

Draft decision 2024-29 revenue determinations: Ausgrid, Endeavour, and Essential Energy

19 February 2024

Public Interest Advocacy Centre
ABN 77 002 773 524
www.piac.asn.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000
Phone +61 2 8898 6500
Fax +61 2 8898 6555

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

Contact

Jan Kucic-Riker
Public Interest Advocacy Centre
Level 5, 175 Liverpool St
Sydney NSW 2000

T: 02 8898 6525

E: jkucicriker@piac.asn.au

Website: www.piac.asn.au



Public Interest Advocacy Centre



@PIACnews

The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

Contents

- Introduction 1**
- The evolving role of consumer advocates 1**
- Better Resets Handbook and ongoing engagement..... 3**
- The need to re-examine how tariffs addressed by DNSPs..... 4**
- Responses to draft DNSP decisions and key issues 5**
 - 3.1 Ausgrid..... 6
 - CER integration 6
 - Resilience 8
 - Innovation 11
 - Tariff structure statement..... 12
 - Two-way pricing 12
 - Embedded networks 15
 - EV integration 16
 - Metering 16
 - Incentive schemes 18
 - Capital expenditure sharing scheme (CESS) 18
 - Customer service incentive scheme (CSIS) 19
 - 3.2 Endeavour 20
 - Consumer energy resources 20
 - Resilience 22
 - Innovation 23
 - Tariff structure statement..... 24
 - Assignment policy..... 24
 - Two-way pricing 26
 - Embedded networks 26
 - EV integration 26
 - Metering 27
 - 3.3 Essential Energy 28
 - Consumer energy resources 29
 - Resilience 29
 - Tariff structure statement..... 31
 - Assignment policy..... 31
 - Two-way pricing 32
 - EV integration 33
 - Metering 33
- Further engagement 34**

Introduction

PIAC welcomes the opportunity to respond to the Australian Energy Regulatory (AER) Draft Decision on the 2024-29 Revenue Proposals for Ausgrid, Endeavour Energy and Essential Energy.

This regulatory reset process has been a significant departure from previous experience. It has spanned COVID and comes at a critical period for the energy system transition. It has also been conducted within the context of sharp focus on the severe cost of living issues being experienced throughout the community. This reset has involved significant challenges for the businesses and a wide variation in responses from the business, driven in part by those challenges, and in response to changes in expectations stemming from the development of the AERs Better Resets Handbook.

The evolving role of consumer advocates

Consumer advocates have a crucial dual role to play, facilitating the process and outcomes of consumer engagement¹, and augmenting understanding and promotion of the consumer interest. With regards to the former, consumer advocates can inform and oversee engagement with consumers, helping to ensure engagement is robust and provides consumers with the most meaningful opportunity to express their preferences (regardless of the nature of these preferences and their relationship to consumer interests). They can assist in the interpretation of results of engagement and assess the degree to which perspectives are reflected in decisions.

With regards to the latter, consumer advocates bring their understanding of consumer interests to bear on regulators and businesses through public submissions, reports, and direct consultation. Consumer advocates have expert perspective on the long-term interests of consumers, and draw on a wider range of inputs to refine their understanding, and develop recommendations for business decisions.

These roles are distinct, but related. Consumer advocates understanding and perspectives on the consumer interest can enable them to provide valuable perspective through direct consumer engagement, augmenting network perspectives to provide added nuance and help address unconscious bias. However, in current practice consumer advocates are often consigned to the role of observers and generally discouraged from directly participating in consumer engagement. Doing so, the rationale goes, would impinge on their ability to remain impartial and carry out an objective evaluation of engagement.

We disagree with this assessment and consider advocates capable of maintaining separation between these roles and gauging when it is appropriate to act in each. Indeed, we note that consumer advocates are more capable of fulfilling this dual role than network staff who are

¹ We use 'consumer engagement' to refer to engagement between network businesses and end-use consumers of electricity (e.g. households and businesses). In contrast, we use 'stakeholder engagement' to refer to engagement between network businesses and non-consumer stakeholders (e.g. consumer advocates, peak bodies, industry groups, and customers such as retailers, property developers, accredited service providers, aggregators, and embedded network operators).

generally relied upon (almost exclusively) to support and inform direct consumer engagement processes.

Engagement could deliver better outcomes for consumers, networks, and regulators if the collaborative approach to planning and developing an engagement program were extended to its delivery as well. The prevailing approach unfortunately turns consumer engagement into a more adversarial process in which the primary role of advocates is to levy ex-ante critiques against network businesses rather than intervene to prevent such issues from arising in the first place.

To be clear, we are not suggesting consumer advocates use these forums as a platform to advance their preferences for reforms and expenditure consistent with their understanding of 'consumer interest' – as we note above, other avenues do (and should continue) to exist through which to progress these views. However, consumer advocates can (and in our view, should) play a more active role in direct consumer engagement through providing consumers with:

- additional context to support the development of their understanding,
- additional perspective to increase the breadth of their consideration,
- added understanding of the key issues and trade-offs underpinning questions, and
- alternative perspectives to those provided by the network business, particularly in relation to assessments of the implications of certain decisions.

This is not because we question the intentions or trustworthiness of the network businesses, but because network business, like all parties, have their blinders and biases. Indeed, it is preferable for network business staff to be 'experts' and to consider their perspective and approach superior. This is a relatively understandable by-product of specialisation and expertise. But It is therefore unrealistic to expect them to provide a comprehensive and balanced accounting of other issues, considerations and perspectives that may be relevant to or affect consumers with equal weight and understanding. We consider consumer advocates the best-placed party to provide a complementary perspective to support informed and meaningful decision-making.

In general we have found the dual roles outlined above to be poorly understood and often conflated by regulators and businesses. In this process to date (and in previous reset processes) PIAC has often been in a position of supporting the conclusions of consumer engagement (as according with our view of the consumer interest) while viewing the engagement as insufficient, inappropriate or otherwise incapable of validly supporting the final decision.

Conversely, we have often been in the position of agreeing that a direct consumer engagement process resulted in a valid expression of consumer preference, while asserting that the expressed consumer preference does not accord with our view of the consumer interest. Wider recognition and better integration of these roles in the engagement process is an obvious opportunity to create a more effective and efficient regulatory process for all stakeholders. This will involve ongoing development of our collective understanding of how to integrate consumer needs, interests and preferences, particularly where they may appear to be in conflict. PIAC encourages businesses and the AER to work on understanding the interplay between consumer needs, interests and preferences, how they are derived through a range of engagement (stakeholder and consumer), and how they are integrated and any apparent trade-offs resolved.

Better Resets Handbook and ongoing engagement

This reset, involving three diverse DNSPs undertaking three different, though genuine, approaches to deliver on the intent of the Better Resets Handbook (BRH), is a crucial opportunity to examine the BRH, its intent, and how it operates within the wider regulatory framework. We encourage the AER (and the businesses) to collectively review this process and the implementation of the BRH, and consider where further refinement or changes may be required, to more effectively deliver on the intent of the BRH. A practical starting point would be to review the roles of various actors, and consider any issues identified through the experience of the NSW DNSPs through this process.

We consider the Better Resets Handbook has broadly delivered on its objective to encourage networks to develop high quality proposals through genuine engagement with consumers. The handbook does well to outline the roles and responsibilities of network businesses to ensure their regulatory proposals reflect and are shaped by consumer preferences.

However, we have observed there is significant scope to examine and clarify the various roles and responsibilities of other actors within the reset 'ecosystem' to ensure the reset structure delivers consistently and durably on its intent. We recommend a review of the BRH and the reset architecture and process specifically examine the roles, responsibilities, structure and resourcing of:

- Consumer stakeholders. With the focus on structured advisory panels, direct consumer engagement and other structured bodies such as the CCP, it is important not to discard other consumer stakeholders and lose their valuable role in augmenting engagement. As we have noted previously, meaningful engagement is best realised through contributions from an 'ecosystem', where each contributor plays an overlapping but crucial role. Commitment to direct consumer engagement and their preferences does not diminish the role (and need) for engagement with a wide range of consumer advocates and stakeholders.
- The customer/advisory panels established by the businesses (in this case the Ausgrid RCP, the Endeavour RCG, and Essential SCC). Specific attention should be paid to the structure and remit of these bodies, the sustainability of each approach, any risks involved in these approaches, the roles and responsibilities of these groups and how they interact with the businesses, other consumer stakeholders, the CCP and the AER itself.
- The Consumer Challenge Panels (CCP). Specific attention should be paid to adequate resourcing, the role and responsibility, and any risks to their viability. PIAC strongly supports a robust role for the CCP, which necessitates ensuring its remit is clearly defined, adequately resourced, and well-integrated with other aspects of the reset framework.
- The AER. There is potential for confusion in understanding how the AERs regulatory role is maintained, and to what degree it adapts, in relation to the BRH and evolving reset architecture. The AERs role assessing and testing prudence and efficiency should not be compromised, but all actors need to be clear how this assessment is integrated with other assessments of consumer interest and consumer preference, derived through other aspects of the reset process.

On the final point above we note some potential confusion regarding the relative role (and weight) of consumer engagement, and expressions of consumer preference, in relation to other aspects of the reset process (such as assessment of efficiency and prudence). It should not be assumed that engagement is simply (or in any way) an avenue to garner permission for greater expenditure than is efficient. This issue should be addressed in ongoing review and guidance by the AER. Similarly, the relative weight assigned to different perspectives needs to be further explored by businesses and the AER, along with how to integrate perspectives from different stakeholders, and integrate potential differences between perspectives of consumer preference and interest.

Finally, we support the recommendation from Ausgrid's Reset Customer Panel for the AER to allocate sufficient internal resources to ensure that all networks who apply for the Early Signal Pathway (ESP) and meet relevant requirements are accepted onto the ESP. We noted Ausgrid's concerns that they may have been unfairly disadvantaged given they had applied for ESP but were not accepted. While we do not consider it likely such disadvantage actually occurred, or had material impact, we do consider it important to ensure the perception of any disadvantage be avoided.

The need to re-examine how tariffs are addressed by DNSPs

While we detail a range of issues related to tariffs and pricing and how they have been engaged on in response to the draft determination for each DNSP, we consider it important to highlight some overarching issues relating to tariffs and pricing and the way it is approached. Our focus is ensuring tariffs play their role in delivering more efficient and fairer network operating and pricing, in the interests of all consumers.

We support network tariff reform and cost-reflective tariffs but are concerned what we consistently observe demonstrates a failure deliver on this reform in practice or intent. We highlight these issues with the intent of encouraging more fundamental review and reform, outside of network reset processes.

