

#BetterTogether Customer-Led Tariffs Stage 1 Update: November 2024

Supported by the Energy Charter.

Acknowledgement of Country

We acknowledge and pay our respects to the Traditional Custodians of the land upon which we live and work. We recognise their continuing connection to land, waters and culture, recognising also that renewable energy projects impact First Nations land, water and skies.

This artwork was produced by <u>Jordan Lovegrove</u> for the Energy Charter. It tells the story of energy, how it connects all of Australia and the Energy Charter's commitment to create a better energy future for all Australians.

Who are we?

We are the <u>Energy Charter</u>: a one-of-a-kind, CEO-led coalition of energy organisations united by a shared passion and purpose: delivering for customers and empowering communities in the energy transition. Our purpose is to empower one another across the energy ecosystem to deliver better energy outcomes for customers and communities. Our vision is that together, we can create a better energy future for all Australians.

For us, the opportunity is to keep humans at the centre of the design and delivery of energy solutions; to navigate the changing needs of customers and communities as we transform to a cleaner energy future. There is no other collaboration like us; and the work we do, together, has never been more important than it is today. We are #BetterTogether.

For further information, please contact director@theenergycharter.com.au.

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Part 1 – Our #BetterTogether initiative

1. Collective purpose

This #BetterTogether initiative update is the result of an Energy Charter collaboration between a Customer Outcomes Group (COG) and Industry Collaborators to taking a customer-centred, innovative approach to tariff designs to help facilitate the energy transition.

As the energy system looks for innovative ways to reduce and manage energy network constraints, there is a fantastic opportunity to put customers and communities at the centre of network tariff designs to better understand, manage and meet customer demands. Taking a customer-centred, innovative approach to tariff designs can help facilitate the energy transition for the benefit of both customers and energy businesses.

This #BetterTogether initiative encourages collaboration between energy distribution networks and energy retail businesses to design tariffs and product offerings that deliver better customer and community outcomes as the uptake of customer energy resources (CER) expands over the next decade.

Despite the growing number of industry trials and initiatives aimed at integrating CER into the energy grid, too few have truly prioritized the wants and needs of energy customers. Instead, most efforts have been centred around advancing new technologies and finding ways to fit them into the existing energy framework.

This #BetterTogether initiative flips that script by placing energy customers at the heart of tariff reform. It's about starting with what matters most to people—their needs and values—and using that as the foundation to explore innovative network tariffs and retail offerings.

The goal? To create solutions that not only bring real benefits to individual customers but also strengthen and improve the broader energy system.

2. Collaborators

An essential part of developing this #BetterTogether initiative has been collaboration between our Community Outcomes Group and Industry Collaborators.

Collectively, we refer to ourselves as Collaborators.

Community Outcomes Group

- Energy and Water Ombudsman NSW (EWON)
- Energy Customers Australia
- Individual lived-experience members from customer councils
- Justice and Equity Centre (formerly Public Interest Advocacy Centre)
- Rheem
- St Vincents

Industry Collaborators

- EnergyAustralia
- Essential Energy
- SA Power Networks

A special thank you to all Collaborators for their knowledge, insights and commitment to this #BetterTogether initiative.

We also thank Mott McDonald for helping guide and support this #BetterTogether initiative in *Stage 1: Ideation* and note that this update is based on their preliminary report.

3. Why does it matter?

The energy sector is in the midst of a massive transformation, spurred by market shifts, evolving community expectations and the global push to reduce emissions. This change is powered by new policies, regulations, digital advancements, cuttingedge technologies and the rapid adoption of CER.

With more households embracing solar panels, battery storage and electric vehicles—and the increasing deployment of smart meters, energy management systems and smart loads—this high penetration of CER brings both challenges and opportunities. While it creates complexities in network management and strains the energy system, it also holds the potential to deliver better outcomes for customers, communities and the energy grid if managed effectively.

Changing energy needs of customers

Australian energy customers are no longer simply passive energy users; some are active players shaping the energy market. For example, some people are:

- Embracing new technologies, products, and data-driven solutions to better meet their energy needs
- Partnering with third parties to procure, aggregate, monitor and control their energy resources.

