

16 February 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Dear Ms Collyer,

Re: Unlocking CER benefits through flexible trading (ERC0346) – Consultation paper

Simply Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) consultation paper on the Australian Energy Market Operator's (AEMO) rule change request in relation to flexible trading arrangements.

Simply Energy is a leading energy retailer 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.

Simply Energy provides customers with access to innovative products that have a focus on distributed energy and consumer energy resources (CER), such as residential virtual power plants (VPPs) and electric vehicle (EV) charging. Simply Energy is also currently collaborating with several distribution network service providers (DNSPs) regarding opportunities for network-owned, retailer-leased, community batteries.

There may be value in further consideration of sub-meters, but not in secondary FRMPs

As we understand it, the central premise of this rule change is to enable price signals to be more directly applied to different CER at a premises (for example, the introduction of an EV sub-meter may enable EV-specific price structures that incentivise a customer to charge their EV at times that utilise the network most efficiently). As will be discussed in this submission, there are some critical issues and cost concerns associated with establishing multiple financially responsible market participants (FRMPs) at a premises. However, Simply Energy does consider there may be benefits from the introduction of sub-metering arrangements and that a more preferable rule change could involve:

- Maintaining a single FRMP at the connection and settlement point to enable optimisation of load and CER at a premises, as well as an efficient response to network and wholesale price signals.
- Enabling the single FRMP to enter a sub-metering arrangement with consumers for their individual CER assets, similar to current arrangements for hot water and underfloor heating.
- Requiring DNSPs to develop new dynamic network tariffs that would promote (or inhibit) the use of CER assets (i.e. two-way controlled load) at certain times and seasons.

These points will be discussed in more detail in this submission.

There is not sufficient evidence to justify introducing a secondary settlement point at this time

In recent years, there has been strong growth in consumers' take-up of CER, and this will likely continue for the foreseeable future as the price of CER devices and EVs continue to fall and the availability of these assets improves. This expectation aligns with AEMO's Step Change scenarios, as summarised in the AEMC's consultation paper. However, the market for CER devices and CER-related services is still in its infancy and these offerings will continue to evolve to provide better consumer value over time. As the evolution in these markets will occur regardless of this rule change, the market failure that the rule change request is seeking to address is not clear. The rule change request has also not sufficiently justified how the reform would result in a more efficient market than would occur under the current regulatory settings.

As noted in the previous section, we accept there may be some benefits to consumers and the network from introducing the capability for sub-metering for CER devices. It appears that the sole benefit from going a further step and enabling a secondary FRMP to provide services on a sub-meter is that it may reduce barriers to entry and expand the number of service providers in the market. Simply Energy notes that the current market does not preclude non-authorised businesses from providing CER-related services and realising the benefit of revenue streams available in energy markets. This has been demonstrated through VPP trials and through the numerous non-retailers that are currently participating in the CER market and providing commercial VPP products and services to residential customers, despite there being no capability for a secondary FRMP at a premises. The non-retailers currently participating in the market include; Tesla¹, Sonnen², Reposit³, and ShineHub⁴.

While we encourage the AEMC to undertake a detailed cost-benefit analysis for this rule change request, we do not expect that the benefits of enabling a secondary FRMP to provide services on a sub-meter would exceed the costs involved (including some of the cost categories that we describe later in this submission). We do not consider there is sufficient evidence to suggest that this rule change would lead to a significant increase in new entrants and more innovation in the market.

Simply Energy is not aware of any research that suggests that consumers are not satisfied with the current opportunities to monetise their CER devices and that they seek the capability to contract with secondary parties to provide services on a sub-meter.

The existence of a secondary FRMP could result in consumers losing the benefits of optimisation

We are concerned that enabling multiple FRMPs at a premises may lead to worse outcomes for consumers, as the independent management of CER devices would likely lead to a sub-optimal outcome when compared to one entity optimising between CER devices and with customer load. As noted by the AEMC, the individual FRMPs may not have appropriate incentives to coordinate to ensure a customers' consumption and generation is optimised. Even if issues with incentives could be addressed, we expect that it would be much more cost effective for a single FRMP to undertake the optimisation for the customer, rather than involving additional parties that have their own costs to recover and expected returns.

While the AEMC has not suggested that regulatory action would be needed to address the issues with optimisation, we note that introducing new consumer protections and/or processes to address

¹ Tesla, Tesla Energy Plan, accessed at; https://www.tesla.com/en_au/tep

² Sonnen, sonnenConnect energy offer, accessed at; <https://sonnen.com.au/connect/>

³ Reposit, \$0 Electricity Bills for 5 Years, accessed at; <https://repositpower.com/>

⁴ ShineHub, The future of Australia's renewable energy starts with you, accessed at; <https://shinehub.com.au/virtual-power-plant/>

risks such as this would only add additional costs and complication to a rule change proposal that has minimal potential benefit for consumers and the market.