At a minimum, this should involve the AER providing updated tariff and pricing guidance to provide clarity on:

- the role of retailers in the reset process,
- how their perspectives should be regarded,
- the role(s) network tariffs must play and for whom and the assumptions which underpin these roles,
- the purpose of consumer engagement in processes developing network tariffs, and
- how the assumptions regarding retail prices (and choice) can be assured through the implementation of changing tariffs.

We have observed retailers continue to exercise what we would consider an outsize influence on network tariff design through their engagement with NSW DNSPs. This has presented variously as:

- 'Threats' or assertions that they would pass through an unadulterated network tariff. This is normally in response to tariffs which are more cost reflective and so regarded as more 'complicated'.
- Indications that the network tariff would not be 'passed through'. This response is often observed in relation to network tariffs which may otherwise be regarded as more 'consumer focussed'.
- Generally rejecting or arguing against a network tariff as untenable, impossible, or otherwise unreasonable due to the increased system requirements, complications or costly upgrades to processes and technology required. This response is almost universal, regardless of the tariff under consideration, unless the proposal is broadly in line with established practice. In any case these assertions are seldom supported by evidence and are not subject to any robust test for validity in order to facilitate a meaningful cost/benefit assessment by consumers and stakeholders.

We are concerned that retailers have unfortunately learned to use these responses as a cudgel to frustrate progress towards more cost reflective network tariffs, and the wider reforms to system efficiency they could help enable. We don't consider this behaviour is because retailers are inherently bad faith actors, and don't intend to imply this. But where they have an incentive to minimise their own costs and resource commitments, and where they have an undefined scope to opine on network tariffs, it is a product of how the views of different parties are brought to bear on tariff engagement. This needs to change and the AER can provide stronger guidance to support this and help resolve the apparent impasse.

We also consider it timely to review the role of consumers in network tariff setting processes, as part of a review of how network tariffs and retail prices should interact to best meet consumer's needs. We discuss this in some detail in response to the tariff proposals of each DNSP, and the fundamental issues we have observed in engaging with consumers on network tariffs. However, as long as the AER sees an ongoing role for consumer engagement on network tariffs, the role of retailers in these processes should be reconsidered and clarified. The AER should explain how it proposes to weigh the views of consumers against retailers given the competing interests and different resources that each of these parties brings to bear on these discussions.

Responses to draft DNSP decisions and key issues

In this section we respond to the draft determinations relating to each of the NSW DNSPs, focussing on the key outstanding issues for each. At the outset we note that our response to Ausgrid appears more significant and detailed in parts, than our response to Endeavour and Essential. This reflects the fact the AER has identified more issues which still require more work by Ausgrid to resolve. In some cases, such as resilience and incentives, it also reflects the greater engagement undertaken by Ausgrid since the draft proposal. We have provided more significant input in relation to these issues to assist the further consideration by the AER.

In several cases there are subject areas which we address for each DNSPs. We have attempted to provide consistent responses across each of these sections, while providing detail relevant to that DNSP. In some cases, the responses on a topic area for one DNSP has wider relevance to

all, and we have noted that relevance, rather than repeating these responses in full for each DNSP. We consider that our previous remarks² on the broad strengths and weaknesses of each DNSPs engagement program remain relevant here.

3.1 Ausgrid

Ausgrid has undertaken a comprehensive and extremely well-resourced and robust consumer and stakeholder engagement program. Relative to the other NSW DNSPs Ausgrid's engagement program was the most consistently deliberative in structure, an approach which invested significant time and resources to provide consumers with the foundation and the scope to build genuine preferences and express them meaningfully to Ausgrid.

Considering the ambitious scope of Ausgrid's engagement, a post-implementation review could deliver important insights for how a robust deliberative engagement program can be more efficient and achieve high quality results without assuming that more resources are required. The resources Ausgrid committed were significant and could be regarded as unsustainable in relation to the reliance on informed consumer stakeholders to engage via its RCP. This is not a critique of Ausgrid, far from it, but a caution to ensure that robust engagement is as efficient as possible, and is accessible to all business, and able to be sustainable for them.

In our submission to the Issues Paper, we remarked on Ausgrid's strong commitment to ongoing engagement and re-testing of consumer preferences. Ausgrid has maintained this commitment following the AER's Draft Decision. We consider this no small feat given the larger adjustments Ausgrid was required to make relative to the DNSPs on the Early Signal Pathway.

Ausgrid has progressed robust governance arrangements across all areas of its proposal but particularly within its innovation, ICT, and resilience programs. Ausgrid's revised proposal also advances several important affordability initiatives including longer depreciation of its ICT investment, disposal of surplus property assets, productivity factors being applied to capitalisation of overheads, and a commitment to not seek additional investment for foreseeable overruns in the planned ERP program. Ausgrid worked constructively with stakeholders to develop and implement these measures and demonstrated the most consistently evident response to affordability concerns.

CER integration

Ausgrid customers continue to express high levels of support for proposed CER integration investments. This support remains strong despite increased cost-of-living pressures. During the October 2023 VoCP consumers expressed concerns about rising costs and requested Ausgrid redouble its efforts to deliver additional affordability measures in its revised proposal. However, the VoCP qualified this request indicating that Ausgrid should seek savings in other expenditure categories (most notably innovation) before considering reducing the scope of the CER integration program.

² See [PIAC submission to AER Issues Paper 2024-29 Revenue Determinations: Ausgrid, Endeavour, and Essential Energy](#), pp. 2-8.

CER integration is particularly significant to consumers because of its association with emissions reductions and the transition to net zero³. As such, the AER should consider how proposed CER investments contribute to reducing emissions as per the amended National Energy Objectives⁴ (NEO) and consider initiatives that are most likely to contribute to achieving jurisdictional targets.

CER integration was also consistently associated with a more innovative approach to network services, and greater scope for community and consumer benefit through innovation in pricing and services. The AER should also consider how proposed CER investments align with Ausgrid's approach to pricing and service delivery, and the degree to which they are able to demonstrate a consistent strategy covering CER investment, service development, and pricing reform.

While the majority of Ausgrid's proposed capex is for network augmentation, these investments should be pursued only once cheaper and simpler measures to accommodate higher levels of CER have been implemented and exhausted. Ausgrid's 'hierarchy of responses to CER challenges'⁵ supports this logic and identifies network augmentation as a last resort to curtailment. The AER should accordingly give precedence to investments tied to higher priority responses such as innovative pricing options, greater network visibility, better voltage management, and tailored connection agreements.

CER investment should set the foundation for future localised pricing reform and distribution system operator (DSO) capability. Consumers have identified dynamic pricing and dynamic operating envelopes as key priorities and called on Ausgrid to develop its capacity to deliver these services in the 2024-29 period. While we consider Ausgrid's CER dynamic services business case⁶ and ICT enablement program for CER integration⁷ contribute to these aims, more could be done to align tariff policy with these investments.

Community batteries are another area of CER expenditure that has received significant attention throughout Ausgrid's consumer engagement program. While consumers are enthusiastic about the prospects for community batteries, it should not be assumed that their expectations and preferences around these assets promote the efficient operation of the energy system.

Consumers tend to view community batteries through the lens of behind-the-meter battery energy storage systems (BESS) such as home or EV batteries. Community batteries are assumed to fulfil a similar use case (i.e. providing back-up power during outages and storing/utilising low-cost solar energy) and regarded as a substitute to behind-the-meter assets in this respect. In other words, the perceived difference between a community and behind-the-meter BESS is less a matter of functionality than of access, ownership, and control.

This perception is problematic insofar as it obscures the trade-offs between optimising community batteries for public whole-of-system benefits and the private 'storage as a service' functions consumers associate with behind-the-meter systems. While Ausgrid claims community batteries

³ See Mosaic Lab & Gauge Consulting, Ausgrid Voice of Community Panel October 2023 'What We Said Report' pp. 45-47.

⁴ See AEMC [Guide to applying the emissions component of the national energy objectives](#), pg.14, which states 'emissions reduction is no longer considered only as part of the external context for our decision-making, but as one of the central considerations in determining if changes are in the long-term interest of consumers'.

⁵ See [Ausgrid 2024-29 Regulatory Proposal](#), pg. 88.

⁶ See [Ausgrid CER Dynamic Services business case](#).

⁷ See [Ausgrid CER integration independent review](#).

can advance both these causes simultaneously, it is not clear how these often incongruent (and at times irreconcilable) objectives will be balanced. If community batteries are integrated without due regard to this tension, they risk generating inequities across households in terms of ability to access and benefit from battery services. Specificity and clarity in engagement is especially important in matters like these where a thorough understanding of the benefits and implications of each option is necessary to express a meaningful preference.

Ausgrid has made genuine efforts to outline the potential benefits, design constraints, and costs of implementing community batteries to consumers. Throughout its engagement program Ausgrid demonstrated a genuine commitment to developing a shared understanding of the capabilities and role of community batteries. However, more work is needed to outline how different battery services will be prioritised and how these priorities will be reconciled with the assumptions and vision consumers have for these assets. That is, significant gaps still exist between the assumed benefits and operational realities of community batteries, particularly within the current regulatory framework which restricts the actions of DNSPs.

This gap could be addressed through establishing consumer preferences on the principles to guide the allocation of spare capacity and battery services. Future discussions would benefit from a systematic assessment of the trade-offs across the network and non-network functions of community batteries. As such, we encourage the AER to provide further guidance to help distinguish between 'community' and 'network' batteries according to the services these assets are intended to provide.

Resilience

Many of the issues we address in this section are pertinent to the wider consideration of the issue of resilience and the other NSW DNSPs. We present this detail in response to Ausgrid's draft determination because climate resilience was the principal focus of Ausgrid's consumer engagement in 2023, and an area of consideration Ausgrid has championed as a priority.

Ausgrid's resilience engagement program consisted of three streams focusing on different stakeholders: priority LGAs (Stream 1), VoCP (Stream 2), and commercial and industrial customers (Stream 3). Our commentary here is limited to residential and small business segment (Stream 1 and 2) as we did not observe C&I customer engagement.

The extent and outcomes of this engagement program are well detailed in the July 2023 RCP Report on Ausgrid's Resilience Business Case⁸. While we refrain from recapitulating these observations here, it is worth restating our initial impression of the engagement program as the most ambitious and in-depth effort to develop bespoke approaches to community and network resilience in NSW⁹.

We consider this remains the case following the conclusion of the program in October 2023 and commend Ausgrid for building robust performance monitoring and assurance governance into their Climate Resilience Framework, including post-implementation reviews to measure the effectiveness of all proposed projects.

