Your ref: ERC0346

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Ms Genevieve Schulz
Project Leader, AEMC
Submitted online at: www.aemc.gov.au

Dear Ms Schulz

Submission: Unlocking CER benefits draft rule determination

CS Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC's**) *Draft Rule Determination – Unlocking CER Benefits Rule Change* (**Draft Paper**).

About CS Energy

CS Energy is a proudly Queensland-owned and based energy company that provides power to some of our state's biggest industries and employers. We employ almost 600 people who live and work in the Queensland communities where we operate. CS Energy owns and operates the Kogan Creek and Callide B coal-fired power stations and has a 50% share in the Callide C station (which it also operates). CS Energy sells electricity into the National Electricity Market (**NEM**) from these power stations, as well as electricity generated by Gladstone Power Station for which CS Energy holds the trading rights.

CS Energy also provides retail electricity services to large commercial and industrial customers throughout Queensland and has a retail joint venture with Alinta Energy to support household and small business customers in South-East Queensland.

CS Energy is creating a more diverse portfolio of energy sources as we transition to a new energy future and is committed to supporting regional Queensland through the development of clean energy hubs at our existing power system sites as part of the Queensland Energy and Jobs Plan (**QEJP**).

Key recommendations

The NEM is transitioning to a market with more distributed energy resources including Consumer Energy Resources (**CERs**). The ability to effectively and efficiently manage power system security and reliability against this evolving landscape is paramount, and CS Energy supports developing frameworks that harness the potential of controllable CERs to manage system security and reliability. Further, CS Energy supports CER frameworks that

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enable innovation and enhanced competition in consumer service offerings, which lower costs for all consumers in the long run.

The Draft Paper proposes new arrangements to allow for:

- Multiple energy service providers (i.e., financially responsible market participants (**FRMPs**)) on a single connection point at large customer premises through a secondary connection point and subtractive settlement process; and

- The use of in-built measurement capabilities (e.g. in streetlights and electric vehicle (**EV**) chargers) for settlement and billing instead of requiring the installation of additional meters.

Consistent with our previous submission, whilst CS Energy remains unconvinced that the current proposal would produce a net benefit for large customers due to its complexity and potential unintended consequences, we do agree that the untapped potential of CERs could be significant if frameworks are established to encourage competition without the additional complexities of the current proposal. These CER frameworks would also need to be extended to residential and small business customers.

CS Energy does support introducing arrangements to allow the use of in-built metering capabilities in CERs (including EV chargers) for settlement and billing provided that:

- The minimum service specifications and inspection/testing requirements for the in-built capabilities are fit-for-purpose and less onerous than other meter types to facilitate the use of such capabilities;

- Losses associated with the conversion between alternative current (**AC**) and direct current (**DC**) are appropriately accounted for; and

- The guidelines and rules:

    - Provide sufficient flexibility to accommodate changes in technology, particularly the development of new technologies that may be driven by larger overseas markets; and
    - Ensure that existing FRMPs do not bear the costs of complex system changes to support a new CER aggregator.

<u>Flexible trading model that enables multiple FRMPs for large customers</u>

CS Energy does not support a model that enables multiple FRMPs at a single connection point for large customers. As per previous submissions, the proposed model raises several concerns which demonstrate the potential complexity, inefficiency and unintended consequences of such a model. CS Energy does however encourage the AEMC to consider less complex frameworks that would ultimately allow all consumers to participate.

While the AEMC's consultant, Energeia estimates that the proposed model would result in a net benefit of around $8/device/year compared to the status quo,[1] the analysis doesn't seem to consider the potential additional costs associated with the complexity of the proposed model. These include increased risks in financial hedging and the need to establish more complex arrangements to manage multiple FRMPs (such as billing systems and contractual arrangements). It is likely that Energeia's estimated net benefit would be

[1] Energeia, Benefit Analysis of Load-Flexibility from Consumer Energy Resources: DRAFT Cost-Benefit Analysis, February 2024, p. 6.

largely offset by these additional costs. Further, there are already existing mechanisms that provide a similar level of benefits for a customer's CER at less complexity (hence lower risks and costs) compared to the proposed model. Specifically:

- **Higher costs due to disaggregation of load/generation**

  While the NEM is transforming with a greater uptake of controllable CERs, CS Energy considers this would not alter the fundamental reality that contracting for a greater volume of electricity would be economically more viable than lower volumes. Customers under the flexible trading model would be more costly to serve given the separation of load results in a lower and more unpredictable volume which in turn increases risks in financial hedging and energy forecasting. These risks would be heightened at times of high spot prices and would ultimately lead to higher costs for market participants and customers.

