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Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Reference: **EPR0097**

The pricing review: Electricity pricing for a consumer-driven future

Dear Ms Collyer and colleagues

Energy Locals Pty Ltd (ACN 606 408 879) (**Energy Locals**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (**AEMC**) in relation to the *pricing review: electricity pricing for a consumer-driven future Consultation Paper* (**Consultation Paper**).

Energy Locals is generally supportive of the AEMC's forward focused review outlined in the Consultation Paper and the Terms of Reference[1] (**Review**) as we recognise that Consumer Energy Resources (**CER**) and Distributed Energy Resources (**DER**) are important to Australia's renewable energy transition and future electricity supply chain.

We acknowledge that this Review appears to assess a number of areas of the market that are the subject of concurrent studies by other regulatory or government bodies. We trust that the final recommendations from the various bodies will be joined up.

Given the customer-centric focus of the Review, and the intention that the AEMC's assessment of potential regulatory solutions will be informed by a set of consumer preferences principles (**CPP**) we have structured our feedback in this submission around the five proposed CPPs.[2] For each proposed principle we have highlighted our observations on the barriers preventing these principles from being fully realised and important considerations for the AEMC in the Review.

With regard to the other questions raised in the Consultation Paper, we have added commentary on how we see innovation to services, products and pricing structures in the future and have grouped this under a corresponding CPP. Our feedback here is not intended to be exhaustive, and we look forward to future engagement with the AEMC as the Review progresses.

1. Overview of Energy Locals

Energy Locals is an authorised electricity and gas retailer that supports customers directly as well as via partnerships with newcomers to the energy retail sector, such as RACV, RAA, Indigo Power, IO Energy, Tesla, and others.

2. CPP 1 – Value for Money

a) Feedback on the principles and customer insights

We agree with the AEMC that 'price' is the most important preference for almost all consumers.[3] This is evident through the number of billing complaints to Ombudsman bodies, many of which are simply due

[1] AEMC, *Terms of Reference, The pricing review: Electricity pricing for a consumer-driven future*.
[2] AEMC, *The pricing review: Electricity pricing for a consumer-driven future, Consultation paper, 07 November 2024*, p.13.
[3] Ibid, p.13.

to the unwelcome size of the bill, and the number of customers on hardship and payment plans.[4] However, many "bill shock" complaints are misdirected at retailers, who have limited control over the majority of the cost stake that constitutes the bill.

b) Considerations for your review

i. Cost inputs

When considering energy prices, the AEMC must focus on addressing the core inputs that guide retailer costs rather than final customer tariffs. The top three inputs for the cost stack are wholesale, network and retail operating costs.

1. Wholesale costs

Price spikes in the National Electricity Market (**NEM**) often result from generator bidding strategies rather than retail inefficiencies[5]. To address this, we consider that there needs to be greater penalties for market manipulation and more stringent requirements on bid withdrawals and reprices during high demand periods. Without that, we will continue to read reports from regulators about their belief that poor bidding behaviour is contributing to driving up customer cost. We prefer action to outlaw such behaviour over helpless reporting on it year after year.

We consider that the government should act as a clearing house for the industry. The government could provide access to the ASX, particularly for smaller players or new entrants to the market. This would lower the barrier to entry and allow more participants to engage in trading. Lower trading costs and greater liquidity would result in more competition and ultimately, lower prices for consumers. By facilitating easier access and lowering costs, the government would help increase liquidity in the market and increase stability in energy prices.

In addition, the government could mandate all generators owned by federal or state governments to provide competitive wholesale offers to smaller retailers. Currently, most retailers use a single foreign-owned generator as the primary source of hedges despite the government, both state and federal, fully or partially owning generation in the NEM, notably in Tasmania and Queensland.

2. Network costs

Distribution charges account for over 30% of residential bills[6] meaning that reducing network costs is crucial in the fight against high bills. Without reforms, inefficiencies at the distributor level will continue to inflate consumer prices. Currently, networks are not incentivised to reduce costs or increase transparency in pricing structures.

A consolidated network operation could be better positioned to adopt standardised and transparent pricing models and eradicate the disparity between rural and metropolitan distribution charges. Rural networks charges are often higher due to their limited customer base. Network cost consolidation could spread these costs across a larger customer base, much like the National Broadband Network's pricing model. This approach would ensure fairer pricing for rural consumers and support equitable access to energy.

