



Australian Energy Market Commission
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11 December 2024

Re: EPR0097 Consultation paper – The pricing review: Electricity pricing for a consumer-driven future

Thank you for the opportunity to provide feedback on the consultation paper, *The pricing review: Electricity pricing for a consumer-driven future*.

The Energy Efficiency Council (EEC) is the peak body for Australia’s energy management sector, working to ensure Australia harnesses the power of efficiency, electrification and flexible demand to deliver a prosperous, equitable, net zero Australia.

The EEC believes consumers play a critical role in the electricity market: by permanently reducing and altering the timing of electricity demand through energy efficiency and demand flexibility, electricity users – including households, commercial buildings and industrial facilities – can deliver a range of private and public benefits. These benefits include lower energy bills, reduced wholesale prices, reduced network costs, and the provision of grid services such as emergency capacity and frequency control and ancillary services, amongst others.

Tariff reform is important but other measures are needed to support demand side action

Tariff reform is one important element to enabling greater demand side action. However, while the EEC strongly supports improving price signals, we do not believe mandating price signals that perfectly reflect both the time and location of energy use are either politically possible or desirable for many energy users.

First, there are other factors to consider in tariff structures, including equity and simplicity. Second, many consumers are not particularly responsive to complex price signals; their primary concern is the service their electricity provides (for example, a warm home, or the steady production of goods) rather than electricity cost optimisation per se. Third, price signals, on their own, don’t solve all coordination issues.

Therefore, while the EEC supports a consumer-led process to develop a national set of ‘best-practice’ tariff structures for networks (to minimise the effort required in consumer representatives engaging in multiple complex tariff determinations) we think it is far more important to focus on non-tariff mechanisms to encourage investments and practices that benefit energy consumers in the long term.

For example, the EEC supports the creation of new markets – and improvements to existing markets – that reward electricity consumers for providing services to the grid, including:

- Improvements to baseline methodologies and eligibility requirements of the Wholesale Demand Response Mechanism that would incentivise more commercial and industrial facilities to participate.
- The possible establishment of regional competitive markets for network capacity, to incentivise DNSPs to consider network infrastructure augmentation and demand management as equally viable options for investment.

Attention should be paid to commercial and industrial electricity consumers, which are diverse and increasingly important electricity consumers

The consultation paper rightly acknowledges the diversity of electricity consumers via its archetypes: only some are highly engaged ‘prosumers’ capable and interested in managing their energy use and responding to price signals through dynamic tariffs.

As the review progresses, the EEC suggests a greater focus on commercial and industrial (C&I) energy users, which are as diverse as residential consumers. While some are highly engaged, in many cases, businesses are time poor and do not have the resources to properly understand their electricity tariffs, let alone optimise their energy use to take advantage of dynamic price signals.

C&I electricity consumers will be increasingly important given many are expected to electrify more of their operations under most decarbonisation scenarios. In some parts of the grid, the electrification of industrial heat promises to help manage the growing problem of minimum operational demand and network under-utilisation, while also reducing emissions from gas combustion. However, many C&I consumers (particularly small-to-medium sized businesses) are confused about retail pricing, have concerns about electricity supply capacity, and feel uncertain that electric technologies are a one-for-one replacement for existing gas technologies. Efficiently electrifying C&I sites to provide benefits to the grid, C&I consumers, and ultimately the climate, will require a sustained and coordinated effort from retailers, networks, energy services companies, and governments.

DNSPs and retailers both have important roles to play in unlocking the power of the demand side

The role of DNSPs is important, given the increasingly high share that network charges make up on a typical bill.

For large industrial energy users with sophisticated energy management systems, exposure to time-of-use network charges may be appropriate and the EEC is aware of instances where innovative network tariffs have led to tangible impacts. For example, AusNet’s Critical Peak Demand tariff provides a financial incentive for large energy users to adjust their demand during periods of peak demand, with [evidence from a trial](#) showing an annual 5.45% reduction in peak demand across AusNet’s network, providing significant savings to participants.

The success of this network tariff structure appears to be partly because the model is relatively simple for C&I businesses to understand and supported by direct customer engagement, with the DNSP alerting customers a day ahead to advise that a ‘critical peak demand’ day is forthcoming.

For most consumers (both C&I and residential), cost-reflective pricing is not likely to be something with which they wish to – or can – actively engage. For some of these consumers, new technologies such as automated home energy management systems (HEMS) could provide a way to offer dynamic pricing without requiring consumers' active participation.

In South Australia, the [Energy Masters](#) program, involving several of the EEC's members, will test how HEMS can be partnered with '[flexible network connections](#)' to tap into demand flexibility in exchange for highly discounted appliances and energy savings, with the HEMS managing the household's response to time-of-use pricing.

The results of this trial may point to possible future retail models in which consumers pay flat subscription fees to retailers offering 'energy as a service' style products.

The EEC looks forward to continuing to engage with the AEMC on this review. For further information on anything in this submission, please contact me on jeremy.sung@eec.org.au or 0411 934 701.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Jeremy Sung". The signature is stylized with fluid, overlapping loops and a long horizontal stroke extending to the right.

Jeremy Sung

Head of Policy

Energy Efficiency Council