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21 September 2023

Ms Lisa Shrimption
Project Director
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted electronically

Dear Ms Shrimpton,

Re: Directions Paper - Unlocking CER benefits through flexible trading (ERC0346)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission's (the Commission's) directions paper on *Unlocking CER Benefits through Flexible Trading*. We welcome the Commission's considered approach to assessing AEMO's rule change proposals. Its initial consultation revealed widespread scepticism that the proposal to allow for the appointment of multiple Financially Responsible Market Participants (FRMPs) would generate a net benefit so we are pleased that the Commission has decided it will not proceed with this idea for small consumers. However, we remain unconvinced it is necessary for large consumers and continue to hold the view that there are few current obstacles to the efficient utilisation of Consumer Energy Resources (CER) by large consumers.

The main focus of this submission is the Commission's analysis of how best to encourage efficient investment in and utilisation of CER. While we agree that some reforms could improve market outcomes and facilitate an orderly energy transition, we disagree that substantial and potentially costly and disruptive measures are necessary, such as those that AEMO is proposing.

Rather, our preference is for a more granular and incremental approach that continues to encourage competitive service providers to work with their customers to identify the value of CER and then maximises their value, either through direct or indirect market participation. Our view is that much of what AEMO and the Commission want to achieve is possible under the current framework.

Preferred approach to reform

The directions paper acknowledges that owners of CER can capture the value of these assets under the current rules and also that this can occur through a wide range of mechanisms. For example, it refers to contractual arrangements between CER owners and their retailer, noting that:

> *… consumers have visibility on their CER profile (for e.g. through an app) and could be offered some payment/incentive by the retailer for the CER flexibility. The retailer could also offer bundled products, differentiating offers for responsive CER and other inflexible or passive load. While such flexibility is not visible to the market (i.e. these approaches are "off market" in that they are not connected to the wholesale electricity market), the retailer can still benefit from the value of CER flexibility by managing the net load at the meter at the connection point. This also enables the retailer to orchestrate flexibility behind the meter consistent with how it views the value of demand flexibility given its hedging strategy or its exposure to high wholesale prices.*[1]

The competitive market encourages retailers to work with their customers to develop service offerings that align with their usage preferences, while tapping into the benefits that CER can offer. Otherwise, those consumers can easily find another retailer who will meet their needs. We view the type of arrangement to which the Commission refers as one of the most cost effective ways to manage and maximise the value of CER, particularly at this stage of the transition and given the penetration and type of CER across the NEM.

These resources are generally used for on-site optimisation, where a consumer uses CER to manage its consumption by shifting load and exports across the day. This form of optimisation is not explicitly recognised in the NEM metering and settlement framework but CER owners still share substantial value with their retailer in a mutually beneficial way.

Electric vehicles (EVs) are commonly referred to as the most likely candidate for separate metering (or measurement) but even for these CER, the market is already delivering innovative pricing solutions that encourage EV owners to charge their vehicles outside of peak consumption periods, even if there is no specific EV network tariff in place.

The Commission also notes the following ways that owners of CER—and their agent, such as a retailer or aggregator—can obtain value from their assets when they are of sufficient scale and firmness:

- contingency Frequency Control Ancillary Services, if the participant meets the technical requirements defined in AEMO's Market Ancillary Services Specification;
- network support through direct contracting, network support and control ancillary services;
- through the current embedded network framework, via secondary settlement points and under existing metering requirements; and
- various commercial and/or co-funded trial schemes.

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[1] Australian Energy Market Commission (2023), *Unlocking CER benefits through flexible trading*, 3 August 2023, page 25

In light of these available options, we recommend a more granular and incremental approach to reform; some of the necessary reforms are already in development or under current consideration. The directions paper identifies many of them in its discussion of the broader context for this review. In our view, implementation of the following will further promote the market outcomes that AEMO and the Commission are seeking to achieve:

- Interoperability, which would promote visibility of and access to CER, supporting competition between service providers. Furthermore, we support an inverter communication protocol (the Common Smart Inverter Profile Australia or CSIPAus) and agree it would support the use of flexible export connections for small customers and promote the broader integration of CER, including behind-the-meter interoperability.
- Stable, predictable and simple network tariffs—including export tariffs—that are the product of genuine consultation between networks, consumers and retailers. This is one of the most effective mechanisms for encouraging efficient network usage, including through DER. Complex tariff structures that change frequently during regulatory periods are confusing, difficult for retailers to implement and explain to their customers, and do not send the correct signals for consumers considering DER investments nor do they encourage firm demand response.
- Dynamic Operating Envelopes, which offer another mechanism for encouraging efficient network usage.
- The Commission's recommendation for 100% smart meter penetration by 2030, which will improve the information available to consumers about the implications of their consumption decisions and encourage them to consider DER investments.
- Removal of regulated retail pricing, which undermines competition and the development of innovative pricing structures.
- Clear delineation between competitive services and regulated monopoly services. This means effective ringfencing arrangements that involve as few waivers as possible and an effective prohibition on network ownership of competitive resources and participation in competitive markets. Recent ringfencing waivers (such as that granted by the Australian Energy Regulator for DNSP-led projects under the *Community Batteries for Household Solar Program*) and co-investments between networks and government and regulatory agencies undermine the delivery of efficient solutions through the competitive market.

