



11 October 2012

Australian Energy Market Commission
P O Box A2449
SYDNEY SOUTH NSW 1235

***Power of choice – giving consumers options in the way they use
electricity – Draft Report***

Dear Commissioners

AGL Energy (**AGL**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (the **AEMC's**) Power of Choice Draft Report (the **Draft Report**).

AGL is well placed to comment on the development of demand side opportunities in the Australian energy market. AGL operates across the supply chain and has investments in energy retailing, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. The diversity of this portfolio, together with the suite of energy services AGL offers, has allowed it to develop an understanding of the risks and opportunities presented by improving demand side participation (**DSP**).

DSP has a role to play in improving the efficiency of Australia's National Electricity Market (**NEM**). DSP gives consumers greater control over how they manage their energy consumption and has the potential to improve customer engagement in a market which has traditionally seen low levels of consumer interest. By providing consumers with information about the options available to them, including tools to manage their consumption, it is likely that consumers will feel more confident that they are making the right choice for their circumstances.

AGL is broadly supportive of the recommendations that the AEMC makes in its report, and of the general direction in which it is heading. However, given the broad-ranging and disparate nature of the AEMC's recommendations, we consider it vital that the AEMC carefully prioritises its recommendations to ensure that the most efficient and effective mechanisms are prioritised. Incorrectly prioritising these initiatives, or not conducting this exercise at all, risks expending resources on implementing less effective mechanisms which do not fully support the most valuable DSP tools, or at worst, are inconsistent with or actually hinder the operation of the most effective tools.

Of critical importance throughout this process is ensuring that customers are educated and kept informed of changes to conditions and opportunities in the energy market. Further, it is very important that the outcome is as simple a market structure as possible, that is easy for customers to be able to understand and participate in. A structure that presents too many changes too quickly, or that leads to customers dealing with too many parties, is likely to lead to customer mistrust and confusion, and a reduced uptake of the new products and services on offer.

AGL believes that the most important foundation upon which to develop effective DSP in the market is to require that cost-reflective time-varying tariffs be utilised by the broadest possible consumer base provided that there are appropriate safeguards in place for customers facing financial hardship, and that this be accompanied by smart meters that are installed on the basis of a commercial, value-driven roll out. Exposing customers to the actual price of their electricity at the time it is used is a key factor in encouraging the shifting of consumption from peak times. We agree with the AEMC's statement that electricity retail prices that accurately reflect network and supply costs are a key component in promoting the uptake of efficient DSP in the electricity market ¹.

AGL strongly supports the AEMC's stated preference for a contestable metering model and its statement on page 38 of its Supplementary Paper on metering arrangements in which it states that it favours a "contestable approach because meter provision does not have the characteristics of a monopoly service and we consider it will drive innovation and metering services at a lower cost". For the mechanisms proposed by AGL to be most effective, this needs to be done in an environment of retail price deregulation, and under a metering model which enables full contestability in meter and meter data services provision.

Further, while AGL supports new market entrants offering DSP products, for effective competition to exist, new entrants and/or existing participants that seek to provide offerings directly to customers must be subject to the same regulatory obligations that currently exist for retailers. This will ensure appropriate standards and protections for consumers, as well as a level playing field for all other participants in the market.

Answers to specific issues raised in the Draft Report are in **Attachment A**.

Should you have any questions or comments in relation to this submission, please contact Anita George, Manager Energy Policy & Strategy at ageorge@agl.com.au or on (03) 8633 7212.

Yours sincerely,



Tim Nelson
Head of Economic Policy and Sustainability

¹ AEMC 2012, Power of choice – giving customers options in the way they use electricity, draft report, 6 September 2012, Sydney, page 83.

Attachment A

1. Facilitating consumer access to electricity consumption information

AGL supports the provision of accurate, useful information to customers to enable them to effectively manage their electricity consumption. Essentially, customers or customers' agents should be able to access customers' consumption profiles, and electricity prices applicable throughout the day, to enable them to manage or shift their electricity consumption in the most efficient way for them.

