we might also assume that consumers may elect to cede the day-to-day control of some (or all) of their devices to a third party to manage their load in response to prevailing prices. Under such a scenario, complexity of tariff structures would be less of a barrier to consumers as it is the data engine that optimises consumption, not the individual – and in this context, it would also be useful to consider the services that DNSPs will need to provide as they move to becoming Distribution Service Operators (DSOs) to enable the energy transition, and the corresponding uplift and investment in digital capabilities required.

In addition to the CPPs and assessment criteria we also note the AEMC's proposed Consumer Archetypes (CAs). We acknowledge customer anxiety and scepticism around the transition to CR tariffs and the criticality of establishing social licence in relation to these. The effectiveness related principles are equally as important to the success of network pricing reform as developing tariffs which promote economic efficiency. The CAs will assist in identifying vulnerable customer groups, particularly those without the means and/or ability to modify their consumption or access CER, and we consider that these customers should be offered support through concessions, rebates and/or transitional arrangements to provide appropriate protections and ensure energy equity.

However, it will be critical to ensure that these protections are specific and targeted. For instance, the recently completed *Accelerating Smart Meter Deployment* rule change includes a provision for jurisdictions to mandate that all customers may be able to opt out to flat tariff. Rather than protect low resource customers, there is a risk that such arrangements could also be relied upon by high resource customers to avoid CR tariffs designed to unwind cross subsidies that exist between CA cohorts.

Accordingly, we consider that the review should focus on developing a framework that enables networks and retailers the flexibility to respond to evolving technologies and customer preferences without disadvantaging those customer segments that do not have the resources to meaningfully engage.

To discuss our submission further, please contact Daniel Bubb, Manager Economic Strategy via email at Daniel.Bubb@endeavourenergy.com.au.

Yours sincerely

Emma Ringland
Head of Regulation and Investments

[8] To date, retailers have successfully managed the complexity and volatility of wholesale market risk since the NEM was established, and this is far greater than that associated with TOU and demand-based pricing. By way of illustration, using the AER's Default Market Offer (DMO) for residential customers in our network area, wholesale market costs are the most significant contributor to customers energy bills (42%) and 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. 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.

Appendix A – Response to consultation paper questions

Question 1: Do you consider that we should make any changes to our proposed approach to this review?

We support the AEMC taking a customer-centred approach to the review and consider that the paper captures the two primary challenges of tariff reform over the next decade:

1. supporting and optimising the energy transition through providing efficient price signals; and
2. establishing and maintaining a social licence for tariff reform through meeting the needs of customers and providing appropriate customer protections.

We appreciate that as networks increasingly become a platform capable of supporting new services, the application of network tariffs and retail pricing structures will shape the cost of future energy services. However, in considering the interests of customers, we caution against setting too great a focus on seeking to predict future energy products, services and pricing structures, because of the risk of reverse-engineering outcomes that may not be suited to the circumstances that ultimately eventuate, or the actual preferences and needs of customers.

We suggest the review should instead focus on identifying issues arising from the energy transition to date and whether the pricing objectives, principles and TSS process requires amendment to improve the efficiency and/or effectiveness of network tariff reform. The review would benefit from establishing clear linkages between the existing pricing rules and the CPPs and review assessment criteria.

Question 2: What are your views on our proposed Consumer Preference Principles?

- **Are you aware of additional existing research that could help us refine the CPPs?**
- **How might the CPPs help us in assessing whether our decisions will lead to good consumer outcomes?**

The proposed principles broadly align with the priorities our customers indicated they most value from their electricity network services during consultation for our 2024-29 regulatory proposal.

With respect to the 'Appropriate protections' CPP, the energy transition may expose consumers to greater levels of risk in their dealings with energy service providers. Customer protections need to be fit-for-purpose and provide balanced safeguards that promote the emergence of innovative products and services, whilst also providing customers with the confidence to make investments in new technologies and partner with emerging or niche service providers they were previously unfamiliar.

