19 December 2024

Julia Cassuben
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Project reference code EPR0097

Dear Ms Cassuben

RE: ELECTRICITY PRICING FOR A CONSUMER-DRIVEN FUTURE – CONSULTATION PAPER

Origin Energy (Origin) appreciates the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC) Electricity pricing for a consumer-driven future – consultation paper.

As the take up of consumer energy resources (CER) increases the current retail electricity market is moving from a centralised and passive environment to a decentralised and interactive platform with increasing quantities of flexible assets. As a result, the traditional 'energy only' retail model will need to evolve.

We support the AEMC adopting a principles-based approach that provides the flexibility to accommodate differing future product scenarios. Establishing the roles and responsibilities of distribution networks, retailers, and other service providers, in a high CER environment is paramount to maintaining system security and ensuring the benefits from CER are optimised.

Future electricity market arrangements should enable and empower consumers (that wish to do so) to take greater control of their electricity usage. At the same time, it is important that benefits accrue to all consumers, and strong consumer protections are in place.

Distribution networks should provide the platform for the efficient integration of CER by enabling all forms of CER to be connected while ensuring the network operates within its technical limits. Retailers are the primary interface between the customer and the energy sector. Through the use of virtual power plants (VPPs) retailers already aggregate a variety of CER and orchestrate them in a way that creates value and benefits for customers while also supporting efficient market operations. Retailers are adept at packaging electricity cost components including volatile wholesale costs, into simple and stable products that meet customer requirements.

Network tariff structures are a key enabler of CER integration. We are firmly of the view that the rationale for network tariff reform needs revisiting. While cost-reflective tariff structures reflect the real-time cost of generating and delivering electricity, it is important that tariffs focus on simplicity, incentivising uptake and providing customer choice. Simpler tariff structures such as time-of use and solar sponge tariffs can be just as effective at shifting consumption but are easier for retailers to integrate in their retail offerings and simpler to explain to customers. Network tariffs should also be sufficiently flexible to allow retailers to provide a variety of tariff offerings to customers from highly engaged to unengaged customers, whilst also ensuring that vulnerable customers are not disadvantaged.

Additional commentary on these and other matters contained in the AEMC's paper are provided below.

Approach to the review

We agree that the AEMC should ensure that future regulatory and market arrangements are principled and flexible enough to facilitate innovation. Customer wants and needs develop over time, often in response to technological change and circumstances. Rather than working backwards to develop regulatory and market arrangements to deliver a specific range of products and service offerings, the framework should be designed so that it is flexible enough to accommodate a diversity of potential future outcomes.

We broadly support the AEMC's proposed consumer preference principles and consumer archetypes and consider these will provide a useful point of reference for assessing potential future scenarios. We note that addressing diverse customer engagement levels requires a corresponding diversity of offerings.

Future products and services

What might products, services, and pricing structures look like in the future

Origin has developed a broad range of products. This includes a proprietary VPP platform, (Origin Loop), to connect and use artificial intelligence to orchestrate CER assets. Our behavioural demand response program (Spike) rewards customers for reducing energy usage during periods of peak market demand, and our Origin 360 EV e-mobility business, provides a full suite of end-to-end solutions to both commercial and residential customers.

In the future, we expect there will be greater communication between CER assets. The future consumer is likely to have a solar appliance, EV, battery, smart appliances, and electric hot water. These will all be controlled though smart home energy management systems operated by their retailer. The retailer will optimise the use of these appliances across a portfolio of customers in response to wholesale and network price signals.

Network tariff reform

We are firmly of the view that the rationale for network tariff reform needs revisiting.

Initially, network tariff reform focused on signalling costs during peak demand periods (which historically drove network investment) and unwinding cross-subsidies. The Rules reflect this in the requirement for networks to derive network prices based on long run marginal cost (LRMC) i.e. forward-looking investment in additional network capacity to meet growing peak demand. However, the greater penetration of CER has resulted in networks now being faced with trying to increase capacity to host more solar.

Network tariffs should facilitate CER integration while also encouraging efficient network use. Specific CER tariffs should focus on cost-reflectivity for locally produced, stored and used energy and be specific to the customer connection point to address local network issues. Tariffs should also continue to provide incentives for customers to adjust their import or export of energy, or to agree for their CER to be used for the provision of network and (or) market services. In principle, these incentives should be commensurate with the value of the flexibility services being provided.

While cost-reflectivity is critical for sending appropriate usage signals, the uptake and application of tariffs is largely dependent on customer choice and understanding. Recent evidence indicates that complex tariff structures such as demand-based tariffs are not easy for customers to understand. Rather, simpler time-or-use and solar sponge tariffs can be just as effective at shifting consumption, while more complex offerings can still be made available for customers who wish to engage with these.

