

11 April 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted via: <https://www.aemc.gov.au/contact-us/lodge-submission> (ERC0346)

Dear Ms Collyer,

Unlocking CER benefits through flexible trading: Draft Determination

Nexa Advisory welcomes the opportunity to provide a submission on the Australian Energy Market Commission (AEMC) Draft Determination: Unlocking Consumer Energy Resource (CER) benefits through flexible trading rule change.

We support the AEMC draft determination to apply flexible trading arrangements voluntarily to both large and small customers. Furthermore, we appreciate the draft's emphasis on large customers, who are better equipped to navigate the complex contractual requirements resulting from multiple Financially Responsible Market Participants (FRMPs) at a single connection. Large customers¹, have the potential to provide measurable flexible capacity to both wholesale markets and Distribution Network Service Providers (DNSPs), enabling meaningful compensation.

In principle, we also support the AEMC draft determination to limit the number of FRMPs for small customers to one, where the small customer opts to have multiple meters (National Metering Identifiers, NMIs) to separate inflexible and flexible loads as this reduces complexity for small customers. However, we believe that resolving this matter requires innovative services and business models, which would be best addressed by new energy service providers and retailers, rather than complex metering arrangements.

Our submission delves into the barriers hindering the potential of Customer Energy Resources (CER) to offer flexibility services to Distribution Network Service Providers (DNSPs) or system support services and energy to the wholesale market.

While the current rule change partially tackles the issue of CER visibility, granting some entities access to customer data related to CER through additional metering, more comprehensive measures are necessary to fully maximise CER flexibility and ensure that consumers reap the rewards of their investments. This entails addressing additional barriers to unlock the full potential of CER.

Retail competition and innovation

Retail competition and innovation are vital aspects of the energy sector, particularly with the emergence of CER. CER empowers customers to manage their energy costs by generating and consuming their own electricity, thereby reducing dependence on traditional retailers and

¹ Defined as those consuming 100 MWh per year in QLD and 160 MWh in other states

conventional service models. It disrupts established retail markets and necessitates the development of new, innovative business models to accommodate its flexibility and potential.

While smaller energy service providers are entering the market, many struggle to thrive within the existing retail ecosystem. The recent energy crisis witnessed numerous newer retailers exiting the market, highlighting the challenges faced by smaller retailers².

Both traditional retailers and new energy service providers play pivotal roles, yet the current regulatory framework often favours incumbents, limiting the evolution and competitiveness of new entrants. There is a need to reassess the roles of traditional and innovative players in the energy retail landscape.

Competition and innovation are essential for fostering a decentralised energy future and supporting the flexibility offered by CER. Addressing market power imbalances in the retail sector is crucial to ensure that customers have access to a diverse range of innovative services and solutions.

Enhancing CER data and transparency

One of the primary reasons for deploying additional meters for flexible CER is to grant the Australian Energy Market Operator (AEMO) visibility of these assets. However, we endorse the AEMC's decision to mandate the sharing of secondary meter data beyond AEMO and the retailer, facilitating the provision of data to the DNSP for more efficient operation and management.

To foster new innovative business models for flexible CER and promote competition, it is imperative that DNSPs publicly share all network operational data. The current Distribution Annual Planning Report (DAPR) no longer provides adequate information on the needs of the distribution network, as it focuses on zone substations at higher voltages rather than offering insights into the low voltage network, where CER connections are made.

A new mandate should be established requiring DNSPs to share data, either through (jurisdictional) licensing conditions or through a rule change (e.g., Schedule 5.8), which would compel networks to share their operational data.

Further, solving the complex issue of energy performance in Australian homes requires active consumer involvement, yet the current governance framework and work programs lack consumer-centric approaches³. Existing regulatory approaches have not garnered consumer trust. To enable meaningful consumer participation in the energy market, access to real-time energy data and transparent network information is crucial. While the Consumer Data Right⁴ addresses historic data access, issues regarding customer data access by authorised agents for innovation and customer-led services remain unexplored. Real-time energy consumption data, collected by smart meters, is not readily accessible to customers, hindering their ability to manage usage effectively⁵.

Immediate access to real-time energy use data empowers customers to make on-the-spot decisions to reduce energy consumption, providing insights into individual technologies. Without this insight, customers rely on post-usage bills, limiting their capacity to manage usage effectively. It is essential to consider that certain entities, like traditional utility networks and energy retailers, may not

² Electricity retailers under pressure as contract markets tighten and prices rise further | ACCC

³ <https://www.iea.org/commentaries/accelerating-energy-efficiency-what-governments-can-do-now-to-deliver-energy-savings>

⁴ <https://www.cdr.gov.au/>

⁵ <https://www.iea.org/commentaries/distributed-energy-resources-for-net-zero-an-asset-or-a-hassle-to-the-electricity-grid>

benefit from reduced customer demand. Careful provider selection for energy performance programs and empowering customers with data access is crucial.

We acknowledge that the AEMC is currently reviewing access to data through the smart meter deployment rule change proposal (ERC0378⁶). The implementation of the flexible trading rule change is closely tied to the progress of the smart meter deployment rule change.

