AUSTRALIAN ENERGY REGULATOR

GPO Box 3131
Canberra ACT 2601
tel: 1300 585 165
www.aer.gov.au

Our Ref: 30498483

25 August 2025

James White

CER Taskforce
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601
Australia

Sent by email to: certaskforceg@dcceew.gov.au

Dear Mr White

The Australian Energy Regulator (**AER**) welcomes the opportunity to make a submission to the paper developed by Consumer Energy Resources (**CER**) Taskforce and published on the website of Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) on Redefining roles and responsibilities for power system and market operations in a high CER future (**Consultation Paper**).

We have reviewed the consultation materials, and broadly support CER Taskforce's assessment of the distribution system, and the risks and opportunities of reform. Below, we outline the AER's views on the proposed capability model, market design and institutional arrangements.

Capability framework

The AER agrees with CER Taskforce's approach to defining the roles and capabilities required to ensure the effective operation of power systems and markets in a future with high uptake of CER. We support the three outcomes proposed by the CER Taskforce. In a future energy system increasingly shaped by dynamic distributed demand and flexible resources, the outcomes of effective CER orchestration, improved visibility and predictability and integration into system security and emergency management will be crucial to ensuring efficient power system and market operations. We also broadly agree with the proposed priority actions identified to clarify, formalise and standardise roles to achieve those outcomes.

In the capability mapping while we have not identified any missing use cases, we do not consider this list to be exhaustive or permanent. Rather, it is important the capability framework remains flexible enough to be updated to account for issues identified only after implementation, or changing market dynamics and technology, wherever necessary. If future

markets and power systems require amendments to the capability framework, the three outcomes should guide where and how new roles are created, or existing roles are changed, merged, split, reassigned or removed as necessary.

For the current capability framework definitions, we suggest that the following use cases should be assigned to the distribution system operator (DSO) role, rather than the suggestion of distribution network operator (DNO):

- OTE10 – Monitor conformity of emergency commands
- OTE22 – Adjust the energy flow on network
- OTN96 – Trigger dynamic prices

We consider each of these functions to be more relevant to the operational function, rather than the planning function of the network, which indicates that these activities would be better performed by the DSO role than the DNO. We understand that the distribution network service provider (DNSP) is proposed to be assigned to both these roles, so operationally this suggestion is not expected to make a significant difference. Still, it will enable having clear and distinct responsibilities in case of a future reform that potentially separates the way both the DNO and the DSO roles are performed.

Eventually, should a distribution market operator (DMO) be introduced, we consider the following roles appear to be better suited to sit with the DMO rather than with the DSO:

- OTN28 – Manage Dx Network Constraints Through CER Services
- OTN29 – Trigger Dx Network Service
- OTN31 – Settle Dx Network Service Payments
- OTN96 – Trigger dynamic prices

Implementation pathways

As outlined earlier, the AER supports the three outcomes identified by the CER Taskforce.

In addition, the CER Taskforce has outlined six priority actions which focus on clarifying, formalising and standardising the roles, expectations and accountabilities. We consider the priority actions should substantively address the gaps demonstrated by the capability mapping. Thorough consideration of the implementation pathway will be critical to provide clarity on the timeline.

We note that currently these priority actions are high level. We expect that each priority action will require thorough planning, and a significant program of work. Many factors will need to be considered when orchestrating the implementation pathway for each of the six actions proposed.

In planning the pathway for each proposed action, the AER proposes the following aspects should be considered:

- Costs and benefits of the action, ideally detailed through an assessment which would consider a variety of possible scenarios. We consider developing scenarios would play a key role as there is uncertainty about the pace of transition to a high-CER system. This uncertainty is driven by the unknowns in the demand for new energy services vis-à-vis the development and availability of orchestration technologies.
- Consistency in measures across electricity networks, where possible.

