

12 December 2024

Mr Andrew Lewis
Executive General Manager - Consumer, Markets and Analytics
Australian Energy Market Commission
Submitted via website

Dear Mr Lewis,

AEMC Consultation Paper: Electricity pricing for a consumer-driven future (EPR0097)

Energy Networks Australia (ENA) appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC) recent Consultation Paper *Electricity pricing for a consumer-driven future*.

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the Commission's vision for a broad, forward-looking review examining the role of electricity pricing, products and services in supporting the needs of all customers, including enabling the consumer energy resources necessary to assist the energy transition.

Starting from a broad focus on consumer needs, experience, preferences and outcomes

Network businesses support the approach of working backwards from consumer needs and preferences, towards outcomes that maximise the opportunity for consumers to receive the product and service offerings that they most value.

The Commission is correct to observe that existing pricing arrangements pre-date the significant expansion of the role of Consumer Energy Resources, and customers' significant investments in these resources. Previous network and retail pricing arrangements were devised in a different context, in many cases seeking to address different expected emerging issues.

In a broad, future-focused, review there is need to ensure the review takes into account the full range of factors likely to be impacting on consumer bills into the future. The terms of reference specify a focus on market arrangements, and the roles of distribution networks, retailers and other energy service providers.

The review should, however, consider other significant factors impacting consumers bills and pricing issues generally. These include the pass through of transmission charges, and the growing range of jurisdictional schemes and policy costs recovered by consumers bills. The level, variation, and allocation of these costs have significant linkages and implications for the goals highlighted by the Commission in the Consultation Paper.

The Commission's recent Residential Electricity Price Trends report highlights that network costs are expected to decline by 11% over the period to 2034, but that other costs recovered through network tariffs or final consumer energy bills currently represent a significant component of the final cost of energy (above 2c per kWh in 2025).

While ENA supports the policy objectives of a number of these jurisdictional schemes, the implications of their recovery through energy pricing is a relevant matter for consideration for the review. The Commissions' modelling in the Residential Electricity Price Trends report currently assumes a decline in such policy costs across the projection period. ENA considers an assumption of the expiry of a range of schemes with no further new initiatives replacing them to be inconsistent with past experience and encourages this review to consider a base case assumption which includes either the extension of similar schemes, or their replacement with future schemes with similar end cost implications.

The recovery of transmission costs also occurs through distribution tariffs in each jurisdiction. While the Commission has indicated that transmission pricing arrangements themselves are out of scope for the review, nonetheless, the review will need to consider the implications of current approaches for pricing outcomes for networks, network cost recovery and tariff design, and final retail costs and signals to consumers.

Increasing role and capacities of CER reinforce the need for efficient and equitable outcomes for consumers

The Commission has rightly highlighted the significance of CER in considering electricity pricing approaches in the future.

Across the energy market and delivery system this will present different issues for resolution into the future. For consumers, ensuring their investments are recognised, and that capacity exists to unlock the value of CER assets, either through self-consumption, or sharing of electricity with other grid participants will be key.

The ultimate 'end-state' for the role CER plays is uncertain, as are the precise markets, services and products that will evolve to meet consumers needs. Given this, it is important that regulatory and market design does not presuppose, and is not leveraged to, a settled vision for a single optimised future. Rather, frameworks should permit the emergence of new businesses, service offerings and products, and their trial and evolution in a manner which protects the long-term interests of consumers.

The Commission's case studies highlight the different scenarios and policy interventions which could emerge. The review should also seek to reach outcomes that are robust to futures different from that envisaged in those case studies to arise. In particular, market or policy development which is leveraged to just one set of potential government interventions (such as an assumed creation of a government entity undertaking automatic retail switching services in Box 9) may risk misdirecting policy design efforts.

A key issue for review focus must be on ensuring that the growth of CER availability and penetration does not create or exacerbate inequities between customers, or broad classes of customers. While a range of policy tools exist to address this, the pricing framework for network cost recovery, and in particular recovery of residual costs of the shared network needs to ensure that pricing approaches do not contribute to the creation of new vulnerabilities or disadvantage amongst network customers.