We also urge the AEMC to ensure a clear delineation in roles between distributors and retailers in relation to DER and storage systems. Distributors should focus on network-scale storage (e.g., behind substations or at pole tops). Instead of being able to add these assets to the Regulated Asset Base, we advocate for distributors being able to generate revenue through wholesale arbitrage and Frequency Control Ancillary Services for these network-level assets. Retailers, on the other hand, should retain ownership and management of behind-the-meter storage systems at

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[4] AER, *Annual retail markets report 2023-24*.
[5] AER, Electricity prices above $5,000MWh – July to September, available at <https://www.aer.gov.au/news/articles/communications/aer-reports-q3-high-wholesale-electricity-price-events and AER, State of the energy market 2024, available at< https://www.aer.gov.au/system/files/2024-11/State%20of%20the%20energy%20market%202024.pdf??, p.18
[6] AER, *Default market offer prices 2024-2025 final determination*, p.112

customer premises or those co-located at customer properties where they are directly connected to the distribution network. This ensures that retailers can continue to offer competitive, customer-facing services. Additionally, in today's network era we expect that investment by distributors in substation storage should become part of their licence to operate rather than an opportunity to print steady returns over many years from customers across the distribution network. A parallel in the retail part of the market is the investment that is expected of us for projects such as Five-Minute Settlements and Better Bills Guidelines.

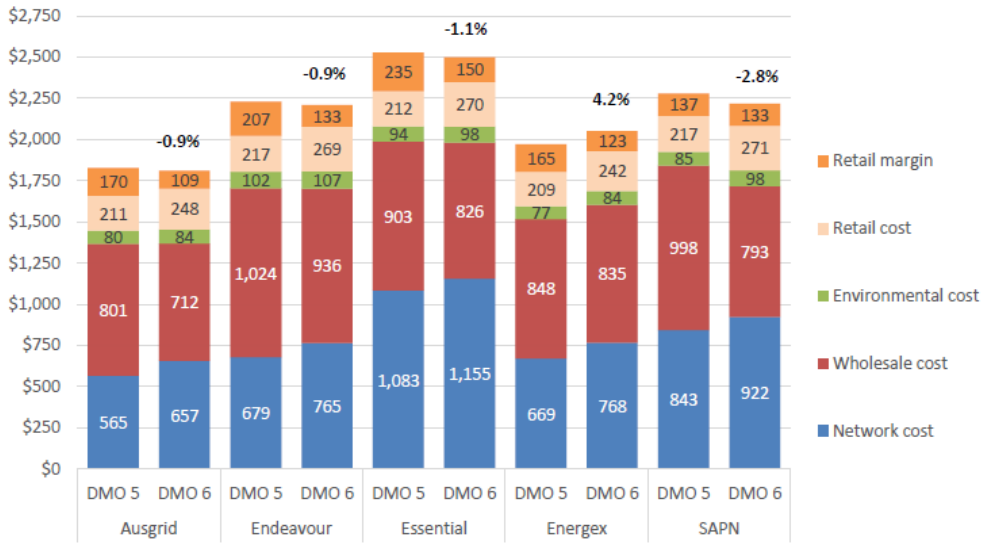
3. Retailer Operating costs

Retailers often operate within a small margin due to the costs associated with regulatory overheads and change, and market competition. These can be more easily absorbed by retailers with larger customer bases. We encourage the AEMC to consider the AER Annual retail markets report 2023-24 which sets out, in simple terms, the underlying costs for retailers that need to be reflected in energy bills.[7]

The presence of multiple regulatory bodies, including the AER, ESC, ICRC, and IPART, leads to a highly fragmented landscape of market rules for the number of households in the NEM. This increases costs, reduces competition and creates system complexity that can lead to poor customer experiences. We urge the AEMC to consider how the regulatory landscape could be simplified.

The AEMC must also consider the Default Market Offer (**DMO**) to understand the small profit margins that retailers are required to operate within. The below graph from the DMO 6 final determination[8] demonstrates the reduction in the retail margin for retailers while network costs increased by considerably more than double the inflation rate.[9]

Figure D.1 Residential without CL, % change from DMO 5 (nominal)[10]



Source: AER Default market offer 2024–25 cost assessment model.

ii. Relationship between supply chain stakeholders

We hope the AEMC will recognise that a focus on lowering costs for customers requires a focus on all parts of the supply chain, not just the retailers that assemble the pieces and deliver them to a customer.

