



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners

Consultation paper – National Electricity Amendment (unlocking CER benefits through flexible trading) Rule

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory, of which around 22k customers are supported under our hardship program (EnergyAssist). EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise 4,500MW of generation capacity.

EnergyAustralia appreciates the opportunity to participate in the AEMC's consultation. The AEMC's consideration for exploring regulatory changes that could benefit CER customers and the wider market is admirable. EnergyAustralia however strongly opposes the FTA proposal as we do not consider there is evidence supporting its need, and that the barriers for new entrants are not appropriately identified and addressed. Instead it will create significant implementation costs, efficiency and competition problems for the primary FRMP, and introduce operational complexities in how the market operates today and in the future under any new reforms.

In summary our key reasons are:

- The current market design of one settlement and one connection point is not a barrier to CER optimisation/Virtual Power Plants (VPP)/aggregator services, nor is it a barrier to rewarding customers for the value that their CER can provide. Market evidence shows many examples in recent years of direct entry by operating as the customer's retailer or in partnerships with retailers.
- The consultation paper suggests the barriers for new entrants are too onerous and should be reduced; however, these barriers are primarily developed to ensure consumer protections. To remove these 'barriers' either indicates their necessity in the market is no longer necessary for all services, or – and more likely – it will increase the potential for customer detriment.
- In our experience, the barriers to entry for CER optimisation/VPP/aggregators likely relate to consumer behaviour (i.e. lack of trust and lack of comfort with complexity), and limited customer demand. These barriers will be overcome organically as CER uptake increases with costs coming down, and as the economic value provided to customers from CER optimisation improves.

- Given there are many examples of CER optimisation occurring today, the benefit of FTA is unclear. However, if we were to assume customer uptake of multiple Financially Responsible Market Participants (FRMPs) and that the additional FRMP is more efficient (to estimate a benefit), across EnergyAustralia's customer base alone, the costs noticeably exceed the benefit.
- The FTA will cause market efficiency problems undermining the primary FRMP's ability to service the customer. The primary FRMP will not be able to effectively hedge for the primary settlement point, which will include the house and the CER load (due to a lack of transparency over how the CER will be operated), causing inefficient over/under-hedging. Any cost of inefficient hedging will likely be borne by both FTA and non-FTA customers causing customer equity issues. The tariff arbitrage and "hollowing out" issues that the AEMC identifies are also valid concerns raised by FTA.
- There are also many other operational and regulatory challenges around FTA which will be extremely complex to solve and will conflict with the intent of existing regulation or degrade any benefit from FTA; cost reflective and equitable allocation of network charges and justifying different metering requirements of secondary settlement points are examples of this.

In view of the above, we firmly recommend that the AEMC not proceed with the FTA proposal. Simple alternative regulatory measures like improving point of sale information (via new consumer protections) and customer education will assist in addressing actual barriers to CER optimisation. These simpler alternatives should be adopted before FTA is considered further in any form. Our full submission is below.

1. Alternative business models to FTA exist today and do not face regulatory barriers

EnergyAustralia agrees that there is value that customers can derive from CER, both in lowering their energy bills, and being rewarded for optimising their CER in a way that benefits the broader system.

However, we strongly caution against the AEMC concluding that the FTA rule proposal should proceed because it *potentially* may unlock more CER value to customers. This would miss a critical point; the AEMC asks the question of whether having one connection and settlement point prevents customers from accessing the value of their CER, this assumes that a single connection and settlement point is the main barrier to customers realising the value of their CER.

Our internal research suggests there are barriers, but they do not point to deficiencies in the market design or major regulatory barriers. Rather the barriers are far simpler and relate to the cost of CER now, low value in CER optimisation, and a lack of trust in providers. Introducing multiple settlement points and FRMPs will do little to overcome these barriers. Section 7 discusses simple alternatives to FTA which go to addressing these barriers to uptake.

A review of the market evidence shows that there are many examples of business models which are successfully offering a CER optimisation product using this arrangement, which contradicts the assumption that a single connection and settlement point arrangement is the barrier. We therefore have serious doubt over the benefits of FTA and need for it. Any benefits need to be proved quantitatively, to a high standard, and a cost benefit analysis must be undertaken given the high complexity and significant cost of FTA implementation.

The AEMC identifies two regulatory pathways for CER aggregators to operate, when there is a single connection and settlement point – direct entry by operating as the customer's retailer/FRMP, or in partnership with a retailer. We discuss each below and conclude there is limited evidence of barriers to their uptake.

