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12 September 2024

Ms Julia Cassuben
Project Director
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted electronically

Dear Ms Cassuben,

Re: Directions paper - National Electricity Amendment (Accelerating smart meter deployment) Rule 2024, and National Energy Retail Amendment (Accelerating smart meter deployment) Rule 2024 (ERC0378)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) directions paper on consumer safeguards as part of the Accelerating Smart Meter Deployment (ASMD) rule change.

Red and Lumo agree with the Commission that consumers not only require appropriate notification ahead of a change in the structure of their retail tariff but also the information to understand what that change means for their energy bills. Access to such information allows them to make informed decisions about how they might adjust their consumption profile in response to a sharper price signal. However, the Commission has not adequately accounted for the full impact of its proposal.

In our experience, many consumers are risk averse and unsure or highly sceptical of the merits of more complex pricing structures. We expect few will choose to accept the perceived risk of a change and this is entirely reasonable. However, the Commission is proposing additional obligations on retailers to address these concerns but not the underlying distribution network tariff or assignment policy, which is the primary reason for the change in retail pricing. Many consumers now directly link the installation of a smart meter to riskier pricing because of the networks' assignment policies.

The proposed protections limit retailers' ability to manage the most significant cost they face and run the risk of increasing prices for all consumers. We think the Commission can avoid this through a different approach, namely, to link network tariff reassignment with a consumer's informed decision to face a different pricing structure rather than meter exchange. This should be an interim approach until the Commission completes its more fundamental review of network pricing.

Red and Lumo also encourage the Commission and Energy Consumers Australia to expedite the proposed Communicating Metering Working Group to develop consistent and aligned material for consumers to understand the purpose and benefits of the ASMD. There is an obvious gap at present.

Another issue of significant concern is the very short time available for retailers to implement the Commission's final decision. Prudent retailers never start the process to implement new processes or make system changes on the basis of proposals or draft decisions. This is to avoid unnecessary implementation costs and the subsequent contribution to energy bills. More importantly, retailers require sufficient time to review forthcoming obligations and then identify all the actions they must take, such as testing and staff training, to ensure compliance and avoid poor customer experiences. We strongly encourage the Commission to reconsider the 1 January 2025 commencement date and consider transitional provisions.

Rationale for cost reflective tariffs

Smart meters offer numerous benefits to consumers and we support the ASMD. It is widely recognised that increasing the penetration of smart meters across the NEM is a core element of the energy transition. To this point, the Commission and other stakeholders (notably the Australian Energy Regulator (AER)) have promoted alternative tariff structures as an important mechanism for encouraging efficient utilisation of distribution networks. Smart meters are the enabler of these price signals.

The Commission is aware that distribution networks have obligations to develop prices that better reflect the costs of providing network services and the AER's determinations have reflected this. Sharper price signals are designed to shift consumption or adjust the timing of consumption or the output of flexible Consumer Energy Resources (CER). Retailers do retain discretion over how they manage network costs but the policy objective is for consumers to face the underlying price signal in some form.

The other consideration is that network costs are the largest component of the retail cost stack. Very few retailers have a customer base that is large and diverse enough to be able to fully absorb higher network costs during peak periods, while maintaining a flat retail pricing structure. In other words, it is likely that most retailers would adjust the structure of a customer's retail price in line with changes to the underlying network tariff. The most relevant instance for this review is the reassignment that occurs following the installation of a smart meter.

However, it is now obvious that further work is necessary to increase consumer awareness of the rationale for tariff reform. Recent discussion and media coverage of changes to tariff structures following meter exchanges have revealed confusion, uncertainty and scepticism. We also note recent commentary by Energy Consumers Australia about encouraging more efficient network use through mechanisms other than sharper price signals and questioning whether Time of Use or demand tariffs are indeed cost reflective.[1]

The Commission acknowledges this and is proceeding with a more fundamental review of network pricing. It should consider expected rates of investment in CER, particularly electric vehicles, so it can identify the extent of (potentially) flexible load across the network and analyse options for encouraging efficient utilisation. Other relevant issues include not just the structure of network tariffs and assignment policies but also the role of retailers in the AER's determination process. In other words, the Commission will need to fundamentally reassess the issue that network tariff reform is addressing. This is likely to include price signals, although they may differ from those that the networks have developed to this point.

We welcome this review and look forward to contributing to the Commission's consultation. In our view, retailers are uniquely placed to contribute to the AER's determinations due to our role in the energy supply chain, i.e. to work directly with consumers to help them manage price risks and to optimise their consumption. We recommend that retailers should have a more extensive and prescribed role in network tariff determinations than is currently the case if the objective is to devise structures that consumers understand and can respond to.

However, this review will take some time to complete. In the meantime, the Commission's ASMD proposal potentially puts retailers at significant risk, requiring them to shoulder the difference between a cost-reflective network tariff and retail pricing. This means a consumer would not face a price signal that creates an incentive to adjust the times at which they use energy. In our view, the Commission is addressing one issue, that is, the need for an informed choice but is not addressing the underlying reason for the change to retail pricing structure, namely, the network tariff reassignment.

