# #BetterTogether Customer-Led Tariffs Stage 2 Update

## Customer-first approach to tariff innovation

The Energy Charter

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**The #BetterTogether Customer-Led Tariffs initiative is a sector-first collaboration driving a redesign of electricity pricing to empower customers and support the energy transition. This #BetterTogether initiative is led by EnergyAustralia, Essential Energy and SA Power Networks.**

**Our Customer Outcomes Group (COG) ensures the voices of customers are central to decision-making. The COG includes representatives from Energy and Water Ombudsman NSW (EWON), Energy Consumers Australia, Justice and Equity Centre (formerly Public Interest Advocacy Centre), Rheem, St Vincents and individuals with lived experience.**

## Our key objectives

Led by the CEOs of the Industry Collaborators and guided by the COG, this #BetterTogether initiative is exploring how network tariffs paired with innovative retail offerings can improve affordability, efficiency, and customer participation in the energy transition.

This update sets out the key learnings from Stage 2 of this #BetterTogether initiative.

## Overview of the stages

To achieve its objectives, this #BetterTogether initiative has been structured into three distinct stages, each building on the insights and outcomes of the previous stage.

- **Stage 1:** Explored customers' preferences and customer design principles
- **Stage 2:** Six network tariffs were proposed and independent proof-of-concept tariff modelling was completed
- **Stage 3:** Deeper diving into customer preferences and explore the potential for a sandbox trial based on the findings.

### Stage 1

In Stage 1, a series of codesign workshops with the COG identified the initial insights into the goals, challenges, and opportunities surrounding network tariff reform. To learn more about Stage 1 visit our webpage and download the #BetterTogether Customer-Led Tariffs – Stage 1 Update.

A key outcome of Stage 1 was the development of six customer design principles, which serve as a foundation for creating customer-centric network tariffs. These principles are outlined below.

## Table 1: Customer design principles

| Principles | Description |
|---|---|
| **Simple** | Retail offerings should be easy to understand, explain, and compare. They should reduce complexity for customers. |
| **Universal** | Retail offerings should be available to all residential and small business customers. They should be consistent across networks and include an 'obligatory offer' to act as a safeguard. |
| **Fair and equitable** | Retail offerings should be affordable and ensure no one is left behind. One customer's choice should not negatively affect others. |
| **Certainty for customers** | Retail offerings should be predictable over time with clear and consistent bill amounts and no surprises. |
| **Supporting customer choice** | Retail offerings should support customer agency and enable meaningful choice. |

### Stage 2

Building on the customer insights and design principles developed in Stage 1, Stage 2 focused on designing and evaluating six network tariff designs outlined in Table 2 below. In this stage, we engaged independent consultant, Endgame Economics to evaluate the proposed tariffs in proof-of-concept tariff modelling. For this modelling, some simplifications were made to the proposed tariff concepts.

In Stage 2, we tested each of the proposed tariff concepts through detailed modelling conducted by Endgame Economics. This involved constructing six distinct tariff designs, ranging from fixed-only to peak-dip and aggregate structures, and applying them to a representative sample of 1,710 customers.

Two retail plan scenarios were compared: a basic plan with no consumer energy resources (referred to as CER, such as rooftop solar, batteries, electric vehicles and appliances) orchestration and an advanced plan enabling retailers to invest in and facilitate CER orchestration.

By assessing how each tariff shifted retail cost stacks, influenced CER behaviour and interacted with subscription-style pricing, we were able to observe the practical opportunities and constraints of each concept. These modelling insights directly informed our learnings such as the viability of tariffs designed specifically for retailers and the importance of predictable and simple retail offers.

