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Response to the Consultation paper - Unlocking CER benefits through flexible trading

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) Consultation Paper on Unlocking Consumer Energy Resources (**CER**) benefits for consumers.

We support the AEMC's approach to assessing the benefits and barriers to enable customers to maximise the value through participating in services for their flexible energy. However, we believe this rule change request is trying to implement a supply side solution while searching for the demand side problem. The energy sector has traditionally taken a favourable view towards how to operate, maintain and build the energy system, focusing on technical solutions. With the increasing penetration of CER, we are required to change how we conceive and design the market. We need to treat customers, their diversity of needs and their access and utilisation of energy as paramount. To that end, we believe that this proposal may work with larger customers but may be neither cost effective nor beneficial to residential customers.

Any proposals being considered by the AEMC should support least cost solutions that maximise value. The cost and complexity of the proposals identified in the AEMC's consultation paper are considerable. As the AEMC noted, the UK Government recently initiated similar reforms however, after a cost benefit analysis was undertaken, the costs were proven to overshadow any benefits and they unwound the reform. This assessment should be used by the AEMC in their own cost benefit analysis to understand how they arrived at that conclusion and what application that analysis has in the Australian context.

The AEMC should utilise the work delivered by the Energy Security Board in their Customer Insights Collaboration Release One. 'Flexibility' is a new concept that is not well understood by consumers at either a product or service level, or how it fits into the broader changes underway in the energy system.¹ However, we do know that trust around benefits sharing and in relation to delegating and/or retaining control is an important barrier to address. A criticism that continues to be relayed to the sector is that the energy market is overly complex for customers to navigate. The clear message from Release One of the Collaboration is that to unlock the benefits of flexible CER and energy use and achieve the ambitions of the reforms for markets for CER, we need to meet consumers 'where they are'.

The ESB in this research explicitly acknowledged that the uncertain nature of the transformation also means we do not yet have the answers to many questions, and research, and learning-by-doing through trials, will need to be at the core of the reform effort. Energy market participants are developing, trialling, and delivering innovative products and services for our customers. At AGL, we are a market leader in the development of innovative energy products and services, including our leading-edge Virtual Power Plant through which we orchestrate thousands of behind-the-meter battery systems installed in homes and businesses to provide energy and market services to the grid while rewarding customers for their participation. We also have several trials including our Electric Vehicle Smart Charging Trial and our recently announced project with PLUS ES to test managing hot water systems in South Australia. Our work with our customers in trialling

¹ ACIL Allen, 'Barriers and enablers for rewarding consumers for access to flexible DER and energy use - Rapid evidence review' p. i, <https://www.datocms-assets.com/32572/1658964119-barriers-and-enablers-final-report-v2-352146-1-3-1.pdf>



these ideas allows us to meet customers ‘where they are’ and design flexibility in such a way that meets diverse expectations and needs.

The Customers Insights Collaboration also sought to shed light on the most important barriers to households and businesses benefiting from flexible CER and energy use. Informed by the perspectives gathered through the rapid review and collaboration workshops, the critical barriers identified in Release One provide a foundation for the ongoing development of the DER Implementation Plan, including this rule change. The critical barriers and enablers uncovered are:

- **Inclusion and equity** – how do we unlock opportunities for flexible CER and energy use to work for all consumers regardless of circumstance or accessibility?
- **Incentive and nudges** – how do we create incentives and nudges that make flexibility easy and attractive for consumers?
- **Communication** – how do we talk to consumers about flexible DER and energy use?
- **Trust** – how does the energy sector earn consumers trust to unlock the benefits of flexible DER and energy use?

The critical barriers and enablers reported on through the Collaboration Insights and ACIL Allen research work provide a useful scaffold to assess any proposal in flexible trading. Release One has highlighted the need to place the customer at the heart of the CER in Australia, and to do so in a pragmatic way that will influence project design and decision making.

AGL recommends that the AEMC focuses on the opportunity to unlock value in consumers CER through amending regulations to allow and upgrade meters found in devices in a consumers home to NEM-grade approval. Specifically, we ask the AEMC to focus on unlocking value through regulatory solutions in allowing greater transfer, access and use of consumption data arising in different devices by allowing custody transfer of data. This would allow consumers to access flexibility in their resources without additional costs of altering their metering and wiring arrangements, which is a large initial cost for smaller consumers.

