



Governance of retail market procedures

Commencement of consultation on draft rule determination

The Australian Energy Market Commission (Commission) is inviting submissions on its draft determination not to make a rule in relation to the *Governance of retail market procedures* rule change request.

The Commission's draft determination

The Australian Energy Market Operator (AEMO) has requested a rule change to rationalise the development and management of all procedures required under Chapter 7 of the National Electricity Rules (rules). This would see the merging of the process for making business-to-business (B2B) procedures, currently managed by the Information Exchange Committee (IEC), with AEMO's process for making all other procedures under these rules. The resulting integrated process would be specified in AEMO's procedures rather than the rules, and would be administered by AEMO.

The Commission has made a draft determination not to make the proposed rule. Submissions on this draft determination are due by 19 June 2014.

Background

Chapter 7 of the rules requires the development of procedures that are collectively referred to as 'retail market procedures.' These procedures are divided into B2B and non-B2B procedures, with the latter managed by AEMO. B2B procedures regulate the routine exchange of information between retailers and distributors, in relation to end-use customers, for example for connections, disconnections and special meter reads, as well as customer and site details. Non-B2B procedures refer to the other types of B2B procedures required under Chapter 7, including metering, metrology and market settlements and transfer solution (MSATS) procedures.

In relation to the former, the chapter establishes a standalone framework for the development and administration of B2B procedures by the IEC. This is an industry committee made up of retailer and distributor representatives, as well as two independent members. Under this framework, the IEC develops and recommends B2B procedures, which AEMO must approve and publish, except in very limited circumstances. It also specifies committee membership and voting, sets out the process that the IEC must follow for the development of B2B procedures and the limited role of AEMO in this process. In particular, AEMO provides administrative and secretariat services, and manages and maintains the B2B e-hub, the electronic information exchange platform that facilitates the B2B communications.

AEMO, as the rule proponent, has indicated that the current B2B framework is problematic in that it:

- leads to uncertainty as to the accountability for B2B procedures;
- is inefficient due to the duplication of process and resources; and
- is inflexible due to its specification, and the level of prescription, in the rules. It is therefore unable to respond, in a timely fashion, to changes in technology and in the market.

Reasons for the draft determination

The Commission is not satisfied that the proposal would better promote the National Electricity Objective (NEO) than the current arrangements. This is because:

- *The Commission considers that it is appropriate for the decision making process for B2B procedures to remain unchanged, at this time.*

B2B procedures relate to communications between participants for the purpose of carrying out their day-to-day operations, and do not involve AEMO or otherwise directly affect the wholesale market or settlement processes. The management of high volumes of such communications are an important back-office function and changes to these procedures can significantly affect business costs. The Commission considers that there therefore are strong incentives on industry to make efficient and responsible decisions in this area, which are aligned to the interests of consumers.

The Commission does not share the rule proponent's concerns regarding the accountability for making B2B procedures: the rules set out that both the IEC and AEMO have concurrent and interdependent roles in this process and the Commission considers that these arrangements represent an expedient way of giving effect to the IEC's independent functions.

There is also provision in the rules for AEMO to object to the IEC's recommendations in particular circumstances. The Commission has not been persuaded that any additional safeguards are currently necessary.

- *Some duplication of process is therefore an unavoidable consequence of retaining current arrangements.*

The Commission does not consider that there is any compelling evidence to suggest that the trade-off between administrative efficiency and decision making has changed significantly since the introduction of B2B arrangements.

- *The rules make adequate provision for modifications to the B2B arrangements in the future, through the rule change process.*

Given the Commission's conclusions above, continued specification of the process for making B2B procedures in the rules is therefore appropriate to provide regulatory certainty and transparency of process to industry. This outcome allows for future changes to be made to the B2B framework, by way of the rule change process.

Timing of changes to Chapter 7 rules

The Commission notes that potential changes may be required to meet the recommendations of the *Power of choice* review. These will be clarified through projects derived from that review, such the *Expanding competition in metering and related services* rule change request, and the supplementary implementation advice subsequent to the *Framework for open access and communication standards* review. Potential changes include the entry of new participants, such as metering coordinators, implementation of new technologies, such as smart meters, and functions associated with the delivery of new services. These may have significant impact on the structure and functions of the IEC.

These current projects are focussed on developing and implementing options designed to meet more specific market or technological requirements, and will therefore be better placed consider the impacts, if any, on existing governance arrangements. The Commission considers that it would be appropriate to align the timing of the changes with these more specific amendments.

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