⁸ See [RCP Report on Ausgrid's 2024-29 Business Case](#), pp. 20-44.

⁹ See [PIAC submission to AER Issues Paper 2024-29 Revenue Determinations: Ausgrid, Endeavour, and Essential Energy](#), pg. 13.

Ausgrid's climate resilience proposal remains broadly supported by both the priority LGAs and their broader customer base. This support is a testament to Ausgrid's genuine desire to better understand consumers and their preferences in this new area of expenditure. Ausgrid took considerable efforts to adhere to the resilience guidance note, especially as regards consumer engagement. The AER acknowledges these efforts in its Draft Decision where consumer engagement is distinguished as the sole major criterion¹⁰ Ausgrid satisfied in its entirety.

The AER raises important issues under the criteria not satisfied by Ausgrid, and while we touch on these indirectly, our primary focus here is on consumer engagement itself. This is for two reasons. First, consumer engagement acts as the foundation on which to assess the other two criteria ('identified need' and 'testing of the preferred option') and therefore warrants additional scrutiny. Second, despite Ausgrid having 'satisfied' the AER's engagement criterion, the program was not without shortcomings, from which lessons should be drawn.

We flag these areas for improvement, not to detract from Ausgrid's achievements, but to ensure network businesses develop a sound foundation on which to understand climate risks, assess potential impacts, and identify the most meaningful expression of consumer preferences to guide their responses. Our comments on Ausgrid's preliminary resilience engagement at the issues paper stage remains relevant here. Namely, we maintain the structure of the engagement and framing of resilience was such that more meaningful preferences could have been elicited from consumers.

Key amongst our concerns is that LGA workshops remained overly focused on supporting the local community to carry out, what was in effect, a cost-benefit analysis of technical interventions. Community members were invited to assess, challenge, and prioritise several dozen interventions that were not always immediately comparable or comprehensible to all participants. This task was further complicated by the need to then re-assess preferences across various permutations of network and community solutions.

While we consider these preferences a valid expression of support for specific responses, they are not necessarily the best reflection of community views on how network businesses should manage resilience-related trade-offs¹¹. We note CCP26 raised a concern that consumers may have lacked sufficient information to make an informed decision on proposed interventions. In our view, the problem was not so much a lack of information, but an unrealistic expectation on consumers to fully comprehend, and meaningfully and critically assess and compare the significant number of solutions presented them.

Ausgrid did provide consumers with accessible, plain-language supplements to aid their decision-making. However, given the number of interventions under consideration, these exercises were unwieldy even for more experienced stakeholders – to say nothing of the challenge posed to community members learning about resilience for the first time. To avoid these problems, future engagement should focus more on identifying principles (as opposed to interventions) to guide resilience-based decision-making.

¹⁰ Other major criteria include 'identified need' and 'testing of the preferred option'.

¹¹ See our commentary on Essential's resilience engagement for an outline of how to more productively frame and prioritise these questions.

CCP26 also flagged the relatively late introduction of the concept of the 'risk of paying twice'. In simple terms, consumers risk paying more than necessary for resilience if investments target the wrong climate peril or wrong area, or are simply insufficient to mitigate the risks without further costs. We share the CCP's concern and consider discussions on affordability in general were lacking, particularly in the LGA workshops. A more robust assessment, and consistent definition, of risk and uncertainty is needed to ensure consumers understand what these concepts encompass and how they inform possible responses.

Ausgrid repeatedly advised consumers that they need not spend the entire envelope of available resilience funding. This proviso, while well-intentioned, was grossly ineffective due to the lack of an associated framework through which to assess risk and uncertainty. Our observation of engagement suggests consumers sought to use all available funds since doing otherwise would be tantamount to 'leaving money on the table'. This issue could have been better handled through shifting focus away from funding caps and putting more emphasis on principles-based trade-offs and desired outcomes from resilience expenditure¹². In essence focus on determining a solid foundation for how and why decisions should be made, before considering how much should be spent on the resulting decisions.

We strongly support the RCPs recommendation that the AER issue updated guidance on resilience, which should:

- Tighten the definition of resilience (particularly with regards to its interaction with reliability) and outline an approach for establishing baseline levels of resilience;
- Clarify the AER's approach to evaluating trade-offs between ex-ante and ex-post investment and outline the evidence necessary to justify such investments;
- Put in place more appropriate measures (above and beyond conventional cost-benefit analysis) to value community resilience.

This guidance should draw on learnings from reliability discussions and underscore that there is no 'zero risk' option for resilience investment. Network businesses should accordingly inform consumers not just of the potential, but the limitations of various resilience measures. Put differently, it is equally important that consumers understand what certain interventions can do, as what they cannot do, regardless of how much money is spent.

Participants in the LGA workshops dedicated significant time and energy to developing locally-specific approaches to community resilience. This focus is noteworthy considering the small proportion of resilience expenditure these programs represent relative to proposed network investments. We suspect this is due in large part to interventions associated community resilience (such as small mobile generators and emergency hubs) being more concrete and comprehensible to consumers than network solutions (such as reclosers and covered conductor). Due to familiarity with the nature of the interventions, participants could meaningfully assess what they involved, how they would relate to an identified issue, their likely impact, the potential 'risks' they involve and their costs relative to those considerations, as well as other implications those interventions might have.

¹² Ibid.

Ausgrid's community resilience proposal reflects the strong expressed preference of the community and is arguably the most representative aspect of its bespoke approach to resilience investment. We understand the AER does not have an established approach for valuing community resilience and that assessing the costs and benefits of these initiatives is particularly challenging. This should be addressed through an updated guidance note that clarifies the role of network businesses in providing these services and outlines how such services can be evaluated for efficiency.

We welcome the AER's constructive approach in assisting Ausgrid refine its resilience modelling and assumptions. We encourage both parties to continue this collaboration and share their findings so that other network businesses may benefit from more robust network impact modelling. The AER should supplement this effort with an evaluation of consumer risk preferences on high-impact low probability events to provide a resilience-specific proxy to the value of consumer reliability.

Innovation

At the outset we should note our concern with a lack of consistent understanding of the concept of innovation, its definition, and its application in relation to regulated energy service. Given that innovation is, in general, a term with broadly positive connotations, but without concrete definition and consistent understanding, there is a danger that support stems more from its general positive associations than any informed support for its specific application.

Consumer support for innovation was consistently high throughout Ausgrid's engagement program. The VoCP frequently drew attention to the potential of these investments to make a significant contribution to a timely energy transition and flagged their support for a greater focus on innovation in the 2024-29 period.

Customer and technical representatives on bodies such as the Reset Customer Panel (RCP) and Network Innovation Advisory Committee (NIAC) also broadly support Ausgrid's innovation program. Ausgrid should be commended for its constructive engagement with these groups through which it has built increasingly robust governance, cost benefit modelling, and accountability arrangements into its innovation activities.

Widespread support notwithstanding, consumers continue to hold a wide range of views on the meaning, role, and outputs associated with 'innovation' as such. In other words, while there was near universal agreement that innovation was important, no such consensus emerged on the substance of the concept itself. Innovation, with its technology-focused connotations, continues to hold a strong positive association amongst consumers despite lacking a concrete definition in the context of network regulation. In this sense, there is need for greater clarity around the role and measurement of innovation to ensure it delivers the outcomes consumers expect.

Our observation of engagement suggests consumer enthusiasm for innovation is more a reflection of their desire for a modern, efficient energy system than their interest in a specific suite of research, trials, and pilot projects at the network level. It is also worth noting that in the engagement processes for all NSW DNSPs (and incidentally, NSW water businesses) consumer support for 'innovation' is usually predicated on an assumption (mostly without any basis) that the status quo for the businesses is one of backwardness, bloated inefficiency, and unexamined processes. It is a danger that where it is 'reflexive', consumer support for innovation is not

necessarily based on identified need, or an assessment of the relative value to be gained. With that said, consumers do consistently regard innovation as a means of achieving net zero through improved integration of flexible resources, higher levels of electrification, and more dynamic network control and operation.

These are worthwhile objectives that network businesses should urgently progress. However, we question whether consumers are the appropriate party to fund this extra expenditure given the myriad incentive schemes, allowance mechanisms, and government grants that already exist to support these activities. Ausgrid proposes to address this concern through limiting the costs they recover from consumers to 90 percent, with the remainder to be garnered from shareholders and/or other sources.

Ausgrid submits that in the absence of an AER approved allowance for its network innovation program, it would struggle to fund more transformative activities (with a higher risk of failure) as these are less suitable for external funding. While innovation investment should target activities with the greatest potential to accelerate the transition to net zero and drive benefits for consumers, we do not see why a self-funded model in tandem with low-risk, small scale improvements could not achieve these objectives¹³. We support Ausgrid's effort to align with international best practice, however we are not convinced the proposed funding model is in the long-term interest of consumers.

Furthermore, we are concerned that approving a dedicated innovation program as a discrete expenditure category may set a precedent for other network businesses and their respective revenue determinations. That is, either all innovation programs are justified, or none are. The AER should accordingly consider whether the long-term interests of consumers are better advanced under a scenario in which all DNSPs have an innovation program or none of them do.

We strongly recommend the AER to issue an innovation guidance note to outline their expectations around innovation funding and expand on the advice provided in its Draft Decision. This should include a clearer delineation between different types of innovation (i.e. transformative vs. core improvements), further guidance on knowledge sharing arrangements, and a more balanced approach to assessing innovation trials and pilots that have an unproven or uncertain business case. The AER should also consider conducting a review of innovation examining how it should be framed, understood, and assessed.

Tariff structure statement

Two-way pricing

We do not consider Ausgrid has sufficiently demonstrated its need for two-way pricing and do not support its proposed export tariff design. Export tariffs, where they are justified, should respond to a material problem related to network congestion caused by rooftop solar exports.

Export tariffs represent one tool among many to address this problem. The AEMC's *Access, pricing, and incentive arrangements for distributed energy resources* final determination requires distributors to:

¹³ See B1.1 and B1.2 in Figure 4 of [Attachment 5.8: Network Innovation Program](#).

- consider all options available – both network and non-network (e.g. purchasing services from customers or third parties) solutions when providing export services¹⁴; and
- explain their proposed approach to export-related planning and investment against alternative options¹⁵.

In other words, distributors must use the most efficient option available to provide export services.

