

31 January 2019

Mr John Mackay
Project Leader
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Mackay,

Regulatory Sandbox Arrangements

Simply Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) consultation paper on the Regulatory sandbox arrangements to support proof-of-concept trials.

Simply Energy is a leading second-tier energy retailer with over 670,000 customer accounts across New South Wales, Queensland, South Australia, Victoria and Western Australia. As one of Australia's leading energy retailers, Simply Energy is committed to actively promoting innovation and improving energy efficiency.

In line with this commitment, Simply Energy recently launched a \$23 million virtual power plant project. It is expected that this project will deliver up to 1,200 residential energy storage systems and a further two megawatts of demand response capacity across South Australia. Simply Energy is also partnering with its global parent company ENGIE in developing a renewable powered smart city in South-East Queensland.

Based on these experiences, Simply Energy is strongly of the view that the energy industry could benefit immensely from greater regulatory flexibility to test new and emerging technologies outside the pre-existing consumer protection and technical frameworks. With this in mind, the following submission evaluates:

- the need for a formal approach to facilitate innovation; and
- the benefits of using a regulatory sandbox to drive service and product innovation across the energy value chain.

Challenges with the current regulatory framework

Simply Energy considers that the current regulatory framework is too cumbersome and rigid to effectively promote innovation. While there are processes in place that provide for regulatory change, they are often marred by administrative red-tape.

The Australian Energy Regulator, for example, tends to only issue no action letters in exceptional circumstances. These formal assurances are generally issued in relation to standard operational activities rather than acting as enablers for innovation. Further, while the AEMC's rule change process is very comprehensive, it requires proponents to put forward a strong evidentiary foundation for change which may not always be known or readily available in the case of emerging technologies and services.

In view of this, the regulatory framework must evolve to meet the future needs of industry innovators and consumers more broadly.

Developing an effective environment for innovation

Figuratively speaking a bird will never reach great heights if it is never given the opportunity to spread its wings and fly. To put this statement into context, the Australian energy sector will never reach its full potential unless industry innovators are given the opportunity to test and learn.

For this reason, Simply Energy considers that a regulatory sandbox based on an adapted version of the Ofgem model would be an important step to achieving this end. Consistent with the Ofgem model, Simply Energy considers that there are two fundamental elements to promoting innovation:

- education and guidance around regulatory requirements; and
- the flexibility to test new and innovative technologies.

Education and guidance

Simply Energy considers that it is important that those looking to introduce innovative technologies are supported in understanding relevant regulatory requirements. Such advice in respect of innovative service models and products need not be binding. Rather its purpose should be to provide guidance in helping industry innovators in designing their products and service offerings in line with relevant regulatory requirements. This guidance could be particularly useful for smaller operators who may not have the legal resources to fully evaluate and understand the complex regulatory regime governing the energy industry.

Formal testing environment

In respect of larger established businesses operating in the Australian energy sector, they need the ability to test and trial new technologies without with risk of contravening their standard regulatory obligations and consumer protection requirements. However, this can only be achieved if a sandbox testing environment is developed that facilitates technological trials in a manner that does not impose undue administrative burden on relevant participants.

It would ultimately be counterproductive to require established energy businesses to seek approval for each and every new product they wish to trial. For this reason, Simply Energy contends that a formal sandbox environment should be developed that allows approved parties to trial certain classes of technologies without the need for ongoing consent.

For example, the Australian Energy Regulator could grant businesses with a proven interest in energy innovation the right to test certain classes of technologies over a period of up to 5-years. The granting of this right could be based on business agreeing to certain conditions, such as:

- ensuring that customers who sign-up to such product offerings are made fully aware that they are participating in a trial; and
- requiring the trial findings to be made publicly available so that policymakers and other industry participants can learn from the outcomes of the trials.

Closing remarks

To the extent that there are appropriate safeguards in place, policymakers and industry regulators need to be more open to allowing energy companies experiment and evolve in meeting the long-term interests of energy consumers. Without this flexibility Australia could end up lagging behind the rest of the world in terms of energy market innovation. As more and more new technologies are starting to emerge, the time is ripe for Australia to adopt a more flexible framework that facilitates greater understanding and awareness to help shape the energy market of tomorrow.

In closing, Simply Energy looks forward to continuing to work with the AEMC and welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact Anthony O'Connell, Senior Regulatory and Compliance Officer, on, telephone, (03) 8807 5134 or at Anthony.OConnell@simplyenergy.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'James Barton', with a stylized flourish extending to the right.

James Barton
General Manager, Regulation
Simply Energy