

14 September 2023

Ms Lisa Shrimpton
Director
Australian Energy Markets Commission
Level 15/60 Castlereagh St,
Sydney NSW 2000

Submitted online:

Dear Ms. Shrimpton,

Australian Energy Council - Response to ERC0346 Unlocking CER benefits through flexible trading.

The Australian Energy Council (AEC) welcomes the opportunity to respond to Unlocking CER benefits through flexible trading consultation paper.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

The AEMC directions paper examines ways to optimise the value of CER flexibility. These being:

- Opportunities for separately identifying and managing flexible CER.
- Flexible trading of CER with multiple energy service providers at consumer's premises, and
- Opportunities to improve how energy use is measured for street lighting and other comparable unmetered supplies.

The AEC strongly supports consumers being able to realise the value of their CER investments.

Overview

As the Directions Paper notes, being able to separately identify and manage CER may assist small customers to realise this value but that the AEMO proposal delivers small benefits to few customers at high costs. The AEMC is not progressing with options for multiple energy service providers to operate at a single residential or small business premise AEC agrees with this approach.

The AEMC is progressing with options for flexible trading using multiple service providers for large customers, noting that large customers may theoretically be able to obtain benefit from a model like the AEMO proposal. But this will be at considerable system cost on the part of both retailers and system operators, and it is not clear to us why the existing approach of using the embedded networks model is considered unsuitable for large customers.

AEMO also proposed a new framework for the measurement of street lighting and other public furniture. Whilst included in the AEMO proposal, the examination of metering options and technical measurements for street lighting and other public furniture is in our view not aligned to

the market transition or the successful integration of CER, nor to the scope or function of CER flexibility, and is therefore in our view best addressed in an entirely separate consultation.

Energiea cost and benefit analysis approach and methodology

Assumptions and forecasts are always contentious. Assumption bias can take a number of forms, and the Energiea approach and method may be subject to greater vulnerability as they propose to use largely their own historical work in the Base CER Flexibility Forecast. Assumption bias is an increased risk when you're so invested in your firms' position that it makes you less likely to rethink or revise it. It may also introduce a subjective confidence in the Base CER Flexibility Forecast accuracy on the part of the CBA model.

The AEC does not rule in assumption bias but believes that prudent steps in the approach and methodology can be taken and that drawing from a wider range of sources will increase confidence in it. Given the models objective to estimate the quantum of system benefits that load flexibility could potentially provide, the Base CER Flexibility Forecast is highly influential in the modelling outcome. It is perhaps also the most difficult and complex, and potentially least reliable, input.

Separately identifying and managing CER

The opportunities that might be gained through separately identifying CER will only be incremental to the existing and developing business models that revolve around the use of high value CER devices that already target CER and allow CER providers to monetise the value of their resource. There is already significant ambition driving these business models¹, some of which make use of the embedded capability within appliances and CER devices, such as measurement and communications, to enable more demand flexibility. While they are not necessarily visible to the market and so do not contribute to AEMO's specific CER integration objectives, care must be taken not to simply reallocate the existing consumer, retailer and system distribution benefits as benefits that can be gained through separately identifying CER.

Splitting out a portion of load for large customers that suits a non-primary FRMP may at face value improve competition, but this cannot be considered in isolation within the regulatory and market regime. This could expose primary FRMPs to significant risk of load being shifted to or from the secondary connection point without warning during times of high prices, either through customer choice or by direction from the non-primary FRMP.

Enabling a second settlement point at a single connection point

The AEC do not see the need for new requirements for secondary settlement points. The objective in the consultation has nominally been to increase consumer benefit and in the first round of consultation this was explored.² But the proposed solutions remain fixated on benefits largely unrelated to consumers, but desired by AEMO regarding wholesale market settlements. As with any number of concurrent consultations AEMO identifies a lack of CER visibility and its potential concerns with managing it, though we consider that these are overstated.

The AEMC's draft position to exclude small customers from the arrangements is sensible given the unworkable interactions it creates with consumer protection and regulated pricing. This does not mean that because a different consumer protection regime applies to larger customers that there are not similar problems. The FTA still extends unquantifiable and unmanageable risk to the

¹ Oakley Greenwood, Response to AEMC's Consultation Paper - Unlocking CER Benefits Through Flexible Trading, Australian Energy Council, 16 February 2023. P .8,9.

² ibid

primary FRMP regarding forecasting, pricing, and hedging. The question of how large customer network tariffs can be applied to multiple FRMPs at the same connection point is open.

The AEC is not therefore convinced that enabling a second settlement point at a single connection point is a best interests or cost-effective outcome for customers as it leaves all credit risk with the primary FRMP and reduces the incentives for a FRMP to consider the connections total value – both of which will ultimately be reflected in price.

Please contact the undersigned at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

David Markham
Australian Energy Council