

A few
words.

19 May 2016



Mr Richard Owens
Australian Energy Market Commission
PO Box A2449
Sydney South NSW1235

Lodged online: www.aemc.gov.au

Ref: ERC0197

Dear Mr Owens,

RE: Draft Rule Determination – Updating the Electricity B2B Framework

AGL Energy Ltd (**AGL**) welcomes the opportunity to provide comments in response to the Australian Energy Market Commission's (**AEMC**) Draft Determination on the National Electricity Amendment (Updating the Electricity B2B Framework) Rule 2016 (**the Draft Determination**).

As one of Australia's largest integrated energy companies with over 3.7 million retail customers, we are strong advocates for a transformed National Energy Market (NEM) that supports metering competition and drives greater innovation and customer choice. We therefore continue to support the AEMC's decision to update the B2B Framework, to facilitate communications between a wider range of parties offering and accessing the new services enabled by digital meters.

AGL is pleased with the AEMC's draft decision to adopt an industry-led governance model which encompasses broad membership across all interested parties. We are very keen to ensure that the renewed IEC adequately supports those within industry who will be bound by and will directly bear the costs associated with IEC decisions on B2B procedural development. An industry-led IEC is also the most effective way to facilitate communications between a wider range of parties and therefore will enhance the efficiencies and benefits of the competition in metering for electricity customers.

AGL also acknowledges the following decisions in the Draft Determination will also contribute to achieving the National Electricity Objective (NEO):

- allowing the Australian Market Operator (AEMO) to veto IEC procedural recommendations only where there is a conflict with Market Settlement and Transfer Solution (MSATS) procedures;
- requiring the IEC to consider a revised set of B2B factors, B2B principles and the NEO when making B2B procedural decisions; and
- the cost recovery mechanism (subject to finalisation of the participants fee model by AEMO).

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However, AGL has some concerns with the Draft Determination and believe that it can be further enhanced. Refinements to the IEC membership model and the implementation timetable should better promote outcomes in line with the NEO, particularly for the purposes of metering competition, noting that any changes must not delay the 1 December 2017 start date.

The attached annex provides more detail on our proposed enhancements and also highlights where we believe further clarification is necessary.

Lastly, AGL believes that it is prudent for the AEMC to use the three year Power of Choice review process¹ as a basis to assess the strategic direction and effectiveness of the B2B Framework, including membership of the IEC. This will allow the industry to make any necessary adjustments to unforeseen market practices, design and participants.

Should you have any questions in relation to this submission please contact Dan Mascarenhas on (03) 8633 7874 or DMascare@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Bashir'.

Stephanie Bashir
Head of Policy and Regulation – New Energy

¹ Built into the AEMC's Competition in Metering and Related Services rule.

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Annex

AGL has outlined some areas of concern or points of clarification we believe should be addressed in the final determination.

IEC Membership

AGL is pleased with the AEMC's draft decision to adopt an industry-led governance model which encompasses broad membership across interested stakeholders. We remain keen to ensure that the IEC has a strong focus on supporting those within industry who will be bound by and will directly bear the costs associated with IEC decisions on B2B procedural development.

While we acknowledge the rationale behind the AEMC's preferred membership structure, AGL remains concerned that existing market participants who will play a significant role in the market-led rollout of digital meters, are not adequately represented. AGL also has concerns with the significant authority provided to AEMO as chairperson and appointer of a number of IEC seats.

AGL therefore supports the position presented by the Australian Energy Council (Energy Council) at the AEMC's recent workshop on the Draft Determination. That is, we support a membership structure which provides more balanced representation to existing industry stakeholders, particularly over the initial years of metering competition. This will be important to ensure that B2B procedures are designed to minimise disruption as the market transitions to digital metering, and will also promote efficiency and innovation.

Under our preferred model, AEMO would remain chairperson and retain appointment of consumer representative and discretionary seats. However, the number of existing membership class seats would be increased, and discretionary seats reduced.

The makeup of the renewed IEC membership would therefore include:

Who	Held by	Appointed By
1 x Chairperson	AEMO Director	AEMO
2 x Retailer seats	Retailers	Retailers
2 x Distributor seats	Distributors	Distributors
2 x Metering seats	Metering Parties ²	Metering Parties
1 x 3rd party B2B seat³	B2B 3 rd parties	B2B 3 rd parties
1 x Consumer seat	Consumer representative	AEMO in consultation with Energy Consumers Australia
2 x Discretionary seats	TBC	IEC assigns membership class Seat/s appointed by AEMO in consultation with membership class
<i>Total number of seats</i>	<i>Min 8 seats⁴ Max 11 seats</i>	

² This membership class would include accredited Metering Providers, Metering Data Providers and Metering Coordinators.

³ Consistent with the Draft Determination, the 3rd party B2B seat would only be created once at least one 3rd party B2B participant had sought nomination by its membership class for election to the IEC.

⁴ The minimum number of seats increases to 9 where a 3rd party B2B seat is assigned.

Implementing such an approach is consistent with the Power of Choice principles, works within the industry-led governance model and will best ensure a market-led rollout of digital metering and competition eventuates across the NEM.

