12 September 2024

11 Newton Street
Cremorne
VIC 3121

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Reference: **ERC0378**

Dear Ms Collyer and colleagues

Directions Paper - Customer Safeguards – Accelerating Smart Meter Deployment

Energy Locals Pty Ltd (ACN 606 408 879) (**Energy Locals**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (**AEMC**) in relation to the Directions Paper on proposed customer safeguards in the accelerating smart meter deployment rule change (**Directions Paper**).

Energy Locals is an authorised electricity and gas retailer that supports customers directly as well as via partnerships with newcomers to the energy retail sector, such as RACV, Indigo Power, IO Energy, Tesla, and others.

While Energy Locals is generally supportive of accelerating smart meter deployment, we're extremely disappointed with the AEMC's continued attack on retailers, insisting that they must bear the cost and commercial risks associated with the deployment. Issues that were raised in our initial submission have been acknowledged, and simply passed back to us to absorb and manage, with no market support. From our perspective, this is not in the best interests of the market, and therefore consumers in general.

In this submission, we have outlined a number of limitations with this proposal:

- The inability for retailers to pass on network costs will result in the burden of these costs falling on retailers, which is not a fair allocation given the complexities of, and numerous other participants in, the national energy market.
- The implications on retailers have not been sufficiently analysed and the anticipated consumer uptake of cost-reflective tariffs is speculative.
- Customers remaining on a flat tariff is inconsistent with key policy aims of the smart meter roll out given that customers remaining on flat tariffs will have no incentive to adjust their usage patterns.
- While allowing customer choice is important, these reforms may adversely impact competition in the market.
- The three-year period of explicit informed consent (**EIC**) is excessive.
- Implementing these consumer safeguards is resource intensive and adds to the high-cost burden already faced by retailers as part of the smart meter roll out, with no immediate financial benefit.

1. Importance of reflecting network costs

In our previous submission, we stressed the importance of retailers being able to pass on network costs given this is not something a retailer has any control over.

While retailers do have discretion whether to reflect network tariff structures in their offers, given the sheer number of meter replacements that will occur over the acceleration period, retailers will be at a considerable commercial disadvantage if they are unable to pass on network tariffs to customers. We raised this concern in our previous submission, and we think it is important to reiterate. A prudent retailer will pass on network tariffs to appropriately manage pricing risk.

In commenting on the inability of retailers to pass through a network tariff structure to the customer via a retail tariff structure, the AEMC has advised that retailers can "*manage these risks by increasing retail price levels*".[1] Not only is this counterintuitive to the aim of protecting consumers, but it also is not a practical solution given the competitiveness of the market. Similarly, it is not aligned to the current methodology used by the Australian Energy Regulator (**AER**) to calculate the Default Market Offer (**DMO**).

The difficulties in managing a risk profile will also add to the financial pressures that smaller retailers already face. In this regard, we encourage the AEMC to consider that many retailers, particularly smaller retailers, operate within a small margin due to the costs associated with customer acquisition and churn that can be more easily absorbed by retailers with larger customer bases. The AEMC must carefully consider this, particularly, in light of the number of smaller retailers collapsing and leaving the market in recent years.[2]

2. Inappropriate risk allocation

The AEMC has outlined that they considered, but elected not to, change existing network tariff arrangements.

The AEMC's reasoning is that:

> "*reforming network tariff arrangements through this rule change process would require detailed work and comprehensive consultation, risking delays to the accelerated smart meter rollout and the corresponding benefits to customers of accessing smart meters sooner."*[3]

While we acknowledge the above, we consider this fast-track process further highlights our concern that the implications for retailers, notably the implications on managing pricing and risk, have not been through an appropriate level of "*detailed work and comprehensive consultation"*. We would like to understand further why the AEMC feels it is appropriate to protect the networks through this process, but not the retailers.