- Temporal aspects, including where the action is dependent on the maturity of the power system and market, all stages of CER adoption, emerging technology, and new energy products and services.
- Bottlenecks in development, which would challenge further implementation of the action if unresolved.
- The diversity of consumer interests, including diversity in CER ownership, CER use, CER knowledge, and preferred level of participation.
- The need to enable new energy services markets to emerge and protect competition to serve the long-term interests of consumers.

Integrating CER at different levels

We note that a whole of system perspective is required for CER integration to achieve the three outcomes outlined in the consultation paper of visibility, orchestration and system security. The outcome of the market signals should be that the CER dispatch is optimised to reflect the whole-of-system value.

As the consultation paper has outlined, at present the market signals do not explicitly consider the local network limits and constraints. While in most cases these are coordinated between the networks and AEMO considering the system security requirements, there is a need to address the critical risk of misalignment between local (distribution-level) and system-wide (NEM) objectives, when and where it could happen.

For example, there could be a situation where CER is prioritised to participate in the NEM, but may imply there is not enough remaining CER capacity to help alleviate local network constraints and avoid network augmentation. While this is unlikely to be an issue in the short term, it may become more substantive as the levels of CER penetration increase. Conversely if a material CER capacity is retained locally that could have been used to keep spot prices lower or providing FCAS, it may lead to dispatch of more expensive utility-scale resources thereby raising costs system-wide.

Therefore, it may be worthwhile to consider as part of future updates to the framework how to ensure what changes are necessary to promote the effective utilisation of distributed resources to ensure optimal system-wide benefits are achieved.

Distribution-level markets

The AER considers there is a need to develop our understanding of the conditions under which a distribution-level market should be implemented. We would be supportive of further analysis and modelling work to be undertaken to assist in identifying the necessary preconditions.

In the meantime, the AER continues to support measures being taken to improve network visibility of CER. We have supported several initiatives in place to advance this goal. For example:

- Low-voltage Network Visibility Project Phase 3 final report proposes a pathway for ongoing delivery of priority datasets to the market.
- Policy led sandboxing tests innovative approaches to solving problems with the energy framework, by exempting an innovator from having to comply with specified laws and rules for a period of time.

Governance and institutional arrangements

The AER supports the CER Taskforce's assessment that there is no one-size-fits-all solution to the challenges of integrating CER, and we agree with the risks and potential benefits of the proposed institutional arrangements. For any proposed arrangement, it will be important to identify steps which could be taken, should the arrangements need to be amended.

The chosen pathway should be backed by evidence-based analysis on a like-for-like basis, considering the costs and benefits of all options, including the status quo. The AER emphasises the following key considerations:

- Cost efficiency of the arrangement,
- Level of adoption of CER, noting that as the level of CER penetration increases in distribution networks, this would appear to improve the favourability of Option 2 or 3, This is because the benefits of a distribution-level market will be proportional to the volume of trade, whereas the cost of implementing the market would be similar regardless of participation.
- Development of national standards and the role of technical regulator – noting that these may enable Option 3 to become more workable,
- Risks to competition – care must be taken not to provide an opportunity for where a DNSP could use its monopoly position to damage competition and the development of markets. We note there are cases where a DNSP can provide a service without damaging competition because of the conditions in the market, because there has been some kind of market failure, or because the benefits of DNSP involvement outweigh the risks.
- Compliance and enforcement – the ability of the AER to monitor and enforce compliance must be ensured, and relevant risks of impacts on competition should be avoided in the first instance, where possible.

Overall, the AER agrees that reforms should be considered, particularly in light of recent changes to electricity markets and technological development.

Intersection with AER's regulatory framework

Each option will have a different set of impacts on the pre-existing regulatory arrangements. In particular, we expect to see implications for the operation of the Service Classification guideline, Ring-fencing (electricity distribution) Guidelines, Shared Asset Guideline, and Cost Allocation Guideline (distribution). We will explore the potential impacts of DSMO governance arrangements in a forthcoming paper.

Please do not hesitate to contact Mayank Grover on [redacted] or at [redacted] to discuss this further.

Yours sincerely

[redacted]

Stephanie Jolly
EGM Consumers, Policy and Markets