

16 February 2023

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Dear Ms Curtis

RE: Unlocking CER benefits through flexible trading, Consultation paper

Powershop is an innovative retailer committed to providing products and services to benefit consumers. Powershop also recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Powershop has introduced several significant, innovative and customer-centric initiatives into the retail energy market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program.

Powershop thanks the Australian Energy Market Commission (**AEMC**) for the opportunity to provide a submission in response to their Unlocking CER benefits through flexible trading, Consultation paper (**the Paper**).

Powershop is a subsidiary of Shell Energy Australia who have provided a separate, detailed submission to this process.

Statement

Powershop does not support the Paper and its proposed framework to unlock consumer energy resources ("**CER**") in the National Energy Electricity Market ("**NEM**") through flexible trading arrangements ("**FTA**"). Powershop does however support the AEMC's intent of also remaining open to other, more suitable options for the customer and industry alike.

Powershop supports the view that the proposed FTA is unnecessary and inefficient. Powershop agrees with the broad positions Shell Energy has taken in relation to the:

- Multiple options already available to customers to exercise their CER capabilities without the need for a rule change.
- Costs and risks associated with the rule change will far outweigh any known benefits to customers,
- Impact on vulnerable customers on life support and/or in hardship,
- Complexity of multiple retailers at one site,
- Network charge risks on the primary financially responsible market participant ("**FRMP**"),
- Potential for increased costs to customers under regulated pricing and default price caps, and
- The dysfunctional, decentralised incentives across multiple parties that could lead to any CER benefits not being optimised.

Powershop's submission will focus specifically on those issues that will directly impact small retail customers and the relationship they have with their retailer. Powershop believes the proposed rule change has not adequately considered the cost benefit analysis for existing retailers, new entrants or consumers. Cost implications across all consumers must be considered, not just those consumers who

will be able to take advantage of CER. Furthermore, the practical considerations of engagement in this proposed model for consumers and retailers has not been fully considered to date.

Powershop believes that the existing and prospective opportunities to customers render this rule change unnecessary. Powershop itself provides products and services, in conjunction with third parties, to enable customers to access the benefits of CER. Powershop is also aware of other retailers offering similar products and services. This highlights that competition in this market already exists, providing consumers with choice to unlock CER capability at their premises without FTA.

Examples of these products include a Virtual Power Plant (“VPP”) product, where Powershop (an authorised retailer) has agreements with third party providers to enable customers to access the benefit of their solar and battery system through optimisation of performance of the system, prediction of future generation and up to date information on the state of the battery system.

Powershop regard the value proposition of FTA dependent products and services to be weak for both retailers and consumers. Furthermore, we are concerned that the paper does not provide evidence that the proposal would be for the betterment of a material number of consumers. We therefore appeal to the AEMC to consider the significant cost implications of any FTA framework which if implemented, will be unavoidable to all retailers and come at a time when there are cost of living pressures placed on customers; this should not be discounted or ignored.

Primary FRMP

In the current model of retailing energy, the relationship between the customer and a primary FRMP has been a broadly successful approach to maintaining an interface for connection, maintenance, data information provision, energy payments, as well as other customer centric matters such as billing information and complaints management.

The primary FRMP under CER can effectively navigate on behalf of a customer the full suite of electricity services that could be applied to a property. Retailers provide effective relationship management approaches at scale, aggregating all customer products and services efficiently.

Despite this effective approach for both customer and the market, the proponent assumes that a retailer would choose to sell or purchase a portion of a customer’s load rather than serving the entire load, leveraging economies of scale and without the benefits of:

- Credit and debit information as a single source of data and information for the FRMP to manage the financial position of a site with their customer.
- Visibility to 100% of the customer’s financial transactions and being able to work with the customer based on this dataset, to enable the retailer to plan and position for the best possible outcome for a customer to manage their energy debt.
- More effectively manage and appropriately hedge risks (e.g. wholesale, network charges) at the customer level.