Energy Locals also considers that the full extent of the burden on retailers may not be known until the first year of the acceleration period. The number of customers who will elect to provide consent to change tariffs is speculative. The AEMC has advised that they anticipate that many customers will still prefer to take advantage of cost-reflective retailer pricing even when they have the choice to remain on a flat tariff.[4] We would like to understand further what assessment the AEMC has performed in reaching this position.

In outlining potential options, the AEMC also considered that an opt out approach was not appropriate given that many customers do not engage with their bills, which seems like a contradiction of the previous point.[5] This is a clear recognition that many customers are disengaged, which reiterates our point that many customers will not choose to provide EIC and retailers will bear the risk of managing imbalanced network costs.

3. Commitment required from the AER to ensure costs are reflected in the DMO

Further to our previous submission, we again reiterate the need to obtain a commitment from the AER that all reasonable retailer costs for implementing the smart meter roll out will be factored into the DMO. This is imperative if the safeguards are to be implemented to ensure that retailers can offer competitive prices while recovering any cost imbalances from demand and flat tariffs.

In this regard, we would like to understand, if the additional safeguards do commence on 1 January 2025, whether there will be adjustments given that the DMO for 2024-2025 has already been set.

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[1] AEMC, Accelerating smart meter deployment, Directions Paper, 15 August 2024, p.11.
[2] Macdonald Smith, Angela "Energy crisis claims next retailer", AFR, 21 June 2022 [online] available at <https://www.afr.com/companies/energy/energy-crisis-claims-next-retailer-20220621-p5aveo>
See also, Hannam, Peter "More electricity retailers likely to fail, resulting in less competition and higher prices" The Guardian, 23 June 2022 [online] available at <https://www.theguardian.com/australia-news/2022/jun/23/more-electricity-retailers-will-likely-fail-over-the-next-year-resulting-in-less-competition-and-higher-prices>
[3] AEMC, Accelerating smart meter deployment, Directions Paper, 15 August 2024, p.13.
[4] Ibid, p.11.
[5] Ibid, p.11.

4. **Inconsistent with objectives of reform**

While we understand the intent of the proposed changes to ensure consumer choice, we question the logic of customers having a smart meter but not being on a cost reflective tariff. This is inconsistent with a key reason the smart meter roll out is being progressed in the first place, that being to place "*consumers at the forefront of the transition to net zero.*"[6]

We agree with the AEMC's acknowledgment that:

> *"Cost-reflective network tariffs are important in supporting DNSPs to effectively build and maintain the network at an efficient price for consumers. This is particularly important in the context of the growing prevalence of CER, such as electric vehicles, which will have a material impact on consumer consumption patterns."*[7]

However, if these reforms progress, many customers will be on flat tariffs with no incentive to adjust their usage patterns. If there is no change in usage patterns, not only will the networks not see the benefit of cost reflective tariffs, which may prompt the requirement for more network investment and lead to higher energy prices, retailers will foot the commercial impact, as outlined, in the interim period.

5. **Three-year period of EIC**

The rationale for the three-year period is that it will enable customers to make informed decisions based on the accumulation of energy usage data and consumption patterns.[8] However, we consider the three-year period to be excessive. A one-year period is sufficient to enable the customer to understand seasonal differences for consumption and to make an informed choice without 'bill shock.'

Similarly, this safeguard could actually have the effect of reducing competition. Given that the three-year period does not continue to apply if a customer changes retailer (meaning a customer must remain with their current retailer to keep a flat rate offer), there may be limited incentives to switch plans.

6. **Resource intensive/ costs**

The AEMC has suggested the new requirements contained in the Directions Paper will provide stronger incentives for retailers to provide customers with detailed and useful information explaining how they may be able to benefit under a proposed new retail tariff structure.[9] This includes a new requirement, when moving customers to new retail tariff structure, to provide an estimate of what the customer's historical bill would have been under the new varied retail tariff structure, compared to the bill they received under their existing tariff. While we always like to engage with our customers and endeavour to keep them informed with frequent communication, it is important to acknowledge that implementing this specific functionality will add to the resource burden for retailers in connection with the smart meter rule changes.

