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11 April 2024

Genevieve Schulz
Project Leader
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted electronically

Dear Ms Schulz,

Re: Draft rule determination - Unlocking CER benefits through flexible trading (ERC0346)

Red Energy and Lumo Energy (Red and Lumo) are pleased to make this submission to the Australian Energy Market Commission's (the Commission's) draft determination for the *Unlocking CER Benefits through Flexible Trading* rule change proposal.

We share the Commission's view that greater investment in Consumer Energy Resources (CER) and their efficient utilisation offers significant benefits to all energy consumers. CER will also be critical elements of the energy transition. While the potential is strong, however, the extent and timing of CER takeup by a significant proportion of consumers (particularly mass market) remains highly uncertain. Furthermore, consumers' willingness to participate in wholesale and FCAS markets and / or offer network support, either directly or through an intermediary, also remains unclear.

This has implications for the firmness of any such participation. We anticipate that many consumers will continue to use CER primarily to reduce their energy bills and rely on their retailer (or some other intermediary) in some form. This might be as a backup where CER is unreliable or to assist with their exposure to sharp price signals. Moreover, the majority of consumers want to retain substantive control over their CER and their smart appliances. This is consistent with a broad range of studies of consumers' attitudes towards market participation.

As an example, the Commission will be aware of the diverse views and preferences of consumers about their investments in CER and its coordinated utilisation through the findings of Project Edge¹

The demand for energy is a derived demand across all consumer segments so it is important to keep this in mind when developing options for CER use and estimating the volume and timing of their benefits relative to the cost of implementation. As we mentioned in our

¹ Australian Energy Market Operator (2023), *Project Edge: Final Report (Version 2)*

previous submissions to this consultation, Red and Lumo's preference is for a more incremental approach to reform until consumers' preferences become clearer. We view better visibility of CER, common technical standards, a measured and customer focused approach to network tariff reform and increased penetration of smart meters as more foundational measures at this stage of the energy transition.

Multiple FRMPs for large consumers

We remain sceptical of the benefits of this initiative and see some potential for it to undermine, rather than promote competition for this consumer segment. Our concerns about multiple FRMPs go beyond the practical issue of allocating consumer protection measures and relate more to the additional uncertainty that retailers would face about the load they need to manage.

Unless there are measures in place, i.e. Rules or Procedures, that clearly manage the respective risks that each FRMP might face, then some retailers may withdraw from this market. Such risks might arise from gaming by one FRMP to avoid a period of high prices—a situation that the Commission acknowledges—or technical factors, such as equipment or local network failure.

The Commission suggests that competing FRMPs will be able to negotiate suitable contractual arrangements to manage their respective risks, such as the switching of CER between respective FRMPs and the allocation of network costs. This seems impractical. Large consumers generally have unique characteristics and the risks are further magnified if there are more than two FRMPs, as the proposed allow means there could be a different FRMP for each CER. Furthermore, competing parties are unlikely to commence any such discussions until AEMO has implemented the necessary Procedural changes.

Secondary settlement points for small consumers

As with CER more generally, it remains to be seen whether consumers will see any meaningful distinction between flexible and inflexible load and will want to take advantage of what the draft determination will offer. It seems most likely that owners of electric vehicles could use their assets in this way, although we expect that many will continue to view their vehicle primarily as a mode of transport rather than a mechanism for participating in energy markets, even as the penetration of EVs across Australia ramps up. Therefore, we support the voluntary nature of the proposal.

We discuss the issue of implementation below but note that the draft Rules leave much for AEMO to develop through Procedures and this must be factored into the final implementation timeframe. This includes responsibility for setting metering specifications for Type 8 and 9 meters, inspection and testing requirements (under an asset management plan) with supporting guidance and 'common strategies', and meter installation and maintenance.

Implementation

In light of the uncertain scale and timing of the benefits that the draft determination might create—and our preference for a more incremental approach—we encourage the Commission to take a conservative view of the time that the industry will require to implement the proposed measures. We see little need to rush these changes, particularly as they will coincide with other major regulatory initiatives. The most substantial of these is the Accelerated Smart Meter Deployment, which will still be in its early stages in late 2025 and early 2026.

The proposed commencement date of 2 February 2026 would require industry to implement B2M and B2B changes in November 2025, according to the recognised industry release schedule. This does not provide sufficient time for development and implementation. As such, we strongly encourage the Commission to propose a later commencement date, such as later in 2026.

We recognise that the Commission is seeking to leverage existing processes as far as possible. However, implementation will still be challenging due to the broad range of associated procedural changes and the creation of new roles and responsibilities. These will require careful consideration as they will influence the terms under which competing entities interact with each other. As mentioned, it may not be sufficient or practical to rely on contractual arrangements to address all circumstances.

For example, AEMO raised concerns about participants retrospectively changing their market participation status to game the market, noting that this currently occurs under embedded network arrangements and could occur under proposed arrangements for flexible trading. AEMO also notes that periods of power outages, coupled with back-up power flows may lead to settlement anomalies under subtractive settlement arrangements. This scenario may lead to off market power flows within an electrical installation or embedded network to be incorrectly settled in the market.

We encourage the Commission to give more consideration to these issues, both in terms of whether they should be addressed in Rules or Procedures, and the time it might take to finalise and then implement the preferred model. Rule and Procedural changes will also need to account for entities who fall outside their current scope. An example is the use of in-built technology and transfer of data between Metering Coordinators and Original Equipment Manufacturers, and how this aligns with 7.15.4 in the National Energy Rules.

It was also clear from a recent industry forum that the distribution networks see significant challenges with implementation, in light of the Commission's proposal to assign responsibility for establishing and maintaining secondary NMI. The Commission should revisit Energeia's cost benefit analysis, which incorrectly assumes no impact to the distribution networks.

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 draft determination. Please contact Sean Jennings on 0403 846 585 or me on 0438 671 750 if you wish to discuss or have any further enquiries regarding this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read "G Hargreaves".

Geoff Hargreaves

Manager - Regulatory Affairs

Red Energy Pty Ltd

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