We are not confident Ausgrid's proposal satisfies this criterion given their intrinsic hosting capacity can accommodate current levels of CER¹⁶ and their TSS explanatory statement does not indicate solar exports are imposing, or by 2029 are likely to impose, material costs on the network. Without evidence that solar exports are likely to impose material costs on the network there is no immediate need or reason to introduce tariffs to recover them.

Ausgrid outlines its potential hosting capacity problem as follows:

If AEMO's Step Change scenario for CER uptake proves to be reasonably accurate, between 2024-29 we expect intrinsic hosting capacity to be exhausted in parts of the network. Across 16 sampled locations in the LV network, half are expected to require investment by 2050 under the Australian Energy Market Operator (AEMO) step change scenario¹⁷.

While hosting capacity may be exhausted in parts of Ausgrid's network by 2050, this does not imply a material problem will develop in the 2024-29 period and should not be treated as such. Furthermore, we question whether the sixteen locations sampled are sufficiently representative to provide an accurate reflection of hosting capacity across Ausgrid's entire network.

Even if we accept intrinsic hosting capacity may be exhausted in parts of the network during the 2024-29 period, Ausgrid has not demonstrated this issue is sufficiently widespread to justify imposing an export tariff on all households. As such, we do not have confidence the proposed export tariff is fit for purpose or consistent with the pricing principles.

Namely, we do not consider the proposed tariff reflects the total efficient costs of customers assigned to it or the long-run marginal cost of providing the service. If hosting capacity constraints remain limited in the 2024-29 period, the proposed tariff is likely to replace one cross-subsidy (from non-CER to CER customers) with another (from unconstrained to constrained CER customers).

We strongly disagree with Ausgrid's proposal to express its basic export level (BEL) and export charge in volumetric (kWh) rather than demand-based (kW) terms. We do not consider a volumetric BEL and export charge cost reflective or appropriately linked to the identified issues such as voltage management and excess export during peak generation periods.

Ausgrid's proposal to calculate its BEL as a function of aggregate exports over a billing period is unlikely to limit (and may exacerbate) network congestion caused by rooftop solar exports.

¹⁴ See AEMC [Access, pricing, and incentive arrangements for distributed energy resources](#) final determination pg. ii, para. 12.

¹⁵ Ibid, pg. iii, para. 14.

¹⁶ See [Ausgrid Pricing Directions Paper for 2024-29](#), pg. 19.

¹⁷ See [Ausgrid TSS Explanatory Statement for 2024-29](#), pg. 15.

Calculating a BEL on a monthly or quarterly basis effectively uncaps export capacity at some times while artificially limiting it at others. For example, a household with a large solar system may export at maximum capacity (exacerbating local congestion) without penalty early in the billing cycle and go on to exhaust its BEL after which even moderate levels of export (that do not exacerbate local congestion) will attract a charge.

The proposed BEL does little to disincentivise spikes in export demand and may prove counterproductive as consumers seek to optimise exports to the grid using home energy management systems and third-party CER orchestration services. Put simply, we are concerned that a volumetric BEL and export charge mistakenly target aggregate exports while remaining agnostic to a key driver of network congestion – export demand.

To better align with the pricing principles and address the problem of network congestion, Ausgrid's export tariff should include a locational, or at least temporal, element. If Ausgrid is unable to incorporate locational rewards and charges in its pricing system for the 2024-29 period, then it should delay introducing two-way pricing until it develops this capability. Should the AER choose to proceed with the proposed volumetric approach we strongly recommend the BEL be applied on a daily rather than monthly or quarterly basis.

We acknowledge locational pricing 'would result in uneven treatment of CER customers across geographic locations and lead to higher export charges [and rewards] than under uniform pricing'. This is not necessarily undesirable. Sharper price signals would provide retailers with greater incentives to assist households manage CER in a manner that contributes to the efficient operation of the energy system. Locational pricing would also ensure export tariffs are cost reflective and recovered only from users contributing to congestion problems.

Concerns that 'locational pricing would be more difficult for customers to understand and for retailers to incorporate into retail offers' are similarly misplaced. This logic assumes retailers are merely a conduit for passing through network price signals with no role in managing network price risk on behalf of their customers. That this assumption continues to plague network tariff design and consumer engagement is beyond regrettable.

Reflecting network tariff structures in retail offers is one (but by no means the only) option for retailers to manage network price risk. Retailers may also manage this risk through offering peak time rebates, load control, or other forms of demand management. These alternatives are seldom identified and explored in consumer forums as engagement processes rarely afford opportunities for direct discussion between networks, retailers, and consumers.

This fragmented approach with separate tracks for retailer and consumer engagement is a key obstacle to progressing cost-reflective network tariff reform. The existing approach obscures the roles and responsibilities of retailers because networks are predictably uncomfortable to speak on their behalf and cannot provide consumers with definitive answers around how retailers will incorporate two-way pricing¹⁸ into their offers. Information asymmetries between consumers and retailers further exacerbate this issue and result in a one-way dialogue that amplifies retailer concerns and perpetuates the view that consumers (rather than retailers) are the primary target of cost-reflective network tariffs.

¹⁸ Or for that matter, any network price signal.

We encourage the AER to clarify its view on the role of export tariffs as different interpretations have led to designs that in attempting to solve all problems, solve none. Specifically, the AER should update its export tariff guidelines to establish whether export tariffs are primarily a mechanism to unwind the cross subsidy from non-CER to CER consumers or a means to address network congestion caused by rooftop solar exports.

In our view, the primary role of exports tariffs is the latter. This does not imply the existing cross subsidy is efficient but that it could be addressed through more appropriate means such as changes to connection charges. Export tariffs should provide clear price signals about where and when CER is of value to networks, and conversely where and when it is likely to cause problems for networks and/or other users.

Embedded networks

PIAC shares the concern of many other stakeholders regarding the growth of embedded networks and the implicit cross subsidy arising from current arrangements. This problem is particularly acute within Ausgrid's network which is host to almost 1,000 embedded networks with approximately 5-6 new embedded networks connecting each month¹⁹, a rate likely to accelerate without action to address it.

Outcomes for consumers in embedded networks are mostly inconsistent with those of on-market consumers, and often detrimental. Any potential consumer benefits are seldom realised (being absorbed by the operators in the form of reduced costs or increased revenue), or insufficient to outweigh the potential (and actual) harms and other impacts consumers experience as a result of being served through an embedded network.

Claims that the benefits of embedded networks outweigh the need to introduce an embedded network tariff are unfounded^{20,21}. The vast majority of embedded networks do not deliver these benefits and have been structured to take advantage of lighter regulation, lower costs, and less responsibility, to deliver additional revenue for developers and operators.

While we strongly support unwinding existing embedded networks and exempt selling arrangements to ensure equality of outcomes for NSW residents²², we understand the AER and distributors cannot action such change on their own. The AER and distributors however can set the groundwork for this reform by seeking to recover the full amount of the cross subsidy.

We note the AERs concern that 'increasing network costs for embedded network operators may undermine the embedded network business model overall, with implications for customers within embedded networks'. We agree that distributors have a responsibility to help manage the bill impacts arising from this tariff adjustment. However, using this concern as a rationale to delay or weaken proposed reforms is unacceptable. The further we kick the can down the road, the worse the eventual correction will be, and the larger the problem to solve will be.

¹⁹ See [Ausgrid Revised TSS Explanatory Statement for 2024-29](#), pg. 28.

²⁰ See [PIAC submission to IPART Energy prices in embedded networks](#).

²¹ See [PIAC submission to NSW Legislative Assembly Committee on Law and Safety Inquiry into Embedded Networks](#).

²² Ibid, pp. 7-9.

Distributors should therefore be required to recover all residual costs from embedded network operators and implement a principle of cost-reflective pricing that is otherwise a regulatory priority. Any approach that stops short of fully unwinding the existing cross subsidy will only encourage the growth of embedded networks and undermine the equitable recovery of costs.

Given the significant number of embedded networks already operating in Ausgrid's network we do not consider grandfathering arrangements appropriate and do not support proposals to apply tariffs only to new embedded networks. We support Ausgrid's proposal to manage bill impacts by transitioning embedded networks to its proposed new tariff over 5 years. Ausgrid should maintain this approach in the 2029-34 regulatory period to unwind the remainder of this cross subsidy.

EV integration

Ausgrid has scope to implement a sharper, more targeted price signal to manage EV charging load at the residential and small business level. Tariffs should help incentivise EV owners to improve utilisation of the network and not impose new avoidable peak demand. To this end, retailers for households with EVs should be offered – and ultimately be required to have – wider peak windows and lower off-peak peak charges compared to other time variant tariffs.

Ausgrid worked constructively with stakeholders to manage the integration of EVs and other flexible loads through its residential demand, time-of-use, and controlled load tariffs. While these tariffs provide incentives to charge EVs outside of peak periods, Ausgrid could further optimise the charging of EVs during off-peak times through introducing a tariff with:

- extra high peak charges and a peak window ending at least an hour later than the standard peak window (to avoid peak-creep),
- extra low off-peak charges overnight, and
- mandatory assignment for fast charging electric vehicle supply equipment (i.e. above 15A single phase)

Ausgrid's super off-peak tariff trial incorporates some of these elements and should be expanded to better accommodate EV load growth in the 2024-29 period and beyond.

We strongly oppose using contingent tariff adjustments to address higher than expected EV charging load. Shifting the timing of the peak window limits the capacity of households across Ausgrid's entire network to manage their exposure to peak pricing and penalises households for using electricity when they cannot avoid it.

This is not a reasonable trade-off. It is not fair, efficient, necessary, or supportive of consumer interests or preferences to make the peak later rather than seeking to optimise the charging of EVs during off-peak times with sharper price signals and/or location-specific incentives.

Metering

We do not support Ausgrid's proposal to maintain the alternative control services (ACS) classification for its legacy metering asset base. Ausgrid claims an ACS classification is warranted because it produces 'similar bill outcomes for existing metering customers compared to switching to standard control services (SCS)'. While an SCS classification may not differ materially in terms of bill outcomes for Ausgrid customers, this is not the case for all NSW DNSPs.

We consider an SCS classification preferable because it ensures metering costs are recovered from all customers and not just historical legacy metering customers as is the case under ACS. Ausgrid does not take this distinction into account and only considers bill impacts across different tariff classes in its analysis. This does not constitute a comprehensive assessment of equity, which requires considering not just how costs are distributed but who is party to (and exempt from) cost recovery arrangements. In this sense, an ACS classification is less equitable than SCS.