However, we would caution against developing overly prescriptive rules for the provision of information to customers. Doing so risks impinging on the level of innovation that would otherwise be able to be exercised by retailers that may want to use their quality and type of data provision as a means of differentiation from other retailers, and as a source of competitive advantage. It is in the commercial interests of electricity retailers to provide useful and accurate information to customers to enable them to manage their energy usage. Many retailers are undertaking significant projects aimed at developing and making available to customers and their agents information specific to customers' needs.

Currently, minimum information standards and protocols exist in the market which prescribe customer information that needs to be provided between industry participants. Further, regulatory rules give customers a clear entitlement to obtain access to their consumption history and data from their retailer. AGL supports the current regulatory provisions that exist in this regard.

AGL agrees with the approach put forward by the AEMC relating to charging customers to access such data. We agree that standardised format data be provided to customers at no charge, and that additional data services, or repeated identical data requests in a single billing period over a twelve month period, be provided at a reasonable fee. However, we note that retailers' customer service offerings are likely to improve as technology advances, and it is likely that retailers will be able to provide customers with an increasing range of information without incurring substantial costs themselves, which they would therefore be able to provide free of charge to customers.

AGL sees the provision of customer data and information as a separate issue to the education of customers about the benefits of DSP and the technologies and tools available in the market. We reiterate the points made in our response to the AEMC's Issues Paper, in which we emphasised the need for a joint Government, retailer and community sector engagement program, aimed at educating customers about the tools that would enable them to engage in DSP. An education program would be of most benefit to customers if it is targeted towards explaining the cost implications of rising peak demand, and the benefits smart meters and time of use pricing, combined with energy efficiency schemes, can have in terms of enabling consumers to better manage their energy use.

AGL believes that retailers must play a pivotal role in educating customers, particularly if we want to encourage customers to take up new forms of pricing. Within this broader education program, individual retailers could work with their own customer base to educate consumers. It should be left to each retailer to determine the most appropriate methods to inform their customers about the benefits of DSP.

2. Engaging with consumers to provide DSP products and services

AGL supports the entry of new participants, such as energy services companies, into the market for the provision of DSP services, as this may encourage competition and innovation. However, given the interaction that these third parties will have with customers and their access to customers' information, it is imperative that new entrants be subject to equivalent regulatory obligations as existing players in the market.

Therefore, third parties who provide any sort of ongoing energy management service to customers should be required to:

- maintain a form of accreditation that requires compliance with all regulatory obligations that existing retailers' retail licences require them to comply with, including the need to obtain customers' explicit informed consent in various situations; and

- inform the customer's electricity retailer that they are providing DSP services to the customer, so as to better enable the retailer to manage the customer's energy service provision. The retailer, as the Financially Responsible Market Participant (**FRMP**) for the customer, has the contract with the customer for the sale of electricity at the connection point and therefore bears the financial risk. It is highly relevant to the customer's retailer, therefore, if their customer has entered into a side arrangement with a third party for DSP services, and it is important to be able to link these transactions together from a financial perspective in circumstances where the customer owes an outstanding debt to one party, while being owed an amount from the other. We reiterate the point we made in our response to the AEMC's Issues Paper that we would not consider it appropriate for a customer to receive a peak rebate cash payment from a third party energy services company, for example, if that customer has an outstanding debt with their retailer.

In the Energy Market Arrangements for Electric and Natural Gas Vehicles Draft Advice, the AEMC raises the issue of whether a bundled service provision constitutes the sale of electricity if the sale was not the primary purpose of the transaction. AGL considers that any sale or supply of electricity, whether it is the primary purpose of a transaction or not, is nonetheless a sale or supply of electricity and, as such, needs to comply with the conditions set out above.

We consider that the only exception to the above requirements should be third parties that only provide information to customers (eg. how a customer should manage their energy consumption), or who sell a single product which involves no ongoing contact with the customer.

