

MULTIPLE TRADING RELATIONSHIPS DRAFT RULE DETERMINATION: AEMO SUBMISSION



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1. INTRODUCTION

AEMO welcomes the opportunity to provide a submission on the AEMC's Multiple Trading Relationships (MTR) Draft Rule Determination.

AEMO understands that the AEMC have decided not to make a draft rule because the rule change request is unlikely to deliver material benefits that outweigh the costs, and are seeking feedback on the draft determination.

2. AEMO'S RULE CHANGE REQUEST

In response to a request received from the Council of Australian Governments Energy Council (COAG EC) in July 2013, AEMO developed, in consultation with stakeholders, a high level market design facilitating multiple trading relationships at a single site. The purpose of the design was to facilitate consumers' access to an increased range of competitive energy products and services and eventually resulted in AEMO submitting a Rule Change Request to the AEMC.

As part of the process, Jacobs SKM was engaged to undertake a cost benefit analysis based on an early high level design for MTR. Jacobs SKM concluded that, based on costs submitted by market participants to implement this high level design, the quantifiable costs outweighed benefits under most plausible futures. Sensitivity analysis showed the net benefits were only positive in the case where higher uptake rates were assumed. However, the Jacobs SKM report also identified a number of benefits from MTR that could not be quantified that would have long term benefits for consumers.

Following the cost benefit analysis, AEMO reviewed the desired policy outcomes from MTR and considered options for achieving these at a lower cost. Direct consultation with a wide range of participants was undertaken to determine the areas of their systems most impacted by the changes and identify any options for cost savings. While no simple low-cost option emerged, a number of incremental savings were identified, and the initial design was changed so that cost reductions could be achieved. This approach proposed to amend the National Electricity Rules (NER) to provide the high-level framework for MTR rather than detailed prescriptive requirements. This detail would be contained in AEMO's procedures which would provide MTR with the flexibility to evolve and meet the needs of the market. As discussed further in Section 4, no further holistic cost benefit analysis was conducted on this adapted high level design, but AEMO considers, as highlighted in our rule change proposal, savings could be made compared to the early design.

Following further direction from COAG EC in June 2014, AEMO submitted a Rule Change Request for MTR that incorporated the approach considered as more cost-effective than the early high level design and preserved the policy intent.

3. MTR POLICY DRIVERS

The electricity market is currently undergoing significant change due to new technologies and services participating in or impacting on the National Electricity Market (NEM). These technology changes provide consumers with more choice and will continue to develop, meaning that competition issues that provided the impetus for MTR will likely remain.

In the Rule Determination, the AEMC outlined a number of current market changes that will have positive impacts on the electricity market. AEMO recognises that the ability to increase

consumer choice by facilitating these technologies and services into the market may be enabled through the Metering Competition (MC) rule change. MC aims to facilitate more efficient metering with the cost burden on industry; this provides the opportunity for a more innovative market. Distribution network pricing reforms could also contribute with innovative tariff arrangements. If these opportunities are taken up it could be argued that the need for MTR to enable competition and unbundling of services may be reduced. In the instance where the market issues that drove MTR significantly reduce or are resolved through MC or a combination of reforms, the material benefits for progressing with MTR would no longer exist.

However, it would be premature to predict how the market will operate once MC begins and whether market issues will be reduced or resolved. The issues may still remain post MC and other reforms, which could make MTR a more viable option. Given the market will continue to change there may also be new issues.

AEMO considers that it may not be possible at this point in time to understand the exact nature of future issues. At the point MC is operational it will become clearer if the proposed MTR rule change would provide long term benefits to consumers. As such, it would be worthwhile to consider the cost benefit of the proposed Rule Change and high level design under this new framework.

4. COSTS

The quantitative component of the cost benefit analysis prepared by Jacobs SKM, was based on an early high level design. For this analysis, participants provided estimates which included a number of options for the proposal's implementation without clarifying how the various roles would be undertaken and how participants' systems might need modification.

The cost estimates provided showed both high implementation costs and high ongoing costs, driven by extensive systems and process updates to support the high level market design. Recognising that participants' cost estimates possibly reflected worst case scenarios and included extra costs to accommodate final design uncertainties. Neither Jacobs SKM nor AEMO attempted to verify the cost estimates provided.

In June 2014 COAG EC directed AEMO to develop a rule change proposal for MTR that incorporated alternative, more cost-effective options and preserved the policy intent. While no simple low-cost option emerged, a number of incremental savings were identified and savings can be made compared to the early high level design that participant cost estimates were based on.

Furthermore, the rule change proposal was developed when details of the Power of Choice reform were unknown. The metering coordinator role was anticipated to be a key enabler and facilitator of MTR which could potentially reduce the costs. There are also some Power of Choice initiatives that are not yet finalised with potential implementation cost synergies. For example significant changes to IT infrastructure may provide opportunity for participant IT costs involved in implementing MTR to be reduced.

While the original cost benefit analysis showed MTR costs outweighing benefits in most scenarios based on the early high level design, it also identified a number of qualitative benefits. Given the nature of cost benefit analysis and potential opportunities for future cost reductions it may be worth considering potential initiatives that could reduce the implementation costs.

5. FUTURE REVIEW

AEMO acknowledges that the current rate of change means the policy objectives and cost issues of MTR are not clear. This timing may make implementation of a fundamental change such as MTR less than ideal.

AEMO agrees with the AEMC that MC and other upcoming changes have the potential to improve or solve some of the issues MTR seeks to fix, such as unbundling of retail services. However, the issues currently exist and there is a risk they may still exist in the future as new technology and providers continue to evolve. It would be desirable to understand in the future if the MTR objectives have been met.

While the participant costs were estimated to be high in the cost benefit analysis process, AEMO recognises that these costs may change under new regulatory frameworks, including MC.

On the basis of costs and benefits, revisiting the value of MTR arrangements in light of MC operation is recommended. At this point it will be clearer how MTR will interact with MC and if the longer term benefits from enhancing consumer choice through MTR outweighs the new costs. It may be that such a review identifies a new simpler solution to solve the problems more efficiently. AEMO recommends that a date be set to review the cost and benefits or that it be incorporated into the AEMC's proposed review into the MC operations.