The AER's draft decision to merge the capital and non-capital components of metering charges in the 2024-29 period guards against inequities arising from recovering costs across a declining customer base. We commend Ausgrid for adopting this approach, however we note the AER's view that,

maintaining metering as ACS but recovering costs from a wider customer base is considered a *transitional solution* to support the accelerated deployment of legacy meters as the number of customers who have a legacy becomes much smaller. We consider it appropriate to integrate metering services into SCS at some point in time. At the very least this would be in a future regulatory period but could also be in the revised proposal, which would also allow cost recovery across all customers, rather than only historical legacy metering customers.
(emphasis ours)

As such, we strongly encourage Ausgrid to adopt an SCS classification for the 2024-29 period given stakeholder concerns that achieving 100 percent smart meter deployment by 2030 is unlikely under the current industry structure. Adopting an SCS classification would also promote alignment across NSW DNSPs in line with a jurisdictional framework and approach.

Should the AER decide SCS is the most appropriate classification in its final determination, we recommend distributors recover these costs from all customers. Meters are an essential component of the energy system and are crucial to the safe, efficient, and reliable delivery of energy services²³. We consider metering (and at least legacy metering) should be regarded as a network asset (like the wiring which connects it to the network) rather than the asset (and cost) of the individual connection.

The AER has expressed uncertainty about distributors recovering these costs at an HV level because no customers on those tariffs or in those tariff classes are or have been subject to legacy metering services. This may be construed as violating NER clause 6.18.5(f) which requires that each tariff 'be based on the long run marginal cost of providing the service to which it relates to the retail customers assigned to that tariff'. Recovering costs across a wider customer base is not unprecedented given the pricing principles allow for arbitrage within tariffs and tariff classes – e.g. LV customers that have never had legacy meters are grouped in tariffs and tariff classes with customers that have.

Should the AER however adopt a strict reading of the pricing principles, it should apply this reading consistently across all its pricing determinations. Most notably the AER should revisit its

²³ For more details on the role of meters and metering see [PIAC submission to AEMC Review of the regulatory framework for metering services draft report](#), pp. 1-3.

decision on the recovery of roadmap costs which constitute a significantly larger cross subsidy from LV to HV consumers.

Pricing principles aside, we consider it appropriate to recover costs from both HV and LV customers given all consumers receive the whole-of-system services meters provide. As the AER outlines in its draft decision,

a reclassification of legacy metering services as standard control services (SCS) and with costs recovered through the revenue cap is likely to be more appropriate in the revised proposals in order to reduce material price impacts for customers through the metering transition. Contribution by all customers is appropriate as all energy users will recognise the network benefits of this transition²⁴.

We consider a proportional increase to access charges the most equitable approach to recovering legacy metering costs. This avoids the issues associated with applying a variable charge on consumption which may disproportionately shift cost recovery onto consumers experiencing vulnerability and those less able to adjust their consumption behaviours. A proportional increase to access charges provides comparable transparency to a fixed charge while also ensuring all consumers carry a fair share of costs of the metering transition.

With regard to legacy meter replacements, we agree additional consideration should be given to load-only households (particularly those experiencing vulnerability or disadvantage) in the rollout but note that the expected benefit of a smart meter for these groups is contingent on retailers managing the risks associated with exposure to more cost reflective network tariffs and providing consumers with offerings that meet their needs and preferences. This should include the option to not directly face the network signal through remaining on a flat retail tariff.

We do not support applying accelerated depreciation over the 2024-29 period for the legacy metering asset base. The related bill increase (regardless of how minimal) is not justified given the clear and consistent message from consumers that Ausgrid should do everything possible to improve affordability in this period.

Incentive schemes

Capital expenditure sharing scheme (CESS)

The AER's draft decision encourages Ausgrid to waive the \$63 million CESS increment associated with Sydney Metro's compulsory acquisition of its Bligh Street property. Specifically, the AER notes,

[Ausgrid] is suitably compensated for this compulsory acquisition, and consumers are paying an additional incentive payment on top of this. We do not consider this outcome is consistent with the CESS principle that the business should be rewarded for efficiency gains. In this case, consumers will pay a higher CESS in the 2024–29 period for an asset disposal that is not related to efficiency gains or related to providing the distribution business with an incentive to dispose of assets because the compulsory acquisition is beyond Ausgrid's control.

²⁴ See AER [Attachment 20 Metering Services](#), pg. 7.

We share the view that this outcome is not consistent with CESS principle that distribution businesses 'should be rewarded or penalised for improvements or declines in efficiency of capital expenditure'²⁵ and strongly support the recommendation that Ausgrid consider waiving Bligh Street from its CESS increment.

We do not consider Ausgrid's proposal to retain the CESS increment in line with the long-term interests of consumers. We understand Ausgrid does not agree with the AER's proposal on grounds that 'it is inconsistent to exclude projects or programs from the CESS when the forecast is determined at the total level' and that doing so may create a precedent for excluding specific cost categories on an ex-post basis. While it is within Ausgrid's right to retain the CESS increment, doing so may create a corresponding precedent that the overriding consideration guiding the application of the CESS is a distributor's adherence to the process rather than principle and intent of the scheme.

We encourage the AER to consider the RCPs recommendations to amend the CESS Guideline to clarify the treatment of compulsory property acquisitions to ensure the current situation is not repeated.

Customer service incentive scheme (CSIS)

We commend Ausgrid for undertaking extensive consumer engagement on its proposed CSIS. Ausgrid demonstrated an unparalleled commitment to retesting priorities and preferences in response to consumer concerns throughout. In particular, Ausgrid should be recognised for taking the entirety of its CSIS engagement to end-use customers and organising additional sessions to respond to questions around the merits of the scheme that emerged during its April Voice of Community Panel (VoCP).

Ausgrid organised a supplementary online session in August in which they provided the VoCP with details of the proposal's development, the regulatory rules which govern CSIS, as well as some high-level information about other incentive schemes in the NEM, and advice on how the CSIS would operate in practice. Ausgrid indicated the VoCP could influence certain elements of CSIS design but that others would be non-negotiable.

The VoCP was not permitted to modify the amount of revenue at risk (i.e. the annual reward/penalty had to be set at the maximum allowable amount) or alter the shape of the scheme (i.e. the reward/penalty had to remain symmetrical). Ausgrid did not provide the VoCP with a justification for why these elements were removed from consideration despite the VoCP suggestion at the April session to reduce the amount of revenue at risk.

Ausgrid informed consumer advocates that it chose not to seek further input from the VoCP on these matters because of strong support for the scheme amongst business customers and Accredited Service Providers (ASPs). While these parties place a higher value on metrics such as connections timeframe than residential customers, we do not consider this a valid reason to discount legitimate concerns that the proposed revenue component is too large.

This issue could have been better addressed by inviting consumers to trade-off metrics covered under the scheme against total revenue at risk. We do not consider testing consumer preferences

²⁵ See [NER cl. 6.5.8A\(c\)\(1\)](#)

around whether the scheme should include metrics other than connections timeframe (which represented another non-negotiable) an adequate basis on which to assess overall support for CSIS.

Furthermore, we are concerned that Ausgrid's response to consumer concerns around revenue at risk may have misrepresented the costs of the scheme. For example, consumers were reassured during the August session that CSIS costs were 'already baked into the system' given Ausgrid already had an equivalent amount of revenue at risk under its existing telephone answering parameter. However, the link between the amount of revenue at risk and bill impacts was unclear and may have left some consumers with the impression that the proposed scheme would impose similar costs as its previous iteration or operate on a fixed cost basis.

It is not clear the VoCP would have supported introducing a CSIS had this choice been given to them. While the VoCP expressed support for the new metrics and shaped some aspects of the scheme, it is not possible to conclude the proposed CSIS represents the preference of the VoCP.

Consumers understandably hold the view that incentives should be for performance above what would be good/logical/regulated business practice and should reflect their preference on the trade-off between cost and service/s or service levels. While these issues featured prominently in the VoCP sessions, discussions were generally limited to the outputs and operation of the CSIS. We therefore recommend that future engagement in addition to the mechanistic focus of incentive schemes include a broader assessment of whether incentive schemes improve outcomes for consumers or are working at least cost.

3.2 Endeavour

Endeavour concluded most of their consumer engagement in the first half of 2023. This enabled them to conduct an internal review of the program and revisit more challenging areas of engagement such as pricing and innovation in the latter half of the year. Endeavour consistently involved stakeholders in these discussions and remained receptive to feedback to further refine their approach.

While Endeavour has done well to reflect consumer preferences in its proposal, further improvements could be made to fine-tune the balance between consistency and adaptability in their consumer engagement. This is especially the case in novel or more complex areas of engagement (such as resilience or pricing) where adjustments between sessions are crucial to integrate learnings and adapt to consumer feedback.

In our view consistency and statistically 'pure' results are less important than ensuring every engagement opportunity is as meaningful as possible and contributes to the development of the most meaningful consumer preferences. In this context a consistent series of engagement may have much less value than one which was adapted 'mid-stream' to address identified issues. PIAC notes several occasions in Essential's program where dynamic change amidst the final phase contributed to stronger outcomes that better reflected consumer interests and preferences.

Consumer energy resources

We broadly support the aims of Endeavour's CER integration strategy and consider their proposed investments an accurate reflection of consumer priorities. In particular, we welcome

Endeavour's commitment to prioritise customer and operational solutions prior to considering traditional augmentation.

Endeavour suggests consumers are keen to be involved in the transition to a low-carbon economy and that their proposed CER investments support this ambition by:

- Making it easier to participate in voluntary demand response programs and/or earn incentives through tariffs;
- Providing opportunities to achieve personal savings through smarter, more efficient technologies and greater choice and control of their energy usage; and
- Enabling consumers to generate and share their energy with minimal limitations on the uptake of CER.

We acknowledge consumers are eager to progress the energy transition and contribute to it. Our observation of engagement suggests this desire is more a reflection of the assumption that consumer involvement will facilitate a faster, better value and fairer transition, than their interest in taking a more active role in managing (and being required to manage) their energy use. This is a critical difference which would have wide implications. In any case, we recommend great caution in assuming a motivation from the results derived in this engagement. While we support network businesses providing consumers with opportunities to partner in such efforts, we are reticent about framing greater consumer involvement (i.e. expanding consumer 'choice') as unambiguously good or desirable and widely applicable to all consumers.

Network business and the AER should be cognisant that the corollary to an energy market based on ever greater choice (even when these choices are meaningful) is the production of inequities within and across consumer classes. Indeed, the AER has recognised this throughout its recent work in understanding consumer vulnerability, and the material role played by market structures in driving greater consumer vulnerability. While robust regulations and consumer protections go some way to ameliorating these inequities they do not, and cannot, eliminate them.