Thanks to technological advancements, many customers now have more power to engage with the energy sector than ever before. This growing capability offers immense opportunities not only for individuals but also for network operators and retailers. To keep up with this shift, network tariffs and retail structures must be designed to meet evolving customer expectations while tapping into the full value of CER and emerging technologies.

It is also acknowledged that some energy customers simply do not have the interest or ability to be active players for a multitude of reasons. The energy system needs to ensure that they are not left behind.

Addressing frustration and complexity

As new opportunities emerge, customer dissatisfaction with current pricing structures is becoming more evident. Time-of-use rates, for instance have faced criticism for their complexity and many customers find the energy market's intricacies overwhelming and a barrier to engagement.

For network tariff and retail reforms to succeed and gain the trust of customers and policymakers, they must be built around genuine customer needs and values



Creating shared benefits

Successfully integrating CER into the energy system has the potential to unlock tremendous value. By enabling load flexibility and optimizing network usage, we may be able to reduce congestion and bring down costs for all customers. CER owners should be fairly rewarded for making grid-supportive choices, ensuring that their actions don't negatively impact others.

To make this vision a reality, many customers will need clear communication and attractive incentives. This could mean financial rewards for flexible energy use or empowering network operators with limited control to help balance the system.

Smart tariffs and incentives

Well-designed network tariffs and retail offerings can maximize CER's value. Dynamic pricing, supported by digital and smart technologies, can give both retailers and customers the tools to harness load flexibility. Customers who actively engage in the market should be rewarded, benefiting from their CER investments while helping to ease network constraints and lower system-wide costs. However, this should not unfairly impact those that cannot.

Building evidence through data

To fully unlock CER's potential, we need evidence of its benefits, both for individual customers and the broader system. Retailer and third-party orchestration of CER has the potential to deliver these benefits, but the scale and cost-effectiveness of these advantages remain unclear. This initiative aims to prove that CER integration can generate real, scalable and cost-effective benefits for everyone involved.

4. Our key objectives

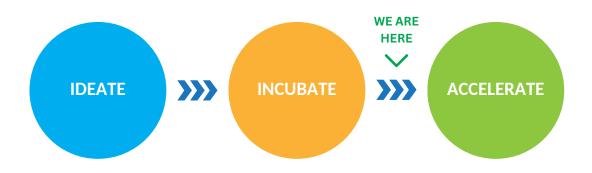
Led by the CEOs of the Industry Collaborators and guided by the Customer Outcomes Group, the #BetterTogether initiative set the following objectives to demonstrate:

- 1. How network businesses and large retailers can work together on tariff evolution for the betterment of customers and the energy transformation.
- 2. How to design network tariffs that send meaningful price signals to retailers to orchestrate customer loads and demonstrate how retailers can develop simple customer offerings off the back of that tariff.
- 3. That innovative network tariff design can assist the energy transition, by increasing the value of participating in the market, promoting CER uptake and improving efficient operation of distribution networks, while maintaining the financial health of the energy ecosystem.
- 4. That these network tariffs can be universally applied by all networks.
- 5. How CER acceleration can advance the energy transformation in a way that benefits all customers.



Part 2 - Co-design evolution

This #BetterTogether initiative will unfold in three dynamic stages, each building on the previous stages to shape a more customer-focused energy future. This leverages the <u>Energy Charter Innovation Framework for</u> <u>#BetterTogether initiatives</u>.



1. Ideation: Co-designing the trial (April to August 2024)

During this current phase, the Customer Outcomes Group and Industry Collaborators supported by the Energy Charter joined forces with Mott MacDonald to set a strong foundation for success. Through a series of face-to-face workshops hosted by EWON, Collaborators dove deep into understanding customer needs and values, co-designing outcomes, core principles and success measures. Together, they mapped out the format and critical elements of the upcoming tariff trial, setting the stage for impactful next steps.

