12 September 2024

Mr Drew Butterworth - Director
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Via online lodgement – www.aemc.gov.au

Dear Mr Butterworth,

Directions Paper – Accelerating smart meter deployment rule (ERC0378)

Alinta Energy welcomes the opportunity to respond to the Australian Energy Market Commission's directions paper for the National Electricity Amendment (Accelerating Smart Meter Deployment) Rule. Alinta Energy strongly supports the deployment of smart meters to support new products and services for our customers. As a joint rule proponent, the making of effective and efficient rules governing an accelerated roll out is key to meeting the objectives of the roll out in alignment with the National Energy Objective.

The Commission has recognised the importance of community acceptance and identified additional consumer protections to support the accelerated deployment of smart meters. However, while these safeguards may achieve the goal of facilitating the accelerated roll out of smart meters, they will create short and long-term negative consequences for consumers, retailers and distribution network service providers that will distort the market and diminish the benefits of the roll out.

While Alinta Energy welcomes the consideration of how cost-reflective network tariffs are designed and assigned as part of the Commission's *Electricity pricing for a consumer-driven future* review (the review), given the review is focused on how the market and regulatory frameworks can support the provision of products and services that best match consumer preferences now and in the future, introducing the proposed safeguards in the absence of completing this review would be highly counterproductive. Notwithstanding this, the safeguards proposed in the directions paper will have negative impacts on the long-term interests of consumers until further reforms are made.

1. <u>The current process was not questioned during the review to support an accelerated roll out</u>

Historically, most retail tariffs have reflected the underlying network tariff structure. This practice is not recent and has been successful in sending efficient price signals that are cost-reflective, help to manage network demand and capacity and generally align with wholesale market fluctuations. In Victoria, where smart meters have been fully deployed, new customers, customers installing solar PV systems and customers who were previously assigned a legacy cost-reflective network tariff frequently assigned to the respective residential and small business time of use network tariff, and typically corresponding retail tariff, structures. This has been uncontroversial and the Victorian DNSPs have adopted the same network TOU of use structures that are intuitive and have reduced network tariff proliferation for retailers. Historically, the Commission, the Australian Energy Regulator, policy makers and Governments have all endorsed the pass through of cost-reflective network tariff signals.

The case for additional safeguards, where the standard practice of assignment and reassignment to cost-reflective network tariffs following a meter upgrade has been in place for decades has not been made. Extensive consultation during the Review of Regulatory Arrangements for Smart Meters provided

the opportunity to examine tariff assignment issues in depth. While it is acknowledged some customers have raised concerns after being assigned to demand tariffs, the proposed safeguards present material implementation costs for retailers and were not anticipated until announced publicly. The detail of the safeguards will not be known until the Rule is finalised in late November 2024. This provides retailers with an unprecedented short period of time to implement complex changes to systems and EIC processes, including over the holiday period, and will require the allocation of additional costly resources to attempt to meet the effective date of the safeguards.

In any case, given the uncertain nature of the final safeguards that will be included in the final rules, it is highly unlikely that the majority of retailers would be able to implement the new requirements by January 2025. If the proposed safeguards are adopted, they should not be in force until April 2025 at the earliest. The proposed safeguards will also add complexity and cost to the roll out, which will ultimately be borne by customers.

2. Cost-reflective network and retail tariffs were promoted by regulators and governments

In general, retailers have been supportive of the introduction of cost-reflective network tariffs, an outcome that has been required of DNSPs by the AER. Cost-reflective tariffs can benefit all customers through the unwinding of cross-subsidies and increasing the efficiency of investment in the network.

While a variety of TOU tariffs have been applied by DNSPs for many decades, recent concerns relating to cost-reflective pricing has been driven by demand tariffs.

The additional safeguards proposed in the directions paper will significantly erode efforts to unwind network cross-subsidies (frequently borne by more vulnerable customers) and the policy direction that retailers along with DNSPs have supported in good faith for many years. The proposed safeguards place the burden of risk on retailers, as they do not include a provision for retailers to seek a matching network tariff structure from DNSPs (for example, a flat tariff), who are not obligated to make such a structure available. Retailers are unable to hedge against network tariff structures and those customers who may benefit from cost-reflective tariff structures, but do not opt-in under the first safeguard through explicit informed consent, may find themselves substantially worse off at the end of the three-year period.

The second safeguard, subject to jurisdictions opting in under the National Energy Retail Law, requires designated retailers to offer a flat retail tariff under a standing offer and standard retail contract. This will further preserve cross-subsidies, result in higher costs for customers assigned to this standing offer and impact upon competition, which is discussed further below.

There has been limited education provided to the community on smart meters and the implications on tariff choice from independent sources (including Governments), despite calls for such initiatives during the *Review of the regulatory framework for smart metering services.* Alinta Energy wrote in our submission to the review's directions paper (in October 2021) that:

> Independent advice and education on advanced meters may be a role that state governments could involve themselves in as independent from the energy sector.[1]

While we understand that the Commission is collaborating with Energy Consumers Australia on an education program for customers in relation to smart meters, we are concerned that given already tight timeframes and the rapid growth in meter deployments, that the value of an education program to provide quality information to the public on the roll out at this point in the rule change process has been compromised. Furthermore, the information provided needs to be consistent with Meter Provider, retailer and DNSP processes to avoid further confusion for consumers.