With respect to CR pricing, protections promoting fairness and equity may help to establish customer trust and ensure the anticipated benefits of retailer packaged services materialise for the customer. However, there must be careful consideration of what constitutes a fair and equitable outcome, and which customer cohorts may require support in order to preserve this principle.

Potentially, in seeking to support low resource customers, changes introduced may inadvertently enable high-resource customers to shield themselves from CR tariffs (from which they may still benefit but to a lesser degree) in order to preserve more favourable existing cross subsidies. We remained concerned that providing universal customer opt-out to non-CR tariffs will ultimately embed inequity rather than promote equitable and efficient outcomes.

Question 3: What are your views on our proposed Consumer Archetypes? For the purposes of this review:

- **Do the Consumer Archetypes capture the diversity of future energy consumers?**
- **Do you agree that engagement is the primary axis of differentiation among electricity customers?**

It is appropriate that the review contemplates customer diversity and how potential recommendations might impact the outcomes for different consumer types. We agree with the proposed segmentation of customers according to their degree of interest in engaging with the market and the resources they have available to engage.

It is unlikely the order of transition between archetypes will be uniform. For some customers, their ambition may be to become fully engaged and actively participate in the market to attain rewards and benefits from adapting their behaviour. Others might prefer convenience over rewards from price responsiveness and be content to remain a passive recipient of electricity in line with their engagement for other essential services, irrespective of their resources.

Given this, we caution against the presumption that all future customers will aspire to become active prosumers and on this basis, apply a higher weight to the possible outcomes any recommendation will deliver to the "embracer" archetype. Instead, the AEMC should ensure that all customers are considered equally, with proportionate regulatory and pricing support targeted at assisting only those customers at risk of being left behind.

Question 4: 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? For example, you might consider:

- **How have products and services evolved in similar markets that were disrupted by new technologies, for example, in telecommunications and point-to-point transport?**
- **What new innovations are we starting to see in current offerings?**
- **What electricity products and services are available internationally that aren't available here?**
- **Which technological trends may impact the electricity market, beyond those already discussed in this paper?**
- **What types of pricing structures might align well with the proposed Consumer Preference Principles?**

The energy transition demands greater innovation in retail product offerings to meet consumers' needs in a high CER future. There are inherent risks in testing framework options for imagined future service offerings and pricing options. Provided the regulatory settings promote effective competition, it should then be left to markets to drive the effectiveness of efficient network pricing via their ability to package wholesale, network and retail costs into innovative products, services and pricing structures.

From a DNSP perspective, we are keen to support this evolution through the provision of efficient pricing signals and controls to optimise the energy transition. This will involve a variety of price (e.g. CR tariff structures) and non-price (e.g. dynamic operating envelopes) actions that alleviate export curtailment and enable the integration of higher levels of CER without significant impacts to our customers. However, we acknowledge the full benefits of CER integration cannot be delivered by networks alone and will require collaboration with multiple parties.

We are currently working constructively with retailers and service providers to develop economic and sustainable business models that enable customers to benefit from new technologies. These collaborations include improving customers access to energy storage through community batteries, and providing greater access to low-cost public kerbside EV charging installed adjacent to network assets (e.g. power poles and streetlights).

Progressing joint initiatives requires DNSPs to operate within the confines of the regulatory framework and safeguards provided by the AER's ring-fencing guidelines. These guardrails may need to adapt in the future to ensure they are not disproportionately burdensome and provide a more flexible avenue to pursue future opportunities to unlock customer benefits.

We agree that there is a wide range of possible future products, services and pricing structures; however, until customer preferences are tested in the competitive market we can only speculate as to the detailed products, services and pricing structures that may prevail. Based on technological trends across all industries, it is reasonable to assume that future pricing options will better leverage growth fields, such as data science, automation and artificial intelligence. Technological advancement in these areas will enable networks and retailers to introduce more dynamic pricing that better reflects current market and network conditions. Under such a scenario, we can also speculate that consumers will elect to cede the day-to-day self-management of some (or all) of their devices to a third party to manage their load in response to

prevailing price. Under such a scenario, complexity of tariff structures would be less of a barrier to consumers as it is the data engine that optimises consumption, not the individual – and in this context, it would also be useful to consider the services that DNSPs will need to provide as they move to becoming Distribution Service Operators (DSOs) to enable the energy transition, and the corresponding uplift and investment in digital capabilities required.