The proposed rule change, as discussed below, seems to only increase costs and complicate customers accessing their own flexible energy, creating significant barriers for all small consumers being able to participate. We encourage the AEMC to continue to look at broader reforms for unlocking the value of CER flexible trading, rather than rushing forward to implement technical solutions without due consideration of customer needs. We support solutions that aim to embed trust by helping customers navigate the complexity of the new energy landscape and providing technological solutions that lower cost and simplify.

If you have any queries about this submission please contact Emily Gadaleta, Regulatory Strategy Manager at egadaleta@agl.com.au.

Yours sincerely,

Chris Streets
General Manager, Policy, Markets Regulation and Sustainability



Appendix A – Response to Questions Raised in the Consultation Paper

Question	Response
Question 1: Optimising and obtaining value from CER for consumers	
<ul style="list-style-type: none"> • What are stakeholders' views on the value that consumers could obtain from their CER, and what incentives may be needed for consumers to take up opportunities that are or may become available? • Would flexible trading enable consumers to optimise their CER in ways that align with their motivations and preferences? • Is there additional value for residential, small businesses, and C&I consumers that could be optimised by the introduction of some form of flexible trading, including the model proposed by AEMO? 	<p>AGL supports the AEMC's view that there is value in unlocking flexibility in CER. Flexible trading is a way in which consumers can receive extra value from their assets. However, where our view differs from that of the AEMC's is that additional value is currently being trialled, tested, and delivered right now, it is not being left behind.</p> <p>We agree that value could be further optimised by the introduction of some form of flexible trading. However, none of the models proposed by the AEMC or the Australian Energy Market Operator (AEMO) achieve this while also being a simple and cost effective method for smaller customers. The assessment may be different for larger customers.</p> <p>Where we have failed to see a convincing argument is in how any increased costs of opening up flexible energy to a new service provider at a small / residential location would maximise the value for the customer.</p> <p>Rather, we believe the proposed AEMO solution will increase costs in installing new metering requirements, establishing a new relationship and industry having to build new systems. Additionally, the cost to serve for the primary financially responsible market participant (FRMP) may increase, as their ability to manage and schedule load decreases dramatically and therefore increases wholesale risks.</p> <p>The complexity of the proposed metering arrangements does not present a compelling case as to why this reform is needed and why this reform is needed now. It is not clear how the costs of implementing such arrangements would deliver the perceived benefits that are outlined in the paper. Without demonstration of customer demand for this, and an adequate cost benefit analysis, it is difficult to see how this additional value could be attained and shared with customers in a least cost way.</p> <p>Ofgem in the UK recently announced a similar consultation to this on the future of distributed flexibility. Their first paper 'The Future of Distributed Flexibility' calls for input to answer broad questions such as 'what does the future of distributed flexibility look like? How will we get there?'. We recommend that the AEMC take a similar approach by stepping back and assessing the broader challenges of providing flexibility prior to diving into particular technical operational solutions.</p>
Question 2: Existing and future CER products and services	
<ul style="list-style-type: none"> • Could the introduction of flexible trading create an environment that fosters the development of more innovative products and services that support consumers to optimise and obtain value from their CER? 	<p>The concept of flexible trading could foster additional innovative products and services to obtain value from CER. However, of all the existing and future CER products and services the AEMC outlined in their paper, a large portion could be delivered today. Many of these products and services are starting to enter the market. Our response to question 3 provides more detail on the current barriers that exist when looking to deliver flexible energy solutions for customers.</p> <p>Not one of the models proposed in the consultation paper effectively demonstrates how the optimisation and value would be delivered to</p>



consumers through the introduction of flexible trading. The paper focuses on the technical and metering arrangements that would be required to occur prior to the delivery of any value to consumers. We recommend that the AEMC look to the customer experience along the entire customer journey of attaining CER.

The ESB noted in their Customer Insights research that learning-by-doing through trials should be at the core of the reform effort. We are currently seeing energy market participants developing, trialling, and delivering innovative products and services for customers. These trials are exploring how to unlock flexible energy opportunities for customers without the significant capital and operating costs of sub-metering as proposed by the AEMO.