1.1. Direct entry by operating as the customer's retailer/FRMP

The AEMC's first pathway is direct entry by operating as the customer's retailer/FRMP, the aggregator would need to register as a market participant with AEMO in some capacity and seek an energy retailer authorisation or exemption from the AER.

The AEMC seems to infer that direct entry by operating as the customer's retailer/FRMP faces barriers by way of registrations and retailer authorisation, where retail authorisation requires compliance with many consumer protections.

It is a mistake to consider consumer protections as barriers. Rather, regulations around how an essential service is provided are critical to protecting the customer from poor, inefficient, and harmful outcomes. Equally, as CER-based services affect the supply of an essential service to the customer (e.g., controlling when electricity is supplied), consumer protections should apply.

It is also difficult to see how an aggregator/VPP would be able to participate in wholesale electricity and FCAS markets unless they are registered as a market participant, unless they rely on a retailer to participate on their behalf which would undermine the concept of FTA enabling a fully separate FRMP.

Where an aggregator is planning to enter at scale, market registration, retail authorisation, and compliance requirements are appropriate and fully proportionate. If an aggregator is in a trial phase, they can utilise the regulatory sandbox trial waivers in the National Electricity Market, or enter via the partnership pathway until they have built enough scale to support direct entry.

The market evidence shows multiple direct retailer entrants, with their primary electricity offer centering around CER optimisation.

[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]

1.2. Partnership with a retailer

The AEMC's second pathway is partnership with a retailer, CER aggregators could seek to enter into a commercial agreement with an existing electricity retailer (who has a retailer authorisation and AEMO participant registration) and operate the customer's CER to optimise the retailer's wholesale market exposure. The retailer and the VPP aggregator share the revenues from energy retailing and trading of the customer's CER.

The market evidence again shows a number of these partnerships. We note the following examples (many on the AEMC's list of VPP operators)¹:

- (i) Tesla has partnered with retailer Energy Locals in South Australia to provide an energy plan to customers with batteries, which allows Tesla to aggregate the operation of the batteries to provide a VPP.² Tesla has expanded its VPP to three other states.
- (ii) Members Energy³ has also partnered with Energy Locals to offer VPP services.

¹ VPP offers available | AEMC

² Tesla

³ Members Energy

- (iii) Powershop in partnership with Reposit offer a product where customers receive 'grid credits' for participating in the Powershop VPP.
- (iv) Powershop also offers two other VPP offerings in separate partnerships with Stoddart Group / Reposit and Power Ledger / Sonnen / Natural Solar.
- (v) ShineHub⁴ is promoting VPP offerings regardless of the customer's energy retailer.
- (vi) It is also worth noting that the battery manufacturers themselves offer customers the ability to configure their solar / battery solutions for charge and discharge cycles that minimise grid usage and avoid grid usage at peak rates. These are commonly available to the customer with their battery purchase as a basic functionality. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*

There are also many **other partnerships where Retailers use underlying service providers to outsource part of their aggregation service.** *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*

The AEMC also refers to other barriers to partnering with a retailer, which we do not agree with:

- Lack of competitive alternatives among retailers to partner with, meaning retailers can capture more of the revenue: It is difficult to see how this would be the case. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]* In our view, where retailers are not participating this is probably because it is not a strategic focus, but this could change with increasing CER uptake.
- Stranding risks: The AEMC refers to stranding risks i.e. if the CER aggregator pays upfront costs when initially enrolling a customer into their program such as financing and installing the CER asset, there are stranding risks if the customer leaves. This risk does not only apply to CER aggregators but any party that buys the CER upfront. It applies to Retailers, for example EA's Solar Home Bundle product.⁵ It would also apply to the FTA model. The bundling of the CER with electricity does not change this risk nor the need to manage it via long term contracts or otherwise.
- Diluted incentive for existing retailers to participate and where they do, incentive for retailers to take a greater share of the revenue rather than share it with the partner or customer. This is again difficult to reconcile with real world experience:
 - Retailers have full incentive to partner and offer CER-based solutions, or risk losing that customer entirely. This is especially the case as revenues from grid supplied electricity reduce from CER use.
 - Competition among retailers for partnership opportunities will apply to ensure that the margin provided to partners is attractive. Competition among retailer/ partner-bundles offered to end customers, will drive maximum value passed onto the customer.

