

Ref: JF:AP20241214

12 December 2024

Mr Andrew Lewis  
Executive General Manager - Consumer, Markets and Analytics  
Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

Dear Mr Lewis

### Consultation Paper: Electricity Pricing for a Consumer-Driven Future – ERP0097

Essential Energy welcomes the opportunity to provide feedback to the Australian Energy Market Commission (the Commission) on its Consultation Paper as part of its *Pricing Review: Electricity Pricing for a Consumer-Driven Future* (the Consultation Paper).

Essential Energy manages over 183,000 km of powerlines, covering 95% of New South Wales and parts of southern Queensland, serving more than 890,000 customers, including homes, hospitals, schools, businesses, and community services. Essential Energy has made significant progress in connecting a substantial number of Consumer Energy Resources (CER), particularly solar photovoltaic (PV) systems, to its distribution network. As of the end of November 2024, there were 300,380 solar connections to Essential Energy's network, with a total panel capacity of 2,178 megawatts (MW), which represents a third of total Essential Energy connections having CER in some form.

Essential Energy supports the Commission's future-focused approach to this Pricing Review. Whilst a more novel approach to undertaking such a review, Essential Energy welcomes the opportunity to rethink how the energy system and consumer pricing can better meet the needs of energy consumers into the future. Essential Energy looks forward to engaging with the Commission throughout this Pricing Review and is pleased to contribute directly through the Review's Stakeholder Engagement Group. Given the extended timeframe for this process, we are particularly supportive of opportunities to accelerate quick-win reforms. Where consensus can be established on the need and form of potential changes, there may be benefits in providing an off-ramp for uncontentious reforms ahead of the Final Report due in March 2026.

This submission provides Essential Energy's perspective on the issues raised in the Consultation Paper, responding to questions raised by the Commission throughout. The key points highlighted are:

- ▶ *Risks should be better managed on behalf of consumers:* Currently, consumers are bearing risk in their energy prices where they have limited opportunity to manage that risk. The Pricing Review is an opportunity to re-examine roles and responsibilities on the supply and demand side to ensure risks are managed appropriately, resting with those best able to manage them; and prices can align with consumer preferences.

- ▶ *Consumer archetypes should reflect the needs of regional and remote consumers:* The Commission should consider the distinct needs and limitations of energy consumers outside metropolitan areas, both as individuals and communities, and explore how these consumers are not left behind. The Commission must take into account the nature of rural and remote electricity distribution networks, particularly customer density.
- ▶ *Equity should be a core tenet of pricing and tariff reform:* There needs to be greater considerations of equity through further stages of this Pricing Review, including an explicit focus on achieving equity of outcomes in regional areas, where retail competition cannot be relied upon to deliver value-for-money or choice for many customers.
- ▶ *A range of potential pricing models should be considered:* Essential Energy welcomes consideration of a broad range of potential retail pricing models through this Pricing Review, including a focus on how distribution network service providers (DNSPs) can structure and price tariffs for retailers so that retailers can develop electricity services pricing that respond to consumer preferences. What must be avoided is designing the rules for a specific pricing model, which may be superseded in the future due to technological or other changes that have an impact on consumer preferences.
- ▶ *More flexibility is needed in network tariff setting:* The Commission should consider accelerating reforms to provide greater flexibility in the Tariff Structure System (TSS) process to provide DNSPs with the capacity to respond to changes in technology and customer demands within the five-year regulatory period.
- ▶ *Transmission costs should form part of a holistic electricity pricing review:* Essential Energy welcomes the Commission's openness to considering differences between transmission and distribution pricing, as DNSPs' capacity to host additional generation and storage could reduce inefficiency by boosting network utilisation and putting downward pressure on consumers' bills.

Further detail on Essential Energy's perspectives and responses to questions raised in the Consultation Paper can be found in the appendix.

Essential Energy is committed to engaging in any reforms that serve the long-term interests of consumers, and we look forward to contributing to the next stage of consultation. If you have any questions in relation to this submission, please contact Hilary Priest, Head of Regulatory Affairs via [hilary.priest@essentialenergy.com.au](mailto:hilary.priest@essentialenergy.com.au) or via phone 0419 818 115.

Yours sincerely,

A handwritten signature in black ink that reads "Annie Pearson".

