

12 September 2024

Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

Submitted online via: www.aemc.gov.au

Reference ERC0378

Dear Sir/Madam

**Australian Energy Market Commission (AEMC) Accelerating Smart Meter Deployment
Directions Paper**

Thank-you for the opportunity to provide a submission in response to the AEMC's Directions Paper (**the Paper**).

Momentum Energy Pty Ltd (**Momentum, our or we**) is an Australian operated energy retailer, owned by Hydro Tasmania, Australia's largest generator of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to electricity consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We also retail natural gas to Victorian customers.

1. Overview

Momentum acknowledges that the transition to cost reflective pricing may be difficult for many customers as they will be unwilling or unable to change their electricity usage patterns. Additionally, cost reflective network pricing will not necessarily benefit all consumers. Therefore, we believe the following consumer protection provisions should be implemented to address these concerns:

- Customers should have the right to opt back to a flat network tariff at any time upon request; and
- There should be no mandatory network tariff change for at least 2 years following the installation of a smart meter.

We believe these are reasonable customer safeguards required to assist customers during the transition to cost reflective pricing.

Moreover, we are concerned by the last-minute timeline that that the AEMC and Australian Energy Regulator (AER) have proposed to work through these issues. For many years the AER has placed obligations on networks to design and implement cost reflective network

tariffs to maximise efficiency and to minimise network cost increases. The roll out of smart meters and the transition to cost reflective network pricing is not a new paradigm for the energy industry (occurring in Victoria from 2007 – 2010). During this period regulators and governments justified any increased costs to consumers by the purported future savings in wholesale energy prices. A mandatory transition to three-part time of use (TOU) cost reflective network pricing was envisaged. However, consumers did not accept the change and the Victorian government amended legislation accordingly.

Momentum is particularly concerned by the proposal in the Paper that retailers should absorb significant cost by being restricted from aligning the network tariff structure with the retail tariff to suitably manage commercial risk.

The retailer function is acknowledged as the biller and revenue collection agent of all market participants for the provision of electricity to customers. This is intended to be undertaken with a minimal retailer margin. Recently in the Default Market Offer 6 regulated pricing decision, the AER reduced the retail margin for residential customers from ten percent to six percent. This was undertaken to limit electricity cost increases to consumers in a market that had been exposed to extreme increases in wholesale costs. The reduction in retail margin has diminished the ability of retailers to accommodate any financial risks associated with a mismatch of network tariff structures that differ to the retail tariff. Retailers have always had the ability to minimise the high-risk components of the electricity supply cost stack by using various financial contract hedging instruments. No such financial instruments exist for network tariff mismatches and hence retailers must pass through this cost or suffer financial losses.

The AEMC has suggested in the Paper that retailers can accommodate this risk by taking a portfolio view to retail margins, rather than an individual customer approach. The AEMC has failed to realise that this suggestion is problematic particularly for smaller retailers that have already acquired small customer bases in various jurisdictions with no prior knowledge of this new regulatory risk being imposed.

We believe that most customers receiving a smart meter under the proposed accelerated smart meter deployment program will not provide their explicit informed consent (EIC) for a retail tariff structure change for several years, if at all. However, the AEMC is proposing that retailers are expected to potentially absorb the cost of a network tariff structure change for 3 years. The network tariff cost can account for 30 - 40% of the total retail bill, which poses a significant financial risk if a pass through is not allowed without EIC.

2. Mandatory assignment of new cost reflective network tariffs – The Problem

When a smart meter is installed, many networks automatically change the network tariff associated with that supply point from a flat network tariff to a TOU or demand tariff (cost reflective tariffs). Some customers may benefit from a change to a cost reflective network tariff depending on their electricity consumption profiles. However, this cannot be assessed until at least 12 months of historical data is available from the smart meter. Hence, a mandatory change from a flat to a cost reflective network tariff, when passed through in the

retail tariff, may result in significant bill increases to the customer, particularly if they don't change their electricity usage behaviour.

3. Restrict the ability for retailers to pass through a cost reflective network tariff - The AEMC Proposed Solution

The Paper proposes that following the installation of a smart meter, retailers should be prohibited from passing through a cost reflective tariff without the customer's EIC for a 3-year period. Depending on the load profile of each customer, this could create a significant financial loss for retailers during this period.

Momentum supports the proposal to provide customers with historical interval data, however, we note this will provide limited benefit to a customer until the smart meter has provided usage data for at least 12 months. Only after this period will customers be able to make an informed decision on the impact of cost reflective network tariffs included in their retail tariffs. Consequently, we consider that customers are unlikely to provide their EIC to a tariff structure change at or shortly after a smart meter is installed and retailers will need to absorb any related costs from the mismatch for an extended period.

4. Ensure networks are restrained from changing customers' network tariff until at least 2 years after a smart meter is installed - The Momentum Proposed Solution

We propose that networks should be prohibited from changing the network tariff structure after a smart meter is installed for a period of at least two years. This would allow time for customers to analyse smart meter data and assess their ability to change usage behaviours before being requested to consent to cost reflective pricing. Following a network tariff change, customers should also be given the right to opt back to a flat network tariff. While this may impact networks' revenue under their regulated Tariff Structure Statements, they can readily increase network prices to all customers in subsequent years to offset any differences in annual revenues. It is unrealistic for retailers to bear the entire network cost-risk that comes with the imposition of complex network tariffs that will prove increasingly difficult to pass through to customers.

5. Unintended consequences of the proposals in the Paper

Risk of two-tiered approach

There is a risk that the AEMC proposal in the Paper may create a two-tiered product suite in the market, conditional on a customer already having a smart meter that would provide less risk and overheads to retailers. This would add further complexity to retail offers and the smart meter roll out that most stakeholders are seeking to reduce.

30 business day notice period for price changes

The Paper proposes increasing the retail price change notice period to 30 business days. Providing a 30-business day notice for a retail price change may be excessive in a period of

wholesale market volatility which impacts retailer transfer pricing. New retail prices may not be applicable for this extended period. This may add additional costs to retailers to hold pricing for an extended period and result in higher prices than what otherwise might be offered.

Provision of historical data for tariff comparison

The provision of historical metering data to assess cost reflective pricing impacts may not provide certainty and will substantially increase the complexity and cost to upgrade the existing Deemed Best Offer (DBO) system used for comparisons.

- If a customer is moving from a basic, accumulation meter retailers cannot accurately calculate historical demand behaviours and can only provide basic usage profiles for customers to make this comparison;
- If upgrading the meter of a recent customer acquisition, historical usage and demand data may not be available; and
- Where there is adequate historical half hour or lower defined usage over 12 months, the retail system process build, and therefore associated costs, become significant. A calculator substantially more complex than that used in the existing DBO would be required, which will result in higher retailer system costs being passed on to customers.

These issues reinforce our suggestion for customers to be given the flexibility to opt out of a cost reflective network tariff.

6. Summary

We appreciate that the alternative option we have proposed to implement the desired customer safeguards for the transition to cost reflective network pricing differs from that proposed in the Paper. However, we firmly believe that it delivers a more balanced outcome with less unintended consequences. We understand that amending regulated network outcomes can be somewhat more difficult than imposing new rules on retailers, but the detrimental impacts to retailers in this highly competitive market should not be underestimated. We urge the AEMC to consider the proposal suggested above.

Should you require any further information regarding this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au

Yours sincerely

[Signed]

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