AGL acknowledges the point made by the AEMC that there will be some circumstances where DSP options provide distribution businesses with cost effective options to address specific and localised constraints on the network. AGL considers that a distribution business should be permitted to contract directly with a customer for the provision of DSP services where a DSP option is the most efficient method to address a genuinely localised network issue, provided the following essential conditions apply:

- the distribution business is appropriately ring fenced so that DSP services are conducted completely separately from the network activities of the distribution business;
- the distribution business obtains the customer's explicit informed consent to provide the particular DSP service;
- the distribution business has a form of accreditation as described above, that requires compliance with all regulatory obligations that existing retailers' retail licences require them to comply with, including relevant energy marketing requirements that retailers are subject to when marketing to customers, and to the Australian Consumer Law; and
- the distribution business informs the customer's retailer that it is providing the particular DSP service to the customer and these transactions are financially linked so as to limit the exposure that would otherwise be faced by the retailer.

AGL notes the AEMC's suggestion on page 41 of the Draft Report that appropriate arrangements be placed on retailers through changes to the National Energy Customer Framework and relevant jurisdictional arrangements to ensure that consumers are appropriately informed of the DSP options available to them. AGL does not agree with this suggestion and considers that it places too onerous an obligation upon retailers, particularly given that retailers will most likely not be the only entities offering DSP services. AGL agrees with the sentiment behind the AEMC's suggestion, being to ensure that customers are kept informed of DSP products and services available to them. However, we suggest that it is more practical for individual DSP service providers to be required to publish the products and services that they offer. This could be housed at a central repository if the AEMC considered that to be the most appropriate way in which to communicate this information to customers.

3. Enabling technologies for DSP

AGL supports the development of technology that facilitates DSP by enabling customers to better manage their electricity consumption. We welcome the direction that the AEMC

indicates that it is leaning towards, being contestability in meter provision and non-metering services relating to the meter. We are broadly supportive of the AEMC's proposed recommendations to reform current metering arrangements to promote investment in better metering technology and consumer choice. Further, AGL supports the AEMC's proposed recommendation to advise governments to remove the possibility of a mandated roll-out of smart meters. The current ability of governments to mandate such a roll-out operates as a significant commercial disincentive to retailers or other market participants choosing to do so, and is inconsistent with the principles of contestability favoured by the AEMC in its preferred approach to metering. However, as detailed below, AGL does not agree with all the elements of the contestability model put forward by the AEMC.

The customer's meter is a critical element of the energy market and is the key means by which the relationship between a customer and other energy services providers is facilitated. AGL does not see merit in stipulating overly prescriptive minimum standards for meters as this risks stifling the freedom of product innovation that retailers would otherwise have available to them in a contestable environment. We consider that minimum standards should not go beyond such features as remote, two-way communication capabilities, the ability to receive half-hourly interval data, and the ability to undertake remote re-energisations and de-energisations.

The contestable metering model that AGL supports, as described below, will drive the investment that will lead to additional metering features being made available in order to enhance the retail product offerings of retailers in the market. It will further serve as an incentive for retailers to roll smart meters out to customers, and enables such meters to be viewed as a form of competitive advantage to these retailers.

AGL considers that retailers should be the Responsible Person for all meter types. Retailers, as the FRMP for customers' sites, have the financial responsibility both from a market settlement and energy supply perspective (and in practical terms, it is the responsibility of retailers to ensure customers provide access to meter readers). Accordingly, it is in retailers' interests to ensure that customers' meter provision occurs efficiently and meter data services are accurate.