Once these measures are in place, the competitive market will deliver efficient outcomes that optimise the value of DER and support the transition in an efficient and customer focused manner.

Views on CER proposal

We are sceptical that changes to current arrangements in order to facilitate secondary settlement points will generate a significant incremental net benefit for consumers at this time. This may change over time as the volume of CER across the entire market grows and as owners start to consider direct participation in wholesale and FCAS markets. However, we do

not consider it is yet of sufficient scale for this to be widespread. Furthermore, the current arrangements offer some flexibility where value clearly exists; for example, controlled hot water is already managed via dual/multi element measuring capability, while the embedded network framework allows for the installation of secondary settlement points.

We are wary of large initiatives that do not reflect the current state of consumer preferences or do not address a clear and widely accepted deficiency in the current regulatory framework. Such initiatives are often very costly and disruptive to implement; a recent example is the Wholesale Demand Response Mechanism. There is potential to place undue focus on the potential benefits of these measures, with insufficient regard to the disruption and cost; this seems implicit in the forthcoming Energeia paper for the Commission, which is entitled *Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Methodology Report*.

There is arguably a place for consumers to participate in NEM Dispatch through secondary settlement points and this can occur through a retailer or a Small Resource Aggregator. However, the rewards for this participation must also involve obligations (around visibility and dispatch, for example) and the requirement for NEM compliant metering.

For other CER owners, the cost of making their output visible to the market will be material and, at the margin, could discourage some CER investment. Even if the framework allows for alternative measuring devices that have a reduced specification, they will still need to account for 5 minute settlement and for the associated volume of data. It is not clear that their cost will be materially lower than current NEM meters over their respective lives.

Even under a voluntary scheme, AEMO and market participants will need to make the necessary system changes to implement a new framework if the latter want to compete for these consumers. In our experience, these costs are routinely underestimated in advance and we expect they will be substantial. As the Commission notes, it will need to consider metering requirements and procedures, network visibility and network tariffs, consumer billing arrangements, settlement procedures (including roles and responsibilities of AEMO and Metering Coordinators), data requirements, and interoperability issues.

Multiple FRMPs

Red and Lumo continue to hold very strong reservations about this measure and we restate the concerns we expressed in our previous submission. These concerns are not limited to the challenges in allocating consumer protections for small consumers across competing competitive entities. Rather, allowing for multiple FRMPs, regardless of the consumption level of the consumer will increase the cost of managing volatility and undermine competition, while also adding to cost to serve. The unpredictability of load and additional hedging costs are likely to discourage some retailers from servicing this market segment.

Moreover, we see no compelling evidence of a significant problem and the competitive market is delivering outcomes for these consumers where significant value exists, through direct and

indirect participation. As the Commission notes, large consumers who own CER that can be separated for non discretionary load and want to participate in markets or provide network support have numerous options available to them among competing retailers. They can install a second connection point with a fully compliant meter, which is a very small additional cost for large customers, use the existing embedded network structure to participate on- or off- market with subtractive metering, or simply enter into an appropriate arrangement with their retailer.

Street lighting

We see some potential merit in improving Type 7 and non-contestable unmetered load methodologies using additional data from alternate measurement devices if this improves energy settlement and therefore Unaccounted for Energy (UFE). Furthermore, this *may* provide an additional source of demand response. The Commission should be guided by comparison of costs and benefits in considering whether there is a net benefit from the discrete measurement of street furniture and lighting. The Commission will need to consider the flexibility of this demand, which we expect to be very low and / or not firm. We do not see a strong commercial incentive for owners of these assets to utilise them in such a way, while the cost of metering (even rudimentary measuring devices but still capable of settling on a 5 minute basis) could easily outweigh the benefits.

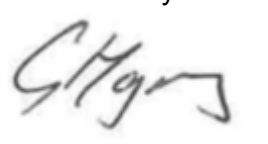
In our view, EV charging (public or otherwise) should not be considered under type 7 and non-contestable unmetered load provisions due to its load profile which is neither predictable nor of small magnitude.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail electricity and gas in New South Wales, Queensland, South Australia, Victoria and in the ACT to over 1.3 million customers.

Red and Lumo thank the Commission for the opportunity to comment on the directions paper. Should you wish to discuss or have any further enquiries regarding this submission, please call Sean Jennings, Regulatory Manager on 0403 846 585 or me on 0438 671 750.

Yours sincerely



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