The proposed framework would significantly reduce the capability of continuing to address the above. Importantly, should the FTA framework be adopted, the primary FRMP could be significantly disadvantaged by the inability to see or access the various transactions of a secondary or multiple FRMPs at a site. One of the most significant examples of risk faced by the primary FRMP, largely downplayed by the Paper, would be the credit risk assumed from the presence of a secondary FRMPs and the inevitable increase in bad debt. We are also concerned at the competition implications from the primary FRMP solely bearing the credit risk of network payments.

If there were to be multiple FRMPs at a particular site, then the primary FRMP:

- Would not be able to correctly or effectively send pricing signals to the market unless the responsibility of this is spread across all FRMPs at a site (e.g. network costs must correctly reflect across activities for all FRMPs and all FRMPs carry equal network credit risk).
- Moreover, from a customer's perspective, the trade out costs may result in higher costs for customers. Powershop consider that any savings the customer may see as a result of engaging multiple FRMPs at their site, may be offset by an increase in the costs incurred by the primary FRMP and ultimately incurred by the customer.
- Would not be able to effectively or fully manage the energy costs of the customer and help the customer through any difficult times such as financial hardship.
- Would not be able to effectively hedge its market risks, particularly load risk. In fact, the secondary FRMP may seek to manage its own load risk through switching consumption back to the primary FRMP, exacerbating load risk to the primary FRMP.

Customer engagement issues

Customer engagement

Powershop raises a key concern regarding the confusion customers would face if they were required to engage with multiple retailers at their property. Powershop consider that if the rule change is to be progressed, this key hurdle must be addressed. Without the evidence that customers of all abilities can engage with multiple FRMPs easily and in a way that doesn't increase confusion or decrease energy literacy, the benefits of the rule change should be called into question. This is particularly the case for customers that move into a site that has multiple retailers from a previous customer.

Complaints management

The key issue Powershop raises in relation to complaints management is uncertainty over which FRMP holds responsibility for the relationship with the relevant state Ombudsman scheme. As it stands, the Paper is silent on the process and responsibilities for dealing with the Ombudsman schemes.

Powershop believes if each FRMP or retailer at a particular site is authorised, and part of that authorisation is to be a member of the relevant state ombudsman, then this would be fair for both the customer and primary FRMP. The Ombudsman can then deal directly with the secondary FRMP for complaints related to that individual product or service.

Concessions

Concessions are highly complex and jurisdictional. Powershop believes without consultation and collaboration with the relevant state Governments, some concessions and rebates would be impractical to provide under the model proposed. Unless the primary FRMP has total access to any applicable concession details information at a secondary FRMP, then the customer may not receive their full appropriate concession entitlements. If this rule change were to progress, Powershop believes that all FRMPs be obligated to participate in the relevant state-based concession schemes. These obligations are vital in supporting small customers who may be experiencing hardship.

Retailer requested de-energisation

The Paper acknowledges the challenges associated with de-energisation by either FRMP. Powershop believes this matter would become more complex for retailer requested de-energisation; any disconnection for non-payment would be complex with multiple FRMPs at a single site.

Additionally, disconnection of a carry-over customer, particularly if the new customer is not as engaged with the energy market and does not understand the need for two NMIs makes this model even more ineffectual.

Life support customers under the FTA

Life support protections are a critical element of the energy regulatory framework for all affected customers. Customers have the confidence and ease of understanding of dealing with one retailer currently to ensure their relevant regulatory protections and primarily connection are in place. The Paper's proposed framework places new levels of protection risk on the primary FRMP. In order to ensure a customer is protected, every FRMP on that site would need to ensure they apply the same rigorous protections that are currently in place under the NEM's regulatory framework, as opposed to discrimination between electricity services.

Life support is a primary example of why additional FRMPs should be required to carry an authorisation, to have these critical obligations extended to other elements of the supply of energy at a customer's premises. If the obligations were to continue to only apply to the primary FRMP, not only does this increase the costs and risks associated with site with registered life support, the communication between FRMPs would be very problematic, especially if FRMP2, FRMP3 etc. are not obligated to protect the customer.