The following are key features of the contestable metering model that AGL proposes:

- Meter provision and meter data services should be contestable. AGL does not support, under any circumstances, a monopoly roll out of meters. We draw the AEMC's attention to the monopoly roll out by distribution businesses of smart meters in Victoria as a clear example of the problems associated with such an approach. AGL's submission in response to the AEMC's Issues Paper provides further supporting information in this context. A monopoly roll out of meters by distribution companies (or any company) is inconsistent with the key principles behind, and recommendations, in the AEMC's Draft Report. Any meter provision to a customer needs to be based on providing value to the customer, and needs to provide an incentive for the customer to engage with and support the services and benefits that smart meters enable. The AEMC raises a question in its Supplementary Paper on metering arrangements as to whether a contestable meter roll out is sufficiently simple for customers to understand and participate in. In our view a contestable metering model provides the *most simple* mechanism for customer understanding and participation as it enables a value driven proposition for the customer which is driven entirely at the customer's choice.
- We support the AEMC's recognition of the need to unbundle metering costs from DUOS charges. Experience has shown (for example in New South Wales and Queensland) that where metering services are bundled with network supply charges, customers are required to pay two forms of metering charge should they wish to change their meter. This clearly has the effect of stifling consumer choice and competition generally in the provision of metering services and risks compromising the business case for a market driven roll out of smart meters.
- Meter provision and meter data service provision should be provided by separate entities that are ring fenced from other regulated activities also carried out by them. This not only ensures that, where distribution businesses wish to compete in meter provision or meter data provision markets, they are not able to use regulated revenue to compete in unregulated activities, but it is also a step towards achieving interoperability of metering standards and protocols (discussed below).

- There is open access provided to metering installations by meter providers to meter data services providers, and interoperability protocols in place between industry participants whereby various competitive products and services are able to be offered on the same meters. The underlying principle should be to retain the meter at the customer's premises unless the meter does not have the technical capability to support the product that the retailer has agreed to provide. These interoperability protocols could be an appropriate place in which to set out minimum metering standards (as described above).
- Meters should be viewed by customers as part of their retailers' product offering. Meters are, essentially, the means by which retailer services are facilitated. Accordingly, it is inefficient and impractical to contemplate unbundling retail energy contracts from metering services. This suggestion by the AEMC is in fact inconsistent with the role of the retailer as the Responsible Person as it enables customers to have a direct relationship with meter providers and potentially bypass their retailer, which, as the Responsible Person for the customer's connection point, bears all the risks associated with the meter, including the compliance and financial risks of the meter in the NEM.
- Retailers should be able to deal with any accredited meter data provider of their choice. Should a customer wish to change retailers, the customer's meter would not automatically need to be churned as interoperability protocols and open access would allow retailers and their meter data providers to be able to access the meters of other retailers/meter providers. This would enhance the level of product innovation able to be exercised by retailers, and prevent inefficient wastage caused by automatic meter churn where this is technologically unnecessary.
- There should not be a regulated or mandated treatment of exit fees associated with meters. Mandating exit fees introduces a barrier to entry in relation to metering services, and AGL strongly disagrees with the suggestion that any exit fee be based upon an arbitrary assumption about the remaining life of a meter. Further, with effective interoperability protocols in place, meter churn would only take place if the existing meter at the customer's site was incapable of supporting the particular product sought by the customer. The fees associated with changing a meter should be viewed as just one part of the commercial terms of retail product offering agreed between the customer and their retailer. Accordingly, it is up to these parties to agree to the amount of any exit fee associated with upgrading a meter where this is necessary due to the technical incompatibility of the existing meter to support the particular retail product that has been agreed to. Furthermore, there are no grounds at all for exit fees to be charged for the replacement of Types 5 and 6 manually-read meters. These meters are aged assets and have been paid for by customers through metering services charges from distributors. In addition, the stipulation of exit fees risks compromises the business case for any market driven roll out of smart meters.
- AGL does not support the retention of the option for distribution businesses to roll out smart meters in their areas as part of a DSP program. This adds a great deal of uncertainty to and detracts from any value proposition of a retailer contemplating such a roll-out. AGL believes that DSP services should only be able to be provided directly to customers by a distribution business subject to the strict controls described earlier. Any new metering that may be required in order for a distribution business to be able to provide such services should be provided in accordance with the contestable metering model described above.