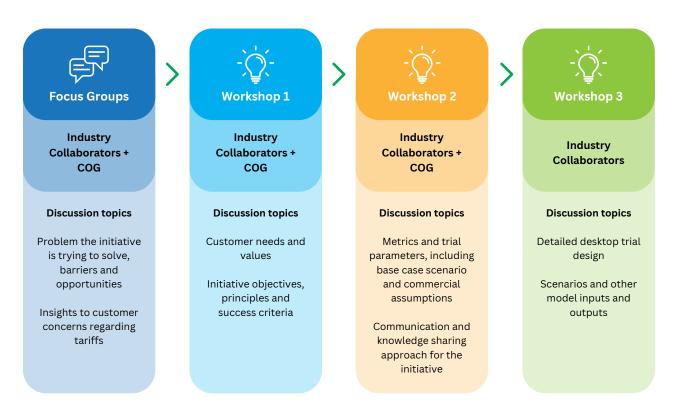
Our co-design process: Shaping a customer-centric future

Collaborators embraced a co-design process rooted in three core principles:

- **Collaborative Engagement:** The Customer Outcomes Group and Industry Collaborators worked together as true partners, contributing equally to meeting the #BetterTogether initiative's objectives
- **Iterative Engagement:** Each discussion and workshop refined and improved the outputs and deliverables, adapting ideas along the way
- **Constructive Engagement:** The atmosphere was open and positive in line with Energy Charter values, encouraging Collaborators to explore new ideas without barriers.

These guiding principles ensured an inclusive, hands-on approach, with the Customer Outcomes Group collaborating closely with Industry Collaborators to shape the trial's design principles, outcomes and parameters.

Figure 2: #BetterTogether Customer-Led Tariffs co-design process



How it unfolded

Our journey started with Mott MacDonald leading small focus groups to gather initial thoughts on the goals, obstacles, and opportunities surrounding tariff reform. The insights gained helped set the stage for Workshop 1 where the agenda was tailored to address diverse perspectives and priorities.

Building on this momentum, the first workshop generated key customer insights and design principles, which then informed the structure and focus of Workshop 2. In this session, Collaborators dug deeper into the specifics, discussing trial formats and parameters. The final workshop pulled everything together, consolidating ideas from across the co-design process to finalize the parameters for Stage 2.

Future-focused and open-minded

Throughout the co-design experience, Collaborators were challenged to look ahead and imagine an energy market transformed by widespread CER adoption, smart meters, and digital innovations, all within a regulatory environment that enables groundbreaking tariffs and retail solutions.

This future-thinking approach fuelled creative and forward-looking conversations, with everyone contributing enthusiastically and sharing bold ideas to shape a more efficient, customer-driven energy market.

2. Incubation: Testing through innovation

Armed with insights from Stage 1, the #BetterTogether initiative intends to move into a "paper trial" phase in Stage 2.

This stage will test how innovative network tariffs and retail offerings affect both customers and the energy grid. The outcomes and principles developed earlier will guide the design, with comprehensive scenario modelling and analysis driving the effort. Clear metrics will measure the impact, keeping customer benefits front and centre.

3. Acceleration: Sharing gamechanging Insights

In the final Stage 3, the Customer Outcomes Group and Industry Collaborators will assess the trial's findings, uncovering opportunities and potential hurdles in adopting beneficial new tariffs and products. By publishing these results, they aim to influence national industry practices and inform policy, making a lasting impact.

4. Real-world implementation

If Stages 2 and 3 prove successful, Industry Collaborators and potentially other Energy Charter Signatories may launch real-world customer trials, putting these innovative tariffs and retail offerings to work for the benefit of both customers, industry and the energy system.