For example, network pricing frameworks need to ensure that an expansion of CER occurs alongside measures to ensure that all customers using the shared network equitably and efficiently contribute to its costs, and that efficient use of the network is able to be achieved through a combination of pricing signals, coordination and other market mechanisms.

Clarity on the application of principles, assessment criteria and legislative guidance for review assessments

The Consultation Paper proposes a set of five Consumer Preference Principles and also four different consumer archetypes as elements to guide its future recommendations. In addition to these elements, the Paper also provides five proposed assessment criteria for potential reform initiatives or recommendations from the review.

Under its existing legislative framework, the Commission is fundamentally guided in its activities by the National Electricity Objective, and the National Electricity Retail Objective, in addition, where relevant, by the set of revenue and pricing principles. The Commission has also provided separate guidance on how it will interpret and apply the National Electricity Objective in its rule-making and assessment functions.

The abundance of different guiding elements identified means that it may be helpful to stakeholders to more clearly understand the way that the Commission intends to bring to bear each of these different considerations in a layered and structured way consistent with the operating legislative guidance. It would be preferable for such guidance to consider the range of factors in the NEO and NERO and identify any implications for how similar potentially overlapping considerations amongst the assessment criteria, Consumer Preference Principles and archetypes will be treated.

This is key for ongoing accountability of the review outcomes to the expressed legislative intent of the framework, established by State, Territory and Federal governments.

A clear setting out of the function of each different type of guiding element would be valuable for stakeholders understanding of their role (for example, the precise role of the Consumer Preference Principles and the overarching NEO factors in the selection of potential future reforms for evaluation and recommendation).

The attached [Appendix A](#) provides further detailed comments on the questions the Commission posed for stakeholder feedback in the Consultation Paper.

If you wish to discuss any of the matters raised in this letter further, please contact Garth Crawford, General Manager, Economic Regulation (gcrawford@energynetworks.com.au).

Yours sincerely,



Garth Crawford
General Manager, Economic Regulation

Appendix A - Response to Consultation Paper Questions

Consultation Paper Question	ENA Response
<p>Question 1: Do you consider that we should make any changes to our proposed approach to this review?</p>	<p>As discussed above, further guidance on the approach to be taken in integrating the AEMC's chosen Consumer Preference Principles, assessment criteria, archetypes and existing legislative guidance would assist stakeholders in ensuring reform proposals and recommendations are assessed in a structured way.</p> <p>Testing early directional thinking of the Commission with the Stakeholder Reference Group and more widely with key affected stakeholders would also be a valuable principle to adopt through the review process.</p>
<p>Question 2: What are your views on our proposed Consumer Preference Principles?</p> <ul style="list-style-type: none"> • 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? 	<p>ENA members support the consideration of consumer preferences as key part of the review. There is, however, a need for clarity around how review generated Consumer Preference Principles and assessment criteria combine and are assessed alongside relevant legislative rule making tests.</p> <p>Concepts of equity and/or fairness are likely to be considered by consumers and governments as a core priority in pricing issues, and this should be considered by the Commission through the review.</p> <p>Consumers may also have a preference for innovation in service offerings / products / engagement avenues – this aspect of consumer preference is potentially something that could be picked up in consideration of the 'Meaningful options' principle.</p> <p>There is also likely to be a relationship between some Consumer Preference Principles and consumer archetypes. As an example, 'meaningful options' may be a preference that is only important to parties with greater interest in engaging in different types of offerings.</p>
<p>Question 3: What are your views on our proposed Consumer Archetypes? For the purposes of this review:</p>	<p>As a non-prescriptive tool for considering design issues and impacts of potential future approaches, the archetypes may assist. No single set of consumer archetypes will capture the full diversity of future energy consumers, especially as consumers may move between archetypes through time.</p>