The Commission suggests that consumers and therefore, retailers could be better off under this proposal, citing claims from some networks about how consumers respond to price signals. However, we do not consider it reasonable to rely on these untested assertions, particularly in the context context. The direction and magnitude of response across different consumer segments and between those with CER and those without is highly uncertain and warrants further analysis. Retailers will need to account for this uncertainty in their pricing, which increases the potential for all consumers to face higher prices.

[1] Energy Consumers Australia (2024), *Cost-reflective network tariffs aren't very cost-reflective*

In our experience, some consumers are confident they can benefit from shifting some consumption to times of day when energy is cheaper while others will see fewer opportunities to do this. In general, we do not expect many residential and small business consumers will be willing to accept the perceived risk that sharper price signals present and as such, will not consent to a change in their pricing structure immediately after they receive a smart meter.

The ability for consumers to make informed decisions and for retailers to manage their exposure to network costs are the reasons why Red and Lumo have consistently argued for a delay to network tariff reassignment and for consumers to be able to opt in to more complex pricing after some defined period. This is the basis for our recommendation for the Commission to adopt a different approach for the ASMD.

An entire year of data from a smart meter will provide consumers with detail to enable them to calculate the impact of different tariffs and their energy consumption on their bill. The suggestion that a consumer might require up to three years of interval data while remaining on their previous retail pricing structure is disproportionate and introduces significant risk for retailers to manage. This impact would also fall most heavily on retailers with a relatively large proportion of residential and small business customers who currently have legacy meters.

Preferred approach

Therefore, Red and Lumo's preferred solution is for the Commission to prohibit the distribution networks from immediately reassigning tariffs following a meter exchange for an equivalent period of 12 months; this would allow consumers to accumulate sufficient smart meter data to guide their choice of tariff. An alternative would be to defer tariff reassignment following meter exchange until the Commission completes its broader review. Both options would reduce the potential for higher retail prices.

We acknowledge the Commission's reluctance to alter the networks' approved assignment policies and its concern that it will delay the benefits of the ASMD. On the first point, we do not see any significant implications for the revenue that networks recover as they operate under revenue caps. It seems a reasonable compromise until the form of reform is clearer.

On the latter point, we expect few consumers will consent to a change of structure until the benefits of smart meters and tariff reform are more clearly articulated, necessarily deferring the realisation of their benefits. Furthermore, smart meters offer additional benefits that are independent of their role to facilitate sharper price signals, such as early fault detection, remote re-energisation and de-energisation, and visibility of consumption patterns.

As a further point, the Commission's proposal that consumers who have a Type 5 or 6 meter replaced during the Legacy Meter Replacement program must be offered a flat tariff standing offer where the 'local instrument requires it' seems to be an arbitrary measure. It does not offer the same choices and protections to consumers who install a smart meter under other circumstances. As with the other element of the Commission's proposal, a solution is to defer tariff reassignment until it completes its more fundamental review.

Implementation date

The Commission's proposal for these protections to apply from 1 January 2025 gives insufficient time for industry to analyse, design and implement changes after the Final Determination. No prudent business commits to changes prior to finalisation. In this instance, we may develop to a point in good faith but there remains some uncertainty about what might come out of the Commission's current consultation. We cannot assume that the draft proposal will proceed in its current form and implementing the draft proposal creates the high risk that we would incur further unnecessary costs.

Retailers are not currently obligated to provide an estimation of an historical bill on a new tariff as a price comparison tool. Developing this capability requires a significant technical effort but the Commission suggests this is required by 1 January. This would leave only 16 business days from the likely date of the Final Determination (28 November). The Commission will also be aware that late December and early January are periods where many people take leave and industry has fewer resources to call upon to make potentially complex system and process changes.

If no transitional period is provided, the rule change will place retailers and metering parties at risk of non-compliance, noting that metering coordinators are required to address metering installation malfunctions within 15 business days. Retailers will also need time to make necessary changes to customer notices and ensure a consumer receives at least 4 business days notice of the interruption to supply.

The likely result of the rule change as proposed will be a temporary cessation of meter exchanges and increased meter installation exemption requests while participants make necessary changes to systems and processes.

As a general point, it has not been the Commission's practice to leave such a short period for implementation. We understand the Commission and other stakeholders need to address concerns about smart meter installation and tariff reform as a high priority. However, insufficient time for review, training, changes to process and testing creates a risk of non compliance and poor customer experiences.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland and South Australia and the ACT to over 1.4 million customers.

Red and Lumo thank the Commission for the opportunity to respond to its directions paper. Should you wish to discuss or have any further enquiries regarding this submission, please call Sean Jennings, Regulatory Manager on 0403 846 585.

Yours sincerely

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