



Ref: ERC0346

11 April 2024

Genevieve Schulz
Project Lead
Australian Energy Market Commission

Submitted electronically via aemc.gov.au

Dear Ms Schulz

Essential Energy's submission on unlocking CER benefits through flexible trading ERC0346–Draft Determination

Essential Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission (the Commission) on its *Unlocking CER benefits through flexible trading* rule change Draft Determination (the Draft Determination). This submission is intended to offer Essential Energy's perspective on the proposed changes.

We broadly support the general principles that underpin the rule change, particularly concerning the integration of innovative energy solutions and enhancing consumer benefits through their consumer energy resources (CER). Nonetheless, we hold reservations regarding the detailed implementation of the proposed changes, specifically:

1. If implemented in its current form, the proposed rule change would have a material cost impact on industry participants. These costs need to be adequately assessed, captured and articulated in a detailed cost-benefit analysis (CBA). At present, the focus of the Draft Determination is on the estimated benefits of the reform package without detailed assessment of the costs to consumers to deliver those benefits.
2. The complexity of the proposed reforms and market-wide impacts require closer consideration and clarification before moving to the Final Determination stage as was evident from the discussion during the high-level implementation design briefing hosted by the Australian Energy Market Operator (AEMO).
3. The proposed implementation timeframes are overly ambitious and leave little room for meaningful testing and planning to be done by industry. We suggest extending the implementation period and adopting a phased implementation strategy.

Essential Energy's views are further detailed below.

Cost of reform

In Essential Energy's view, the Energeia CBA undertaken as part of the rule change process CBA does not fully account for the extensive network costs associated with the Draft Determination's proposals. The Energeia CBA has largely focussed on estimating the quantum of system benefits.

The costs to networks to implement the proposed changes, especially related to system and process upgrades, including to manage new billing arrangements for large Commercial & Industrial customers,

residential and small business customers, and public lighting, have been underestimated, or considered too negligible to account for in the Energia CBA. For instance, the requirement for DNSPs to establish NMI site data for secondary connection points presents a significant challenge that involves substantial system modifications and associated costs.

The AEMO industry briefing on the high-level implementation plan also revealed large number of complexities and potential costs to network and retailer business operational systems, which must be fully explored, documented and costs estimated before implementation. For example, retailers participating in the briefing mentioned that the reforms are likely to require significant changes to retail procedures and consequent system and process changes that have not been accounted for in the Energia CBA. Engagement with networks on the impact to billing systems and the anticipated range of secondary impacts needs to occur in order to understand the end-to-end process and procedure developments needed to implement the reform package.

These costs need to be adequately assessed, captured and articulated in a rigorous manner to ensure that the costs of implementation do not outweigh the potential benefits. Whilst Essential Energy largely supports the principles of the reforms, the CBA provided by the Commission has predominantly focussed on the estimated benefits and not the detail of the costs to be incurred by consumers and industry.

Complexity of reforms and interactions between processes

The *Unlocking CER benefits* rule change touches on several inherently complex areas of operations which interplay between various market and industry processes and regulatory frameworks. This complexity underscores the need for a nuanced understanding of how different reforms interact with one another, potentially impacting both implementation and outcomes.

Some of the key areas identified by Essential Energy where the intricacies of reforms and their interactions warrant careful consideration include:

- > The introduction of secondary settlement points and the requirement to accommodate new meter types necessitates a re-evaluation of the network billing system and, potentially, further investment.
- > The adequacy of existing consumer protections in light of introducing a secondary settlement point, requires detailed consultation. It is critical that consumers are comprehensively educated about the potential risks, and not just potential benefits, tied to the autonomous management of a specific CER asset by a third party. This includes the financial repercussions it may have on other CER assets at their premises. Consideration should also be given as to how customers will know whether CER assets are linked to a secondary metering point when they move into a new premise and whether this will impact how they choose a retailer and the associated retail product.
- > The potential adoption of kerbside electric vehicle supply equipment (EVSE) with in-built metering, while voluntary, intersects with broader considerations of cost-reflective pricing and network service participation.