3. The proposed safeguards will materially impact competition and customer choice

The additional safeguards are also likely to impact retail market competition. Once a customer has determined to not opt-in via EIC to a cost-reflective tariff structure, they may be less inclined to seek out more competitive offers, product and services for a three-year period. Retailers will need to develop

[1] Alinta Energy (2021), submission to the *Review of the regulatory framework for smart metering services*, page 8. See: www.aemc.gov.au/sites/default/files/2021-11/Rule%20Change%20Submission%20-%20EMO0040%20-%20Alinta%20Energy%20-%2020211028.PDF

systems to support the management of customer preferences during the three-year period and update these as customers transfer to other retailers. Commentary on this issue has generally been predicated on the inherently false assumption that all customers will be worse off from the tariff change. Alinta Energy is concerned that the requirement to opt-in will act as a barrier and/or disincentive for those who would benefit from the tariff change, including those that would respond to the price signals, from realising those benefits.

The impact on the current determination of the Default Market Offer adds further uncertainty and risk to consumers, retailers and the choices available to electricity customers. A significant number of meters will be installed in the second half of the 2025 financial year. The current DMO determination does not account for customers remaining on flat retail tariffs but their retailer being billed on a TOU or demand network tariff. Given the potential for both safeguards to encourage customers to adopt a standard retail contract with a flat tariff structure, this issue presents a risk to retailers that will grow until the DMO reflects the disconnect between retail prices and assigned network tariffs.

4. <u>The issues raised by the proposed safeguards should be addressed under the proposed review</u>

As part of the Commission's review, we would, as a result of the additional safeguards put forward in the directions paper, strongly support changes to the way DNSPs assign and reassign network tariffs and ensure that a consumer preference for a flat tariff is reflected back through the supply chain to include network tariff structures. This will maintain continuity between retail and network tariffs and allocate the risk of managing network tariff structures appropriately.

Proposed solutions to address concerns identified

Rather than adopting the changes put forward in the directions paper, we suggest a simpler, lower-cost solution that would support the objectives of the rule change, allocate risk appropriately, and build community acceptance while allowing the continued deployment of smart meters on an accelerated basis:

1. <u>Resolve network tariff assignment issues through the review</u>

   The comprehensive nature of the review offers the opportunity to examine the role and relationship between network and retail tariffs and the appropriate allocation of risk between DNSPs and retailers, as highlighted by the Commission on page 13 of the directions paper. This should consider codifying the right for retailers to request a network tariff that corresponds to the retail tariff structure offered to, and chosen by, the customer, including a flat retail and corresponding network tariff if that is the customer's preference.

2. <u>Delay the reassignment of network tariffs on an upgrade from a basic to a smart meter until the review is completed</u>

   Alinta Energy has observed an increase in customer complaints regarding network tariff reassignments following the installation of a smart meter. Customers on a flat network tariff are reassigned a demand or TOU network tariff because of their meter upgrade. This is the root cause of recent customer concerns raised in the media.

   This outcome can be avoided entirely if the AER allowed DNSPs to maintain a flat network tariff when a smart meter is installed. This solution does not require a change to the rules or the draft rule and will address the following:

   - Demand tariffs, in particular at the small customer level, do not address any specific or localised constraints at present. The need to send demand signals to small customers is also unclear.
   - Under the proposed safeguards, customers that do not provide EIC cannot respond to the signals provided by demand and TOU network tariff structures even if they wished to.
   - The benefit from a moratorium on DNSP initiated tariff reassignments outweighs the significant cost and administrative effort involved in all retailers establishing and tracking a new EIC process by January 2025. This new process and the costs associated with it must be replicated for dozens of authorised retailers, when a moratorium on tariff reassignment

would impact a handful of distributors;

- There is an increased risk of higher energy costs associated with the smart meter roll out, which is driven by the need to increase flat retail tariffs to manage network pricing risk.
- There is a potential negative impact on electricity retail market competition and consumer choice, where a customer remains on a flat retail tariff or elects a standing flat tariff offer from their designated retailer for the three-year period.
- Network tariffs are, or should be, revenue neutral under a revenue cap. Therefore, DNSPs should be indifferent to a customer assigned to a demand, TOU or flat network tariff in terms of cost recovery.

For the reasons outline above, Alinta Energy strongly supports a moratorium on DNSP initiated tariff reassignments to cost-reflective network tariffs. This is a simple, alternative solution to the safeguards proposed in the directions paper that could be resolved quickly through the AER and remains in place until the Commission's review and recommendations are implemented. The advantages of this approach far and unequivocally outweigh any negatives.

In the meantime, the Commission's review will offer the opportunity for customer preferences in relation to network and retail tariffs to be better understood in the context of the energy transition and growing role of CER.

Alinta Energy would welcome further discussion of this response with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely

Graeme Hamilton
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