For example, in February 2023 AGL announced that we are partnering with smart meter supplier PLUS ES in a project to test whether dynamically managing customers' hot water systems through smart meters can support grid stability and lower energy costs for consumers. The program will take place in South Australia and involve up to 20,000 customers. PLUS ES is developing a control and integration portal to allow AGL to access and manage the hot water systems of participating customers with hot water systems on controlled load. The technology will allow AGL to shift controlled load to the middle of the day and manage hot water systems in near real time to respond to market signals and network constraints.

This is just one recent example of the work AGL and other market participants are conducting in order to design solutions to unlock flexibility. AGL supports the development of a market-led approach to CER optimisation, to allow products and services be designed in partnership with consumers as the market matures. Learnings from all of these trials should be the catalyst for 'unlocking value', as opposed to focussing on technical, supply side solutions that are not prima facie supported or even demanded by consumers.

Question 3: Barriers to accessing CER value

- Does having one connection and settlement point prevent consumers from accessing the full value of their CER?

AGL does not support the view that having only one connection point, prevents consumers from accessing the full value of their CER assets. There is significant opportunity to work with consumers to manage their energy consumption and flexibility without the unnecessary costs of installing a secondary connection point.

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[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.]

We do not agree with the AEMC’s position that consumers face the risk of receiving less value from their CER than if they could directly engage with CER aggregators to trade their flexible resources. The risks in engaging with two service providers through one connection point but dual metering arrangements would increase costs for consumers by limiting the ability for each of the FRMPs to effectively optimise their loads across the site and therefore their ability to offer whole of site service offering. Additionally, what guarantee would consumers have that each FRMP would work in a way that serves the consumers whole-of-site energy best interests and that the products/services they offer for part of the load does not make the consumer financially worse off?



Opening up connection points may seem to ‘unlock’ value for consumers, but it also unlocks additional risks to consumers that primary FRMPs are regulated to prevent. Below, we outline opportunities on how consumers could access flexible trading, while reducing their risk and maintaining their full suite of consumer protections.

We have included a confidential attachment to this submission providing more evidence on our understanding of barriers to accessing CER value.

Question 4: Opportunities for multiple settlement points with one FRMP

- Could retailers provide greater value to consumers by adding extra settlement points at premises?
- Are there other regulatory barriers preventing these offers?

A key regulatory barrier the AEMC should investigate further is the ability for retailers to utilise custody transfer data within a premises in order to separate, measure and bill for different loads. Currently, the majority of meters that reside within devices such as electric vehicle chargers, for example, are not considered billing grade and their data cannot be utilised to bill a customer.

We see this regulatory barrier as a substantial opportunity to unlock the full value of consumers CER. This would allow management of a customer’s load behind the meter easier and cheaper, allowing a larger portion of customers to engage in flexible services and lower their energy costs.

This option could substantially reduce the pressing risks of allowing two service providers to operate within one premise by removing the need for the two providers to engage with one another, ensuring they are both working in the consumers interests and not making them worse off and reducing costs overall.

The AEMC should investigate as a part of their cost benefit analysis:

- the ability for allowing metering in different CER devices the ability to unlock the value for customers, and
- the ability for second settlement points, managed by a single FRMP to unlock CER value for consumers.

Question 5: Engaging multiple FRMPs at premises

- Should the rules be changed to make it easier for consumers to engage with multiple FRMPs at premises?
- Are there additional benefits or ways in which consumers could receive value through contracting with multiple FRMPs?
- Of the challenges identified, would any benefit from a regulatory solution? If so, what are the potential options?
- Are there any additional challenges presented by having multiple FRMPs at one site?

AGL does not support the rules being changed to make it easier for consumers to engage with multiple FRMPs at their premises. The value that consumers would receive under such arrangement are still very unclear and as such, any benefits received are unable to be qualified against the costs. Each of the four key areas identified by the AEMC demonstrate how even in the AEMC’s preliminary analysis, it is clear that the challenges of installing multiple FRMPs far outweigh the benefits. For example:

- Issues in retail energy market and competition between establishing two service providers and hollowing out of retailers’ ability to manage costs while potentially remaining entirely responsible for consumer protections
- Allocation of network costs and ability to respond to network tariffs and flexible exports
- Maintaining adequate levels of consumer protections and access to Energy Ombudsman support



- Increased operational costs, such as the need to establish additional communication and information flows.