<ul style="list-style-type: none"> • 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? 	<p>It will be key for review findings to consider that many consumers at a point in time may have an interest in engaging in different service offerings but may not have the ability or opportunity to do so due to their individual circumstances.</p> <p>A further issue for consideration for both the archetypes and CPPs is that consumers and their preferences are not static, with needs and preferences which may vary over time. An example is that there may be new or emerging archetypes that may occur as a function of policy or technology changes that are not currently known or considered. This will make it important that any framework adopted is reasonably flexible to potential shifts in consumer preferences.</p>
<p>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:</p> <ul style="list-style-type: none"> • 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? 	<p>It is unclear whether a public review process which seeks to imagine - or predict - a range of future products, services and pricing structures, and design a framework which accommodates all of these will result in a functional outcome for consumers. A range of imagined products, services and pricing structures may be unviable for reasons which go beyond the capacity of the framework to encompass them. Service, product and pricing offerings in a market setting are difficult to predict accurately, and there is significant risk of an 'anchoring bias' if other product or service markets with different underlying economic characteristics form the basis of policy design, without consideration of these differences. Flexibility to enable innovation and evolution of product and service offerings in line with consumer preferences will be important.</p> <p>In one sense, the basic customer service or energy supply and access to the grid is not changing. Rather, how customers are using and sourcing energy is changing. In most cases customers are changing the way they source and use energy to enhance lifestyle at minimum cost. This alters the product mix and factors of production and in turn this will impact on end use prices.</p> <p>One issue to consider when looking at the alignment of proposed Consumer Preference Principles and pricing structures is considering the nature of the value customers derive from the shared network. Pricing structures should support customers deriving the most subjectively evaluated value from their network connection and services, rather than impose a 'top-down' assumed view of how customers want the network to be utilised.</p> <p>As an example of this, networks and regulatory agencies are currently highly focused on policy initiatives to better leverage the latent capacity of the distribution grid, especially in non-peak periods to realise greater customer savings through time through increased utilisation. While the 'Value for Money' CPP would suggest a prioritisation around maximizing network utilisation, the</p>

	<p>'Availability' principle might also be interpreted as CER consumers having a strong preference for the shared network to be available to enable the unlocking of their CER investment value via exports to the grid. For clarity, ENA is not suggesting efficient utilization of the grid, consistent with meeting customers energy demands is not a critical priority. Rather, this instance highlights that other aspects of value – such as availability, capacity, flexibility and convenience are also valued by consumers alongside price, and work on pricing structures and product and service offerings need to also reflect these 'bottom up' revealed consumer preferences, present across a wide range of markets.</p>
<p>Question 5: How could electricity products, services, and pricing structures be presented to serve future consumers?</p>	<p>Over time ENA would expect an appropriate goal would be simplification with options for some consumers to engage with more complex pricing structures, with appropriate protections.</p> <p>In the development of products, service and pricing structures, and their relationship with what may be relatively more granular network charging regimes into the future a key matter to consider will be the impact of recovering network costs through energy-based pricing, and the welfare effects of this on consumers generally, and consumers experiencing vulnerability, in particular.</p>
<p>Question 6: How could consumer protections be balanced to enable further innovation in a future retail electricity market?</p>	<p>Nationally consistent consumer protections in energy which were fit-for-purpose to evolving market offerings would assist further innovation in the future retail market. This has not been achieved to date, with inconsistent adoption of the National Energy Consumer Framework across some jurisdictions.</p> <p>Any material changes to existing consumer protections should be framed in line with a clear 'problem statement' and be considered with reference to likely costs and benefits, alongside alternatives.</p>
<p>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?</p> <ul style="list-style-type: none"> • Consider the changes that are happening in the system now – what barriers might either endure or emerge post 2035? 	<p>ENA considers there are a range of potential barriers to consider:</p> <ul style="list-style-type: none"> • Maintaining or achieving social license for pricing changes • A risk of imposing 'one size fits all' prescriptive regulatory network pricing structures that do not adequately reflect networks different characteristics and circumstances, resulting in higher than necessary network costs • State-based derogations and or jurisdictional inconsistencies leading to high barriers for retail entry and innovation