Future discussions on CER integration should focus more explicitly on this trade-off and consider the extent to which consumers are willing to accept disparate outcomes according to their capacity to engage with the market. In the meantime, we note consumers consistently express a desire for 'people to be treated the same/fairly', and for those with less capacity to choose and respond not to be penalised. This preference runs through all DNSP engagement in this and previous processes and should mitigate against any assumptions that consumers unequivocally support individual empowerment and responsibility as the primary logic underpinning CER integration and the transition.

These discussions should also explicitly address the trade-off between individual consumer benefit from CER assets, and collective costs (and benefits) which may result, and the degree to which the community supports individual choices being the key determinant of consumer outcomes, particularly where those individual choices may also have collective impacts, and impacts on those with no capacity to exercise a similar choice. This has been a strong theme in engagement for Endeavour (and other DNSPs) but should continue to be explored in more depth as the maturity of engagement develops

Endeavour's CER engagement revealed significant consumer concerns with the energy transition and its implications for cost- and risk-sharing arrangements. Both consumers and stakeholders signalled the need to integrate higher levels of CER in a fair and equitable manner. As we noted in our submission to the issues paper²⁶, more could be done to draw out the inherent trade-offs between maximising individual consumer benefit and optimising equity in community benefits with regards to CER integration.

We share Endeavour's concern around the significant non-compliance with CER technical standards²⁷ and support their effort to address this issue using dynamic operating envelopes (DOEs). We note the AER's view that recommendations arising from the AEMC Review of CER technical standards²⁸ may deliver more immediate benefits at lower cost and that Endeavour should consider these actions prior to investing to enable DOEs.

While we welcome the AEMC's commitment to advance reforms that are actionable in the short-term, we are concerned the recommendations of the review are overly reliant on voluntary actions which are extremely unlikely to be delivered consistently (if at all)²⁹. Dynamic operating envelopes and complementary tariff and demand flexibility reforms should therefore be progressed in parallel with the AEMC recommendations.

Resilience

Relative to the other NSW DNSPs, Endeavour's climate resilience proposal is more restrained and focuses predominantly on maintaining electricity supply during major weather events. While Endeavour has not proposed dedicated investment for community resilience, it has committed to working more closely with Government, other utilities, and affected communities to better support consumers in the pre-, intra-, and post-event recovery from a major loss of supply.

Endeavour's proposal consists of two initiatives – replacing bare conductor in high bushfire risk areas and raising powerlines in flood-prone areas of the Hawkesbury-Nepean catchments. Both these proposals were well-supported by consumers, who indicated that Endeavour should increase its focus on maintaining network services in the face of increasing major weather events.

Endeavour's consumer engagement focused predominantly on identifying key climate risks and their likely impact on network performance. While consumers consequently accepted the need to address the impacts of increasingly severe and frequent major weather events, they did not have a clear sense of the relative risks impacting local resilience and the limitations of proposed responses to mitigate or manage said risks.

Endeavour presented consumers with a high-level overview of resilience and did not involve them in detailed options analysis or the design of LGA-level programs. While this approach was commensurate with the proposed investments, there was greater scope to test consumer preferences on:

²⁶ See [PIAC submission to AER Issues Paper 2024-29 Revenue Determinations: Ausgrid, Endeavour, and Essential Energy](#), pp. 10-11.

²⁷ High rates of non-compliance are not unique to Endeavour's network as approximately 65 percent of new CER installations in quarter 1 of 2022 were non-compliant across the NEM.

²⁸ See AEMC, [Review into consumer energy resources technical standards, final report](#).

²⁹ See [PIAC submission to AEMC Review into consumer energy resources technical standards, draft report](#).

- how to balance desired levels of resilience against related costs;
- how to balance preparatory and responsive measures to manage climate risks and uncertainties; and
- how to balance localised costs with socialised cost recovery.

These trade-offs were generally underexamined in the engagement programs of all network businesses. This was evident in the stark contrast between discussions on resilience (where existing baselines are vague) and reliability (where existing baselines are well-established) with consumers expressing clearer and more consistent preferences on the latter.

Future engagement should accordingly place more emphasis on identifying relevant programs and practices that contribute to a network's existing level of resilience. We encourage the AER to issue updated guidance to this effect to ensure network businesses are consistent in their approach to setting baselines.

Endeavour made a sincere effort to frame resilience holistically by discussing it in tandem with related concepts such as reliability and safety. However, more could be done to develop community perspectives on resilience and network businesses should consider examining interdependencies and distinctions with reliability further. These efforts should provide consumers with the necessary context and an appropriate framework to express meaningful preferences for how they would like network businesses to manage increasing climate risks and uncertainties.

Innovation

Our concerns with Endeavour's proposed innovation fund are similar to those outlined in our commentary on Ausgrid's innovation program. While Ausgrid and Endeavour's proposed innovation programs share much in common, there is less clarity around what projects are supported under Endeavour's fund.

Network businesses claim this ambiguity is an unavoidable by-product associated with the need for responsiveness and agility in the design and delivery of innovative programs and services. Another common argument used to justify vague innovation expenditure is that network businesses need this flexibility to solve emerging problems which they cannot foresee five years in advance. This argument highlights our concern that innovation funds will become little more than contingency mechanisms or 'slush funds' to undertake or augment expenditure in areas which should otherwise be provided for prudently and efficiently.

While the ongoing energy transition represents a significant step-change from existing practices in the provision and delivery of electricity, this fact alone does not justify the need for 'innovation' as such. In other words, we should not presume innovation holds intrinsic value for consumers.

Innovation should instead be clearly linked to outcomes consumers desire and for which existing programs and practices are inadequate. That is, network businesses need to be clear about the objectives they seek to realise through innovation, with these objectives driven and supported by consumers. As we raised in our previous submission, innovation should be viewed as a response or 'tool' rather than an output that is desirable in its own right. In this sense, there is greater scope for network businesses to outline how innovation creates value for consumers and represents

more than core improvements and efficiency gains that should be part of normal business operations.

We share the AER's preference for an industry approach to innovation such as that facilitated through the Energy Innovation Toolkit or ARENA, so that the best-placed parties undertake the innovation and duplication between network service providers is minimised. Given the AER's preference for network businesses to fund innovation through existing mechanisms, a review of the Demand Management Innovation Allowance (DMIA) to broaden its scope and scale may have merit as an alternative to funding innovation through regulated revenue.

Tariff structure statement

Assignment policy

Endeavour agreed to revisit its tariff transition plan in response to stakeholder concerns that proposed tariffs would lead to a prolonged and confusing transition. While Endeavour has generally done well to enhance the cost reflectivity of price signals in residential and small business tariffs, there is room for improvement in how it engages consumers on this topic. This issue is not isolated to Endeavour as engagement on cost reflective network tariffs has proven particularly challenging for all network businesses.

Network businesses have done better to delineate the roles and responsibilities of retailers and networks and outline the different purposes that retail and network tariffs serve. However, this disclaimer has failed to dispel the notion that network tariff structures and assignment policies will be preserved and passed through at a retail level, even though this is neither required nor necessarily desirable. Endeavour makes this acknowledgement in their Final Customer Panel Report, stating,

While [we] did remind participants that retailers choose how to structure their retail tariffs (bundling our network tariffs in them), some Customer Panel participants may still be unclear that this bundling process means the network tariffs that we pass to retailers may not be directly offered like-for-like to them.

Network businesses have exacerbated this problem by continuing to frame the transition to cost reflective network tariffs as a question of 'when would you (the consumer) like to be exposed to more cost reflective pricing?' rather than, 'should retailers be given a grace period before facing more cost reflective network tariffs?'

Network business continue to elicit consumer preferences on retail, rather than network tariff structures because consumers can only provide meaningful input on the price signals they face. Consumer views are clear on this matter as they continue to express a consistent preference for more cost-reflective network tariffs and more meaningful choice at the retail level. That retail choice may include more 'cost-reflective' offerings, but it should not be limited to them, and should (according to consumer preferences) include flat tariffs.

Future engagement would benefit from acknowledging at the outset that consumers are not the primary target of cost reflective network tariffs. It has to focus on the value of such a tariff, even if it is never translated to a product the consumer sees. 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 cost reflective network tariffs in the first instance.

Relatively straightforward questions raised by consumers during engagement such as the examples listed below would benefit from clearer answers from Endeavour:

Q: Do I need to go on a time-of-use rate with a smart meter?

A: No.

Q: Can we transition to time-of-use [network tariffs] earlier than the proposed 12-month period?

A: Yes.

Q: I can't shift my load (especially my heating and cooling) and like the predictability of flat tariffs, can I keep them after the transition to time-of-use network tariffs?

A: Yes

Q: Can I access time-of-use [retail] pricing now if I have a smart meter?

A: Yes.

Endeavour's tariff transition engagement predominantly focused on the following areas:

- How does a time-of-use tariff structure work and how does it differ from a flat rate?
- What are the likely impacts of time-of-use tariffs on different consumer cohorts (i.e. solar, non-solar, large users, etc.)?
- How do 12- and 24-month transition periods compare? What are the respective pros and cons of each?
- What should an education campaign to assist consumers with the transition to time-of-use tariffs look like?

This focus contributed to an impression amongst consumers that they were being asked when they would like to face time-of-use pricing and how Endeavour could best support them in transitioning to this new pricing structure.

Endeavour phrased its question regarding the timing of the introduction of time-of-use tariffs in a way that limited the range of preferences consumers could express. Namely, consumers were only asked for their views on a 12- and 24-month transition period but were not given the option for no transition period. We recommended a 'no transition period' option be included to eliminate reliance on consumer opt-in and accelerate the transition to more cost-reflective network tariffs.

The purpose of transition periods was also misconstrued as providing consumers with more time and educational support before facing full time-of-use tariffs. This reinforces the false impression that consumers, rather than retailers, are the primary beneficiaries of transition periods. Transition periods should be presented for what they are – a grace period for retailers that affords them more opportunities for tariff arbitrage.

Consumers continue to call for more meaningful choice at the retail level and overwhelmingly support the principles underpinning cost-reflective network tariffs. Mandating cost-reflective network tariffs and dispensing with unnecessary 'transition periods' would provide retailers with an (until now absent) incentive to help their customers manage their energy use and contribute to the efficient operation of the network. We do note that such measures would require action to enforce scope for consumer choice at the retail level, including the potential introduction of an obligation for retailers to offer a flat-tariff option to all consumers.