⁴ ShineHub

⁵ For example, EnergyAustralia's Solar Home Bundle product sees us buying the CER asset with a 7-year payback period. We manage the stranding risk through a long-term contract but still provide the customer the ability to leave early.

- Introducing an additional FRMP will only *transfer* value e.g., transfer who receives the margin from the retailer to the additional FRMP. Any efficiency gain is likely to be minimal, see section 2 for more.

2. Customer demand for separate retailers is limited and demand for CER optimisation is also low, but will increase as value improves

For both commercial and industrial (C&I) and residential customers, the customer demand for FTA and multiple FRMPs is unclear. Customer needs are already being met without FTA and there is no indication that FTA will further improve consumer outcomes.

Regarding smaller C&I customers with an annual load less than 10GWh e.g. schools, their demand is often too inflexible to participate in demand response. Even where they become more engaged after installing CER, they would prefer to deal with a single provider, similar to mass market customers. For larger C&I customers with an annual load over 10GWh, behind the meter batteries do not work for optimisation as the customer or provider needs to be separately registered as a market participant to optimise the CER against wholesale spot prices or FCAS.

In the residential market, insights from internal research on bundled services also showed customer preference to consolidated providers; e.g., bundling of energy and NBN by several providers. For energy specifically, our internal research indicates that the customer needs are on a whole-of-premises outcome, and they find splitting the controllable/dispatchable load from the household supply suspicious, with a genuine concern with respect to being better off 'overall'.

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Further, it is critical to note that the above levels of interest are there regardless of FTA/multiple settlement points, introducing FTA will be unlikely to change them.

One main challenge in providing more financial reward to elicit engagement from customers and or/the energy partner, is the low amount of flexible demand available; which means revenues (and customer value) are low as well, for now. For example, although EV might have large amounts of storage, the amount of charging is largely taken up by driving behaviours so load flexibility is not at significant volumes until there is mass take up.

This low value conflicts with the level of reward that customers need to receive to take action and switch providers for their *electricity service*.

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Based on our estimate, the benefit of an additional FRMP is negligible. In our view, the largest gains will be in improving the value that CER optimisation can deliver generally by addressing the broader barriers

(discussed in section 7). Again, these barriers have nothing to do with one settlement point and one connection point.

3. Costs far outweigh benefits

We understand that the AEMC is carefully considering the cost benefit of the FTA rule change. This will be crucial in the AEMC's assessment. In section 1, we discuss that the benefits are limited because direct entry and partnership models are already viable options today; and that FTA will do very little in improving customer demand for CER optimisation generally. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*

In contrast, the implementation costs will be substantial. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*

Conversely, costs are significant. The following changes will cause significant and direct costs to the primary FRMP:

- Major IT changes to allow market systems to recognise additional NMIs and their relationship with the primary NMI, and interrelated data streams.
- Cost to implement and support new B2M and B2B transactions on an ongoing basis – to support the sharing of information between NMIs and information about the relationships, system updates to show new market participants connected to the additional NMI, along with new processes for settlement by difference.
- NMI discovery by the primary FRMP to discover any additional settlement points, at the time of signing up a customer.
- Additional costs in resolving complaints and faults.

The above and other changes which will add complexity and cost are discussed in section 6.

4. FTA will cause market efficiency and competition problems

The AEMC identifies various market and competition issues where additional FRMPs could negatively impact on the primary FRMP's ability to serve the customer (at section 3.3.3 of the Consultation Paper). We emphasise the gravity of these and new concerns below.

4.1. Inefficient hedging problems and customer equity issues

Introducing additional FRMPs at additional settlement points will negatively impact the primary FRMP's ability to hedge the customer's passive load (house); and introduce cross subsidisation and customer equity issues.

Most retailers hedge their customer base at an aggregate level based on a general load shape based on when they think customers will use electricity, because the cost of electricity varies with the time of use. Retailers do not hedge for specific cohorts of residential customers and will unlikely hedge specifically for FTA customers when customer uptake is low.

Even if the primary FRMP were to hedge for FTA customers specifically, their load will be unpredictable because it will not be clear how the additional FRMP will use the CER. The outcome is that retailers will not

be able to hedge in line with that customer's consumption. This will result in over or under-hedging due to factors outside the Retailer's control – both of which will mean inefficiencies and higher cost in wasted hedging/buying unhedged load off the spot market.

