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Australian Energy Market Commission
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Submitted electronically via aemc.gov.au.

Clean Energy Council Submission to the Australian Energy Market Commission's Draft Terms of Reference – Electricity Pricing for a Consumer Driven Future (EPR0097)

Dear Mitchell Potts,

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback to the Australian Energy Market Commission (AEMC) on the "Draft Terms of Reference – Electricity pricing for a consumer driven future".

The CEC is the peak body for the clean energy industry in Australia. We represent and work with Australia's leading renewable energy and energy storage businesses, as well as a range of stakeholders in the National Electricity Market (NEM), to further the development of clean energy in Australia. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

Consumer Energy Resources (CER) are an incredibly important part of this transition, and the CEC is supportive of a review that ensures consumers continue to benefit from their CER, while also having the option of being on tariffs that reward them for responding to market needs. In addition, this review should not only consider the prices consumers are charged for these services, but also payments to consumers for grid exports or network services provided from their CER assets. This will ensure future arrangements will support a bidirectional flow of energy and allow consumers use their energy flexibly.

The Terms of Reference (TOR) provide a good overview of the purpose and reasoning behind this review. Whilst it is important to keep the scope broad at this stage, the CEC would support the AEMC providing detail on specific considerations that might be captured under each key area of focus. This would better indicate to stakeholders the range of this review, allowing the AEMC a better understanding of critical issues and key priorities early in the process.

The inclusion of a set of principles to guide this review is supported by the CEC as they are essential to ensuring consumer preferences are central in the assessment of potential solutions. The AEMC is encouraged to outline the principles within the TOR, allowing stakeholders to provide feedback and shape the principles early in the process. The early inclusion of principles ensures they guide a consumer-centric approach to the outcomes throughout the entire review.

The CEC's *Powering Homes, Empowering People: A National Consumer Energy Resources Roadmap*[1] published in June 2024, included four key consumer principles to guide the development of the Roadmap:

- Enhance consumer choice and participation
- Value to consumers for services provided
- Reduce/no impact on energy costs for non-participants
- Build social license and trust

These four principles aim to drive consumer engagement and encourage fairness in the energy system. It should be ensured that this review provides clarity on how CER and associated services will reduce energy bills for all consumers; reward consumers for participating in wholesale and ancillary services markets, and how distribution businesses pay for access to the assets to provide network system services through charging and access arrangements.

The AEMC includes an important footnote on page 4 that the review will also include "neighbourhood batteries". This raises some important additional points that should be added to the scope of this review and associated Terms of Reference:

- Tariff treatment of all distribution connected bi-directional units (BDUs) – including those larger than community or neighbourhood sized batteries; and
- Ring-fencing and ownership considerations for neighbourhood batteries and larger distribution connected BDUs.

The first point is directly linked to the topics outlined by the AEMC in the TOR and the second dot point is a growing topic that has a flow on impact on market competition and consumer pricing structures.

Tariff treatment for larger distribution connected batteries

This is a topic that has been an ongoing concern of the industry for several years, with CEC members highlighting that the current distribution network tariff structure would make distribution connected batteries uneconomic as far back as the original Integrating Energy Storage Systems Initiation Paper. The CEC response to the AEMC's *Integrating Energy Storage Systems into the NEM* in 2020 highlighted concerns around inconsistent treatment in applying Distribution Use of Service (DUOS) and Transmission Use of Service (TUOS) costs to equivalent systems, with the only difference being whether they are connected at the transmission or distribution level[2].

While the CEC understands that consideration of transmission, and subsequently transmission connected assets, are out of scope of the Review, we do think that consistency in treatment of the same asset class is a fundamental principle within the NEM. Ensuring that distribution connected BDUs can respond to the same market signals and the Australian Energy Market Operator's (AEMO) directions, as transmission connected BDUs, without punitive tariff arrangements will be critical in achieving the storage build out needs projected by AEMO. This is particularly critical for scheduled BDUs who will be responding to the same AEMO NEM Dispatch Engine (NEMDE) signals regardless of whether they are connected at the transmission or sub-transmission level.

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[1] Powering-Homes-Empowering-People-CER-Roadmap.pdf (cleanenergycouncil.org.au)
[2] clean_energy_council_0.pdf (aemc.gov.au)

As such, we do think it important that this review considers the most appropriate treatment of distribution connected, utility scale BDUs, with reference to the equivalent treatment at the transmission level[3]. This should go beyond just considering tariff design, and should also include a consideration on whether asset class tariff exemptions should be embedded directly into the National Electricity Rules, or other guiding documents

To summarise the issue:

- Privately owned BDUs connecting to the distribution network are primarily offered the same tariff structures as any other large commercial loads – which have features such as peak demand charges, peak export charges, capacity charges, net consumption charges and other features specifically designed for end users.

