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Chair
Australian Energy Market Commission
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Submitted via: <https://www.aemc.gov.au/contact-us/lodge-submission> (EPR0097)

Dear Ms Collyer,

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

Erne Energy welcomes the opportunity to provide a submission to the AEMC's consultation paper on their self-initiated review of electricity pricing for a consumer-driven future¹. The Review is a timely exploration of future needs for tariff development and application as the electricity system transforms. The Review should also encompass an exploration of the roles of both Distribution Network Service Providers (DNSPs) and Retailers and how those roles will need to change in the future, as well as exploring new entities entering the market and how these new parties, such as aggregators, should be regulated.

Is the Review focusing on all consumers or is the Review more focused on consumers with the CER and incentivising them to maximise the benefits of their CER for the wider system? The needs of the consumer that has invested in CER and how to motivate them to behave in a way that most benefits the system appears to dominate the Review language.

There are inherent tensions in the assumptions that underlie the Review:

1. Motivation to invest in Consumer Energy Resources (CER) versus motivation to "help the system" or "share the benefits"

There is a wealth of evidence that suggests consumers invest in CER to reduce their energy costs and reduce reliance on "the grid" (industry)². If there is another motivation ascribed to consumers investing in CER, then it is participating in the clean energy transition. There is no evidence that Australians who have invested in or are planning to invest in CER are doing so to "support the system" or to "share the benefits". The notion that there is a significant cohort of consumers with CER willing to buttress the system³ needs much deeper analysis as part of the Review.

Notwithstanding the many assertions that "orchestrated" CER or "good" integration of CER will lower overall system costs for all consumers^{4,5}, the persistent low level of consumer trust in the industry⁶ implies that "orchestration", such as Virtual Power Plants (VPPs) will continue to have a limited uptake by consumers⁷.

Consumers are very clear that they do not want to hand over control of their CER to a third party, with only 6 % of consumers prepared to give full control to a third-party⁸ and this reluctance needs to be properly considered by the Review because the lack of trust and unwillingness to cede control of CER will necessarily impact future arrangements.

¹ <https://www.aemc.gov.au/sites/default/files/2024-11/Consultation%20paper%20-%20Electricity%20Pricing%20for%20a%20Consumer%20Driven%20Future%20-%20review%20-%20edit%205.27.pdf>

² <https://energyconsumersaustralia.com.au/publications/surveys-energy-consumer-sentiment-behaviour>

³ <https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en>

⁴ <https://www.energynetworks.com.au/resources/reports/electricity-network-transformation-roadmap-final-report/>

⁵ <https://aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?la=en>

⁶ <https://youtu.be/9EUnyoxOxRw>

⁷ <https://aemo.com.au/-/media/files/initiatives/der/2022/community-perceptions-of-der-and-aggregation-services.pdf?la=en>

⁸ <https://energyconsumersaustralia.com.au/publications/surveys-energy-consumer-sentiment-behaviour>

2. *Consumers' lack of desire for choice versus widespread industry assumptions that more products and choice are needed.*

The National Electricity Market (NEM) was founded on the basis that competition and choice would deliver better outcomes for consumers⁹. However, there is substantial evidence that consumers are not choosing, that they are “stuck” with their current retailer¹⁰ and are not “shopping around” for better products and retail offers.

The Review will explore the potential products and services future consumers might want, but there needs to be an examination of whether consumers want these products and services and even if they are seeking more choice. If consumers are not interested in choice, and nearly 50 % have not investigated switching in over 2 years even though nearly 80 % of consumers could access more beneficial arrangements¹¹, then new products and services will not drive the integration of CER or consumer flexibility and responsiveness that might reduce the overall costs of operating the system.

Essentially, the Review implies that products and services will be more complex and provided by a much wider array of third parties than is the case today. While the future consumer archetypes include approaches that aim to mitigate some of that complexity (e.g. automated annual switching to the “best” tariff), these mitigations appear to imply a reduction in retail competition and innovation (e.g. new government agency) and suggest a very different role for retailers in the future.

Care is needed when discussing “integrating CER effectively”. Approaches to date, such as flexible exports, charging for export use of system (ERC0311), VPPs, Project EDGE, emergency backstops, Flexible Trading Arrangements (ERC0346) and Scheduled Lite (ERC0352) have been designed to support the current incumbent business models of the industry, particularly DNSPs, Retailers and AEMO.

The Review will necessarily explore whether the current charging models of the incumbents are fit-for-purpose in the future. DNSPs, Retailers and AEMO are dependent for their income on the amount of electricity passing through the meter, plus fixed charges, and in a system where CER is increasingly deployed, reducing electricity through the meter, this current model is not sustainable. It is also not equitable for those that can't reduce their electricity usage for whatever reason, but particularly if a consumer is unable to invest in CER (or electrification with regard to the recovery of the costs of the gas distribution networks).

It is possible that past and current approaches to integrate CER effectively have already limited options for future new pricing structures.

Consumer Preference Principles

The Consumer Preference Principles (CPP) appear reasonable. However, there is a tension between value for money and availability based on the ability of a given consumer to be flexible with their electricity use.