Question 6: Models for flexible trading

- How significant are the challenges to establishing an additional connection point, and are there regulatory changes that could be made to overcome them?
- Would parallel settlement points behind a single connection point be an efficient option? If so, what factors have changed since the Commission's decision on this in 2016?
- What changes would be required to allow multi-element metering for multiple FRMPs, and what would be the benefits?
- How does AEMO's secondary settlement point proposal compare to the other potential options?
- Are there any other models for the Commission to consider?
- What implementation costs need to be considered when examining these models?

We propose that the AEMC should further investigate a single connection model for flexible trading, that allows for custody data transfer within a premises, or the establishment of multiple settlement points managed by a single service provider that can also simultaneously take on transparently all the obligations of being the FRMP.

We see that a model with a single connection would allow for the most value to be shared with the consumer by allowing a single cost to serve, reduced metering alterations and optimised product/service offerings through opening up customers to flexible solutions. It also avoids the potential for the unintentional consequences that the consumer purchases services from multiple providers that makes them financially worse off across their total energy usage at the premise.

Options 2,3 and 4 presented by the AEMC all have considerable operational implications; for example, the issues that would arise if a retailer disconnects at the main connection point as well as the issues raised in the previous answer.

An additional operational consideration the AEMC should work through in assessing models for flexible trading, is the interaction with the Consumer Data Right (CDR) regime. The CDR is an initiative to ensure customers have access and ownership of their own data. It is unclear whether a customer would have to authenticate themselves with both service providers to gain access to both sets of their energy data. In the AEMC's further work considering how to unlock flexibility, it should also consider in parallel how it may benefit or hinder a customer's participation in other future energy solutions.

Question 7: Assessment Criteria

- Do you agree with the proposed assessment framework?
- Are there additional principles that the Commission should consider as we make our decision, or principles included here that are less relevant?

We are of the view that given the requirements of the National Electricity Objective and given the scale and impact on the industry of the proposed change, a detailed, quantitative, cost benefit analysis (**CBA**) should be done prior to any Rule change being made. We support the AEMC in their intention to do conduct a CBA prior to the next round of consultation.

In saying that, we fail to see how the Consumer Protections Test is satisfactorily met under this proposal. As the Consultation Paper notes, the introduction of a second service provider through a second connection point could potentially have negative externalities that dilute consumer protections as the secondary FRMP may not have the same obligations as the primary. Further, the new arrangement may significantly limit the primary's FRMP ability to fulfill their obligations.

AGL supports the 6 key assessment criteria set out by the AEMC. However, we do not believe that the 5th assessment criteria of 'Implementation' has been characterised appropriately. The AEMC did not make the proposed rule under the Multiple Trading Relationships, partially due to the potentially high costs of the specific proposal. As such, AEMO has suggested this rule change proposal could provide



similar benefits while avoiding the costs of implementation, putting forward “that other than its own costs to implement...the proposals do not impose material costs on participants other than those that wish to provide services in offering [secondary settlement point] arrangements and minor energy flow metering services (i.e., new business opportunity cost).”

We disagree with this view. This rule change would have high implementation costs that would be spread among all parties. As soon as another participant is introduced as a secondary FRMP by a customer, the primary FRMP will have substantial costs of administration and back-end service delivery that we will have to enact on behalf of that customer. The upcoming CBA needs to consider such implementation costs.

Question 8: Competition issues with secondary settlement points

- What are stakeholders' views on whether the proposal would positively or negatively affect competition between FRMPs in this model (for example through a difference in regulatory costs), and could it cause anti-competitive behaviour?
 - Are there regulatory solutions that we should consider to minimise those risks?
- This proposal would negatively affect competition between FRMPs if there are different regulatory obligations between the two service providers. For example, if the main FRMP has obligations to supply while the secondary FRMP does not have the same or lower regulatory obligations. This will create large differences in regulatory costs and competitive neutrality concerns. Further, where a consumer takes up a secondary FRMP there may also be significant costs to establish information and communication systems to ensure consumer fully understands the obligations of the two service providers and can ensure they are overall better off across the full load at the premise. These new requirements can further increase the cost to serve and make the AEMO proposal cost prohibitive for both consumers and market participants.