- This effectively ignores the bi-directional nature of these assets, and the fact that they are not consuming energy. It leads to a double application of all consumption costs because BDU owners are paying for each kWh stored, with the same consumption costs then also applied to the ultimate end-use customer following discharge.

- The charges also effectively ignore the operational flexibility of BDUs assets when compared with traditional commercial loads:

    - Bi-directional assets (>5MW) are required to be registered as scheduled BDUs. These assets participated in the wholesale markets and require sub-second bi-directional ramp flexibility, dispatched and constrained by NEMDE. They also actively provide contingency and/ or regulation frequency control ancillary services (FCAS). Consumption costs are applied to all kWh used to charge regardless of the service provided or the direction given by AEMO.

    - Applying consumption charges particularly disincentives BDUs (both scheduled and unscheduled) providing lower frequency services. It also disincentivises BDUs from providing system integrity services such as system integrity protection scheme (SIPS) and wide area protection scheme (WAPS) services – both of which have charging components to maintain grid security[4].

    - Non-scheduled BDUs (<5MW) – which include most neighbourhood batteries - are still most likely to be responding in a similar way to scheduled BDUs – dispatched in response to high energy market prices, reflecting market need. Though not scheduled through NEMDE, non-scheduled BDUs still provide a greater market benefit when able to provide sub-second response to market needs – rather than operating within fixed time-of-use (or similar) tariff bands designed for loads.

- Tariff structures are also opaque and bi-laterally negotiated between DNSP <> Developer; and apply over timeframes that are untenable for investment certainty.

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[3] Developers of transmission-connected batteries can negotiate access to the transmission network as a negotiated service.

[4] Note that these points were also considered in the RRO Rule Change request lodged by Tesla, Neoen and Iberdrola (available at - New rule change proposal - Neoen Austral~ reliability obligation exemptions for scheduled bidirectional units - 20240408.pdf (aemc.gov.au)). The same principles on applying costs to charge are relevant for both RRO liabilities and consumption tariff arrangements.

The CEC believes it is important that the scope of the TOR considers the tariff cost structures applied to all distribution connected BDUs – not just neighbourhood batteries. The same principles apply, and all tariff cost structures ultimately flow back through to the consumer. The recent *Retailer reliability obligation exemption for scheduled bi-directional units*[5] touches on several of the same principles and concerns as those highlighted above and provides precedence for a more nuanced treatment of bi-directional units.

Review of current and future ring-fencing requirements

A second related topic to the tariff points raised above, is the current ring-fencing arrangements and asset ownership structures. In 2023, the Australian Energy Regulator (AER) granted a final class ring-fencing waiver to allow distribution businesses to apply for funding under the Commonwealth Government's Community Batteries for Household Solar Program[6]. This led to many Distributed Network Service Providers (DNSPs) successfully tendering for their own community batteries under both the Commonwealth Government and Australian Renewable Energy Agency (ARENA) funding programs.

More recently the Energy Networks Australia "The Time Is Now" report[7] introduces a suggestion for a near-complete class waiver to allow DNSPs to own larger distribution connected BDUs (30 – 50MW). While the report notes this capacity would be shared with third parties, it also notes that "generation capacity can be connected more quickly by DNSPs… as DNSPs can unlock sub-transmission capacity at minimal cost". Noting the opaque nature of the application of negotiated tariff structures highlighted above, the suggestion that DNSPs may be able to access faster connection routes and alternative tariff structures through their regulated business arms, does raise competitive neutrality concerns.

It is important to remember that DNSPs are regulated monopolies, and their increasing asset ownership will naturally impact on consumer pricing – both through changing their regulated asset base, and by distorting market competition.

If a larger class-waiver was granted for all distribution connected BDUs, it would represent a significant shift in the market with flow-on consumer cost implications. We recommend that a review of any future changes to ring-fencing arrangements is considered within the scope of this AEMC review.

Other comments on the Key Areas of Focus

While it is important to allow the range of the review to remain broad early in the process, the CEC suggests the following considerations for the AEMC to include within early definitions of 'key areas of focus'. This will ensure the TOR sufficiently defines the scope and limitations of the review, providing clarity to stakeholders.

