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Submitted Online

ERC0378 Directions Paper Accelerating Smart Meter Deployment

I refer to your directions paper seeking stakeholder input on enhanced customer safeguards for the Accelerating smart meter deployment rule change and provide thanks to the Australian Energy Market Commission (AEMC) for the for the opportunity to provide feedback.

1st Energy is a non-integrated, second-tier electricity and gas retailer for residential and SME customers. Founded in April 2015, 1st Energy operates throughout the eastern states of Australia including New South Wales, Queensland, South Australia, Tasmania, and Victoria.

The AEMC have proposed two additional consumer safeguards:

1. Customers must give their explicit informed consent for any changes to retail tariffs, for three years after a smart meter deployment.
2. Designated retailers would be required to offer all customers for which they are the designated retailer a standing offer flat tariff.

As an energy retailer, we acknowledge the importance of the deployment of smart meters to enhance the efficiency and reliability of energy services. Fundamentally we are supportive of elements of the proposed additional safeguards however, we strongly believe that the current proposal to allocate risks differently between distributors and retailers does not account for the intricacies of the energy market and may lead to unintended consequences.

The proposal suggests that energy retailers should bear a different level of risk compared to distributors. We argue that this approach overlooks the interconnected nature of our roles in the energy supply chain. Both distributors and retailers are crucial to the successful deployment and operation of smart meters. Imposing asymmetric risks could distort market incentives and discourage innovation from retailers, who play a key role in customer engagement and service delivery. Differentiating risk between distributors and retailers may lead to a competitive imbalance in the energy market. Retailers already operate in a highly competitive environment, and additional risks could exacerbate financial pressures, particularly for smaller retailers. This could lead to market consolidation, reducing consumer choice and potentially stalling innovation in smart metering services.

Retailers are at the frontline of consumer interaction. Our ability to foster trust and engagement is crucial for the widespread adoption of smart meters. Consumers are more likely to accept and benefit from smart meters when they receive clear communication and assistance from their energy retailer which is supported by consistent messaging across the industry promoting the uptake of cost reflective tariffs. It is our view that by allowing customers to opt in to the retail tariff we are disincentivising customer take up and encouraging customer inertia however, we recognise that smart meters and new tariff regimes are complicated and can require a high level of technical knowledge and many people have a limited capacity to realise the benefits. This suggests a further misalignment in government policy of forcing the accelerated roll out of smart meters and we submit more time and resources is required to educate households.

The National Electricity Rules (NER) require distributors to gradually make their tariffs more accurately reflect the cost of serving their customers over time and a key aspect of the overall pricing objective is that network prices should be free from cross-subsidies. Unless network tariffs reflect the cost to supply the network service, some customers will pay less than their fair share while others will pay more. These cross-subsidies are effectively hidden when customers pay the same rate under a flat or block network tariff, regardless of what time of the day they use their energy and do not send the right signal to consumers. Furthermore, the network tariffs are approved by the Australian Energy Regulator (AER) who must consider the proposed tariffs to be appropriate for consumers and we are concerned that the AEMC considers it appropriate for retailers to manage these cost risks by taking a "portfolio approach". Setting prices that are from free from cross-subsidisation aligns with the principle of economic fairness and efficiency and ensures vulnerable customers are not unfairly treated.

The Tariff Structure Statement (TSS) process provides retailers with visibility of a distribution business' proposed tariff structures in advance of them taking effect. This process allows retailers to develop better business strategies for managing their input costs and to price retail offers for consumers. Whilst retailers may choose how they pass network tariffs onto consumers we consider that a prudent retailer will follow the network tariff structure to manage their pricing risk appropriately. In our view the retainment of a flat network tariff for customers that are reluctant to change retail tariffs would be a more equitable outcome for all participants.

The proposed additional consumer safeguards remove the ability for retailers to adequately manage their risk pricing profile, the misalignment of the customer usage profile and the network usage profile leaves retailers exposed for the greatest portion of a customer's bill and we would expect a risk premium will need to be factored in when setting the jurisdictional flat tariff offers. We would like to understand how the AEMC would propose an appropriate flat tariff could be introduced for 01 January 2025 in the Default Market Offer (DMO) jurisdictions when the DMO has already been set for the current regulatory period of 2024-2025. Moreover, we have not had the opportunity to factor in the pricing risk we will be exposed to in our current portfolio.

We do not believe a 01 January 2025 implementation timeframe is realistic given the overall scope of the proposed changes. Our billing system is designed to align the retail and network tariffs and any amendments to these processes will require significant development and implementation costs which will require a minimum six-month lead time to implement. Our experience to date has shown rolling out smart meters is resource and time intensive, and we are concerned about the additional administrative burden retailers will now face.

It is likely that without a coordinated communication strategy or a regulatory mandate retailers will struggle to obtain explicit informed consent to change a customer's retail tariff. Additionally, the proposed changes require a retailer to include an estimate of what the small customer's historical bill would have been under the proposed new tariff and charges, compared to the bill that the customer received under the existing tariff and charges (to the extent that the small customer's smart meter data is available). Without a smart meter being installed at a premise, a retailer and therefore a customer cannot accurately determine the financial impact. Consideration could be given to the creation of time-of-use usage profiles which retailers and customers could avail themselves of and be made available via the Energy Made Easy website.

We advocate for a framework where risks and responsibilities are shared equitably between distributors and retailers. The regulatory framework should support a balanced risk allocation that reflects the roles and contributions of both retailers and distributors. We urge the AEMC to reconsider

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the current proposal and work towards a more equitable distribution of risks and to conduct a further regulatory impact analysis to understand the cost impost to retailers and ultimately consumers. This will not only ensure a successful deployment of smart meters but also sustain a healthy and competitive energy market that ultimately benefits consumers.

In conclusion, while we fully support a smart meter deployment, we believe that the risks associated with this transition should be distributed fairly across all market participants. An equitable approach will foster greater collaboration, innovation, and consumer trust, ensuring the long-term success of smart metering in Australia.

For any queries regarding this response, please contact Aneta Graham, Head of Regulatory and Compliance, aneta.graham@1stenergy.com.au 03 8397 7147.

Yours sincerely

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