Further, in our previous submission we raised concerns that delivering against the Legacy Meter Replacement Plans will likely require significant resource allocation and upgrades to retailers' internal systems. A key cost and resourcing burden will be coordinating adjustments to systems to automate notices. We rely heavily on systems to deliver efficient communications to customers and these systems require intricate changes to be made to avoid unintended issues, such as interfering with other forms of critical customer communication (including life support related correspondence). Liaising with customers to confirm EIC (and to provide the communications on the benefits of cost reflective tariffs that the AEMC has proposed) adds an additional layer which will be resource intensive.

While the costs of implementing such changes, may not be noticeable for Tier 1 retailers, it will be felt by smaller retailers. Given the proposed new safeguards are in addition to existing changes identified in the earlier draft determination, the estimated costs we provided in our previous submission[10] will be further heightened.

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[6] https://www.aemc.gov.au/news-centre/media-releases/aemc-moves-accelerate-smart-meter-rollout-australians
[7] AEMC, Accelerating smart meter deployment, Directions Paper, 15 August 2024, p.11
[8] Ibid, p.10.
[9] Ibid. p.iii.
[10] Energy Locals submission to the AMEC on the "Draft rule determination – National Electricity Amendment "Accelerating Smart Meter Deployment) Rule, 30 May 2024.

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7. **Timeline for implementation**

In finalising the rules, we urge the AEMC to consider achievable timeframes and note that 1 January 2025 is overly ambitious. At a minimum, these safeguards should not commence until 1 July 2025 alongside the other proposed requirements in the draft determination. All rules that relate to interactions with customers should commence at the same time to ease the burden on retailers and to assist with system upgrades.

As raised previously, given the significant demands the smart meter rule changes will place on retailer resourcing, retailers require as much notice as possible on the confirmed rules to enable retailers to adjust system capabilities. In this regard, given the delays in this reform, Energy Locals has been reticent to commence system improvements before there was a clear position on requirements.

8. **Alternate options to the proposed two consumer safeguards**

If the AEMC elects to progress these safeguards, they should only apply to residential customers. The subset of customers who are unable to adjust their usage patterns, and therefore would benefit from a flat tariff, are likely to be residential customers. A business should be able to afford to monitor and understand cost reflective tariffs.

Energy Locals considers that the proposal could work in principle if, for at least three years, retailers are able to roll customers back to their previous network tariff code within a reasonable period of time (the 'safeguard period'). In this situation, networks would continue to charge retailers for the network tariff the customer has opted for, until either (a) the customer opts for an alternative available network tariff, or (b) the expiry of the safeguard period. This will ensure the risk remains with the people who can manage it: the networks. However, this is still a highly sub-optimal solution given that it would likely lead to higher overall network investment being required and in turn, that additional cost would also be borne by customers who were already on cost-reflective tariffs.

In summary, while Energy Locals supports the acceleration of smart meters and recognises that retailers play a key role, we strongly urge the AEMC to reconsider the current proposal in the Directions Paper. The AEMC must recognise the importance of appropriately allocating risks between retailers and distributors. We find it professionally disappointing and concerning that the AEMC has actually launched a supposedly serious consultation over a thought bubble that would allow the expansion of cost-reflective tariffs in a way that suppresses price signals from customers whose usage patterns determine the level of network investment required. Indeed, we find the proposal so one sided that it leads us to question the AEMC's true level of independence. We are fully in support of customer safeguards, but they can't kill the retail part of the market in order to protect the vested interests of the network companies.

We suggest that, if the AEMC is being hit with complaints about demand tariffs from an ABC journalist or politicians, it attacks the source of the tariffs – the network companies – thereby tackling the problem at source.

We are very happy to discuss any aspect of our submission at any time.

Yours faithfully,

Adrian Merrick
Chief Executive Officer
Energy Locals Pty Ltd