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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

ERC0181: Multiple Trading Relationships- Consultation Paper

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the Australian Energy Market Operator's (AEMO) rule change request on Multiple Trading Relationships (MTR).

Origin does not support the making of the MTR rule change at this time. As the AEMC notes in its consultation paper, there are a number of other initiatives that industry and AEMO will need to focus on in order to deliver the recommendations from the Power of Choice (PoC) review. In particular, the Expanding Competition in Metering and Related Services rule change (the metering competition rule change), customer access to data (CAD), the embedded network manager (ENM), the share market protocol (SMP) and the recommendations from the Customer Switching Review will require significant resources to develop, codify and implement.

Furthermore, the uncertainty regarding the benefits of MTR combined with yet to be determined additional costs arising from its implementation cast sufficient doubt on whether the rule change will produce net benefits for consumers that would be consistent with National Electricity Objective (NEO).

Origin proposes that the MTR rule change be re-assessed after the significant changes promulgated by the PoC reform process have been implemented. We believe that by prioritising the existing PoC program of work with an emphasis on completing and implementing the metering competition rule and related changes will enable market participants to obtain a better understating of the impact of the proposed rule in practice, which will better inform how to develop an effective future MTR framework.

We respond to specific matters identified in the consultation paper below. Should you wish to discuss the contents of this response, please contact David Calder, Manager, Regulatory Strategy on (03) 8665 7712 in the first instance.

Yours sincerely

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Question 1 Previous projects and changed market environment

1. Have changes in market conditions or new information since these projects were completed affected the potential benefits and costs of MTR?
2. Are there additional costs and/or benefits associated with MTR that were not identified or assessed by Jacobs SKM in its analysis?

Origin believes that there have been changes in market conditions since the rule change was proposed that impact upon the urgency to implement a MTR framework. A significant electric vehicle service provider has exited the market globally and this business was a key advocate of a MTR solution. No comparable third party business is active at present, which will impact upon take up of MTR by consumers.

Secondly, electricity consumption is in decline and delivered prices (inclusive of network tariffs) have stabilised and may decrease over the next few years. This may reduce the value of MTR as:

- The avoided cost of energy consumption from demand side participation initiatives supported by MTR may be lower than was the case when network tariffs were increasing.
- In absence of advanced metering, it is not possible to introduce of demand tariffs. While MTR may support cost minimisation for customers assigned to a demand tariff (e.g. control of loads), a series of metering solutions, including competitively provided advanced metering needs to be in place first.
- Alternatives to MTR exist that may be more cost effective for those customers seeking to minimize costs through demand side participation (off-market arrangements for example).

Costs of implementation are likely to remain similar to those when Jacobs SKM undertook its analysis, given that there are unknown impacts from procedure and retail rule changes, life support, network billing and tariff allocation complexities. Furthermore, the MTR rule change will detract from the implementation of other PoC projects (competition in metering rule change, SMP, CAD and the ENM changes) and rather than complement them, will divert resources away from these more pressing initiatives. For these reasons, Origin believes the MTR rule change is likely to remain cost-benefit negative in the medium term.

Question 2 Assessment framework

1. Are there any other issues that should be considered in the Commission's assessment of AEMO's rule change request?

The uncertainty associated with potential benefits is amplified by other related policy initiatives and rule changes currently underway, including the consideration of the authorisation and application of consumer protections to alternative energy sellers (by the COAG Energy Council and the Australian Energy Regulator) and the AER's forthcoming ring-fencing guideline review. The unknown impact of these changes is likely to increase the uncertainty of net benefits from implementing the MTR rule change.

Question 3 New services facilitated by MTR

1. Does KPMG's analysis represent a reasonable summary of the services that may be facilitated by MTR? Are there any other services that may be facilitated by MTR?
2. Would these new services be more effectively enabled by AEMO's proposed MTR framework than under current arrangements which require a second connection to the distribution network? Would AEMO's proposed MRT framework better enable customers to capture the value associated with the demand response, as opposed to current arrangements?

Origin believes that KPMG has reasonably identified the range of services that MTR may enable. We note that for many of the services identified, MTR is not required. We also emphasise that the National Electricity Rules (NER) do not currently prohibit parties from agreeing to deliver products and services that the MTR rule change might enable. Such products and services do not require the installation of on-market metering. Solar power purchase agreements (SPPAs) are an example of this (in fact, no agreement is required between the financially responsible Market Participant [FRMP] and the SPPA provider at all). If there is a market for services that MTR may support, Origin believes competitively based commercial agreements between service providers will drive similar outcomes to the claimed benefits of MTR, without the need for costly changes to systems and industry processes. If a customer's retailer as FRMP will not provide a service that the customer is seeking, that customer is free to select a retailer who will.

Therefore, metering arrangements described in the MTR rule change can be supported without the need for extensive system changes and costs incurred by AEMO and industry participants. Such arrangements do not have to be on-market and are commonplace today in the case of SPPAs as discussed above.