Annie Pearson  
Chief Corporate Affairs Officer

## Appendix

### RISKS SHOULD BE BETTER MANAGED ON BEHALF OF CONSUMERS

Electricity is almost unique among service markets in exposing retail customers to costs and risks along the supply chain caused by factors outside of their control. This is compounded by a lack of adequate signals from retailers to small consumers to use electricity in a way that benefits themselves, through lower electricity bills, and the electricity grid through incentivising utilisation at the right times to manage peak or minimum demand.

Currently, network tariffs must be designed to provide cost-reflective signals to consumers that promote efficient investment in and utilisation of the network in the long-term interest of consumers. Cost reflective network tariffs are consulted upon with stakeholders and end-use customers, so they can understand the impact of electricity use on network investment and operation and can validate how Tariff Structure Statements (TSS) have been developed and customer prices are charged. Network tariffs will continue to evolve with richer data and dynamic operations, all of which should reduce drivers of network costs. The key is to apply these lessons through greater regulatory flexibility, while safeguarding stability and certainty for customers. This potential round of reform should be able to continue to evolve as technology advances and consumer demands change.

In response to Question 8, networks can and should continue to develop tariffs that manage the risks of operating their networks, promote efficiency and minimise costs. However, there are considerations and trade-offs that need to be addressed through the Pricing Review with some potential future options discussed below.

#### **Option 1: Retailers directly pass through network tariff price signals to consumers**

In setting cost-reflective tariffs, networks seek to send strong price signals that incentivise consumers to use the network at times to reduce peak or minimum demand and ultimately the need for network augmentation. Ideally, retailers should pass through these price signals to seek to change when consumers use energy. However, in practice, retailers' pricing may not include these same price signals because of the way retailers structure pricing for their energy offers.

From 1 July 2024, Essential Energy introduced the Sun Soaker tariff as its default tariff, with a strong price signal to incentivise use of the network between 10am to 3pm when solar PV exports are at their peak in the day. Essential Energy's experience to date with Sun Soaker's introduction has not shown that these strong price signals are being passed through to consumers in their retail pricing. Retailers have not reflected this pricing in their retail pricing for customers in Essential Energy's network area.

This experience indicates that, in the absence of alignment between network tariffs and retail prices, the incentives to shift consumer behaviour are not being seen by the end-use customers. Therefore, the benefits that could flow from cost-reflective network tariffs to consumer's energy bills, particularly those without CER, are not being realised. Also, there are incentives that retailers may need to send to customers in addition to incentives to encourage the efficient utilisation of the network.

Essential Energy is looking forward to understanding the reasons why the potential benefits of cost-reflectivity are not being realised as the Review progresses and to support remedies where there are regulatory barriers to ensure risks are not exposed to risks unnecessarily. Essential Energy will advocate for reforms that enable reflection of all relevant incentives to be factored into pricing structures for consumers in a way that matches their preferences.

## Option 2: Networks set tariffs for retailers that help retailers manage risk and support retail price innovation

Another option is for networks to work with retailers to ensure network tariffs are structured in a way that allows retailers to manage risks and deliver innovative products and services for customers. Retailers are best placed to manage the risks on the wholesale supply and demand side and have sophisticated tools at their disposal to do so, but there has been little innovation in retail products and services developed for customers over the past decade.

Essential Energy would welcome the opportunity through this Pricing Review to better understand how network tariffs could be structured to assist retailers in serving customers' needs, and to enable retailers to more efficiently manage risks and reduce costs to consumers.

Unlike previous rounds of reform, we have an increasingly better understanding of the technology mix and patterns of consumer demand, which will only improve with richer data and the consumer's ability to engage with new energy service providers and opportunities.

This goes to the heart of Questions 9 and 10. There is potential to make changes to network tariffs as technology and customer demands change, but these will fundamentally remain economic in nature. However, there may be trade-offs that can be made in the structure to potentially simplify network tariffs that may facilitate retailers in better managing risk and having retail products that customers may prefer.

This also requires cost-reflective network pricing to be considered at a higher level – that is, not set at the end consumer level, but more broadly so that retail tariff structures can encourage the most efficient use of the network and send appropriate signals to customers, as a whole.

### ***Case Study: Essential Energy's participation in the Energy Charter's #BetterTogether Customer-Led Tariff initiative***

Essential Energy is collaborating with EnergyAustralia through the Energy Charter on Customer-Led Tariffs. This initiative is exploring different models of network tariffs and retail products, with and without CER, to better understand how these may benefit consumers and influence consumers' energy utilisation. This initiative aims to tackle customers' frustrations with current retail pricing structures head-on, offering alternative retail models that aim to provide greater simplicity, fairness, and predictability, among other customer-focused outcomes.