Value for money is a clear priority for consumers, but there will be occasions in the future when having access to electricity (availability) will also be a high priority. On extremely hot or cold days consumers will need to use electricity to cool or heat their homes and not having electricity may have detrimental health impacts¹². These high electricity use occasions are very likely to coincide with network peak demand, which will push up prices, further placing stress on consumers.

9

<https://www.accc.gov.au/system/files/Ben%20David%20R.%20Rethinking%20markets%2C%20regulation%20and%20governance%20for%20the%20energy%20transition.pdf>

¹⁰ <https://www.aemc.gov.au/sites/default/files/2024-09/Submission%20-%20EPR0097%20Draft%20Terms%20of%20Reference%20-%20Energy%20Consumers%20Australia%20-%2020240823%20%281%29.PDF>

¹¹ <https://www.aemc.gov.au/sites/default/files/2024-09/Submission%20-%20EPR0097%20Draft%20Terms%20of%20Reference%20-%20Energy%20Consumers%20Australia%20-%2020240823%20%281%29.PDF>

¹² <https://onlinelibrary.wiley.com/doi/epdf/10.5694/mja12.10218>

While the DNSPs and market bodies strongly endorse cost-reflective tariffs, it is not clear how truly these tariffs represent the actual cost to use the network¹³. Equally, it is not clear how well consumers can respond to cost-reflective tariffs, particularly at times where consumer well-being and electricity network well-being conflict (e.g. extreme temperature days).

In peak demand situations, public appeals typically result in consumer demand reduction for no remuneration¹⁴.

Consumer Archetypes

More work is required on the proposed archetypes to better reflect the archetypes identified by Energy Consumers Australia (ECA)¹⁵ and that develops a realistic approach, which considers how today's consumer archetypes will transition to future consumer archetypes and whether and how pricing can support that transition.

None of the AEMC's future archetypes appear to have any lack of trust in the "industry" and are prepared to have their electricity costs managed by a third party. Only Sandra reflects the small cohort of today's consumers with CER that are directly and actively engaged in the market, and it is not clear if Sandra's motivation is for her own benefit or for a wider system benefit (ECA's "Adaptable & self-interested" or "Change ready").

Only ECA's "Change ready" archetype is looking to integrate their CER effectively. Potentially, the "Community focused" archetype could be educated to participate. This suggests that only 20 % of today's consumers with CER are ready to be price responsive, with nearly 30 % potentially interested. This still leaves 50 % of consumers either disengaged, confused or not interested in CER or the electricity market.

Helpfully, the ECA's work on current archetypes identifies the percentages for each archetype (Figure 1).

The imagined archetype distributions, based on the archetype descriptions, in the future (middle and bottom panels in Figure 1) provide an illustration of how the different cohorts of consumers need to "shift" to effectively integrated CER (middle panel) or, if trust in the industry remains low, how a less ideal outcome would see consumers invest in CER with little or no interest in integration (bottom panel).

Another useful reference on today's archetypes is from ACIL Allen, prepared for the AEMC and published in 2021¹⁶, which has 8 archetypes, ranging from "Enthusiasts" to "Hard to help" and "Stuck". These archetypes feature many that are unable to participate in the market with CER. The percentage of consumers in each archetype is not given and would provide an indication of the scale of the shift needed to deliver the sort of orchestration of CER envisaged in the 2024 Integrated System Plan (ISP) and the consumer responsiveness imagined by industry and the market bodies.

The Review needs to consider the distribution of today's archetypes and realistically explore how today's archetypes might transition to the future (Figure 2). As with all scenario approaches, future projections need to be plausible and it's not clear that the current proposed future archetypes are plausible.

It would be helpful to understand what the distribution (percentage) of each future archetype might be or might need to be, to maximise the benefits of (a) integrating CER effectively and (b) new pricing arrangements for all consumers.

¹³ <https://energyconsumersaustralia.com.au/wp-content/uploads/report-cost-reflective-network-tariffs-arent-cost-reflective-5.pdf>

¹⁴ <https://www.theguardian.com/australia-news/2024/nov/27/heatwave-bom-weather-forecast-sydney-power-outage-blackouts-temperature>

¹⁵ <https://energyconsumersaustralia.com.au/wp-content/uploads/report-doc-powerup-consumer-voices-energy-transition-2.pdf>

¹⁶ <https://acilallen.com.au/projects/energy/consumer-archetypes-for-a-two-sided-market>