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[5] Retailer reliability obligation exemption for scheduled bi-directional units | AEMC
[6] AER grants class ring-fencing waiver to allow distribution businesses to apply for funding under the Commonwealth Government's Community Batteries for Household Solar Program | Australian Energy Regulator (AER)
[7] Leveraging the Distribution Grid in support of the Energy Transition (energynetworks.com.au)

1. **Market arrangements**
    a. The market benefits that can be gained through increased CER market integration will be highly dependent on the success of the "Integrating Price Responsive Assets" Rule Change. The CEC recommends the AEMC differentiate how the market arrangements in the Electricity Pricing for a Consumer Driven Future Review will differentiate from the Integrating Price Responsive Assets in the NEM Rule Change.
    b. The demonstration of value back through to customers in a variety of different ways is essential and should be considered.
    c. Addressing network capacity through the inclusion of non-network solutions such as demand management programs and flexible services. The ability of these solutions to benefit consumers through reduced network investment should be considered within the scope of the review.

2. **The Role of Distribution Networks**
    a. As noted in detail above, the CEC believes that a more fulsome consideration of tariff structures for all BDUs connected at the distribution network should be considered within the scope of this review, with a view to maintaining competitive neutrality.
    b. We also believe that the current and future ring-fencing arrangements should be considered within the scope of this review, with a view to ensuring that DNSPs do not face incentives related to their position as a monopoly.

3. **The Role of Retailers and Energy Service Providers**
    a. In respect of the broader pass through of network costs by retailers and energy service providers, the CEC believes maintaining flexibility is the key. Direct pass through of tariffs may result in benefits for consumers with their own CER, but other customers may still prefer flat tariffs, or – at the other end of the spectrum – the ability to access real-time pricing.
    b. The CEC looks forward to engaging in more detail on specific considerations regarding the role of retailers and energy service providers once more detail is provided by the AEMC.
    c. The AEMC should also consider the interrelationship between this Review and the pending Rule Change on "Retail market transparency" lodged by Energy Consumers Australia.

Additionally, the CEC recommends the AEMC consider the interaction between daily supply charges and flexible import limits within the scope of this review. While supply charges are not currently dependent on energy usage, supply may be limited by the introduction of flexible import limits as a demand management tool. This suggests there may need to be a review of the daily supply charge to best consider these circumstances.

Consumer education and engagement

Education can significantly increase the number of consumers willing to consider CER technologies and make the initial part of their adoption and use journey smoother and quicker. For education to be as effective as possible it needs to speak to the needs and concerns of different types of consumers and needs to come from a trusted source.

The CEC is supportive of the AEMC's commitment to analyse consumer preferences and identify gaps in consumer engagement. The consumer journey and education surrounding products, services and pricing is integral to the integration of CER within the energy system. It is our recommendation that the AEMC considers the role of communication and consumer education within this review, promoting accessibility, improving transparency and building consumer confidence.

As outlined in *Powering Homes, Empowering People*[8] education should include:

- Authoritative information from sources that customers trust.
- Information that addresses the questions customers may have about managing their electricity bills without:
    - Undue or ineffective capital expenditure.
    - Having to undertake changes in their lifestyle that outweigh the saving they produce on their bill.

Education that meets these criteria can assist customers in cutting through the complexity of the electricity market and the technologies available in the market. It can give customers the confidence they need to make decisions that will have good outcomes.

Information regarding to flexible energy is currently hard for consumers to access. We suggest that the AEMC considers the development of an online tool for consumers, modelled off the Energy Made Easy website[9]. Consumer Energy Resources Made Easy would assist consumers considering purchases or changes relating to their CER products and services by offering comparison of different export services (and other services) through a free, independent government service. This is best enacted whilst there is small market penetration and allows for the website to build improved capability as the market upsizes. The use of a website will allow greater access in regional areas and form a point of contact for customers with limited relationships with their DNSPs, retailers or installers.

The CEC will continue to work collaboratively with the AEMC towards the effective review and development of outcomes for consumer electricity pricing. The CEC would like to offer ongoing input on the scope and direction of the Review and express interesting in participating in the Stakeholder Reference Group for the duration of this process.

If you have any queries or would like to discuss the submission in more detail, please contact Emma Fagan (efagan@cleanenergycouncil.org.au).

Kind Regards,

Emma Fagan
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Clean Energy Council

[8] Powering-Homes-Empowering-People-CER-Roadmap.pdf (cleanenergycouncil.org.au)
[9] Energy Made Easy