Regulatory implications

Billing costs

Where a retailer's existing customer is offered an FTA-arrangement by another retailer, the primary FRMP cannot avoid the increase in its cost to serve that customer. While the primary FRMP may have contractual terms allowing it to renegotiate the offer, its obligation to supply that customer would remain. FTA would become an unavoidable cost to all retailers. Implementation of systems for FTA and operational costs of FTA processes may effectively undo the significant IT investment that has occurred in recent times to support numerous regulatory changes, including initiatives such as the Billing Guideline.

Powershop does not believe the Paper has considered that retailers will need to ensure that their billing systems can interface or accommodate multiple FRMPs, specifically to allow for the subtraction of any electricity flowing through the secondary meter from that billed to the customer. These costs will be incurred by every primary FRMP, regardless of how many end customers take up FTAs in their portfolio (or NEM-wide). Those costs are ultimately borne by all consumers, irrespective of whether they engage secondary FRMPs.

Erroneous transfers

Powershop believes another issue that requires strong consideration is erroneous transfers where a site has multiple FRMPs. From a customer's perspective, ease of switching retailers is a key part of their transfer experience as well as ensuring they are not switched away in error. Powershop's experience is that, while a small proportion of customers are impacted by an erroneous transfer, the experience for impacted customers is complicated and regularly unsatisfying. A multiple FRMP framework could significantly add to the risk of this occurring.

Consumer Data Right

Powershop are keenly aware of the challenges and costs associated with the introduction of the Consumer Data Right ("CDR") in the energy sector. The rule change does not consider the impact of the introduction of secondary FRMPs on the CDR framework, or provide an acknowledgement of the significant resource and costs associated with potential changes required to that framework.

Retailers are grappling with the complexity of the CDR framework as it currently stands and cannot foresee this FTA rule change easing complexity or confusion for the energy sector or consumers. Powershop would encourage the AEMC to consider the interaction between this proposed framework and the CDR framework.

Retail competition

Considering the points raised above, regulatory discrimination between providers has the potential to be a point of failure in ensuring equity among participants in the energy sector. While accommodating a path of less regulatory burden for new entrants at face value appears enticing to incentivise investment, it may lead to undue advantages to these new FTA participants and distort competition, as existing market participants are bound by the existing regulatory frameworks. Powershop consider that the playing field should be level, and this consideration should be key as to whether the rule change progresses.

Furthermore, should secondary FRMPs not require authorisation similar to existing retailers, customer protections for energy as an essential service could be jeopardised. It is a likely outcome that the reduction in regulation for the entry of secondary FRMPs results in poor customer service, and at worst, safety concerns.

Competitive Metering rollout consultation

Before any consideration is given to this framework and the rule change, Powershop believes the current Competitive Metering rollout consultation¹ should take priority. Put simply, without the effective rollout of smart meters across the NEM (excluding Victoria), there is no FTA to unlock CER in an efficient way. Powershop believes only once the rollout of smart meters has successfully occurred, consideration of FTA can take place.

Powershop believes the competitive metering review should be the priority of the AEMC before consideration of this rule change. Once the metering rollout is completed, the industry can then assess collectively if CER is likely to be taken up customers in material numbers and if so, assess what a more advanced retail energy market can provide them before any unnecessary rule changes are considered.

Conclusion

Powershop believes this Paper and framework has not adequately addressed the problem that it is trying to solve. With multiple tools and products and services already available to customers to unlock their own CER capability, the Paper does not provide a cost effective, efficient framework that we believe all consumers would be able to engage with. This is especially important when energy consumers are experiencing affordability issues linked to the broader economic environment in Australia. Powershop believes that there is no variant of this rule change that would not lead to increased costs for consumers.

Based on the above, Powershop believes the AEMC should no longer pursue the rule change unless there is a more effective framework for customers and industry to utilise.

¹ <https://www.aemc.gov.au/sites/default/files/2022-11/Draft%20report.pdf>



Powershop would welcome further engagement with the AEMC on the points highlighted through this submission. If you would like to discuss, please contact Alan Love at alan.love@powershop.com.au.

Yours sincerely,

Dee Garnsworthy
Executive General Manager, Consumer