Accordingly, we consider that the review should focus on developing a framework that enables networks and retailers to have the flexibility to respond to evolving technologies and customer preferences while protecting those archetypes at risk of being left behind.

Question 5: How could electricity products, services, and pricing structures be presented to serve future consumers?

Existing frameworks should be leveraged to provide future customers with the information they require to make informed energy decisions. Price comparison websites such as AER's Energy Made Easy will need to evolve and provide customers with insights on the cost impacts on the full range of retail products from energy services providers. To provide value, insights offered by price comparison sites will need to be flexible and align with each customer archetype.

We understand the Consumer Data Right (CDR) has generally been utilised effectively to provide authorised recipients with customer energy data, and can be used to make it easier for future customers to access competitive retail offers and choose a service that best suits their needs. The CDR datasets may need to be expanded over time to enable a comparison and tailoring of more complex service offerings as they emerge, in the same way that Consumer Data Right datasets and use cases have evolved in the context of the banking sector.

It is also likely there will be more sophisticated customers looking to more actively and directly engage in markets to unlock the full benefits from the CER investment and flexible energy usage. These customers will value improved access to their real-time energy data, with an enabling framework currently being considered via the *Real-time data for consumers* rule change consultation. As outlined in our submission, we are supportive of a framework that provides customers and their authorised representatives access to real-time energy data in a consistent format that is easy for customers to understand.

Question 6: How could consumer protections be balanced to enable further innovation in a future retail electricity market?

As previously stated, we consider fit-for-purpose consumer protections are key to building consumer trust and confidence. Without this trust and confidence, innovation in business models and services will be limited.

Whilst it may appear logical to simply extend the National Energy Customer Framework (NECF) to maintain a single protection framework that applies equally and consistently to conventional and new energy services, there is a risk that it could introduce regulatory burdens that are costly for new participants and stifle innovation. This issue was contemplated in detail by the AER during their *Review of consumer protections for future energy services*, and we consider the findings of that review could help guide the AEMC's recommendations in striking the right balance between customer protection and innovation. As the AER's review suggests, it may be appropriate to adopt an incremental approach using a combination of prescriptive and principled-based obligations that preserves current consumer protections and allows market participants time to understand and adjust to any new regulatory obligations. We also note that establishing protections for CER and new energy services is a key area of focus in the National CER roadmap and, in parallel with this work, the CER Taskforce may look to more clearly define the roles and responsibilities of distribution network market participants.

We consider any need to amend existing frameworks to protect future consumers should not be conflated with further protecting service providers in competitive markets from any perceived disadvantage or threat from regulated networks. It is important that DNSPs continue to have the flexibility to explore new technologies and apply innovative programs and approaches, including tariff structures and assignment policies, to promote the efficient use of their distribution networks (consistent with regulatory objectives) without the risk of these being vetoed by service providers.

Question 7: 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?

- **Consider the changes that are happening in the system now - what barriers might either endure or emerge post 2035?**

Despite anticipated reductions in the future price of new technologies like batteries and electric vehicles, affordability concerns will continue to hinder some customers from accessing the full range of energy products and services. Many customers may also continue to have reservations about transitioning out of their existing tariff arrangements, particularly those who feel they are unable to modify their consumption or access CER. Negative perceptions about the energy transition may be exacerbated by the impact of transformational investment in large scale renewable generation flowing through to rising retail energy bills without being offset by immediate and discernible consumer benefits.