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[7] AER, *Annual retail markets report* 2023–24, p30.
[8] AER, *Default market offer prices 2024-2025 final determination*, p.93.
[9] This is based off the Reserve Bank of Australia inflation rate of 4.2% from the 2022/23 financial year to 2023/24. https://www.rba.gov.au/calculator/financialYearDecimal.html
[10] AER, *Default market offer prices 2024-2025 final determination*, p.93.

We note that networks have, in recent years, set up subsidiaries to perform functions that are not permitted under a distribution licence. If a retailer were to adopt such a rule circumvention we are quite sure that there would be a rapid and harsh response from authorities. Given that the 'blind eye' given to this network behaviour has gone on for several years, the boundary between retailers and networks is now blurred. We expect that the AEMC will need to set this out clearly as part of this project.

Retailers, particularly small retailers, play a crucial role in ensuring a competitive market that benefits end consumers. Quite simply, smaller retailers keep those who serve the majority of customers honest. As outlined in the AER Retail Markets Report 2023-2024 "*newer retailers have tended to have a greater focus on innovation, with product offerings related to consumer energy resource, including batteries, Virtual Power Plants and peer to peer trading".*[11]

However, as outlined earlier, the lack of hedging options and market liquidity prevents smaller retailers from launching, thriving or surviving. We urge the AEMC to focus on this as a way to unlock competition that will serve all customers well, not just those that are with smaller operators.

3. CPP 2 - Availability

a) Feedback on the principle and customer insights

While customers are eager to access CER there are number of obstacles, including resistance from networks and regulatory uncertainties.

b) Considerations for your review

i. Value in embedded networks

As outlined throughout the Consultation Paper, CER is key to ensuring availability and securing supply in the future. In considering the future needs of consumers, the AEMC must be cognisant of the expected increase in customers living in apartments as well as a rise in the number of renters. Customers who are renting are likely to have less control over the installation of equipment and, therefore, opportunity to proactively acquire CER. This is where we consider Embedded Networks (**ENs**) are crucial to ensuring increased uptake of CER. This is especially the case where an EN operator can fund, operate, maintain and eventually replace CER without expecting tenants to contribute to the upfront cost. This has the helpful side benefit of deferring distribution network investment that may have otherwise been required to be paid for by a large number of customers.

ii. Uncertainty around future of regulation

Key deterrents in investing in CER are regulatory and market uncertainties. As the AEMC will be aware, many CER assets have a high capital cost and a very long payback period. The risk of political or regulatory intervention during the pre-breakeven point is a material threat to the continued investment in this space.

iii. Barriers to innovation created by networks

The rules governing the connection and integration of CER and DER are overly complex and slow down the uptake of new technologies. We have seen networks take many months to review a grid connection request for a simple, small scale behind the meter battery. In other cases the cost of a substation upgrade – or the time quoted to perform the work – have killed potentially good projects. We note that in some cases the support of behind the meter storage is contrary to the commercial incentive that drives distributors. This tension between a commercial driver and the outcome that would be best for customers must be ironed out through this work.

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[11] AER, *Annual retail markets report 2023–24*, p9.

4. CPP 3 – Meaningful options

a) Feedback on the principle and customer insights

Consumers increasingly want a variety of energy products that allow them to choose the level of control, sustainability, and cost predictability that suits their needs. We have seen strong uptake of our innovative products which indicates a demand for more tailored product offerings.

b) Considerations for review – Future products and services

Rigid tariff structures and overly prescriptive rules on tariff notifications limit the flexibility retailers need to innovate. We recommend the AEMC revisit these rules to better align with future consumer needs and technological advancements.

In considering the future energy system, we urge the AEMC to look internationally for innovative concepts and ensure that the market rules will accommodate them here. Japan is a leader in AI-driven demand response programs and Germany, for example, has peer-to-peer energy trading platforms.[12]

We have prepared a table below of key product offerings which we are currently seeing and which we expect there will be consumer demand for in the future in connection with new technology and artificial intelligence (AI). In this table, we have also listed key barriers.