Essential Energy is working closely with EnergyAustralia to understand how network tariffs and pricing can be structured to incentivise retailers to improve network utilisation, to more effectively orchestrate CER and ultimately better meet consumers' needs. Such network tariffs may involve dynamic pricing or pricing of capacity. These tariffs are designed for retailers only, which should allow retailers to manage cost certainty and risk on behalf of their customers. EnergyAustralia will then pass through cost signals in customer-friendly retail options. The retailer will also take the lead in orchestrating CER to optimise both customer and network outcomes, including reduction in peak demand.

The objective of the #BetterTogether initiative is to show the value of DNSPs and retailers pulling in the same customer-focused direction, and to illustrate the potentially significant benefits of pricing reform. While this trial is still in its early stages of development, all participants envisage that there will be opportunities for the insights and data it generates to inform further stages of this Review.

The Pricing Review should also consider the impact of jurisdictional and other costs that networks must pass through to retailers. These serve to inflate network tariffs as a proportion of customers' bills, as highlighted in Section 4.2.1 of the Consultation Paper. However, a growing proportion of tariffs are for

elements over which DNSPs and consumers have no control and cannot be reduced through pricing reforms. Therefore, there is potential risk to the social licence of this Review. The Commission should consider whether the components of DNSPs' tariffs are transparently disclosed in its analysis of the costs faced by consumers through the further stages of this Pricing Review.

### **CONSUMER ARCHETYPES SHOULD REFLECT THE NEEDS OF REGIONAL AND REMOTE CONSUMERS**

Essential Energy believes the distinct needs and perspectives of regional and remote consumers should be considered as part of this Review. In response to Question 3, the Consumer Archetypes present a useful framework for understanding the needs and limitations of different consumer stakeholders, but the lack of locational lens means these may not capture the diversity of customers' needs and limitations across Essential Energy's footprint.

Reforms that benefit the bulk of customers who sit in the middle of the engagement spectrum are likely to yield the greatest positive impacts, and this is where the Commission should focus its efforts through this Review. The best resourced and most engaged customers are an important group, but the Commission should not assume that most customers have the desire or capacity to be more engaged with their energy consumption – now or in the future.

For many consumers in regional and remote areas, access is a defining factor of their capacity to engage, both in terms of access to services and access to competition for those services. Under the Consumer Archetypes presented in the Consultation Paper, rural and regional consumers may share some characteristics with the 'behind barriers' and 'not to be left behind' groups, but their constraints extend far beyond 'resources to engage'; customers in the Essential Energy network area may have the resources to engage but they are restricted due to limited retail competition and lack of service providers due to remoteness. The Commission should introduce a location-based lens to its understanding of consumers' capacity and willingness to engage, potentially through a change to *access* in place of *interest* through the Consumer Archetypes.

### **EQUITY SHOULD BE A CORE TENET OF PRICING AND TARIFF REFORM**

The Consultation Paper raises issues related to affordability and vulnerability for individuals but does not discuss how the future electricity pricing framework will deliver equitable outcomes overall. Essential Energy would like to see this addressed through future stages of this Review and calls for an explicit focus on achieving equity of outcomes in regional areas, where retail competition cannot be relied upon to deliver value-for-money or choice for many customers.

Additionally, and in response to Question 2, it would be useful for the Commission to unpack its definition of value-for-money in the Consumer Preference Principles as part of an enhanced focus on equity. What constitutes value for one consumer may be different for another, and best value does not necessarily mean lowest cost. Similarly, there is a compelling case for customers to be protected from exposure to price volatility through consistency and predictability in their retail electricity bill. The Commission should consider reframing predictability as an objective of pricing reform, as opposed to a potential option for consumers.

The Commission should consider the equity implications of an energy system with high CER penetration. CER uptake can benefit many customers and can be a net positive for the network but can also widen technology inequity. Increasingly, networks may be seen as a form of insurance, with many customers with CER only requiring network services on occasion. There is a risk that consumers without the capacity or resources to install CER will be more exposed to price volatility and could be left with rising network costs. Pricing models of the future should reflect this, recognising that the nature of services provided by – and expected of – DNSPs will vary between customers, and there is a need to provide

equitable outcomes for consumers who remain reliant on traditional forms of supply. This presents scope for rethinking pricing at a high level, potentially placing less emphasis on cost reflectivity than in the past.