Two-way pricing

Endeavour initially proposed to express their basic export level and export charge in demand-based terms, however on the AER's recommendation, they have modified this approach in their revised proposal to instead use a volumetric measurement. We strongly oppose this change and do not consider it represents the preferences or long-term interests of Endeavour consumers.

Endeavour proposes to express basic export levels on a kWh per annum basis explaining that 'in practice, this annualized consumption threshold will be calculated on a daily basis and applied to the billing period'. It is not clear from this statement whether Endeavour is proposing to apply its BEL on a daily or aggregate basis. In other words, does the BEL impose a daily limit that resets each day or a monthly/quarterly cap that resets at the end of the billing cycle?

As outlined in our commentary on Ausgrid's two-way pricing proposal, we consider the former approach preferable as it is better linked to the objective of minimising network congestion caused by rooftop solar exports.

Embedded networks

We strongly support Endeavour's proposed embedded network tariff and consider it appropriate to recover 100 percent of the implicit cross subsidy. Endeavour estimates that embedded network customers will face an average 12 percent bill increase from facing higher demand charges.

We note some stakeholders have suggested Endeavour increase its transition period from two to five years to mitigate the potential flow on impacts to customers within embedded networks. This suggestion is reasonable and should be considered, though we question whether the longer transition period may result in the creation of more embedded networks than would otherwise be the case under a more aggressive tariff transition.

The AER should consider the number of embedded networks in the Endeavour network now, and whether a more aggressive response now would impact a material number of consumers. This can then be weighed against the value of eliminating the existing cross-subsidy, and the prospective value of discouraging new embedded networks predicated on the arbitrage of the existing cost differential.

EV integration

Endeavour proposes to manage the anticipated increase in EV load by progressing its tariff reform program rather than by establishing specific tariffs for EV owners or charge point operators. We strongly support the continued implementation of cost-reflective tariffs for all customers and commend Endeavour for encouraging load shifting through time-of-use pricing, however we do not consider a contingent trigger to adapt charging windows an appropriate

response to higher-than-expected EV load for the reasons outlined in our commentary on Ausgrid's approach to EV integration.

In its Draft Decision the AER encouraged Endeavour 'to explore the feasibility of developing a new opt-in controlled load tariff targeting flexible load for inclusion in its revised proposal, or provide more clarity on how its existing tariffs may help manage flexible load'. While Endeavour has not proposed any changes to its controlled load offerings in its revised proposal, they are continuing to trial their 'Off-Peak Plus' tariff, 'which uses smart meter technology to facilitate the shift of hot water load from existing overnight controlled load tariffs to provide 'solar soaking' for excess CER generated exports in the middle of the day'. We encourage Endeavour to expand this trial to include EV and other flexible loads and to accelerate progress towards introducing 'Off-Peak Plus' as part of its standard offerings.

Endeavour could further optimise the charging of EVs during off-peak times through introducing a tariff with:

- extra high peak charges and a peak window ending at least an hour later than the standard peak window (to avoid peak-creep),
- extra low off-peak charges overnight, and
- mandatory assignment for fast charging electric vehicle supply equipment (i.e. above 15A single phase)

We encourage Endeavour to work collaboratively with the AER, other distributors, and relevant stakeholders to continue to refine their approach to EV integration.

Metering

We share Endeavour's view that the AEMC's metering review constitutes a material change in circumstances and warrants re-examining its initial position on metering classification. As Endeavour states in its revised proposal,

The AEMC's final metering framework review sets out a number of reforms that will be implemented via a rule change process over the coming months. These reforms aim to establish a process for accelerating the retirement of existing legacy meters and framework for the sharing of basic PQD. We support these reforms and consider the contestable metering framework has failed to transition customers to smart metering in a timely manner or unlock the benefits associated with it. However, the reforms also bring into question whether the existing regulatory approach for legacy metering remains suitable.

We agree with Endeavour's assessment and support their proposal to reclassify metering services from ACS to SCS. An ACS classification does not promote the long-term interests of consumers as a shrinking legacy metering customer base could face exponentially increasing prices under this approach.

An SCS classification is more equitable as it ensures legacy metering costs are recovered across all customers. While this reclassification would require transitioned customers to share in the costs of metering assets/services not provided to them, this concern is outweighed by the price risk to the remaining customers.

We note that Endeavour has not engaged with consumers or consumer representatives about their preferred approach to recovering costs under an SCS classification. We would prefer network businesses recover these costs from all consumers given the whole-of-system services meters provide. We consider metering (particularly legacy metering) network assets, rather than individual connection assets, and recommend the costs be recovered accordingly, from all consumers. However, we understand the AER has expressed concern with this approach and issued guidance³⁰ that distributors recover these costs only from LV customers as recovery from HV customers may contravene NER pricing principles.

As we outline in our commentary in previous sections, we do not consider wider cost recovery (across both LV and HV customers) unprecedented however, should the AER adopt a strict reading of the pricing principles it should apply this reading consistently across all pricing determinations – specifically with regard to roadmap cost recovery.

We encourage Endeavour to recover these costs via a proportional increase to access charges. We consider this the most equitable approach to recovering legacy metering costs as it avoids the issues associated with applying a variable charge on consumption which may disproportionately shift cost recovery onto consumers experiencing vulnerability and those less able to adjust their consumption behaviours.

We do not support Endeavour's proposal to accelerate the depreciation of its legacy metering asset base. This would unnecessarily bring forward costs, increase consumer bills, and undermine Endeavour's commitment to maintaining a strong focus on affordability.

3.3 Essential Energy

Essential is notable for having the most mature and consistent commitment to engagement of the NSW DNSPs. Essential's Peoples Panel is a prominent example of their commitment to embedding consumer voices into business-as-usual practices. We note that Essential has already convened two Peoples Panel sessions to test emerging consumer matters such as roadmap cost recovery and the two-way pricing.

Essential's Peoples Panel has done well to build on learnings from previous engagement, however improvements could be made to the structure of the program (through moving away from elements such as snap-polling and undirected table conversations) to strengthen the deliberative quality of this engagement. This could be done through relatively simple qualitative changes that need not involve any significant increase in resource commitment from Essential. A key obstacle to implementing these changes for Essential is getting the same degree of commitment and consistent response from stakeholders that other networks had.

Relative to the other networks Essential had less breadth and depth of stakeholder expertise available to them throughout the development of their proposal, though more generalist and special interest representation. The result was that despite Essential's genuine attempt to seek detailed input from stakeholders, it was often limited to a few stakeholders and, in many cases, limited to PIAC itself to oversee and comment on engagement. The issues Essential faced in this area should be examined by all networks and the AER as part of a larger consideration of the most sustainable and meaningful way to structure stakeholder engagement.

³⁰ See [AER Legacy metering services – Guidance for revised proposals November 2023](#), pg. 4.

Consumer energy resources

Essential's proposed CER integration investments centre on network solutions to address power quality issues and ICT expenditure to support the proposed implementation of dynamic operating envelopes and network monitoring. While consumers expressed support for Essential's proposed CER integration investments, engagement on these topics was generally less deliberative and comprehensive than that of other NSW DNSPs.

CER integration did not feature prominently in Phase 4 and 5 of Essential's engagement program aside from retesting support at the overall proposal-level. Essential, much like Endeavour, proposes to implement dynamic operating envelopes as part of an effort to avoid export curtailment and ensure consumers and the network realise the full benefit CER assets.

Essential indicates the introduction of DOEs will initially be basic (targeting specific areas with limited hosting capacity) and then will become advanced (operating across the full network). Basic DOE capability is expected from 2026 with advanced DOEs planned for 2033.

Essential's engagement on the allocation of DOE capacity is particularly noteworthy as they made constant adjustments to their approach based on stakeholder feedback which had a material, positive impact on the ability of participants to express more meaningful preferences. As such, we consider the consumer preferences reflected in Essential's proposal for DOEs especially robust.

We note the AERs suggestion that Essential implement the recommendations from the AEMC review of CER technical standards (where applicable) to address issues with inverter compliance. We support this recommendation and encourage Essential to address inverter compliance issues in concert with tariff and demand flexibility reforms.

Resilience

Essential retested support for resilience (along with its other new investments) at the proposal-level via a webinar survey. The results of the survey indicate consumers overwhelming support these investments. However, our observations suggest more deliberative forms of engagement that afford consumers opportunities to share their views collectively provide a better indication of overall satisfaction and are more likely to reveal concerns and highlight areas for improvement. This is not to question the validity of the survey results but to encourage network businesses to employ participatory processes not just when identifying and comparing alternatives but across all stages of decision-making, up to and including a review of their decisions.

We note the AER is not concerned with Essential's climate projection modelling but with how it has translated these projections into predicted network impacts. This concern is not unique to Essential and represents an overarching issue related to the assumptions and evidence that underpins network impact modelling.

We understand the AER is working with network businesses to clarify their expectations around how to establish a causal link between climate risks and their impact on the network. While we recognise the importance of this undertaking and its role in supporting network businesses to demonstrate the prudence and efficiency of their investment decisions, it should not serve as the foundation for consumer engagement.

Discussions around network impacts were central to the resilience engagement programs of all NSW DNSPs. While we acknowledge the need for more robust models, we are concerned that this framing of resilience does little to prompt network businesses to re-evaluate how they engage on this topic and targets a symptom rather than the cause of the dysfunction with resilience. Namely, the prevailing approach retains a myopic focus on technical interventions and suggests investments targeting resilience and reliability can be meaningfully separated.

We see limited value in this approach and are increasingly of the view that steering resilience engagement in this direction is unproductive. As we have outlined elsewhere, resilience engagement should focus on more fundamental questions of community preferences for how networks should manage climate risks and related costs. In order of priority, these questions could include:

1. Are consumers willing to accept higher bills to maintain/improve existing levels of resilience? If so, to what extent?
2. What outcomes do consumers wish to realise through resilience investment?
3. How should networks target their resilience investment (e.g. most vulnerable, worst-served, greatest number) and what principles should inform these decisions?
4. How should networks balance ex-ante and ex-post resilience investment (e.g. should they focus their efforts on pre-, intra-, or post-event response?)
5. How should networks balance the cost and effectiveness of various technical interventions?

Consumers are capable of expressing preferences on technical interventions, but the complexity and volume of information involved in making these trade-offs means they struggle to provide a consistent rationale for how they arrived at their decisions or why they support one intervention over another. Starting with this topic (or putting it at the centre of resilience engagement) asks more of consumers and network businesses than even the most well-intentioned and comprehensive engagement program can deliver. This approach also undermines the ability of network businesses to solicit meaningful input because it neglects establishing the requisite scaffolding to support these discussions.