Type of innovative product expected in future	**Overview**	**Benefits**	**Barrier**
Dynamic Network Tariff Switching	Customers switch between network tariffs in real-time or near-real-time based on their usage patterns and needs.	Enables customers to optimise their energy usage, especially with seasonal changes.	Regulatory constraints around changing network tariffs and notification requirements.
Load Management Reward Programs	Consumers are incentivised to reduce or shift energy consumption during peak demand.	Helps manage grid demand, reduces strain during peak times, and lowers overall energy costs.	Creating fair reward structures, as well as regulatory limits on incentives and behaviour changes.
Renewable Energy Investment Schemes	Customers invest in renewable energy projects and receive returns or benefits without installing solar panels or batteries. Leasing batteries and solar, making renewable technology accessible to customers that cannot afford upfront costs of renewables.	Increases renewable energy access without burdening consumers with high initial costs.	Regulatory challenges in facilitating collective investment models and managing returns; transmission, distribution and environmental costs which must be added to bills even if a customer's usage matches the output of a nearby community solar farm.
Peer-to-Peer Energy Trading:	Households sell excess energy directly to others in their local area using decentralised platforms. Platforms like Enosi's Powertracer enable small scale solar customers to trade excess energy directly with others seeking affordable renewable power,	Encourages energy sharing, reduces grid demand, and empowers local communities with affordable renewable power.	To encourage more peer-to-peer energy trading, changes are required to distribution network tariffs as network costs (at current rates) limit the feasibility due to cost of transporting

[12] International Renewable Energy Agency, *Peer-to-Peer Electricity Trading, Innovation Landscape Brief*, available at https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Jul/IRENA_Peer-to-peer_electricity_trading_2020.pdf

	promoting local energy markets and consumer empowerment.		energy within the consumers local area. Community batteries could store shared energy and act as a hub. For energy that is traded via a community battery, Networks could reduce the cost of distribution of that energy.
Community batteries	Shared energy storage systems in local communities where residents pool their excess energy for collective use or peer-to-peer trading.	Enables efficient energy sharing, strengthens local resilience, and reduces grid strain during high demand.	High initial investment for storage infrastructure and regulatory issues around shared ownership models. Environmental, transmission/distribution charges offset any price benefit.
Virtual Power Plants (VPP)	Retailers using batteries to arbitrage energy prices (charging when electricity is cheap or negative pricing, discharging when electricity is expensive) can contribute to the stabilisation of the grid. Revenue from these activities can subsidise the energy costs for the consumer.	Provides grid stability while reducing consumer energy costs.	Regulatory complexities around VPP integration with the existing energy grid, including market rules and participation frameworks. Risks of non-compliance for small volumes of FCAS non-delivery far outweigh the benefits.
Personalised Energy Insights	AI-driven tools offer customers tailored advice on how to reduce energy use, optimise consumption, and track potential savings through smart home integration.	Provides actionable insights to help consumers lower their bills and adjust behaviour for better energy efficiency.	Data privacy concerns, lack of standardised AI systems across platforms, and limited adoption of smart home devices.
Flexible Tariff Options	Consumers can easily switch between energy plans (e.g., renewable-first, budget-friendly) based on real-time needs, just like subscription services.	Enables consumers to adapt their energy usage and payments according to changing needs or preferences, encouraging greater flexibility.	Requires regulatory changes to allow real-time tariff switching and integration with dynamic pricing models.
Bundled Energy Solutions	Combining energy supply with additional services like EV charging, smart thermostats, and efficiency audits for convenience and cost-effectiveness.	Provides more comprehensive solutions that simplify the consumer experience while helping to reduce overall energy costs.	Need for integration across different services and potential regulatory barriers for bundling. Some barriers here overlap with others listed above.

5. CPP 4 – Simple engagement

a) Feedback on the principle and customer insights

While some customers are highly engaged and seek personalised energy insights so that they can capitalise on their energy use, the majority of customers find energy pricing complex and difficult to

understand. As is evidenced from the number of complaints to ombudsman[13], the government's initiatives aimed at increasing transparency (e.g., Better Bill Guidelines) have not had the desired impact.

b) Considerations for review

As the energy market and tariff structures are complex, we consider that the four customer archetypes proposed in the Review are overly simplistic and do not reflect customers who have means but who do not understand complexities of market, or who are reluctant to adopt new products or CER due to uncertainty. Our view is that regardless of archetypes, customers should not need to be educated to understand tariffs and how they wish to structure their energy use.