## Table 2: Six network tariff designs for Stage 2

| Network Tariffs | Description |
|---|---|
| **Fixed and contractual incentives** | Network costs are recovered through a fixed capacity charge, offering cost certainty, simplifying forecasting and creation of subscription-style retail offers. This tariff also provides a reward signal for addressing network constraints, while marking a shift from traditional cost-reflective tariffs. |
| **Peak, fixed and contractual incentives** | Same as the above, with the inclusion of the maximum demand component. |
| **Peak** | Charges are based on maximum demand at each distribution node or zone substation, with no energy usage component, incentivising retailers to manage demand through coordinated customer CER use. |
| **Peak and dip** | Same as the above, with the inclusion of a minimum demand component. |
| **Electrify** | Supports all-electric homes and the net-zero transition by encouraging off-peak usage and export rewards, rewarding flexible high-usage customers with lower off-peak rates, and enabling tailored retailer plans to lower bills and improve network efficiency. |
| **Portfolio** | Shifts from NMI pricing to retailer portfolio level charging, enabling innovative retail plans, incentivising load management, and aligning retailer flexibility with network cost-reflectivity. |

## Stage 2 Key Insights

The tariff modelling exercise provided key insights:

- Network pricing should be designed for retailers to enable retailers to facilitate CER orchestration and incorporate network pricing signals into various types of retail offers. This approach also allows for the development of more complex network tariffs for the retailers that incentivise CER orchestration. Retailers responding to price signals through CER orchestration can unlock benefits
- Network pricing (both tariff and non-tariff options) can be explored to drive CER uptake
- Network tariffs can be designed at both a National Metering Identifier (NMI i.e. tariffs designed at the individual meter level — essentially, pricing structures tailored to a specific customer's electricity connection point) level, distribution node or at the overall portfolio level
- No single tariff structure will solve all challenges; success will come from a combination of tariff designs, market innovations, and long-term regulatory alignment.

## Enabling customer choice

The insights set out above have informed our vision for the future, a future where consumers are provided the opportunity to choose a suitable retail offer from a diverse set of retail offers. Specifically, our customer stakeholder consultation has demonstrated that there is a strong preference for predictable and simple retail pricing.

Subscription-type pricing is consistent with encouraging more predictable pricing for customers. We encourage the energy industry to continue to work to remove existing barriers and consider new mechanisms to ensure retailers can provide subscription offers for customers.

## Shifting volumetric risk

Predictable and simple retail pricing introduces the need to shift volumetric risks from consumers to the supply chain. One option to manage this risk is via technology and through CER orchestration. The project and the modelling results demonstrated that the combination of network tariffs designed for the retailers, CER technology and retailer-led orchestration can address this risk.

In the short term, retailers responding to network price signals through CER orchestration by load shifting can reduce network costs, unlocking additional savings to be shared with both CER and non-CER customers. In the long run, load shifting can influence the 'duck curve', therefore improving network utilisation and reducing the need for future network augmentation.

** The duck curve represents the load shape image of the grid. During the day, 'behind-the-meter' customer solar generation reduces the demand for electricity from the grid. As the sun sets and solar generation reduces, energy demand from the grid rises sharply, particularly in the evening when people return home and energy use increases. This creates grid demand curve over a 24-hour period, resembling the shape of a duck.*

## Strengthening energy sector collaboration

A key enabler for achieving this vision is fostering collaboration between networks and retailers to deliver customer-centric retail offers. This #BetterTogether initiative has demonstrated the potential for networks and retailers to work together in designing network tariffs that support innovative pricing models.