AGL reiterates the point made in its response to the AEMC's Issues Paper that technology alone is not sufficient to support the widespread acceptance and utilisation of DSP. Technology must be seen alongside other equally important factors, particularly the need to educate customers about the benefits of DSP and to obtain their support to adopting a more proactive approach to their electricity consumption through making use of new technologies and product choices.

4. Demand side participation in wholesale electricity and ancillary services markets

AGL recognises that there could be benefits arising out of the proposal put forward by the AEMC under which consumers could bid their demand response into the market and be

paid the spot price for their demand reduction. However, it represents a significant change from the way the wholesale market and associated arrangements (eg. hedging arrangements between generators and retailers) currently operate. Accordingly, detailed analysis would be required in order to ensure that it was structured so as to capture the full benefits sought to be achieved without introducing unintended consequences or market distortions.

We note that the AEMC intends that this proposal be aimed mainly at large commercial and industrial customers with limited volatility in their load profile. We agree that this proposal would not be likely to hold broad appeal among mass market consumers due to its relatively complex nature. The fact that it would require behavioural changes in consumers means that it would be likely to take some time for many consumers to embrace. We do not believe it to be sensible to implement, as a first order priority, a mechanism that by its very nature excludes a large group of consumers to whom other methods of DSP would be effective. Further, we note that any volatility in the customer's load profile would greatly impact the accuracy of their baseline consumption level, and therefore increase the level of risk that retailers are exposed to. The number of customers in the NEM with the appropriate load profile and ability to bid demand into the market would be relatively limited and the majority of these customers already have the opportunity to enter into DSP arrangements directly with their retailer.

Accordingly, we believe that this mechanism should be considered as a second-order priority for the AEMC. A full cost benefit assessment should be undertaken in order to determine whether the costs that would inevitably be faced in order to implement such a structure are justified. Importantly, we believe that this proposal should not take focus away from what AGL considers to be the most important and effective means of providing customers with the tools to better manage their energy consumption. Offering cost-reflective retail tariffs (reflecting whole of supply chain pricing signals), along with installing smart meters at customers' premises, impacts the largest cross section of the consumption base and leads to the most economically efficient outcome for the market because consumers would face the true costs of supply. Provided it is accompanied by an effective and targeted education campaign, it offers a powerful tool for customers to better manage their energy consumption without requiring them to engage in drastically different activities or behaviours to obtain the benefits of DSP.

Should the AEMC wish to introduce aspects of this wholesale proposal during the transition to widespread time-varying pricing and the use of smart meters, then at a minimum we believe that the option to bid demand reductions into the market should only be available to customers on time-varying retail tariffs. This is because time-varying retail tariffs allow for easier facilitation of price signals to assist in the efficient management of electricity consumption. It also avoids the potential market distortions that arise when one part of the market obtains the benefits of time-sensitive pricing (ie. consumers, through their access to the spot price) while another part of the market involved with the same transaction is not able to obtain these benefits (ie. retailers, whose settlement is undertaken on the basis of the net system load profile).

We consider it to be critical, and in the interests of ensuring competitive neutrality and a level playing field for all industry participants, that any aggregators offering to bid consumers' demand reduction into the market:

- face equivalent regulatory obligations as those faced by retailers; and
- be required to inform the customer's retailer that they are providing these services to the customer.

This is necessary to minimise any additional financial exposure that a retailer would face as the FRMP for the customer's site and therefore the party that deals both with the customer from an energy supply perspective, and with the market from a financial market settlement perspective. We consider that it would not be appropriate for a customer to receive the spot price for the demand reduction that they have supplied, if that customer has an outstanding debt with their retailer.

We consider that there is merit in the AEMC revisiting the details of its wholesale market proposal once the AEMC's first order priorities of mandating cost-reflective retail tariffs (i.e. full retail price deregulation), and the wide scale deployment of smart meters under the contestable metering model that we put forward earlier in this paper, are achieved or at least are well underway. These mechanisms would be likely to lead to important changes to the market dynamics that currently exist, and to electricity consumption patterns generally.