While not specifically in scope for this Review, concession frameworks need reform so that vulnerable customers have targeted and appropriate support to help them manage the cost of their electricity supply.

### **A RANGE OF POTENTIAL PRICING MODELS SHOULD BE CONSIDERED**

Essential Energy supports consideration of a broad range of potential retail pricing models through this Pricing Review. We would welcome discussion of how DNSPs can help to structure tariffs for retailers so that, in turn, retailers can develop electricity services pricing that respond to consumer preferences. The Directions Paper should propose various pricing models and detail how these could benefit different consumer groups.

In relation to Question 4, the Commission should note that the dominant electricity pricing model of the future may not yet exist, but the principles this Review establishes will be essential for guiding its development.

The unique characteristics of the electricity market mean it is unlikely that the optimal solution will be one simply borrowed from another service market. However, much can be learned from other utilities markets about consumer preferences for simplicity and predictability in retail pricing for services, especially where consumers do not have capacity or capability to manage risks. There will remain consumers that, through their initiative, will be willing to accept risk through more direct management of their retail interface with the electricity market, so pricing options should remain for those that are highly engaged.

The services of the future will need advanced billing solutions that go beyond traditional metering points, including asset-level billing and flexible demand management that can provide more accurate and responsive pricing structures, reflecting the real-time capabilities of modern appliances and energy systems. These initiatives can also enhance equity outcomes for many customers, with those without the resources or capacity to install CER benefiting from surplus capacity in their neighbourhoods.

Essential Energy supports a future energy system where every electron is valued, irrespective of where it is generated, but does not believe that every electron must be priced. Cost recovery is likely to remain an essential element of network tariffs for DNSPs, but recovering long-run marginal costs on a per-service basis may make more sense than on a volumetric basis, particularly in a decentralised system. Or it may be necessary to price both ways. Additionally, a shift to a new pricing model provides an opportunity for a rethink of how DER and CER are valued. Customers who have invested in CER want to see a return on their investment, and the pricing framework should provide options for those with the resources to benefit themselves, their communities and the network.

### **MORE FLEXIBILITY IS NEEDED IN NETWORK TARIFFS SETTING**

The rigidity of network tariff setting processes is a major barrier to DNSPs' capacity to adapt to new technologies – including DER and CER – and customer demands. Rather than being an enabler of innovation behind the meter and at community level, the pricing framework requires DNSPs to anticipate and set tariff structures with limited capacity for change during regulatory periods.

The Australian Energy Regulator in its *2024 State of the Energy Market* report noted that the five-year Tariff Structure Statement (TSS) process “may no longer be fit for purpose,” and reforming these arrangements should be a consideration of this Pricing Review. Greater flexibility in the TSS process would provide

DNSPs with the capacity to respond to changes in technology and customer demands within the five-year regulatory period, enabling benefits for customers and lower costs sooner.

Essential Energy would support a dual amendment pathway for tariff changes within a regulatory period, with targeted amendments for simple changes and a lower amendment threshold for more substantive changes, and we understand this reform is being advanced by Energy Networks Australia. If consensus can be reached on the need for change, this reform should be progressed in early 2025, which will support the outcomes of this Review.

#### **TRANSMISSION COSTS SHOULD FORM PART OF A HOLISTIC ELECTRICITY PRICING REVIEW**

Both transmission and distribution pricing frameworks have a direct impact on customers and, therefore, from a consumer's perspective, both should be considered in this Pricing Review. The energy transition requires an integrated approach that leverages both distribution and transmission networks to host generation and storage.

Essential Energy has substantial capacity to host additional generation and storage across its network, but limitations on DNSPs to negotiate directly or provide pricing comparable with transmission for generation and storage providers creates an artificial commercial disparity. This is delaying the energy transition and can only add to total system costs and, therefore, customers' bills over the long run. Essential Energy remains convinced that these issues should be considered as part of this Pricing Review and welcomes the Commission's note in the Final Terms of Reference that it may consider were differences between transmission and distribution pricing leads to inefficient outcomes. If this Pricing Review does not provide sufficient scope for exploration of this issue, then it should be considered through a separate and parallel review process.

The Commission should consider potential reforms that will lead to an increase in the capacity utilisation of distribution networks alongside development of the Australian Energy Market Operator's 2026 *Integrated System Plan*. The overlapping timelines of these processes means market bodies can work towards common objectives, including a focus on enabling DNSPs to host additional generation and storage capacity through their networks.