Each of these intricacies and their potential secondary or tertiary impacts on market and industry systems and processes require due consideration, including those of cost and time for implementation, given the substantial change the reforms represent.

Complexity with the Types 8 and 9 metering.

Aside from complexities and interactions of system processes and procedures noted above, the proposed changes to make Type 8 and 9 meters contestable also raises a range of other issues which need to be fully explored and rigorously costed to ensure that benefits outweigh costs. These include:

- > The impact to manufacturers of consumer goods with in-built measurement capability, including Original Equipment Manufacturers (OEM), of installing a pattern approved meter and assigning a metering coordinator/ meter provider for that purpose. The Draft Determination observes that these

technologies are still in development and the pattern approval process for the new meter types is yet to be confirmed.¹

- > The introduction of Metering Coordinators, Metering Providers, and Metering Data Providers into the domains of public lighting and street furniture introduces significant complexities and issues that warrant further evaluation, noting:
 - This development was unexpectedly introduced without detailed discussion in previous working group meetings. Network businesses with public lighting obligations have not yet had time to consider the full extent of such a proposal.
 - The likely installation of new metering types on network assets raises concerns about access to network equipment, potential costs for third-party access, and the charges that distributors may impose for such access.
 - There is a lack of clarity around who is responsible for testing and monitoring meter accuracy, who is responsible for the central management system and whether there is the potential replication of management systems.
 - The necessity for Metering Coordinators, Metering Data providers and Metering Providers to achieve a return on investment may adversely affect the cost of delivering innovative public lighting services, ultimately burdening all rate payers. This is of particular concern in Essential Energy's network area where there is considerable variation in the relative wealth of Councils.
 - Additional challenges would be faced in New South Wales, where adherence to the Public Lighting Code is imposed by the Electricity Distributor's licence.

Timing of proposed reforms

Essential Energy is committed to facilitating reforms that pave the way for efficient customer outcomes, recognising the importance of aligning with the objectives set out in the *Unlocking CER Benefits* Draft Determination. However, considering the magnitude of the changes identified in the Draft Determination alongside the complexity and volume of concurrent reforms across various regulatory and jurisdictional processes, we find the 2026 implementation deadline to be overly ambitious.

The success of the *Unlocking CER Benefits* reform hinges on synchronised regulatory and procedural amendments across both the AEMC, AEMO and market participants individual systems changes. This integration of changes is substantial, necessitating significant staff resources. Moreover, the proposed tight timeframe risks overlooking minor, yet critical details, during the implementation phase. Such oversights could lead to additional issues or costs in the future, detracting from the intended benefits of the reform.

Reflecting on these challenges, Essential Energy suggests a four-year minimum implementation timeline, akin to the scope and scale of previous initiatives like the *Five-Minute Settlement* and the *Power of Choice* reforms. A more measured and phased approach to implementation would ensure a thorough understanding and integration of the associated costs, operational hurdles, and consumer education.

In addition, by extending the timeline, the AEMC should aim to mitigate undue pressure (and cost) on all stakeholders involved, allowing for a smoother transition and the successful realisation of the reform's objectives without imposing unnecessary burdens. This balanced strategy emphasises Essential Energy's dedication to achieving reform outcomes that genuinely benefit consumers and the energy industry as a whole.

¹ AEMC, Draft rule determination, National Electricity Amendment (Unlocking CER benefits through flexible trading) Rule, February 2024, p.46.

Conclusion

Essential Energy is committed to the principles of innovation and customer empowerment in the energy market, particularly through their CER investments. However, we believe that a more considered implementation framework, which fully accounts for the complexity and costs of the proposed changes, is crucial for the success of these reforms.

If you have any questions in relation to this submission, please contact either of our Regulatory Strategy Manager's: Adam Young at adam.young@essentialenergy.com.au or Anders Sangkuhl at anders.sangkuhl@essentialenergy.com.au.

Yours sincerely,



Hilary Priest
Head of Regulatory Affairs