We request the AEMC to consider the merits of this membership proposal and the wider views of industry on IEC membership structure.

Should the AEMC wish to retain the IEC membership model set out in the Draft Determination, as a minimum, the AEMC must provide clear direction to AEMO on:

- how discretionary appointments should be made, in consultation with industry; and
- which industry classes should be considered as priority over the initial years of metering competition.

Irrespective of the decision taken in the final determination, we strongly encourage the AEMC to use the three year Power of Choice review process⁵ as a basis to assess the strategic direction and effectiveness of the B2B Framework, including IEC membership.

Implementation

The AEMC's Competition in Metering and Related Services rule is market critical to the rollout of digital meters. AGL therefore does not support any further delays to the 1 December 2017 effective date (the effective date).

AGL has serious concerns with AEMO's current process to set up a transitional IEC. We note that at the recent AEMC workshop on the Draft Determination, AEMO noted that the transitional committee would not be in effect until mid-June 2016. This announcement contradicted previous advice provided by AEMO in their letter to the Energy Council (seeking retailer transitional IEC nomination(s)), which stated that the transitional IEC would be up and running by mid-May.

Industry need at least 12 months lead time post finalisation of B2B procedures to implement necessary system and process changes, undertaking internal training and put in place the required commercial arrangements.

While we believe that the transitional arrangements timetable set out in the Draft Determination is achievable, it is essential that, at a minimum, AEMO establish the revised IEC within one month of the final determination. In addition, the IEC must be allowed to:

- immediately commence, develop and make recommendations on priority B2B procedures necessary for the effective date; and
- set its forward work program post the effective date on other B2B transactions (and Minimum Services Specifications which are not market-priority).

We request the AEMC give serious consideration to these implementation issues.

Other Issues

In addition to the above critical issues, AGL also welcomes clarification from the AEMC on the following:

1. AEMO Chairperson and Conflict of Interests

AGL understands per section 7.17.6 of the draft rule that where AEMO or the renewed IEC determines that a material conflict of interest exists, the AEMO member must step down as

⁵ built into the AEMC's Competition in Metering and Related Services rule.

chairperson and will be replaced by an ordinary IEC member. In addition, per 7.17.9 of the draft rule, the AEMO member would be removed from its obligation to attend a meeting of the IEC for quorum purposes where it had a material conflict of interest.

AGL supports this approach although notes that the types of AEMO conflicts deemed 'material' is ambiguous. While section 7.17.8 prescribes 'material conflicts'⁶ for ordinary members, it is not clear if this definition equally applies to AEMO. AGL welcomes clarification on this matter.

AGL also seeks clarification from the AEMC on whether an ordinary IEC member experiencing a personal 'material conflict' may have its membership substituted with another representative within its membership class. We are concerned that without the ability to substitute membership under such circumstances, the membership class in question may be without a voting right, and therefore could be adversely and unnecessarily impacted by an IEC decision.

2. B2B Change Parties accessing Disputes Resolution

The Draft Determination notes that all parties, except the IEC, may propose a change to the B2B procedures. AGL understands that these parties are split into two groups, namely B2B Parties and B2B Change Parties where the later refers to parties that have not adopted the B2B Framework.

While AGL supports the AEMC's view that B2B Change Parties should have a right to propose changes to the B2B procedures, we are concerned with the Draft Determination decision to extend their right to the B2B disputes resolution process where they are not satisfied with an IEC decision. Disputes resolution is a costly and time-consuming process and should only be used under exceptional circumstances. Opening up this process without a materiality threshold may increase the risk that B2B Change Parties use the disputes mechanism:

- as a 'blocker process' to the implementation of efficient procedures passing into the B2B Framework; or
- to argue for standardisation of inefficient transactions – without contributing to B2B cost recovery.

This will ultimately increase the work program and overall costs of the IEC unnecessarily, and would have to be recovered through the B2B cost recovery mechanism.

As outlined in our previous submission, AGL considers that all market parties who use the B2B e-hub or draw on elements of the B2B Framework, should equally contribute towards its development, management and administration. We understand cost recovery from B2B Change Parties cannot be enforced unless such parties opt-into the B2B Framework.

Therefore while we are supportive of B2B Change Parties retaining the right to propose changes to B2B procedures, we contend that the disputes process should not be open to B2B Change Parties. We call on the AEMC to address our concerns in the final determination.

⁶ Where clause 7.17.8(b) of the draft rule states:

"For the purposes of subparagraph (a)(5), a conflict will be material if it detracts, or would reasonably be considered to be likely to detract, from the Member's capacity to exercise independent judgment in respect of the relevant decision or determination."

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3. IEC Budget Management

AGL notes that the draft decision is currently silent on IEC budget management. Under current arrangements, the IEC can propose a budget against its work program, but must seek AEMO approval and use AEMO appointed service providers. We suggest that in line with the strategic industry-led focus of the renewed IEC, it should have budget independence from AEMO⁷.

⁷ Part G Section 8.10 of the National Electricity Rules sets out the funding arrangements for Energy Consumers Australia. A similar arrangement could be created for the IEC.

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