

7 October 2022

Warwick Anderson
General Manager
Australian Energy Regulator

Submitted electronically

Dear Mr. Anderson,

PIAC submission to Network tariffs for the distributed energy future

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to *Network tariffs for the distributed energy future* (the paper).

Batteries are uniquely positioned to help balance generation and consumption and enable the integration of more customer distributed energy resources (DER) in the system. A rapid transition to more cost reflective network tariffs (CRNT) is essential to support the growth and efficiently realise the full benefits of batteries and other new DER.

In PIAC's view, CRNT allow retailers to respond to price signals about efficient network costs and help consumers efficiently manage their electricity use, generation, and storage. In doing so, they are likely to reduce the need for future network augmentation expenditure and, therefore, increased consumer bills.

Accordingly, retailers should be the primary target for CRNTs rather than consumers themselves. Except for some very large customers, the tariffs consumers see are those charged by the retailer, which cover wholesale, network and retail costs. Therefore, it is retailers who will respond to CRNTs in the first instance.

As stated in the paper, 'even the most cost reflective network tariff can be repackaged by the retailer into a flat tariff offering or any other product that suits the customer needs.' PIAC agrees 'this does not make the case for cost reflective network tariffs weaker' since even in the absence of a response to price signals, CRNTs still have the benefit of more equitably allocating costs between consumers on a 'causer pays' basis.

It would be unacceptable for the transition to CRNT to be further delayed because retailers prefer 'simple price structures' or are unwilling to manage the risk associated with time-of-use and demand-based pricing. Retailers are well positioned to manage these risks given they are already required to do so in the wholesale market and can optimise their total network bill for a collection of customers in a portfolio setting. Importantly, exposure to CRNT provides the scope for retailers to offer more choice to their customers, with products either passing through the cost signals or offering simpler, flatter pricing to customers who value predictability and stability.

Batteries and other new DER technologies present retailers with an opportunity to develop more innovative products that assist customers to manage their electricity bills and signal the full value that their devices provide to the network. However, as the slow shift to CRNT and more efficient forms of pricing indicates, retailers are unlikely to offer (or impose) these tariffs unless they are required to do so.

As such, PIAC recommends the use of mandatory tariff assignment to ensure that retailers see CRNTs and have an incentive to work with customers and offer innovative retail price options that better reflect consumers' concerns and preferences. To allow retailers to adjust to CRNTs, we suggest that the transition involve incremental increases in the more cost reflective components of a tariff.

PIAC considers the transition to two-way pricing an important next step in tariff reform and a means to more accurately attribute network costs to those customers who cause them. Given that customers with more flexible load and the technology to control this load are more likely to benefit from new two-way tariffs, these tariffs must be designed such that they avoid shifting costs from 'DER haves' to 'DER have-nots'. They must appropriately reward vulnerable, disadvantaged, and less technically engaged customers for consumption that alleviates constraints on the shared network.

PIAC supports calls to adopt locational price signals for exports given that hosting capacity constraints are non-uniform. A locational price signal with a symmetrical charge or reward component could lead to more efficient consumption and investment decisions, including a customers' decision to invest in batteries and other DER. The design of two-way and locational pricing should reflect the preferences of consumers and ensure the fair recovery of costs associated with the expansion of local hosting capacity.

PIAC encourages network service providers to accelerate efforts to introduce dynamic tariffs, particularly as they relate to batteries and DER. If combined with some form of control by the network, dynamic tariffs could ensure that batteries contribute to a reduction in overall consumer costs and reward customers for changing their consumption or generation behaviour.

We acknowledge that community battery schemes have been commercially disadvantaged by standard network tariffs that presume all energy travels the full way from a wholesale market reference point, via the transmission network, then the high voltage distribution network, to the local voltage area where the community battery and its users are located.

As such, PIAC considers it appropriate to price access to these assets at a reduced Local Use of System (LUOS) level if the service provider can demonstrate that a community battery only

uses the local network. This usage arrangement would better reflect the contribution community batteries make to minimising system costs and balancing of load and generation.

PIAC welcomes the opportunity to discuss these matters further with the AER and other stakeholders.

Yours sincerely

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