  The ability of customers to switch their controllable resources across FRMPs would exacerbate the above risk by making load/generation even more unpredictable. The Draft Paper notes that such risks could be managed through contractual arrangements between the customer and multiple FRMPs. However, such an approach would lead to increased costs and complexity due to the need to establish more complex contractual arrangements to manage risks under the flexible trading model. Customers generally do not want complex contract arrangements.

- **Unintended consequences of allocating network costs to primary FRMP**

  The proposal to allocate network charges to the primary FRMP would sometimes lead to the inefficient use of CERs in the context of reducing the need for network augmentation. This is because the secondary FRMP has limited incentive to operate the CER in a manner that aligns with the needs of the network as it would not benefit financially from shifting demand from the peak to off-peak network periods. This may lead to higher network costs overall (assuming cost-reflective network charges) and therefore higher bills for customers.

  It is proposed that splitting network charges across multiple FRMPs could be considered as part of a separate future review into the role of network and retail pricing. However, it is worth noting that such an approach will also incur additional costs, which would further reduce any potential benefits derived from the proposed model.

  The AEMC also considers that large customers would have the skills and resources to identify if the secondary FRMP's operations contribute to higher network charges. However, the need for large customers to monitor and manage multiple FRMPs would increase the costs and complexity of the flexible trading model and is not what customers desire.

- **Decision-making based on disaggregated loads risks making customers worse-off**

  CS Energy considers that the proposed model would lead to decision-making that risks making customers worse-off and would not optimise the value of customers' CERs. A site with a single FRMP would have visibility of a customer's entire load/generation (profile) to undertake activities that reduce both energy and network costs by taking advantage of fluctuating spot prices or different peak and off-peak network demand windows (such as through load shifting and discharging or charging of batteries).

In contrast, the flexible trading model would create a secondary FRMP with no visibility of part of a customer's profile or no/limited exposure to network tariffs. This means that the secondary FRMP would likely undertake activities that only make economic sense based on "half the picture".

For example, a secondary FRMP may choose not to reduce demand (through load-shifting) during a network's peak demand window if it deems spot prices to be not high enough. However, a single FRMP with full visibility of the entire site may act differently by reducing demand as the customer would benefit from lower network costs even in the absence of high spot prices. In short, the flexible trading model risks creating an environment where decision-making is based on the incentives of individual (disaggregated) loads that would result in customers not optimising their overall operation and being worse-off. This issue is likely to be exacerbated in the case of large customers, where most of these customers have multiple sites.

- **Existing mechanisms provide similar benefits**

  In some circumstances, large customers may benefit from separate arrangements for their load and generation. However, these customers already have options to do so without necessitating a new mechanism as proposed in the Draft Paper. Key initiatives include behind-the-meter arrangements, the Small Generation Aggregator (**SGA**) (soon to be Small Resource Aggregator (**SRA**)) framework and Wholesale Demand Response Mechanism (**WDRM**). Further, the SGA and SRA frameworks also allow for the contracting of multiple FRMPs.

  These initiatives would likely provide large customers with a similar level of benefits at less complexity (therefore lower risks and costs) and are currently available.

To conclude, the presence of multiple FRMPs at one site would likely increase the complexity and costs for customers, including increased risks in financial hedging and the need to establish more complex additional systems, contractual arrangements and manage multiple FRMPs. This may also lead to greater risks of disputes around billing and responsibilities.

While some customers may benefit (or feel at ease) in engaging with multiple FRMPs, CS Energy considers that large customers would typically prefer a simpler and more holistic approach with a single FRMP having visibility of their entire load/generation, which facilitates better optimisation of the value of their responsive CERs.

If you would like to discuss this submission, please contact Wei Fang Lim, Market Regulatory Manager, at wlim@csenergy.com.au or on 0455 363 114.

Yours sincerely

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