Network tariffs must also be designed to ensure that non-CER users and in particular vulnerable customers, are not unduly penalised. It is important that these customers can access suitable tariffs that do not penalise them due to a lack of CER. Moreover, these customers should be able to share in the benefits that increased CER brings to the sector either through demonstrable reductions in overall network costs or other sharing mechanisms.

To facilitate customer understanding and uptake of CER, customer education campaigns should be enhanced to explain the introduction of CER tariffs and how these can be effectively utilised by

customers. To ensure consistent messaging, customer education should be a shared responsibility between networks and retailers.

Customer protections

Current customer protection provisions do not adequately protect all CER customers, nor do they accommodate the dynamic nature of the CER landscape and new services being offered. CER services fall outside the scope of the current National Energy Customer Framework and traditional Australian Consumer Law. A new framework is needed to ensure customers receive the full benefit from CER innovation whilst also being protected from negative impacts. To ensure customers are adequately protected in this new environment, measures need to be developed around creating and enforcing technical standards for installation and operation of CER assets, licensing requirements and connection standards and contracts that are fit for consumer energy resources. Responsibilities will need to be assigned for the development and ongoing operation of the customer protection framework as well as consideration of performance monitoring and reporting requirements.

Work is well underway to develop fit-for-purpose CER consumer protections. For example, the New Energy Tech Consumer Code (NETCC) is a voluntary code of conduct designed by industry and consumer representatives that provides standards to protect consumers when purchasing new energy tech such as solar power systems, battery storage and EV chargers. Similarly, the AER recently completed a review of the customer protections highlighting deficiencies in the current framework and identifying potential reforms.[1] We consider the AEMC should utilise available information to support the development of its CER consumer protection framework.

Role of distribution networks

Distribution businesses have traditionally been concerned with managing their networks via demand side management (DSM). By instituting measures to lower demand for electricity, DSM programs avoid the costs required for new network infrastructure, helping to reduce costs for all users. The increased penetration of flexible CER means that networks are less dependent on base load and the management of peak demand. Supply side management aimed at optimising the utilisation of CER resources to minimise peak loads and maintain grid stability will become increasingly important.

Distribution networks should provide the platform for the efficient integration of CER by enabling all forms of CER to be connected to the network, allowing excess power to be exported and incentivising shifts in when power is used to optimise CER. Distribution networks with visibility of power flows, network constraints and CER penetration, should be responsible for managing the safety and reliability of the network within its technical limits, and the identification and communication of network issues and opportunities. Where a network issue emerges, the distributor should have the ability to enter into contracts with retailers/service providers who can provide network support services if such services have a lower cost than augmenting the network. It is important that distribution businesses provide improved visibility and alternative methods for ensuring the secure management of the distribution network as it hosts increasing amounts of CER.

Contestability

Optimal CER integration and utilisation is best provided via competitive markets. Distribution networks are monopoly businesses and should be precluded from contestable or competitive elements of the CER market. It is important that the AEMC examine ring-fencing arrangements to ensure the upholding of this principle.

Role or retailers

Retailers are the customer centric component of the supply chain and are well placed to integrate CER in the energy system so that customers get the most benefits from their investment.

Optimising the benefits of CER integration requires efficient orchestration of CER assets. Doing so requires the development of appropriate financial incentives, the flexibility to provide simple product offerings that meet customer preferences and the ability to effectively engage consumers. Given these requirements and the dynamic nature of the CER environment we consider that orchestration is best

[1] AER, 'Review of consumer protections for future energy services', November 2023.

delivered via the competitive market. Competitive provision ensures that product offerings continually evolve to meet customer requirements, costs are minimised, and financial incentives are appropriate.

Retailers are versed in packaging electricity cost components, including volatile wholesale costs, into simple and stable retail products that meet customer requirements. In recent years, retailers have expanded these services through the use of VPPs to efficiently balance system supply and demand and deliver additional benefits to consumers. In doing so, retailers ensure the orchestration of CER is simple for customers to participate in, and that there are mechanisms or incentives to encourage and reward their participation.

Retailers facilitate the integration of storage and generation in the electricity market and provide education and support to consumers. Retailers also have a critical role in assisting consumers interface and understand the energy market. Energy retailers and aggregators can build trust by eliminating confusion and fragmentation, and by developing products that deliver value to the customer. Retailers are also more inclined to adopt innovative solutions to address customer needs and are readily able to provide aggregation services that leverage demand-side resources at the scales required to provide grid services. Expanding the retailer portfolio to include aggregation and orchestration of CER builds on the existing close retailer-customer relationship and provides further scope for retailers to optimise customer benefits.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at gary.davies@originenergy.com.au.

Yours Sincerely,

Steve Reid
General Manager, Regulatory Policy