Specifically, batteries and EV chargers could mean higher consumption where they can unexpectedly "switch" and consume from the primary settlement point, failure to hedge this additional load will mean buying from spot market at higher cost. Where these assets can then switch to supply the house during peak times, this means the retailer will be over-hedged at those peak times and will therefore also present an extra cost. This places retailers with multiple settlement points at a competitive disadvantage to those without. These market inefficiencies are considerations which the AEMC must take into account as per the National Electricity Objective.

Sharing CER asset information at the second NMI will not be sufficient to solve this problem, nor will average daily load data (as proposed by AEMO) or historical data, as the primary FRMP will still not know how the additional FRMP plans to operate the asset. This highlights two acute problems around the FTA model:

- the ability of the CER asset to switch to draw from or supply to the house; and,
- Different FRMPs managing the house load and CER load/generation, with no single decision maker across all electrical resources to maximise overall value to the customer. In fact, each could have different incentives and drivers. That is, the primary FRMP is working to minimise the customer's bill for their house, but the VPP/aggregator may draw load (and increase the customer's primary settlement point bill) in order to maximise revenue and value from the CER – that extra value could be lower than the difference in the bill. The customer might be worse off overall compared to a single provider. It is also flawed to conclude that two FRMPs equates to more competition, single providers will still compete with single providers in their bundled propositions.

A further problem is that other customers without FTA will likely pay more creating customer equity issues. i.e. the cost of any inefficient over and under-hedging by the primary FRMP will be passed on to the general customer base, making supplying all customers (FTA and non-FTA) more expensive. This problem will only compound, incentivising customers using FTA to move more load to the additional FRMP, meaning more cost spread over fewer customers, etc.

We also agree with the retail tariff arbitrage issue that the AEMC identifies. Customers will be able to switch their CER asset from a fixed tariff (price set based on higher historically hedged prices), to a variable tariff e.g. tariff reflective of current spot prices (when spot prices are falling), and vice versa. While the AEMC highlights this can happen between energy retailers today, the difference is that this would be happening with the CER load switching to and from the house where the primary FRMP has no control over this switching. Conversely, in the current energy plan scenario, a retailer offering a fixed tariff could set a contract term e.g. 2 years and impose an exit fee to mitigate the risk and so has some control. The AEMC suggests the primary FRMP can impose a contractual control removing the switching of the CER. This could go some way to resolve the above concerns, but it would also seem counter to one of the main features of FTA - the benefit of supplying electricity from CER to the home.

4.2. "Hollowing out" issue

We emphasise that the AEMC's "hollowing out" concern is real. That is, the customer could switch their major appliances to the additional settlement point and retain the original FRMP for only a small part of their electricity flows. Both FRMPs need to recover their costs from a combination of fixed and volumetric charges, with the original FRMP having declining volumes to recover it over.

The AEMC's paper focusses on network costs but this problem applies to all fixed costs faced by retailers not just network costs, including significant regulatory cost (which will likely be higher for primary FRMPs) and operational costs e.g. IT costs, etc. The primary FRMP would need to recover these fixed costs over declining amounts of volume. Like above, we expect that this would only compound over time, as customers shift more load onto the additional FRMPs to avoid higher costs. This creates negative competition impacts and an unlevel playing field – whereby additional FRMPs tend to benefit from the upside only (with the advantage of lower regulatory cost and avoiding network tariffs) and where customers are incentivised to shift load to them. The risk is shifted onto the primary FRMP instead. The current single FRMP model avoids these competition impacts.

We discuss the allocation of network tariffs impacting the hollowing out effect below. However, in our view, these arrangements will be highly complex and costly to implement, and neither will solve this issue adequately.

5. Network tariffs

5.1. Allocation of network tariff options

Network tariffs are designed around the concept of cost reflectivity, providing a price signal to influence a customer's consumption patterns. The network tariff is assigned to reflect a customer's impact on the network, demand and export are key considerations, and CER ownership is likely to result in a specific network tariff. Primarily this price signal serves as a deterrent to consumption and/or export, with only a small portion of network tariffs providing an incentive. The price signal is either directly passed to the customer by their retailer or absorbed in their retailer's tariff. Regardless of how the retailer reflects the network tariff, the price signal is considered:

- a) If the network tariff is a direct pass through, the customer receives the price signal and can respond accordingly; and,
- b) If the network tariff is absorbed in the retail tariff, the retailer has considered the price signal, is able to provide a retail offering that both provides a preferable offering to the customer (e.g., single rate offering compared to time of use) and bears the risk where a customer consumption contradicts the price signal.