	<ul style="list-style-type: none"> • Rigidities in the network tariff variation framework in between the 5-yearly Tariff Structure Statement approval processes • Affordability is likely to be a key barrier – particularly if new product, service or pricing structures have the effect of increasing inequitable access to CER benefits, pricing or recovery of shared network cost outcomes across consumers energy markets. • DNSPs face barriers in their ability to offer innovative non-network products and services for the benefit of customers, which are detailed in the ENA's The Time is Now report.
<p>Question 8: What should network tariffs look like in the future?</p> <ul style="list-style-type: none"> • What are the key choices and trade-offs we should consider when answering this question? 	<p>The primary function of network tariffs are to promote efficient investment in, and use of, the shared network for the long-term interests of consumers by providing clear cost-reflective signals, and equitable recovery of shared network costs.</p> <p>Network tariffs should promote equitable outcomes both between customers at a point in time, and temporally across time. An example of the latter is ensuring that those customers whose network use is most likely to drive increase costs over time contribute equitably through time to those increased costs.</p> <p>A critical part of answering the question of the future shape and nature of network tariffs is confirming alignment around the intended recipients of network tariff signals. The existing rules guide networks to seek to set cost-reflective, economically efficient prices, which customers are capable of understanding and responding to. The 'consumer impact' principle, and TSS consultation processes, together with the other guidance in the Rules leads to residual ambiguity around the intended recipients of network tariff signals. This was an issue addressed in a number of AER collaborative workshops several years ago.</p> <p>There would, however, appear to be little value in networks engaging with end consumers on network tariffs if these are not seen by those consumers in their retail prices. It is possible with movement to simplified retail pricing structures in the future, there may be reduced value in engagement with consumers on network tariffs.</p> <p>Key choices and tradeoffs to consider in relation to this question are:</p> <ul style="list-style-type: none"> • Whether network tariffs should be designed for final customers or retailers, or is a hybrid approach possible where networks may provide simpler tariff structures to retailers for simpler retail pricing options and more dynamic tariffs for customers seeking more control of their electricity use via VPPs, energy services providers, or dynamic retailer arrangements

	<ul style="list-style-type: none"> • Network tariffs having the capacity to be responsive to individual network circumstances and characteristics, and reflect a network 'ownership' of tariff development, or a narrow centralised 'top-down' set of regulator-determined network tariff methodologies • The level of prescription and flexibility in the NER on possible network tariff approaches, and implications for the capacity of tariffs to be subject to ongoing innovation and refinement.
<p>Question 9: How should the role of energy supply businesses evolve to meet customer and energy system needs in the future?</p>	<p>DNSPs will increasingly play a more complex role of facilitating a denser distribution grid, with evolving CER, managing emerging issues such as minimum demand, and enhancing the efficient utilisation of the grid – to deliver customer value. This is seen already through grid innovations, trials, the development of dynamic operating envelopes, and the opportunity for grid side CER to lead to more opportunities for customers to derive value from CER – both from those who have it, and those that may have traditionally lacked the opportunity to participate</p> <p>It is clear that the efficient pathway for networks best serving customer needs is unlikely to involve effectively legacy 'asset type' regulatory approaches (where poles and wires are the only type of asset able to be deployed to deliver network services) – and a greater focus on networks service delivery through a portfolio of traditional and non-traditional assets, purchased services, and flexible markets.</p> <p>ENA's initial view is that the role of energy retailers should be to manage and package up risk on behalf of their customers building on their unique interface with customers and the market, while innovating offerings to meet changing customer needs and preferences.</p>
<p>Question 10: What changes might be required in the future to the interfaces between different energy supply businesses?</p>	<p>This question is dependent on a range of decisions which the review process has not yet reached, and would largely be determined by, for example, findings and recommendations around the issues discussed in the AEMC's Questions 8 and 9.</p>
<p>Question 11: Do you have any feedback on our proposed assessment criteria?</p>	<p>As noted in response to Question 1, there is a useful opportunity for the Commission to provide further details around the precise role of the assessment criteria, and other elements guiding its assessments of review issues, such as its governing legislative guidance, the Consumer Preference Principles and the suggested archetypes.</p>