There are likely significant costs associated with implementing the rule change request

Simply Energy does not agree with AEMO's view that the rule change request would not impose material costs on participants. We consider that implementing the rule change request would impose several types of system and IT costs on retailers (regardless of whether any customers utilise the flexible trading capability), such as:

- Updates to metering data functionality – differentiating metering data between the multiple FRMPs at a site will require development of this functionality and costs to be recovered from all participants and their customers.
- Updates to MSATS – AEMO will need to update the MSATS system, which will require resources and costs from all participants to implement.
- Updates to billing systems – All retailers will need to update their billing system to interact with the flexible trading reforms, to ensure that energy that flows through the primary meter can be accurately allocated to any sub-meters at a premises.

In addition to direct costs of implementation, the retailer at the primary connection point would likely experience unpredictable variability of their customer's load due to decisions made by the FRMP at a sub-meter (which may include the arrangement between the customer and the secondary FRMP ending). A prudent retailer would hedge their risks of this variability on an ongoing basis, which would likely result in higher energy prices for all energy consumers. In addition, we expect that the retailer at the primary connection point would incur ongoing costs due to receiving customer queries on billing issues that are caused by, or should be directed to, the FRMP at a sub-meter.

The proposed approach to network cost allocation does not align with changes in the market

Simply Energy has some concerns about AEMO's proposal that all network costs apply to the FRMP at the primary connection point in the event there are multiple FRMPs at a premises. AEMO's proposal may be reasonable where network costs are a static amount, such as cents per day, that is passed through transparently to customers. However, we are transitioning to a market with dynamic network pricing that can enable networks to provide subsidies and levy additional charges to incentivise the use of CER devices in an efficient manner that support the network. Simply Energy is concerned that the primary FRMP could incur charges levied by the DNSP that are due to decisions made by a secondary FRMP in relation to the use of a CER device. It would be a poor outcome if a customer's bill for traditional energy supply is increased due to decisions made by another service provider engaged by the customer.

As per our earlier comments in relation to optimisation, we are also concerned that customers may be negatively impacted by network pricing structures (through missing out on incentives and being levied penalties) that their secondary FRMP is not able to optimise on the customer's behalf. This would also impact on the efficient usage of the electricity network, as the secondary FRMP is not providing or responding to network pricing signals.

While there are substantial cost allocation issues with AEMO's proposal, we also note that alternative approaches that allocate network costs between FRMPs would require significant system and process changes that would potentially be prohibitively costly.

We expect there are other potential unintended consequences

Simply Energy notes that there are several other potential unintended consequences that may arise from establishing multiple FRMPs at a premises. While not a comprehensive list, we would expect that the AEMC's directions paper or draft determination should address the following issues if the AEMC proposes to implement the rule change request as proposed:

- The process and implications of de-energising the primary connection point is not clear. We expect that it would be challenging for a secondary FRMP to provide services to the market with any certainty when their connection to the grid could be de-energised for reasons external to their relationship with the customer. However, we do not consider it would be appropriate for a primary FRMP to notify the secondary FRMP if they intend to de-energise the primary connection point. Any notification is more appropriately provided after the de-energisation has occurred by AEMO or the DNSP. The customer may also directly inform the secondary FRMP of the de-energisation.
- There would also be implications for Ombudsman schemes. For example, increasing the complexity of a customer's energy supply will likely add complexity to the cases that Ombudsmen investigate, as well as requiring new types of cases to be added to these schemes. The consultation paper is also not clear about whether secondary FRMPs would be required to join Ombudsman schemes and pay their share of the costs involved in managing cases at sites with multiple FRMPs.
- There may need to be additional protections for the primary FRMP if metering, data connection, or conduct of the secondary FRMP is unreliable. For example, we are concerned that if metering data fails to be recorded, transmitted, or is deleted – that the entire energy cost (or benefit) could be imposed on the primary FRMP.
- Simply Energy is also interested in the AEMC's views on how the creation of a secondary FRMP may impact on obligations and data availability under the Consumer Data Right and the useability and/or accuracy of reference price and better offer requirements.
- It is not clear how the net loads of secondary FRMPs would be accounted for in relation to the Retailer Reliability Obligation (RRO). We would be concerned if a primary FRMP would be required to consider the net load of secondary FRMPs when planning for compliance with the RRO, or if a primary FRMP could be found to be in breach of their RRO obligations due to conduct undertaken by secondary FRMPs.

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 matthew.giampiccolo@simplyenergy.com.au.

Yours sincerely



James Barton
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