Retailer decisions to absorb the network tariff in their retail offerings are based on a myriad of factors: customer preference in the competitive market; retailers trying to simplify the pricing for customers; ability for their customer base to balance out the pricing impact (customers operating in accordance with the price signal countering those that are not); and the ability to consider if a customer is a suitable candidate (based on customer's load, existing network tariff, etc.).

AEMO's rule change outlined a preferred option for allocating the network charges, '*retain the status quo*', which proposed to maintain the allocation of the network charge to the primary FRMP only. For customers participating in a FTA relationship, this would have the corresponding impact on cost reflectivity:

- a) If the network tariff is a direct pass through, the customer (likely to have a tariff applicable to their CER, solar, EV, etc.) will have oversight across their primary and additional FRMPs that the network tariff is applicable to their primary FRMP, but we cannot foresee any likelihood that many customers will have the energy literacy or capacity to manage both retailers, and their own consumption, to ensure they are operating in accordance with this price signal.

- b) If the network tariff is absorbed in the retail tariff, retailers will have a diminished capacity to bear the risk where customers' consumption contradicts the price signal, as the additional FRMP for FTA customers will subtract the beneficial elements of CER which help to balance out the pricing impacts of a primary FRMP's customer base. This would result in less retailer's offering tariffs that do not directly reflect the network tariff, something that contradicts customers' preferences.

Notably, there will be no capacity for the primary or additional FRMPs to acutely respond to the network tariff either, as the primary FRMP will be unable to control the actions of the additional FRMPs and vice versa, the additional FRMP will have no visibility of the network tariff. As the FTA customer's tariff is likely to be assigned based on their CER, this would ultimately result in the primary FRMP absorbing the network tariff's costs for the operation of CER in which they have no control, which would likely result in an additional FRMP consuming or exporting energy from the grid with no consideration of the network tariff; amplifying the hollowing out risk.

EnergyAustralia believes that only *option 2, DNSP to allocate network fees or develop a new network tariff that can be shared between FRMPs*, would meet the network tariff pricing objectives of the AER, maintain competitive neutrality, reduce the hollowing out risk, and ensure customers retain access to desired retail offerings. It is however worth noting that all options will have administrative costs, which will further reduce any hypothetical benefit the market/ customers could receive from the introduction of FTA.

5.2. Restrictions on what can be connected at the additional settlement points

AEMO's proposal to establish specific exclusions on what can be connected at additional settlement points to solve the hollowing out issue will be complex and costly to administer. It will also not solve the hollowing out concern, as shifting any load will contribute to this issue, especially high volume controllable loads which will be lucrative.

We provide our views on the proposed restrictions for completeness. Life support equipment is provided as an obvious example, but we would extend this to most uncontrollable loads (e.g. typical lighting and general power circuits) to help manage hollowing out risk and prevent customers simply moving appliances over to a different power outlet. Further, it is our strong view that any connection – controllable or uncontrollable – should be treated the same, as both involve the essential supply of electricity. Distinctions should not be drawn which suggest that electricity supply to an EV charger or battery is less essential than electricity supplied to an air conditioner. What is being regulated is the underlying product – electricity.

5.3. Flexible export limits

The AER is currently considering the implementation of flexible export limits - previously referred to as Dynamic Operating Envelopes (DOE) - and the implications on the regulatory framework, it therefore seems unusual that AEMO proposes that the progress of the FTA rule change *should not be delayed for the development of DOEs*, as the implications DOE/ flexible export limits would have on FTA are significant.

Flexible export limits are the ability for distribution networks to dynamically alter a customer's export (potentially import) capacity based on the constraints of the network. This capacity will require networks to notify FRMPs/ customers that there is a forecast constraint (most likely 24-hours prior to an event), providing clarity on the temporary constraint they have imposed. This will have implications on the operation and purported effectiveness of FTA:

- The development of flexible export limits has initially been focused on solar, and the need for networks to curtail export at times where excessive solar generation will create minimum load concerns. The

networks assigning flexible export limits will need to communicate with all FRMPs at a customer's site, requiring the development of specific communications, both to notify impacted FRMPs and to implement the flexible export limit.