Although the commencement of any smart meter deployment is expected around July 2025, the necessary adjustments to AEMO, retailer, and DNSP procedures for both the smart meter and flexible trading rule changes demand ample time for consultation on procedures and internal business adaptations. Therefore, aiming for a February 2026 start date for the flexible trading rule change is ambitious.

Consideration should be given to the commencement dates of current rule processes and ensuring that related consultations and accommodating business needs are achieved in a way that minimises risk or the need to change commencement dates at a late stage.

Network Tariff reform is essential

While the DNSPs are working to develop Dynamic Operating Envelopes (DOE) and Flexible Export Limits (FEL), little innovation on network tariffs has been undertaken.

DNSPs have trialled a number of tariffs, but currently none of the DNSPs are offering a specific electric vehicle (EV) tariff, this even though specific network related tariffs for EVs are likely to be more successful at managing EV charging than direct control of customers' EV charging⁷. Most DNSPs are offering "solar soaker" tariffs, but these are offered alongside tariffs for using the distribution network for export⁸, while tariffs for exporting during peak demand are not symmetrical with the charges to export to the network.

Only one network has trialled dynamic network tariffs to facilitate provision of responsive services from customers⁹. These cost reflective time-of-use tariffs are creating opportunities for DNSPs to manage their networks more cost efficiently and opportunities for aggregators and customers to mobilise flexibility from CER.

Given the limited innovation in network tariffs and the critical role of network tariffs in facilitating participation from CER, further work is needed to ensure DNSPs are developing approaches that will support CER engagement.

The Electricity Network Economic Regulatory Framework (ENERF) review was an important annual undertaken by the AEMC at the request of the then Council of Australian Governments (COAG) that allowed industry stakeholders to explore key issues in the rapidly evolving distribution network arena¹⁰. However, following the delivery of the 2020 ENERF review, further work on ENERF was suspended by the AEMC¹¹.

⁶ <https://www.aemc.gov.au/rule-changes/accelerating-smart-meter-deployment>

⁷ <https://aibe.uq.edu.au/files/10275/UQ-CHARGE-EV-Project-Final-Report.pdf>

⁸ <https://www.aemc.gov.au/rule-changes/access-pricing-and-incentive-arrangements-distributed-energy-resources>

⁹ <https://cdn.ausgrid.com.au/-/media/Documents/Reports-and-Research/Project-Edith/Project-Edith-2022.pdf?rev=eecbc81dcb9d4bc39d79362f8365de42>

¹⁰ <https://www.aemc.gov.au/sites/default/files/content/0145c0d9-68d9-41d3-9c88-913fea8e548c/Electricity-networks-economic-regulatory-framework-review-approach-paper-FINAL-FOR-PUBLICATION.pdf>

¹¹ <https://www.aemc.gov.au/sites/default/files/content/0145c0d9-68d9-41d3-9c88-913fea8e548c/Electricity-networks-economic-regulatory-framework-review-approach-paper-FINAL-FOR-PUBLICATION.pdf>, page 4

The ENERF review should be reinstated as a priority to explore the approaches and regulatory frameworks needed to underpin DNSPs facilitating greater CER deployment and participation, including network tariffs.

Customer protections

As the AER identified in its November 2023 report¹², the National Energy Customer Framework (NECF) which regulates the sale and supply of electricity and gas to retail customers are no longer fit for purpose. New energy services and innovation are restricted as these overly onerous obligations placed on Retailers and service providers have not evolved to support the new energy consumer and service innovation. More importantly, these rules do not adequately cover the new energy consumer protections needed. Given the potential complexity of the proposed flexible trading arrangements, for both large and small customers, care will be needed to ensure that customer protections evolve with the complexity of retail arrangements.

Building on AER's and ESB's¹³ earlier work, both the AEMC and AER, should urgently prioritise the establishment of a principle based regulatory customer protections framework that will provide the necessary protections to customers as their role in the electricity system transforms. A principle based regulatory approach, similar to the voluntary New Energy Technology Customer Code (NETCC)¹⁴ but with a focus on energy services and energy service providers, rather than CER hardware retailers. Any new framework would need to be mandatory and have appropriate governance arrangements to ensure it is enforceable. This may be best delivered as a phased NECF reform package with CER-related new energy consumer services a key initial priority.

Thank you for the opportunity to provide input on the Draft Determination. We would welcome the opportunity to discuss any aspects of our submission further. Please contact me, if you need further information.

Yours Sincerely

Stephanie Bashir
CEO and Principal
Nexa Advisory

¹² <https://www.aer.gov.au/system/files/2023-12/AER%20-%20Review%20of%20consumer%20protections%20for%20future%20energy%20services%20-%20Final%20advice%20-%20November%202023.pdf>

¹³ <https://www.energy.gov.au/sites/default/files/2024-02/ESB%20report%20-%20CONSUMER%20ENERGY%20RESOURCES%20AND%20THE%20TRANSFORMATION%20OF%20THE%20NEM.pdf>

¹⁴ <https://www.newenergytech.org.au/>