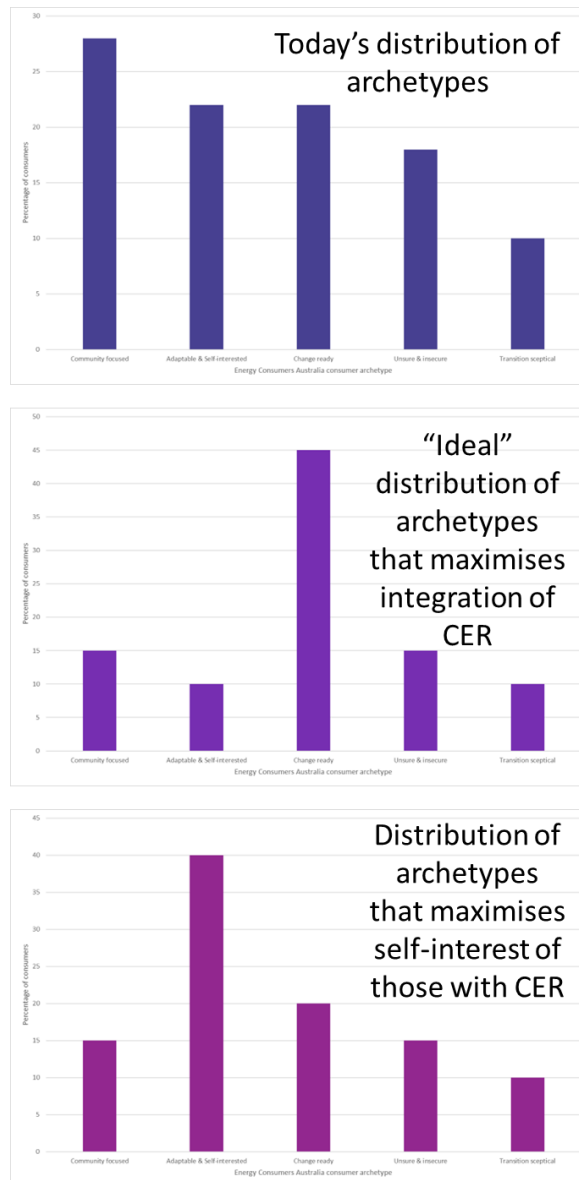


Figure 1: Top panel: Today's distribution of archetypes (taken from¹⁷)
 Middle panel: Future ideal distribution of archetypes that would maximise CER integration (supposition)
 Bottom panel: Future distribution that continues lack of trust in industry resulting in more CER that is less integrated (supposition)

To have any value, the Review must demonstrate how pricing reform and the increase in both products and services and third-party providers (complexity) will support the transition of today's consumers to tomorrow's consumers. Without a solid understanding of today's consumer archetypes it will not be clear how new pricing approaches can shift these consumers to the future.

Several of the AEMC's proposed future archetypes rely on automated switching services to the "best" product for their circumstances (based on a review of electricity use data). The advent of switching services, particularly a government agency, suggests that competition and innovation in retail and service offers might be limited. If a government agency is going to move some consumers onto the "best" product, then it's not clear why Retailers would offer competing products.

¹⁷ <https://energyconsumersaustralia.com.au/publications/powerup-consumer-voices-energy-transition>

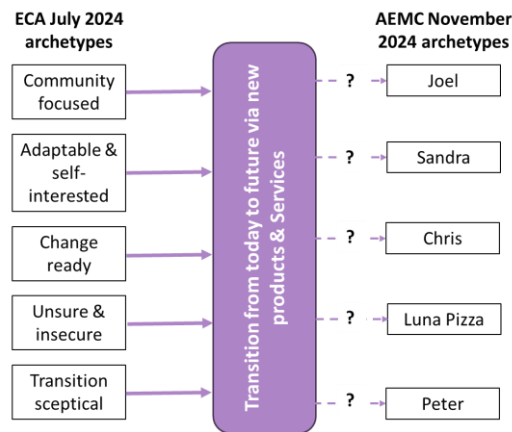


Figure 2: The Review needs to demonstrate how today’s consumers can transition to plausible future consumer archetypes and whether new pricing arrangements can genuinely support that transition

Additionally, the advent of switching services and a government agency strongly suggests the need for new regulation to protect consumers and ensure they are getting the best offer, particularly where the consumer is very “hands off” their electricity costs.

It might be helpful to develop an archetype that is based on community values, analogous to ECA’s “Community focused” archetype. There is some evidence that community energy programs may have higher engagement as it often involves a trusted community organisation that facilitates engagement^{18,19}.

Presentation of “choices”

Any imagined future for consumers, whether with or without CER, involves more complexity in the number of potential providers and consequently the number of products and services on offer to consumers.

In an environment where consumers already don’t cope with choice and actively avoid choosing or engaging with the market, it is not clear how more choice will benefit consumers²⁰.

This lack of engagement with the electricity market is compounded by the lack of trust in the industry and the limited interest in those with CER in participating in VPPs or working with aggregators²¹. This lack of engagement, trust and ceding control are all major barriers that need to be considered as part of the Review.

Many thanks for the opportunity to provide a submission to the Consultation Paper for the Pricing Review. Please contact me if you need further information.

Yours Sincerely

Jill Cainey

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¹⁸ <https://aemo.com.au/-/media/files/initiatives/der/2022/community-perceptions-of-der-and-aggregation-services.pdf?la=en>
¹⁹ <https://kwmc.org.uk/projects/solabristol/>
²⁰ <https://energyconsumersaustralia.com.au/news/better-energy-offers-available-why-arent-consumers-choosing-them>
²¹ <https://aemo.com.au/-/media/files/initiatives/der/2022/community-perceptions-of-der-and-aggregation-services.pdf?la=en>