- This will be a costly notification develop, will have further implications on the application of network tariffs for FTA customers (as discussed in 5.1), and will require networks to have a capacity to alter metering or CER directly (e.g., via the inverter) to impose the flexible export limit.
- AEMO's proposal claims that FTA will enable network benefits; however, there are existing regulatory developments that will facilitate this; AER's *Flexible Export Limits*, ESB's *Interoperability* workstream, and AEMO's *Distribution System Operator*, to name a few.

6. Other operational challenges make FTA unworkable

There are many operational complexities and new costs created by having multiple FRMPs and the need to set up supporting arrangements for additional settlement points:

- **Ability to switch back to single FRMP** – The ability for a customer to revert to having a single provider has not been canvassed in the AEMC's paper i.e., how will the second settlement point be de-activated. Failure to do this, will result in the AEMC "picking winners" and picking the FTA model. This creates further complexity (and cost) that must be solved for FTA to proceed.
- **More customer switching permutations** - The market will need to support the two models, e.g., support customer's switching their primary and additional NMIs separately, and switching the primary NMI only with CER operating behind the meter.
- **Creation of a NMI and metering roles at additional settlement points will create costs when value is already low** - Rather than an LNSP creating the NMI at the additional settlement point (not appropriate as it is behind the meter), AEMO proposes a new role - the "NMI Service Provider" – based on the existing embedded network manager role. This simply introduces another market participant in the supply chain and extra cost, where the associated margin for an additional FRMP is already low to begin with [*Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.*] In a similar vein, appointing supporting metering roles for the additional settlement point will only serve to decrease potential margins.
- **Major IT change for all retailers** - Major IT changes to allow market systems to recognise additional NMIs and their relationship with the primary NMI, and interrelated data streams.
- **Cost to implement and support new B2M and B2B transactions on an ongoing basis** – to support the sharing of information between NMIs and information about the relationships, system updates to show new market participants connected to the additional NMI, along with new processes for settlement by difference.
- **New processes around customer sign up** - NMI discovery by the primary FRMP to discover any additional settlement points, at the time of signing up a customer.
- **Any system changes to support reallocation of network cost** between the primary and additional FRMPs (if pursued).

- **New data streams and data sharing required** - Today MDPs only share data with the FRMP at the metered NMI via B2B transactions, not other FRMPs. As above, under FTA, the primary FRMP will need metering data from unrelated additional NMIs. Under current behind the meter models today, this problem has been solved – the MDP offers off-market information in a NEM12 format for behind the meter devices.
 - AEMO proposes sharing historical average daily load to assist the primary FRMP to some degree in hedging at the primary settlement point, but as discussed in section 4.1, this will not be adequate to solve issues. How an additional FRMP will actually operate the CER's storage and generation will be unpredictable. Average daily load will also not be sufficient to support near real-time data reporting in customer apps showing their consumption.
- **Burden to inform customer of additional settlement points falls on primary FRMP** - AEMO proposes that if a customer moves into a premises with existing additional settlement points, they could ask the FRMP to identify those points. This will equate to additional compliance burden and cost on the primary FRMP to look up this information via NMI discovery and relay it to the customer.
- **De-energisation arrangements need further consideration** – The AEMC suggests that the existing de-energisation provisions would not apply to additional FRMPs that are not retailers. This seems flawed considering that the additional settlement point could be a consumption load, and not just exporting. The other proposal is to require the primary FRMP to notify the secondary FRMP, if the primary FRMP raised a de-energisation request at the primary NMI. This again requires more transactions between the FRMPs and adds additional cost.
- **Dealing with complaints and faults** – We anticipate that the additional FRMPs operations could directly affect the amount that the customer is charged from the primary FRMP, causing high bill complaints (where CER can switch to draw/supply to the house). It will not be apparent to the customer where the problem lies and who to complain to. Where there is an actual fault that needs to be remedied, again further confusion and cost will occur, in determining who needs to rectify it i.e. the network, FRMP 1, FRMP 2, MC 1, MC 2 etc.
- **New ROLR arrangements for additional settlement points will add system costs and complexity.** The AEMC options include appointing the primary FRMP as ROLR, which is not appropriate where that primary FRMP does not operate the customer's CER. It will also impose a burden on the primary FRMP to adopt extra customer load where the CER is a battery or electric vehicle charger, effectively transferring the risk of the failed additional FRMP onto the primary FRMP.
- **Consumer protection review** - The last five dot points will involve a review of the consumer protection framework. Further, the consumer protections generally will need to be reviewed for FTA and the new risks it raises for customers. The AER is explicitly considering FTA in its *Review of Consumer Protections for Future Energy Services*, however in Victoria this consideration is not as clear cut.