The industry must work collaboratively to improving social licence by raising customer awareness about the benefits of CER. Effective consumer awareness initiatives and engagement would need to include clear, accessible information and tools that empower consumers to make informed decisions about their energy use. It is also likely that governments would also need to play an important role in supporting vulnerable customers through rebates, concessions and/or protections to address cost-of-living pressures.

From a network pricing perspective, there may also be a need for greater flexibility in the TSS process that enables DNSPs to more dynamically vary tariff structures and allocation policies in response to technology developments and changing customer needs within a regulatory control period.

Question 8: What should network tariffs look like in the future?

What are the key choices and trade-offs we should consider when answering this question?

Australia is the process of transforming our electricity system into one that is affordable, clean and reliable for everyone. The provision of CR pricing signals is critical to enabling an affordable transition, because CR pricing provides investment signals to customers that ensure that they do not pay for electricity infrastructure that they do not value.

We consider that there is a trade-off embedded within the existing pricing principles, and recognised in the paper, in relation to the extent to which network pricing promotes efficiency vs effectiveness. We view this as a broader trade-off than complexity vs simplicity.

On the issue of complexity, we note that recent industry changes (such as the smart meter roll out, multiple trading relationships and integrating storage) would suggest a future in which network electricity pricing is more granular, dynamic and locational than it is today. As noted previously, we consider that over time, the proliferation of data, automation and artificial intelligence will resolve this challenge as customers increasingly cede day-to-day control of their devices to a third party, subject to there being sufficient orchestration and coordination (and, in this context, it is relevant to consider the services that DNSPs will need to provide as they move to becoming Distribution Service Operators (DSOs) to enable the energy transition, and the corresponding uplift and investment in digital capabilities required).

Potentially, this trade-off may be more relevant to the consideration of consumer protections and the relationship between network pricing and retail tariffs. For instance, network pricing options that reduce cost reflectivity for consumer protection reasons could improve their effectiveness (i.e. take-up and acceptance) but in turn dilute the impact of these reforms so that customers ultimately pay more for a sub-optimal electricity system.

In considering this trade-off, regard should be had to the parties best placed to manage this risk and/or promote the various pricing principles in support of the overall pricing objective. We remain of the view that networks are best placed to provide efficient network pricing signals whilst retailers are best placed to manage risk and the customer relationship and to create innovative products for customers.

Question 9: How should the role of energy supply businesses evolve to meet customer and energy system needs in the future?

The role of DNSPs will continue to evolve from the conventional function as “transporters” of energy. Networks are being used in new and dynamic ways; to support this range of new services, DNSPs will be required to adopt more sophisticated network operations to successfully perform the functions of a Distribution System Operator (DSO). Transitioning to a DSO model requires DNSPs to take on increased responsibilities for managing local network conditions while enabling more complex and variable energy flows brought on by customer investment in CER and other new technologies. These expectations will need to be met through a combination of asset investment, capability enhancements, data analytics, purchased services and flexible markets.

Similarly, retailers will need to adapt their service offerings. As customers’ needs become more diverse and sophisticated, it will not be enough for retailers to simply on-sell energy. Whilst the frameworks are currently being developed to facilitate greater participation in markets to unlock greater value from CER, retailers and service providers will need to develop offers that encourage customers to engage with markets and offer their CER to the grid, or delegate control to a third-party or “device”. Competitive tension should ensure that retailers that best differentiate themselves as product innovators and effective risk managers will best serve consumers and the market.

Question 10: What changes might be required in the future to the interfaces between different energy supply businesses?

A movement towards dynamic pricing requires a re-think of existing pricing controls and the annual pricing process. It is unclear whether retailers and customers value the certainty that arises from a five-yearly TSS, and whether this value outweighs the cost of networks not being able to innovate and respond more readily to evolving circumstances and the needs of end-consumers.

Question 11: Do you have any feedback on our proposed assessment criteria?

We support the assessment criteria, and reiterate the importance of establishing clear linkages between the CPP, assessment criteria and pricing principles being promoted by each recommended rule changes (if any).