5. Efficient and flexible pricing options

AGL welcomes and strongly supports the AEMC's conclusion that the full benefits of DSP are unlikely to be achieved without deployment of interval meters and cost reflective pricing for consumers. We also support the AEMC's appreciation of the critical importance of achieving consumer engagement before the benefits of cost reflective pricing can be realised.

AGL considers that the overall approach favoured by the AEMC in this regard represents a step in the right direction. However, we do not consider that it goes far enough in providing consumers with the appropriate signals to enable them to obtain the full benefits of DSP. We support introducing a requirement for cost reflective network tariffs, however in order for this to be fully effective it needs to be accompanied by:

- the removal of retail electricity price caps in all jurisdictions; and
- after an appropriate education campaign to ensure that the community better understands the benefits and operation of cost-reflective pricing, a requirement that all customers who are not vulnerable ultimately be introduced to time of use pricing. We understand that care would need to be taken to ensure that this category of 'vulnerable' customers was appropriately defined to ensure that customers requiring protection are adequately supported.

Removal of retail price caps

AGL welcomes the conclusion reached by the AEMC that there is merit in removing price regulation not only where competition is already effective, but also as a means of stimulating competition in retail markets². As we highlighted in our response to the AEMC's Issues Paper, regulated retail prices are generally based on average cost pricing models. Essentially, this results in low energy consuming households subsidising high energy consuming households.

The continued regulation of retail tariffs (except in Victoria), while permitting cost reflective network tariffs, places financial pressure and a squeezing of profit margins exclusively upon retailers, and significantly stifles any incentives for investment and innovation in the electricity sector. This is particularly problematic in the context of trying to develop new markets which support and enable DSP initiatives.

For example, in-home displays, wireless appliance device controllers and other innovations are deployable today, however companies with this expertise are reluctant to invest significant sums of capital given the risk that regulated prices will be kept artificially low, thereby undermining their attractiveness and an acceptable rate of return.

Retail price caps also stifle the incentive for retailers to roll out smart meters, which in turn limits the extent to which time of use tariffs can be offered. While smart meters are not required in order to deregulate retail electricity prices, the innovative time of use pricing that smart meters will facilitate are unlikely to be developed by retailers until actual cost-reflective pricing is permitted and retail price caps removed. As such, price deregulation, combined with an increase in the number of smart meters in the market, will greatly improve retailers' incentives to offer innovative time of use pricing structures.

The continued regulation of retail energy prices also provides a distinct disincentive for new investment in electricity generation plant, which over time is likely to result in sub-optimal timing of investment decisions and higher than necessary energy prices.

The retention of retail price caps also stifles economic growth, by causing large businesses whose tariffs are unregulated to cross-subsidise regulated household electricity tariffs, resulting in lower economic activity, fewer jobs and lower real wages growth.

Consumption banding

For cost reflective pricing to have its greatest impact on addressing peak demand, it needs to apply to the broadest possible group of consumers. Its impact and effectiveness is blunted the larger the customer group that is not required to make use of it. The larger this group, the greater the distortionary effects on the market generally, through those customers on time of use tariffs potentially under-consuming at the expense of those on flat tariffs, hence leading to inefficient and sub-optimal outcomes.

² *Ibid* page 111

Accordingly, and in the interests of avoiding overcomplicating the situation, we suggest having two rather than three consumption bands, which should be structured as follows:

- Band 1 – all customers who are not vulnerable should be placed on cost-reflective time-based tariffs (assuming the removal of retail price caps).

We entirely agree with the AEMC's statement that forcing customers onto time varying pricing immediately with insufficient opportunity for learning or adjustment may create consumer confusion and resistance³. Accordingly it is important that any such move to mandatory cost-reflective retail tariffs be preceded by a comprehensive public education campaign and appropriate arrangements to transition customers to this new pricing structure.