6.1. Other issues

6.1.1. Metering requirements for secondary settlement points

AEMO's proposal advises there is 'no compelling reason for the NER or NERR to require the ability for a small customer to access a reading locally for a secondary settlement point, or any other minor energy flow

metering installation, allowing the information traditionally displayed on the meter to be accessed via an alternative source (e.g. a laptop, in-home display unit, smart-phone app, or similar) could be easier for consumers to read and understand compared with the information displayed on their meter. AEMO states that customer access to their energy data as provided under NER clause 7.15.5(d) far exceeds the information visible on a metering display for small customers, and the pending changes for the introduction of the Consumer Data Right for energy would further extend consumer access to that energy data.

AEMO's view, partially supported by the AEMC, is that the metering for the primary connection should remain the same; however, there is no justification provided for why the primary connection point would require the functionality deemed unnecessary for secondary settlement point. EnergyAustralia agrees with AEMO's view on the lack of necessity for a small customer to access a reading locally and that the data can be accessed via more user-friendly and safer alternative sources. We do not believe that FTA customers would have a desire to manually check their primary meter but not a secondary settlement meter, therefore, the metering requirements should align.

Therefore, we believe it is prudent for the AEMC to consider whether the metering requirements for the primary connection should be amended and would support this being considered as part of the AEMC's review of metering contestability. Reducing the capabilities of the advanced metering fleet required for the primary settlement point will reduce the total cost in providing these assets, which will reduce the costs associated with the metering roll out.

6.1.2. Minor energy flow meters

Allowing minor energy flow meters for uncontestable unmetered loads does not seem necessary as the metering of these devices has not historically been required due to the consistent nature of their load, and would introduce further industry costs to purchase, install, and monitor the new metering. Allowing unmetered loads to be contestable can be facilitated without metering changes, with minor energy flow metering only providing a benefit for flexible loads (automatic sensing and dimming capabilities with streetlights); however, these initiatives are able to proceed under partnering arrangements, this has occurred in the billing of NBN assets in which the variable load is amended periodically.

7. Alternatives to FTA

As above, there are barriers to VPP and aggregator uptake. However, these barriers do not point to gaps in current market design involving a single connection and settlement point. We would support alternative measures instead of FTA directed at addressing the actual barriers to VPPs and aggregation services. In our experience researching customer behaviour and uptake⁶, the barriers involve:

- The cost of CER.
- Physical site conditions are not ideal for solar PV/battery or add cost to upgrade the site. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*

⁶ Reference

- Customer's lack of trust, due to the complexity of VPP and CER optimisation offers and a concern that the provider will take more energy than initially promised. FTA will only introduce more complexity.
- A small proportion of customers being actively interested and needing more value to be engaged.
- Insufficient value from network support services being a major barrier to providing more value to customers. *[Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA), sections 31 and 48 of the National Electricity Law and sections 223 and 268 of the National Energy Retail Law.]*
- Insufficient value to engage these customers from wholesale market and FCAS operation, as discussed in section 2.

The above barriers are barriers of today. Technological developments that bring down the cost of CER will increase uptake and drive the growth of interested customers, and increase value via scale economies. We expect more retailers and VPP aggregators will enter this space via current models. In the meantime, regulatory measures which would help to overcome the above barriers include:

- General customer education about VPPs and aggregation services. Government agencies could provide this information as a trusted information source.
- More trust can be built with accurate point of sale information. We have fully supported the AER introducing consumer protections that clearly explain the nature of future services involving CER to the customer at the point of sale, to support their explicit informed consent. Ombudsman access will provide some recourse to customers and help build confidence in the market.
- Regulatory initiatives (AER's review of flexible export limit implementation, Dynamic operating envelopes, and AEMO's consideration of the Distribution System Operator) which are already progressing, will facilitate the development of network support services without FTA (and FTA only complicates their development).
- The AEMC refers to potential misconduct by Retailers. We are unaware of any conduct where Retailers restrict a customer from installing a second connection point at their premises through their contract for electricity supply, but this could be explicitly prohibited.

If you would like to discuss this submission, please contact Travis Worsteling on 03 9060 1361 or Travis.Worsteling@energyaustralia.com.au, or Selena Liu on 03 9060 0761 or Selena.liu@energyaustralia.com.au.

Regards

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