20 September 2024

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

Lodged electronically: online

Dear Sir/Madam

Monitoring the Retail Electricity and Gas Markets in NSW

Origin Energy appreciates the opportunity to provide input into IPARTs Consultation Paper on Monitoring the Retail Electricity and Gas Markets in New South Wales (NSW).

The structure of electricity tariffs is an emerging issue that will increase in significance with network tariff reform and the mandatory rollout of smart meters. Tariff changes are being driven by changing a customer's tariff following the installation of a smart meter. These tariffs signal costs during peak demand periods (which historically drove network investment) and unwinding cross-subsidies and are increasingly demand based. This is a significant change for customers who are used to paying a flat rate tariff.

We firmly believe that choice is paramount and that customers should not be forced to accept complex new network tariffs that they may not fully understand. This is noting the network pricing objectives set out in the National Electricity Rules require that network tariffs must be reasonably capable of being understood by retail customers if that tariff is passed on either directly or indirectly in the retail tariff.

Initially, network tariff reform focused on signalling costs during peak demand periods (which historically drove network investment) and unwinding cross-subsidies. The Rules reflect this in the requirement for networks to derive network prices based on long run marginal cost (LRMC) i.e. forward-looking investment in additional network capacity to meet growing peak demand.

Given the dynamic shift in how customers consume, the growing penetration of consumer energy resources, and the emergence of virtual power plants, there is clear evidence to suggest that LRMC based network charges may not accurately reflect the current nature of network costs. For these reasons, we consider there is a strong case for a rethinking of the underlying rationale for the approach to tariff reform.

Origin's response to the issues raised in the Consultation Paper are set out below.

Time of use and Demand Tariffs

1. How are changing electricity pricing structures, including time of use and demand tariffs, impacting households and small businesses? What datasets are available to assist us in understanding the impact of these pricing structures on consumers?

2. What additional information would assist household and small business customers in engaging with and responding to changing tariff structures, including time of use and demand tariffs?

3. Are new tariff structures, including time of use and demand tariffs, creating barriers for customers switching electricity plans or retailers? If so, what are the barriers?

To manage cost risk, retailers have historically treated network costs as a passthrough. Because these tariffs were based on a flat usage rate, they were easy for the customer to understand and respond to.

Since the introduction of network tariff reform in 2014, networks have focused on assigning customers to tariffs that signalling costs during peak demand periods following the installation of smart meter.

However, as highlighted by the AEMC, these tariff changes are a key driver of recent customer complaints, which include: [1]

- Being placed on a new cost-reflective tariff structure without the ability to opt out.
- Customers with smart meters not being able to access a flat retail tariff offer.
- Inadequate notification before a retail tariff change.
- Not receiving sufficient information about the impact or implication of such changes higher than expected bills after being placed on a new cost-reflective tariff structure.

The network pricing objectives set out in the National Electricity Rules require that network tariffs must be reasonably capable of being understood by retail customers if that tariff is passed on either directly or indirectly in the retail tariff.[2] Clearly this obligation is not being achieved.

In response, the AEMC has extended its Draft Rule on *Accelerating smart meter deployment* to include additional customer safeguards when a customer has a smart meter installed. These include that when a customer receives their new smart meter, the retailer may offer the customer a new (for example, cost-reflective) retail tariff structure. However, the retailer would be required to obtain the customer's explicit informed consent to change the customer's retail tariff structure. If the customer gives their explicit informed consent, the retailer may change the customer's retail tariff type.

Our experience of running neutral campaigns such as asking the customer if they would like to receive their bills and correspondence through email is an EIC response rate of about 5 per cent. We would expect response rates for something as complex as cost reflective tariffs will be much lower.

As a result, the consequence of requiring EIC is that most customers will remain on their current retail tariff regardless of their underlying network tariff. This will result in an outcome where it is probable that a retailer's network costs will be different to the network costs recovered from their customers. While some retailers may be able to manage this risk better than others, (the ability of which may vary over time) where this is not possible, the AEMC suggests retailers may choose to manage these risks by increasing retail price levels.