To enhance understanding on the energy market, we consider that government and regulatory bodies could play a stronger role through targeted education campaigns on the key contributors to costs in energy prices. Retailers are often unfairly portrayed as the reason that energy prices are so high, even though – as outlined above – wholesale and network costs are primary drivers.

6. CPP 5 – Appropriate Protections

While customers want extensive protections, their paramount concern is lower energy costs. Often these principles of enhanced protections and low costs can be at odds.

The increasing complexity and frequency of new regulatory requirements can often make it harder for retailers to innovate while maintaining these protections. In considering how to balance appropriate consumer protections we encourage the AEMC to look to previous engagement and research on this. In Victoria, the Department of Energy, Environment and Climate Action has released a "*Consumer Energy Resources (CER) Consumer Protections Review - Directions paper*".[14]The AER's "*Review of consumer protections for future energy services*"[15] in 2023, also identified protections that need to be considered across the CER customer journey, from information provision, marketing, and purchase through to installation, operation and maintenance, and during dispute resolution.

We note that the AEMC has acknowledged this review and advised that the consumer protections framework is not intended to be within scope of this Review.[16] We consider it imperative that any potential reforms be considered alongside action by the AER and DEECA to ensure there is alignment and an awareness of any regulatory burden on retailers.

7. AEMC approach to the review

a) Approach

To ensure the AEMC's recommendations from this Review are both effective and aligned with other ongoing consultations, including those from the newly announced Independent Expert Panel and various regulatory bodies, it is critical that the AEMC engages consistently and proactively with these groups.

In particular, as the Consultation Paper acknowledges, there has already been extensive research and engagement on CER.[17] Given the significant overlap with existing consultations and reviews, it is crucial that the AEMC makes full use of the insights already gathered. We strongly urge the AEMC to incorporate findings from these past efforts to avoid redundant work and ensure a more streamlined, effective approach to regulation.

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[13] Energy & Water Ombudsman NSW, *Annual Report 2023-24*.
[14] DEECA, *Consumer Energy Resources (CER) Consumer Protections Review - Directions paper*
[15] AER, *Review of consumer protections for future energy services, final advice*, November 2023, p. 2.
[16] AEMC, *Terms of Reference, The pricing review: Electricity pricing for a consumer-driven future*, p.4.
[17] AEMC, *The pricing review: Electricity pricing for a consumer-driven future, Consultation paper*, 07 November 2024.

b) Assessment framework and Implementation

We agree with the five (5) assessment criteria proposed by the AEMC. All are important, and we have touched upon many of these in addressing each of the CPPs.

As reiterated throughout this submission, of particular importance are the criteria of "principles of good regulatory practice" and "implementation considerations." To enable retailers to actively innovate to meet future demands, the AEMC must carefully consider how regulatory changes will impact retailers, particularly small retailers, and ensure that any potential reforms are not unduly costly or complex or inhibit innovation.

8. Summary

In summary, Energy Locals agrees with the direction of the Review, at a high level, however, there are number of important considerations for the AEMC:

- To reduce costs for consumers, the AEMC must address the cost inputs for retailers. In particularly, there needs to be greater accountability for distributors and networks in energy costs.
- The proposed CPPs are appropriate, however, there are key considerations to be made in connection with each.
- The proposed consumer archetypes are overly simplistic, and designing changes based on these four may not be effective.
- The complexities of the regulatory framework, including the overlap between different regulatory bodies and state-specific regulations, are deterrents and barriers for product innovation and the uptake of, and investment in, CER.
- Without properly clarifying the lines of demarcation between distributors and retailers and ensuring that regulators have the powers to enforce them, this project will be in vain.
- The AEMC should look to simplify market rules to enable innovation and greater consumer access to renewable energy options, in particular tariff structures and customer notification requirements should be less prescriptive.
- Reducing regulatory complexity and promoting collaboration among regulators is also important to minimise the burden on small retailers and to ensure that any proposed reform is capable of implementation across all jurisdictions.
- We urge the AEMC to streamline regulatory processes to reduce the compliance burden on market participants and, by extension, reduce energy prices for consumers.

Please contact me if you would like to clarify any aspect of our submission.

Yours sincerely,

Adrian Merrick
Chief Executive Officer
Energy Locals Pty Ltd