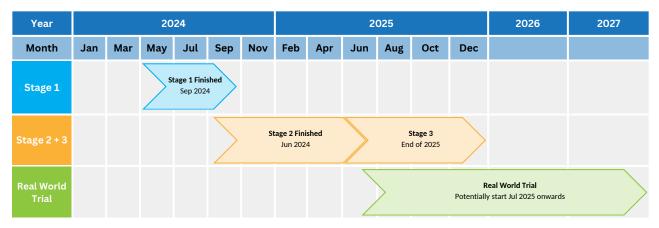


Figure 3: Implementation timeline

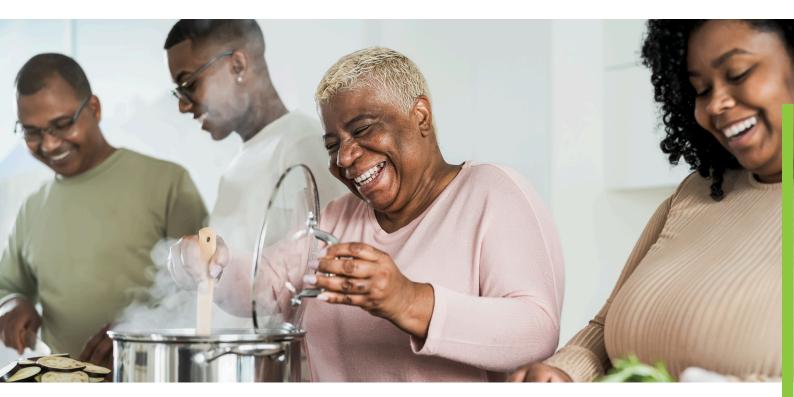
Part 3 – Co-designing Stage 1

Insights from discussions with the Customer Outcomes Group and Industry Collaborators highlighted the diversity in how people interact with the energy system and what they want from it. Customers differ in their motivation, ability and opportunity to engage with the energy market and adopt CER, with their capacity to participate varying over time and across different energy services.

Despite these differences, energy remains an essential service, and there are shared needs and values among all customers.

Figure 4: Customer needs and values





Why customer needs and values matter

Customers are at the heart of the energy transition, driving change and making choices about what works best for them. It's crucial to place their needs and values at the core of the energy market. When designing new retail offerings, putting the customer first isn't just a nice idea—it's the key to ensuring these offerings are effective, widely accepted, and deliver the full benefits of CER.

However, many customers find the retail energy market confusing and difficult to navigate. As CER options expand and third-party energy service providers become more active, the market is likely to become even more complex. That's why it's more important than ever to prioritize solutions that address customer needs in a clear and straightforward way.

2. Customer-centric outcomes for success

One of the standout results of our co-design process was defining a clear customer outcome (see Figure 4). This outcome is designed to guide the development of the tariff trial, ensuring that customer needs remain front and centre throughout the #BetterTogether initiative.

Retail offerings developed for the trial should not only deliver on this customer outcome but also align with the goals of improving network performance and maximizing the benefits of CER integration. By focusing on what customers truly value, we can make the energy system work better for everyone.

3. Putting customers first: Defining the outcomes

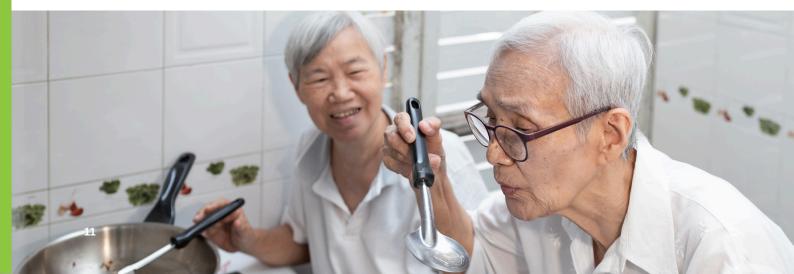
One of the most impactful results of our co-design process was crafting a clear and meaningful customer outcome. This outcome serves as a guiding light for the entire tariff trial, ensuring that customer needs and expectations are prioritized every step of the way.

Figure 5: Initiative customer outcomes

Design simple electricity services for all customers aligned with their needs and values

- Focus on customers and meet their preference for simplicity.
- Make services applicable and available to all customers, including residential and small business customers.
- Include pricing and non-pricing electricity retail service solutions.
- Align services with customer needs and values.