A rethinking of tariff reform is needed

Initially, network tariff reform focused on signalling costs during peak demand periods. However, there is evidence to suggest that capacity to meet peak demand is one of many issues now faced by networks. Because of greater penetration of CER, the need to curb peak demand has diminished and instead networks are now faced with the problem of trying to increase the capacity of their networks to host more solar exports.[3]

Given the dynamic shift in how customers consume and the growing penetration of CER there is a strong case for a rethinking of the underlying rationale for the approach to tariff reform.

Barriers to customer switching

A misalignment of retail and network tariffs is a potential barrier to switching. Retailers may decide not to offer market contracts for certain network tariff categories given the cost risk of the retail tariffs not covering the cost of network tariffs. This could lead to lower product offerings and higher overall prices.

[1] AEMC, Directions paper: Accelerating smart meter deployment, 15 August 2024, p. ii.

[2] NER, r. 6.18.5.

[3] For example, see Ausgrid 'Our revised Tariff Structure Statement for 2024-29', p. 22.

Virtual Power Plants (VPPs)

5. What information is available to help IPART understanding virtual power plant programs in NSW including:
   a. which retailers are offering virtual power plant programs
   b. customer numbers in virtual power plant programs
   c. the benefits of participating in virtual power plant programs
   d. eligibility criteria for virtual power plan programs

6. What has been the experience of households and small businesses who have joined or participated in virtual power plant programs?

7. Are there emerging issues in the NSW retail electricity and gas markets that IPART should explore as part of our Energy Market Monitoring report?

Origin offers several Virtual Power Plant (VPP) programs. We expect VPPs will play an increasingly important role in helping us optimise the supply and demand balance in the NEM.

Origin Loop

'Origin Loop' uses AI technology to optimise the use of participating customers' consumer energy resources. We remotely control connected solar, batteries, air conditioners, hot water systems, smart plugs and electric vehicle chargers to shift load from peak demand and high emissions intensity periods to low electricity price periods to reduce cost and carbon intensity of energy.

Eligible customers who join Origin Loop can receive an upfront discount on the cost of a solar and battery package or standalone selected batteries. Origin also offers upfront and ongoing incentives to customers who enrol their battery in the Loop VPP. Additional incentives, such as those recently announced by the NSW Government will further improve the take-up of VPP products among battery-owning households.

By the end of the 2024 financial year, our Origin Loop VPP had about 1,385 MW of capacity across more than 392,000 connected services[4]. The VPP capacity has grown by approximately 70 per cent relative to the previous financial year[5].

Origin Spike

We also offer 'Origin Spike' which is an opt-in, manual demand response program. To participate, the customer must have an Origin residential electricity account in their name. There is no specific need to have a demand response device, however the Spike program relies on customer engagement to reduce energy usage at a specified time. The customer is invited to participate in a Spike hour with several days' notice and is required to opt-in to participate. If they choose not to participate there is no non-participation penalty.

Customers who use less than their energy forecast during a "spike" event (usually one-hour events) earn Spike currency, called Watts. Watts can be redeemed for PayPal cash and gift cards from a range of retailers. The number of Spike customers as at 30 June 2024 was 105,000.[6]

[4] Origin Energy, 2024 Annual Report, p18

[5] ibid, p34

[6] Ibid, p34

Origin Home

Origin has recently launched ‘Origin Home’ which is aimed at assisting customers save money on their bills and lower their energy usage by taking a more active approach to managing their energy use. Through Origin Home, customers can check if they are on the best plan and whether they are eligible for concessions or rebates. They can also conduct a home energy audit to identify where they can save energy around their home and find out how they can use renewable energy technologies such as solar, batteries and our VPP to help reduce their energy bills.

Generally, customers are increasingly embracing VPP offerings. A survey of Spike customers in 2022 found that customers who participated in the program felt more in control of their energy use and valued the savings on their energy bill. Customer numbers in VPP programs are growing year on year which highlight the ongoing value consumers view of these program offerings.

If you have any questions regarding this submission, please contact [redacted] in the first instance on [redacted]

Yours sincerely

[redacted]

[redacted]