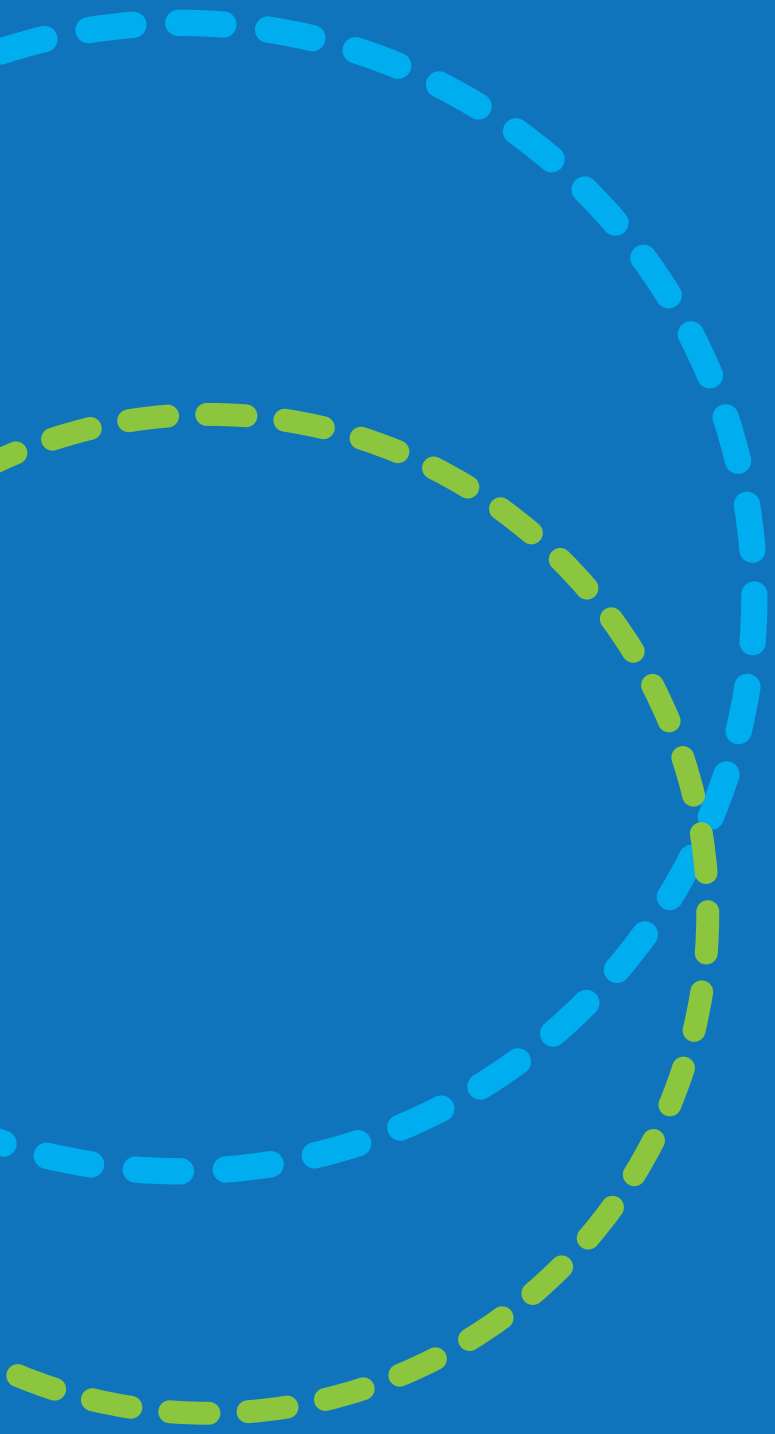
To ensure this collaboration is effective, it must be supported by an appropriate regulatory framework and consumer protection mechanisms. These elements are essential to deliver efficient, customer-centric plans and services during this stage of energy transition.

## Realising the vision

To realise this vision, we recommend that the energy industry, stakeholders and future research initiatives focus on the following key areas:

1. Ensure pricing rules and principles are sufficiently flexible for network pricing to be designed for retailers. Future network pricing could consider tariffs, non-tariff options, retailer portfolio-level pricing and distribution node-level pricing
2. Explore the key retailer impact principles and framework that should be considered in the collaboration process between the network and retailers
3. Review existing regulatory barriers and consider new market mechanisms for subscription-style retail offers
4. Ensure future network tariff designs will improve network utilisation and lower network augmentation costs.

**Stay tuned for updates on Stage 3.**



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