The retail offerings developed for the trial aren't just about innovation for innovation's sake—they are designed to align perfectly with this customer outcome, delivering real value to customers while also meeting the broader goals of network efficiency and seamless CER integration outlined above. In essence, it's about creating solutions that benefit both customers and the energy system as a whole.



4. Our design principles

During the workshops, Collaborators came together to establish a set of design principles that complement the customer outcome (refer Figure 3 above). These principles create a solid framework for energy businesses as they develop network tariffs and retail offerings, ensuring that every decision is made with the customer's best interest in mind.

The goal is simple: to shape network tariff structures that empower retailers to deliver better, fairer pricing outcomes for customers. Driven by a commitment to real impact, participants defined six guiding principles to lead the way. Here's how these principles set the stage for a smarter, more customer-focused energy future:



5. Measuring success: Metrics that matter

In the workshops, Collaborators didn't just focus on design—they also identified the criteria and metrics that would define success for the trial. Through engaging discussions, they pinpointed 10 key metrics (refer Figure 5) to capture the full spectrum of benefits for customers, the network and beyond.

These metrics serve a dual purpose: some will evaluate the cost-benefit outcomes of the modelling exercise, while others will assess the effectiveness of the network tariffs and retail offerings feeding into the model. By embedding these metrics into the trial's design, we're setting up the #BetterTogether Initiative to generate valuable, actionable insights that can guide future tariff reform decisions.

Figure 7: Success metrics

Improvement in customer outcomes

- 1. Bill reductions for all customers
- 2. Certainty for all customers
- 3. Increased value for customers - financial and beyond
- 4. Attractive to customers

Improvement in network outcomes

- Mitigate network cost increase
 Improve network
- utilisation 3. Greater capacity available for CER

Other criteria

- 1. Incentivise uptake by retailers
- 2. Contributes to emissions reductions
- 3. Tariffs and product offers are adaptable and durable

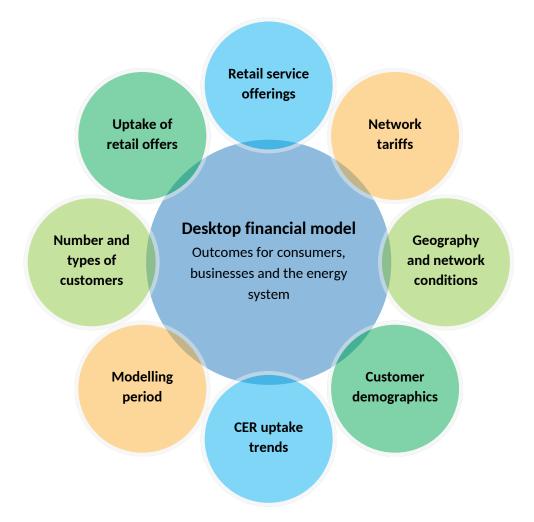


6. Innovative Trial format + design

Elements of the innovative trial format and design were agreed by the Customer Outcomes Group and Industry Collaborators as follows:

- "Paper Trial": Collaborators agreed that the trial should be structured as a desktop modelling exercise, serving as a proof of concept. This "paper trial" will involve scenario analysis, comparing the current business-as-usual setup with various future scenarios. These scenarios will explore innovative network tariffs and retail offerings that promote the orchestration of customer energy resources (CER).
- "Blue Sky Thinking": The trial will not be restricted by existing rules and regulations. Instead, Collaborators will think boldly and creatively, designing tariffs and offerings that push boundaries. If necessary, the #BetterTogether Initiative will recommend regulatory changes to overcome barriers that stand in the way of improved customer outcomes.
- Retailers take the lead in orchestrating CER: A key element of the trial is that retailers will manage CER orchestration and coordination on behalf of customers, eliminating the need for individuals to manually adjust their energy usage. Retailers may also have the option to install CER to optimize both customer and network outcomes. Importantly, retailers aren't expected to handle this on their own—they can contract third parties to provide orchestration services, ensuring a streamlined approach.
- **Customer-friendly retail options:** The trial will develop retail offerings that are simple, intuitive, and aligned with customer needs and values (as outlined in the customer outcome and design principles above). These offerings will aim to boost the adoption and orchestration of CER and ensure the efficient operation of the distribution network. Potential offerings could include:
 - A core, universal option for all customers
 - Flexible packages designed specifically for CER orchestration and optimisation
 - Additionally, the trial may consider innovative pricing strategies, such as individualised rates based on a customer's energy consumption patterns and geographical location.
- **Network pricing simplified for customers:** Network tariffs in the trial will be structured to incentivise retailers to improve network utilisation. These tariffs will be designed for retailer use only and won't require understanding or action from end customers. While the network tariffs could be cost-reflective, retail offerings will be bundled in a way that may or may not pass these cost signals directly to customers, ensuring a seamless and accessible experience.
- Leveraging real-world data: Modelling and analysis will draw from anonymized samples of 2,000 customers from both SA Power Network and Essential Energy's service areas. These samples are carefully selected to represent a diverse cross-section of the customer base. A key input for the scenario analysis will be the customer load profiles, which include data from customers both with and without various CER technologies. The analysis will estimate how these load profiles change in response to new retail offerings and will quantify the benefits for individual customers as well as the wider customer community.
- **Exploring uptake scenarios:** The trial will explore different levels of customer engagement with the new retail offerings. The initial premise is that even if not all customer CER is orchestrated, significant benefits can still be achieved for everyone. This approach will help determine the effectiveness and scalability of these innovative solutions.
- Other key considerations: In designing the scenario modelling, other important parameters and assumptions (refer to Figure 6) will need to be considered. Additionally, the trial will conduct sensitivity analyses to ensure the robustness of the results, exploring various factors that could impact the outcomes.

Figure 8: Trial considerations



Part 4 - What's next?

1. Conscious rethink?

Perhaps the moment has come to think big and bold about pricing reform in ways that truly benefit customers. Recent media coverage has spotlighted poor customer outcomes, putting a spotlight on the urgent need for change. Governments and market bodies have agreed: reforms are essential.

In response, the Australian Energy Market Commission (AEMC) is introducing new "safeguard measures" as part of the ongoing metering rule change process. These measures may require retailers to either:

- Obtain explicit informed consent (EIC) from customers before changing tariff structures after a smart meter installation, or
- Offer flat tariffs to customers with smart meters, as directed by individual jurisdictions.

Additionally, the AEMC has launched a Market Review to reassess market arrangements and examine how network businesses, retailers, and energy service providers can better package and price electricity to align with customer preferences.

While these safeguards are a step forward in protecting customers, they don't address the root problem: energy products that fail to meet customer needs and don't make the electricity system more efficient.

2. Why so complex?

The energy landscape is evolving rapidly, transitioning from a centrally managed system to a more distributed one. Creating products and pricing plans that meet multiple, often conflicting, objectives can be a challenge. Here's some of the considerations:

- **Customer needs:** Services must be simple, predictable, fair, equitable, and low-cost.
- **Retail requirements:** Products should enable retailers to meet customer needs sustainably.
- **Network goals:** Energy plans need to optimize network utilization and avoid costly, unnecessary investments.
- **System stability:** Keeping the energy system secure and reliable, thus reducing the need for costly interventions by the system operator.

3. Balancing objectives

It's unlikely that one product will perfectly address all goals at once. Instead, this #BetterTogether Initiative focuses on making tangible improvements over the status quo, aiming for meaningful, incremental change rather than an unattainable perfect solution.

4. Putting customers at the heart

This #BetterTogether initiative focuses on a customer-first approach. By collaborating with Customer Outcomes Group and leveraging the #BetterTogether Innovation Process, Collaborators have tried to truly understand customer needs and preferences.

We're starting with what customers want. By focusing on retailer products and offers that appeal to the majority, including those less able or wishing to be engaged, there is an opportunity to develop additional value-adding services that benefit more engaged and active users. Our objective is to demonstrate real value for everyone involved customers, retailers and network businesses alike.

Stay tuned for updates on Stage 2 – Incubation and Stage 3 – Acceleration.