This is a considerable risk that should be investigated in more detail by the AEMC.

Question 9: Allocating network costs

- How should network costs be allocated for premises with secondary settlement points?
- AEMO's proposal to allocate all network charges to primary FRMP will almost certainly lead to inefficient use of CER. The secondary FRMP has no incentive to operate the CER that they control in a manner that aligns with the needs of the network. This occurs because it is not able to directly monetise any financial benefits that might accrue because of how their actions (to operate the customer's CER) affect the customer's network costs. This may lead to:
- Higher overall economic costs of supply, assuming network price signals are broadly cost-reflective; and
 - Higher overall bills for customers.

Additionally, in the CBA to be undertaken by the AEMC, it should also take into account any potential loss of flexibility by the introduction of arrangements whereby the secondary FRMP does not pay and therefore where any risks associated with network pricing as it may limit consumers' ability and full network value streams.

Question 10: Information and communication requirements for secondary settlement points

- What are stakeholders' views on the need to include provisions in the rules
- AGL recommends the AEMC investigate solutions that would help to unlock the internet-of-things products and services for customers, allowing them to utilise solutions like home energy management



regarding explicit information or communication requirements for secondary settlement points?

- For example, requirements for communication and information between the:
 - DNSP and the FRMP for the secondary settlement points (e.g., about network support or safety requirements, including those related to jurisdictional network safety), and/or
 - 'primary' and 'secondary' FRMPs?

systems, that would aid in managing their load, optimising their CER, and lowering their bills. This option potentially presents considerably lower implementation costs than those identified by the AEMC and AEMO.

Question 11: Potential for limitations applied at secondary settlement points

- Is there a need for limitations at the secondary settlement point? Nil comment.
- If so, how could these be applied? What are your views on doing so using requirements for the metering coordinator as proposed by AEMO?

Question 12: Implementation issues for secondary settlement points

- How should the NMI for a secondary settlement point be established? AGL does not support the implementation of a secondary settlement point. The cost of establishing a second NMI and running the secondary settlement point data through MSATS increase costs considerably.
- How could market settlement be best enabled for secondary settlement points? Would subtractive settlement lead to issues in practice, for either the primary or secondary FRMP? Implementation costs should be investigated in more detail by the AEMC in their CBA. The cost and complexity of the proposals identified in the AEMC's consultation paper are considerable. As the AEMC noted, the UK Government recently initiated similar reforms however, after a CBA was undertaken, the costs were proven to overshadow any benefits and they unwound the reform. The CBA questioned the certainty with which we might expect these use cases to drive the take-up levels needed to reflect the up-front implementation costs. They also found that, like in Australia, many of the specific approaches that have been proposed could already be delivered in similar ways through existing or emerging routes to market. Once they took these alternatives into account, the set of non-substitutable use cases that meter splitting could deliver became increasingly small.
- Do stakeholders support AEMO's proposed approach to settlement for periods of grid isolation? Are both physical and regulatory restrictions required to address this issue?
- Should the rules forbid the use of embedded networks to establish secondary settlement points within an end user's electrical installation?

Question 13: Consumer protections



- What are the potential consumer risks and protections required under AEMO's proposal for secondary settlement points, and should they be handled as proposed by AEMO?
- Are there any other issues the Commission should consider in relation to protections under flexible trading?

AGL does not support any weakening of consumer protections or installing less onerous requirements on retailers or aggregators in the face of unlocking flexibility in their energy supply. Rather, AGL recommends an overhaul and modernisation of consumer protections to align with the energy transition of two-way flow of energy on the system.