- Band 2 – customers who are vulnerable. A clear threshold would need to be defined for this group, but should capture customers who lack the financial capacity to pay their energy bills and customers with medical life support requirements. This group should not be defined as broadly as all those customers who receive energy concessions, as some concession programs are broad enough to include customers who are not in a position of financial hardship.

We recognise, however, that vulnerable customers are not a homogenous group and not all low-income households, for example, struggle to manage their energy bills. Rather, it comes down to the capacity of the household to meet its financial commitments. Accordingly, there needs to be careful consideration of the way in which this customer category is defined to ensure that those customers who genuinely require protection are appropriately supported, while not excluding too many customers so as to compromise the effectiveness of time of use pricing.

Band 2 customers should remain on flat tariffs, with the option to move onto cost-reflective tariffs if they wish to.

We agree with the importance of having mechanisms in place to ensure that vulnerable customers are protected from any adverse consequences of cost-reflective pricing and any associated bill shock. We largely agree with the AEMC's proposed approach to address the needs of vulnerable customers, particularly through government programs to provide advice and assistance to them to provide a mechanism for them to manage their consumption patterns, and to provide access to appropriate education and information on the impacts of time varying pricing.

It is important that any mechanisms designed to assist customers to manage their consumption should be supported by robust assistance frameworks. Current assistance frameworks (concessions etc) are structured and designed on the basic premise of a flat tariff structure. AGL considers it fundamental that any move towards a time of use pricing environment is accompanied by a review and revision of the processes designed to assist and protect vulnerable customers from potential adverse outcomes.

AGL supports the broadest possible inclusion of customers on cost reflective pricing but suggests that a staged rollout may provide the most appropriate and considered approach to the deployment of cost reflective pricing. In summary, AGL proposes a staged rollout consistent with the consumption bands highlighted above.

Such a staged rollout would, in the initial stages, exempt concession recipients, households on energy retailer hardship programs and customers registered with life support equipment, for a predetermined period. Exempt households will have the ability to proactively move to cost reflective pricing if they calculate it is a beneficial move for them at a particular point in time.

This will enable calculation and assessment of the potential impact of cost reflective pricing on concession customers as comparison data, consumption patterns and potential impacts will be available to customers, the industry and appropriate government departments.

However, as we have stated to the AEMC before, we believe that market offers should be unfettered and the ability for retailers to develop and offer innovative pricing should not be confused with hardship assistance. For example, in Victoria there is currently a moratorium on the introduction of innovative time of use pricing products largely because of concerns about the impact of such tariffs on vulnerable customers.

³ *Ibid* page 99

AGL recognises that not all customers will be better off as a result of cost-reflective pricing, however, it is not correct to assume that flat tariffs will always be a better option for vulnerable customers. Accordingly, it should always be possible for vulnerable customers to move to time of use pricing should they wish to, provided this is accompanied by appropriate education about how such pricing structures operate and the nature of the consumption changes that may need to take place in order to achieve the full benefits of it, and an ability to return to a flat tariff if they choose.

The only way to reduce costs for all customers, including vulnerable customers, is to make DSP products valuable, to assist customers to manage their load and to subsidise energy use or energy saving activities for those customers who require particular assistance. Other products and services which deliver relevant and timely information in a useful format will be important tools for assisting vulnerable customers. Energy concessions and other government rebates may also assist vulnerable customers to better manage the transition to cost-reflective pricing structures.

We agree with the AEMC's proposal to entitle retailers to be charged a flat tariff by distribution companies should retailers' customers opt to be on a flat retail tariff. While AGL supports as comprehensive a deployment as possible of mandatory cost-reflective tariffs, we recognise that there should be a period of transition during which customers are able to revert back to a flat tariff if they choose. Further we agree that this option should remain available for vulnerable customers. It is very important in these circumstances that there is consistency in the costs faced by retailers and distribution businesses, and that retailers do not face the cost exposure of paying time-varying network tariffs to distribution businesses while being unable to pass this on to its retail customers. Accordingly, it is very important that distribution companies be required to revert to a flat network tariff where a customer elects to be on a flat retail tariff.