Essential did relatively well to equip consumers to make informed decisions on resilience. However, by retaining a focus on technical interventions network businesses (Essential included) force consumers to either assume the role of system planners or make an arbitrary assessment of 'value for money' across different levels of investment. We are not suggesting network businesses cease engaging on technical interventions. Rather, these discussions should be embedded and appropriately contextualised alongside other aspects of resilience to provide a more meaningful basis for the expression of consumer preferences.

Ausgrid, Essential, and Endeavour all structured their resilience engagement predominantly around the question of 'what decisions should we make' rather than 'how should we make these decisions?' While all three businesses sought to establish principles to guide their decisions, these could have been more clearly linked to the canvassed initiatives and solutions. As such, we recommend that network businesses spend more time examining consumer preferences on questions higher in the hierarchy and explore technical interventions only once these guideposts have been established.

Tariff structure statement

Assignment policy

Essential initially proposed moving customers that had their meters replaced in 2024 to their existing time-of-use tariff. However, given their plan to phase out this tariff from 1 July 2028, Essential has instead proposed to assign these customers to its new sun-soaker two-way tariff.

In line with the NER, these customers would have zero export charges or rewards until 2025 but would face the new sun-soaker consumption charges³¹. Customers³² assigned to the sun-soaker two-way tariff will have the ability to opt-out to the existing time-of-use tariff (prior to its retirement in 2028) or Essential's three-rate demand tariff (which will also be a two-way tariff by 1 July 2028). We support these changes to Essential's assignment policy given they improve cost-reflectivity and benefit most residential and small business customers currently on a flat tariff or the existing time-of-use tariff.

Essential proposes to allow customers to opt-out from export charges/rewards prior to 2028 on grounds that a five-year transition allows customers to recover the costs of their solar system on the network tariff settings in place when they made this investment. While we appreciate this rationale, we are concerned this option will undermine the effectiveness of two-way pricing in addressing network congestion caused by rooftop solar.

We understand the AEMC has requested that assignment policies for transitioning customers³³ to cost-reflective tariffs where the customer's meter is upgraded due to age, are also applicable where meters are upgraded due to an acceleration rule change. We do not consider this change warranted given transitional mechanisms primarily benefit retailers and unnecessarily delay the transition to cost-reflective network tariffs.

The overriding concern consumers have with cost-reflective network tariffs is that they will remove their ability to remain on a flat retail offer. This worry is not unfounded given there is no requirement for retailers to provide consumers meaningful choice within or between offerings – the assumption being that the market will deliver these outcomes if consumers want them. Market bodies predictably continue to assure consumers of this fact and assume the outcomes will emerge from the market, regardless of evidence to the contrary.

Such evidence includes the fact consumers have no agency to choose a retailer offering a flat tariff where they have a smart meter installation. Consumers are not wrong to question these assertions given the disappointing track record of reforms promising that competitive markets would deliver lower energy prices for households. In our view this inertia can be overcome by measures to accelerate the cost-reflectivity of network tariffs, alongside robust measures to assert consumer choice at the retail level, including a potential obligation for retailers to offer a flat-tariff option.

³¹ Customers with a smart meter may opt into the sun soaker two-way tariff (with export charges/rebates) before 2025. However, as Essential notes, this is contingent on retailers developing offers that take advantage of this tariff structure.

³² By 'customers' here we refer primarily to retailers. End-use consumers of electricity (e.g. households) cannot directly select their network tariff. By switching retail plans a consumer may move to a different network tariff however, it is the retailer (not the consumer) that decides the underlying network tariff.

³³ Ibid.

Two-way pricing

Essential initially proposed to express their export charges in demand-based terms, however on the AER's recommendation, they have modified this approach in their revised proposal to instead use a volumetric measurement. We strongly oppose this change and do not consider it represents the preferences or long-term interests of Essential customers. We recommend Essential revert to its initial proposal to use a demand-based metric.

We question the quality of engagement Essential has used to justify its proposed shift to a volumetric export charge. During their September People's Panel Essential presented consumers with a summary of retailer concerns with a demand-based metric – namely, that they are more difficult to understand and implement, and that consumers prefer simple bills. This position was presented uncritically³⁴ and Essential did not reference the guiding principle that consumers established to inform their two-way pricing proposal during their Phase 4 engagement.

In our previous submission³⁵ we praised Essential for adjusting their Phase 4 engagement on two-way pricing to foreground desired outcomes and guiding principles. This led to a more robust discussion and enabled consumers to express a more meaningful preference on the fairest way to share export capacity and address network issues arising from said exports. This discussion squarely addressed this issue, raised previously in this submission, of the need to balance individual choice and benefit with collective cost. There was no such discussion during the September People's Panel. Instead, two-way pricing was presented in a vacuum as a mechanism to 'encourage self-consumption'. This framing obscures the unique role of two-way pricing relative to other time-of-use price signals such as Essential's Sun Soaker tariff.

Essential then presented consumers with information to assess the merits of volumetric and demand-based signals. This consisted of a two-by-two table comparing the bill impact of each approach at different export levels (i.e. 2kW and below vs. 6kW and above). Consumers interpreted the exercise as a referendum on the price signal they would prefer to face.

The modelling presented consumers showed volumetric pricing resulted in bill impacts of \$0.88 or \$0.95 when exports remained below 2kW or above 6kW. In comparison, the bill impact associated with demand-based pricing were \$0.98 and \$5.53 at equivalent export levels. Consumers were perplexed why they were being asked for their view on a decision that to them was baffling straightforward. They reasonably questioned why anyone would opt for a demand-based signal given the significantly higher bill impact associated with exports above 6kW.

Volumetric pricing received unanimous support when consumers were asked to vote on their preferred approach. This outcome is not surprising given two-way pricing was discussed in isolation from guiding principles and its stated purpose. That is, consumers made their decision exclusively on the basis of bill impact modelling. As such, we do not consider the outcomes of Essential's September People's Panel a meaningful expression of consumer preferences, or valid engagement capable of supporting such a decision (particularly one which runs counter to the decision previously expressed).

³⁴ That is, Essential merely conveyed the concerns expressed by retailers rather than contextualising them.

³⁵ See [PIAC submission to AER Issues Paper 2024-29 Revenue Determinations: Ausgrid, Endeavour, and Essential Energy](#), pp. 7-8.

We note Essential is also proposing to maintain a demand-based BEL of 1.5kW. In practice however, this will be calculated as 1.5kWh per hour or 7.5kWh per day³⁶. It is unclear how this constitutes a demand-based charge. Furthermore, Essential should clarify whether it proposes to apply its BEL on a daily or aggregate basis (i.e. will the BEL function in terms of a daily limit that resets each day, or a monthly cap that allows for rollover across days?). We consider a daily limit preferable to a monthly cap since it is more clearly linked to the objective of minimising network congestion caused by rooftop solar exports.

EV integration

Much like Endeavour, Essential proposes to manage the anticipated increase in EV load by progressing its tariff reform program rather than by establishing specific tariffs for EV owners or charge point operators. We strongly support the continued implementation of cost-reflective tariffs for all customers and commend Essential for encouraging load shifting through time-of-use pricing, however we do not consider a contingent trigger to adapt charging windows an appropriate response to higher-than-expected EV load for the reasons outlined in our commentary on Ausgrid and Endeavour's approach to EV integration.

In its Draft Decision the AER encouraged Essential 'to explore the feasibility of developing a new opt-in controlled load tariff targeting flexible load for inclusion in its revised proposal, or provide more clarity on how its existing tariffs may help manage flexible load'. Essential has not proposed any changes to its controlled load offerings in its revised proposal and we are not aware of any proposed tariff trials targeting the efficient integration of EVs in Essential's network.

We understand Essential's tariff trials for residential and small business consumers are primarily concerned with refining and further developing their sun soaker two-way tariff. Though we support these efforts, we encourage Essential to take a more proactive approach to EV integration through exploring adjustments to its controlled load offerings to deliver on the AERs recommendation.

Essential could further optimise the charging of EVs during off-peak times through introducing a tariff with:

- extra high peak charges and a peak window ending at least an hour later than the standard peak window (to avoid peak-creep),
- extra low off-peak charges overnight, and
- mandatory assignment for fast charging electric vehicle supply equipment (i.e. above 15A single phase)

We encourage Essential to work collaboratively with the AER, other distributors, and relevant stakeholders to continue to refine their approach to EV integration.

Metering

We support Essential's proposal to reclassify metering services from ACS to SCS. We do not consider an ACS classification promotes the long-term interests of consumers as a shrinking legacy metering customer base could face exponentially increasing prices under this approach.

³⁶ See [Essential Energy Revised Tariff Structure Statement](#), pg. 18 (footnote 3)

An SCS classification is more equitable as it ensures legacy metering costs are recovered across all customers. While this reclassification would require transitioned customers to share in the costs of metering assets/services not provided to them, this concern is outweighed by the price risk to the remaining customers. Essential's Peoples Panel strongly endorsed this approach³⁷.

Essential engaged with consumer representatives about their preferred approach to recovering costs under an SCS classification. Stakeholders considered applying a proportional increase was more equitable than applying the same flat amount to access charges. Essential has however proposed to apply a flat increase to access charges in its revised proposal. The reasons for this decision are unclear.

We do not support applying a flat increase to access charges and encourage all NSW distributors to recover SCS metering costs via a proportional increase to access charges. Like Endeavour, Essential has proposed to recover legacy metering costs from LV customers only due to the AERs concern that recovering these costs from HV customers may violate the NER pricing principles³⁸.

We consider wider cost recovery arrangements (across both LV and HV customers) appropriate given the whole-of-system benefits metering provides and encourage the AER to apply a consistent reading of the pricing principles across all its pricing determinations – specifically with regard to roadmap cost recovery.

We do not support Essential's proposal to accelerate the depreciation of its legacy metering asset base. This would unnecessarily bring forward costs, increase consumer bills, and undermine Essential's commitment to maintain a strong focus on affordability. This concern was raised repeatedly throughout Essential's engagement on legacy metering cost recovery as stakeholders requested Essential provide modelling to detail the bill impacts of accelerated depreciation.

Further engagement

PIAC would welcome the opportunity to discuss these matters further with the AER and other stakeholders. If you have any queries about this submission or would like more information about our advocacy and research work, please contact Jan Kucic-Riker, Policy Officer, Energy and Water at jkucicriker@piac.asn.au

³⁷ See [Woolcott Phase 5 Engagement Report](#), pp. 38-39.

³⁸ See [AER Legacy metering services – Guidance for revised proposals November 2023](#), pg. 4.