

7 October 2022

Mr Warwick Anderson  
General Manager  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Mr Anderson,

**Re: Battery tariffs - Network tariffs for the DER future**

Simply Energy welcomes the opportunity to provide feedback on the explanatory paper written by Argyle Consulting and Endgame Economics for the Australian Energy Regulator (AER).

Simply Energy is a leading energy retailer with approximately 700,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. Simply Energy is owned by the ENGIE Group, one of the largest independent power producers in the world and a global leader in the transition to a zero-carbon economy. As a leading retailer focused on continual growth and development, Simply Energy supports the development of effective regulation to facilitate competition and positive consumer outcomes in the market.

Since March 2018, Simply Energy has also been leading VPPx, which is an ARENA funded project to build the first virtual power plant (VPP) that integrates with a distributed energy market platform. Simply Energy is collaborating on this project with several partners, including technology vendor GreenSync and distribution network service provider (DNSP) SA Power Networks.

Simply Energy believes battery energy storage will play a critical role in supporting the transition to an energy system with increased dependence on renewable energy. In particular, Simply Energy sees significant opportunities in exploring innovative business models that can offer consumers access to lower cost alternatives to residential energy storage systems, specifically via distribution connected community batteries. Simply Energy is supportive of network tariffs that reflect the flexibility and optimisation of existing network capacity that these types of business models provide.

**Community battery network tariffs should reflect the avoided costs of network investment**

Simply Energy is currently collaborating with several DNSPs regarding opportunities for network-owned, retailer-leased, community batteries. These solutions effectively value stack the battery storage system and provide network benefits that can be passed through to local customers via a community storage retail offer. This type of business model has the potential to be a win-win-win solution for the network, retailer, and the customer. Community batteries may be able to provide consumers with an affordable alternative to investing in a residential battery storage system.

Simply Energy agrees with the discussion in section 2.5.1 of the explanatory paper in relation to network tariffs being a barrier to the feasibility of community batteries. Simply Energy would support DNSPs accommodating community batteries as a dynamic resource within their networks rather than treating community batteries the same as other 'customers'. We consider there is value

in further considering whether community batteries should be charged at a Local Use of System (LUOS) level.

In addition to the comments in the explanatory paper related to community batteries only utilising local assets<sup>1</sup>, Simply Energy considers that community batteries can also enable DNSPs to avoid augmenting the local network. The network tariffs for community batteries should reflect the network costs that they impose, as well as the avoided costs that the DNSP would otherwise need to incur to upgrade capacity of the local network. That is, the DNSP should explicitly share the benefits of avoided augmentation expenditure with the source of that benefit (in this case, the operators of community batteries).

While not the focus of the explanatory paper, we note that community batteries are also treated the same as other 'customers' in the context of state-based energy efficiency schemes. The emergence of community batteries does not appear to have been considered by these jurisdictions when developing these schemes. As compliance with state-based energy efficiency schemes imposes a cost on the operation of a community battery, this creates another aspect of the cost stack that acts as a barrier to the commercial viability of community batteries.

### Retailers have an important role in delivering network tariff signals

In relation to the role of retailers (as described in section 3.4 of the explanatory paper), we consider that more weight needs to be placed on consumer preferences for simple and easy-to-understand tariffs. That is, retailers have typically preferred simple price structures due to their customers preferring simple price structures. We agree with the suggestion earlier in the explanatory paper that 'customers' acceptance of complex tariffs cannot be presumed<sup>2</sup>.

Recognising that retailers are the key recipient of network tariffs, Simply Energy suggests that DNSPs need to develop network tariffs that are simple for retailers to apply in their retail tariffs for customers. If DNSPs do not engage with retailers and develop appropriate tariffs that are simple to explain and apply to customers, many retailers ultimately will not pass through these signals to the customer. We would urge DNSPs to work closely with retailers to develop network tariffs that will provide useful and effective price signals to consumers. Simplifying network tariffs would also help retailers assist their customers in understanding whether they are on the correct tariff for their circumstances and how they can change to a more appropriate network tariff.

To that point, we caution any assumptions that consumers will respond to complex price signals, such as seasonal tariffs or tariffs with multiple pricing periods during a day. The group of consumers that are most likely to benefit from complex price signals are those that have these decisions automated on their behalf (i.e. through technology that optimises the network tariff signal). Innovative market participants (such as VPP operators) can help provide value to DNSPs by optimising complex network tariff signals on behalf of consumers. Simply Energy agrees with the statement in the explanatory paper that the benefits of two-way pricing require meaningful engagement between DNSPs and retailers<sup>3</sup>.

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<sup>1</sup> Argyle Consulting & Endgame Economics 2022, Network tariffs for the distributed energy future: Final paper of the Australian Energy Regulator, June, p. 17

<sup>2</sup> Argyle Consulting & Endgame Economics 2022, Network tariffs for the distributed energy future: Final paper of the Australian Energy Regulator, June, p. 28

We note that this statement was made in relation to complex two-way tariff structures, but we consider that it would equally apply to all complex network tariff structures.

<sup>3</sup> Argyle Consulting & Endgame Economics 2022, Network tariffs for the distributed energy future: Final paper of the Australian Energy Regulator, June, p. 34

## DNSPs should not directly control the assets of consumers

Simply Energy does not support the suggestion that DNSPs could offer lower network tariffs to consumers in exchange for applying a form of control over the consumers' load. While DNSPs have a role in setting tariffs, we would consider it an over-reach for DNSPs to have an ability to control a consumers' storage assets.

Simply Energy suggests that market participants (such as VPP operators, aggregators, and retailers) are best-placed to optimise network tariff signals on behalf of consumers. Market participants already have the capability to manage their customers' assets to respond to network tariff signals and incentives, while also simultaneously managing the customer relationship (including billing services) and customer preferences. To ensure an ongoing social licence within the electricity industry, consumers should continue to be able to choose who manages their electricity storage assets and be confident that the entity exercising control is doing so in their interest.

We also note that enabling DNSPs to offer consumers reduced network tariffs may face similar issues to those we have described in the previous section. That is, any reduction in a network tariff is actually a discount provided directly to the retailer, which then decides how it designs a retail tariff to provide to its customer. As DNSPs only have an indirect relationship with consumers, it would likely be more effective for the DNSP to structure tariffs for its direct customers (that is, retailers, VPP operators, and aggregators) that incentivise behaviour that optimises the use of the distribution network. A similar point is made in section 3.4.1 of the explanatory paper, in relation to retailers being the primary recipient of network tariff signals and acting on behalf of their customers to minimise total electricity costs.

## Concluding remarks

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact Matthew Giampiccolo, Senior Regulatory Adviser, at

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Yours sincerely

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James Barton  
General Manager, Regulation  
Simply Energy