The introduction of secondary or additional settlement points with different FRMPs complicates how consumer protections would be adequately upheld. Under current arrangements, some services provided at additional settlement points may not be considered the 'sale of energy' and would therefore only fall under protections offered by the Australian Consumer Law. If these services are not considered to fall under the National Energy Customer Framework and associated protections, the AEMC should assess whether or not consumers would have access to the Energy Ombudsman for disputes, or what other dispute resolution mechanisms would apply. Further and not limited to, what protections are consumers afforded for payment difficulties, billing arrangements and explicit informed consent with respect to the secondary FRMP?

Increasing consumer interest in and uptake of CER, new energy products and innovative services, and the emergence of new types of energy providers, are challenging the traditional consumer-retailer relationship. In our submission to the Australian Energy Regulator's (AER) Review into Consumer Protections for Future Energy Services, we stated that all energy providers that impact the customer's energy usage and management should be licenced to do so.

From the perspective of the consumer, whether they are procuring passive energy to their homes or purchasing CER assets from a seller, at a minimum they expect that their energy provider is adhering to the rules and meeting minimum standards. The essential nature of energy is not just in the way it is used at home (to turn on lights and heat or cool spaces), it also encapsulates the access to, and flow of, energy. We consider that this principle should be service agnostic.

A risk of these new market entrants is through their defaulting and causing a ROLR event. A key question of this rule change is whether or not it will make it easier to enter the market, or would it make it harder by only having access to the flexible part of a customer's load?

Although there may be some benefit in encouraging new market entrants with lower consumer protection thresholds, it could in turn create riskier environments where new participants fail, and customers are left without the services of their additional FRMP. This then begs the question, to what extent a secondary FRMP is really financially responsible to their customers if the National Energy Retail Rules obligations are ultimately differentiated between primary and secondary FRMPs.

Question 14: Metering requirements for secondary settlement points

- Are current NEM metering installation requirements likely to limit the uptake of secondary settlement points and the associated benefits?

AGL recommends that the AEMC investigate in further detail the utilisation of metering found in CER devices and the ability to utilise custody transfer of data to manage customer load and bill consumers. We see this as an innovative option that would allow for the unlocking of further value within CER devices at a minimal cost.



- If changes are needed, what of the following minimum requirements need to be set in the NER for market participation and settlement at secondary settlement points?:
 - A physical display at the metering point
 - Minimum service specifications
 - Remote communications
 - Accuracy and data requirements
- Are there any other service or technical requirements that need to be specified for metering installations at secondary settlement points in the NER?
- Should changes be made to the accreditation and registration of metering providers and metering data providers for secondary settlement points?

As mentioned in our answer to Question 12, the UK Government found that the upfront costs of similar reforms far outweighed any potential benefits. This assessment should be used by the AEMC in their own CBA to understand how they arrived at that conclusion and what application that analysis has in the Australian context.

Question 15: Minor energy flow meters for use at secondary settlement points

- Should the requirements that apply to type 4 metering installations be amended to create a new minor energy flow metering installation, or are there more flexible regulatory approaches to enable market settlement for secondary settlement points?
- Are there other changes to requirements for type 4 metering installations that should also be considered for a minor energy flow metering installation?
- What different obligations will need to be placed on metering providers and metering data providers for minor energy flow metering installations? Should these obligations be set out via AEMO's proposed approach of new categories in the NER?
- What would be an appropriate inspection and testing regime

AGL agrees that current metering requirements create barriers to helping consumers unlock the value of their CER and participate in flexible energy products and services.

We do not seek to alter the utilisation of a traditional NEM-compliant metering installation, but rather seek to complement the primary meter, by allowing the utilisation of meters within CER devices to help the consumer manage their load.

We recommend the AEMC investigate the utilisation of these meters by allowing them to become NEM-compliant/billing grade meters in an effort to unlock value for the consumer. This proposal could also avoid costs of introducing the new category of minor energy flow meters and the proposed new roles and responsibilities proposed by AEMO.



for minor energy flow
metering installations?

Question 16: Minor energy flow meters for street furniture

- Should minor energy flow meters be able to be used for street furniture? AGL supports the implementation of minor energy flow meters for street furniture and notes that some pilot projects have already utilised low cost technology to assess load profiles in these environments.
 - If so, should DNSPs be allowed to act as metering coordinator, metering provider, and metering data provider for street furniture under certain circumstances?
 - Would any other changes to the rules be required in relation to metering for street furniture?
-