Question 4 Efficiency benefits

1. Does KPMG's analysis effectively describe the ability of these different energy services to capture efficiency benefits along the supply chain?
2. Do the current arrangements raise coordination and split incentive issues? If so, to what extent would AEMO's proposed MTR framework allow service providers to address such coordination and split incentive problems?

While split incentives may exist under current arrangements, Origin believes these can be overcome through commercial negotiation and customer choice. To the extent customers seek the products and services provided by aggregators, other third parties, retailers and distribution businesses, there is nothing preventing the efficiencies along the energy supply chain and their value being exploited should parties reach agreement and customers demand the services. Alternative and existing arrangements can support these outcomes today where demand exists.

Question 5 Impacts on customers of enabling MTR

1. Are the costs associated with establishing a second connection point likely to deter customers, particularly small customers, from engaging with multiple FRMPs at a premises?
2. Would AEMO's proposed MTR framework significantly reduce direct costs for customers who want to engage with multiple FRMPs? Could AEMO's proposed framework deliver any other direct cost savings for consumers?
3. Are the direct costs of engaging with multiple FRMPs at a premises markedly different for small and large customers under current arrangements? Would AEMO's proposed MTR framework have a more significant impact for small customers than for large customers?

Origin agrees with Energeia's analysis, undertaken for the AEMC, that the proposed MTR rule change will not materially reduce the upfront establishment costs relative to a second connection point.[1] In relation to large customers, these entities will generally have a strong economic incentive to engage in MTR arrangements if there is value in doing so. Therefore, the costs of establishing a MTR will be driven by an assessment of the benefits and costs that flow from the arrangement. Small customers may see little difference in establishment costs as noted above.

Question 6 Impacts on AEMO and market participants enabling MTR

1. What costs would retailers, DNSPs and AEMO face in adapting their systems to implement AEMO's proposed MTR framework?
2. Could these adaptation costs be reduced through a staged implementation process?
3. Could these adaptation costs be reduced by implementing at the same time as any other projects? What other projects might present opportunities for joint implementation?

All participants are likely to face material costs to implement the proposed MTR framework. Origin's costs remain of a similar magnitude to those originally submitted for the cost-benefit analysis.

The costs of MTR implementation are not likely to reduce significantly if a staged implementation approach was adopted. Market participants and AEMO face an extensive work program to implement a number of Power of Choice reforms and requiring MTR implementation during this process in addition to the other system and market changes is likely to delay progress on more important reforms and reduce the benefits stream to customers that these enable (metering competition, the shared market protocol). Continuous releases of market systems will be costly for AEMO and market participants.

With respect to question three, while there may be some synergies with the implementation of other system builds associated with PoC related rule changes, MTR may accelerate the replacement of MSATS and will draw resources away from implementation projects that carry higher benefits for consumers (for example, the competition in metering rule change and the SMP).

[1] AEMC (2015), Mutiple Trading Relationships Rule 2015 – consultation paper, pages 26-29.

Question 7 Metering arrangements

1. What issues could arise for Metering Coordinators as a result of MTR? What issues arise for MTR as a result of the role of Metering Coordinator?
2. Should only financially responsible market participants be able to engage with customers through MTR arrangements? If not, what other parties should be allowed to engage through MTR and what benefits would this provide to consumers? What are the implications for the AER's exempt selling guidelines?
3. Could multi-element meters support MTR at a lower cost to consumers than other metering configurations? Are there limits or barriers to stop Metering Coordinators installing meters?
4. Can multi-element meters be supported by existing AEMO and participant IT and settlement systems? Would a requirement on AEMO and participants to support multi-element meters create costs for participants? What is the extent of these costs?

Origin believes that only market participants (FRMPs) should engage metering coordinators (MC), consistent with the competition in metering draft rule. Large customers are able to appoint their MCs under the draft rule. Non-market participants other than customers should not appoint MCs - third parties are not participants in the market and are not subject to oversight by AEMO or the AER, nor are they liable for the costs of implementing changes to market systems. Allowing parties other than large customers and FRMPs to appoint MCs in the early stages of competition in metering will create additional risks that may be difficult for the industry, AEMO and regulators to manage.

The AEMC points out some of the issues that may confront an MC on page 35 of the consultation paper, namely, that the ability and willingness of competing MCs at a premise to support a MTR arrangement is uncertain. Origin agrees and believes that before MTR arrangements are formalised, the competitive market for metering services needs to mature in order to ensure the benefits of MTR can be fully realised and its costs better understood.

Finally, barriers to entry to becoming a FRMP under the NER are relatively low, as demonstrated by the large number of registered FRMPs and authorised retailers in the NEM. Third parties can become the FRMP and appoint their own MC. This does not preclude such FRMPs negotiating with others to develop MTR off-market on a commercial basis aimed at supporting the products sought by customers.

Multi-element metering may support MTR at a lower cost, but it will be difficult to assign different FRMPs to different elements on the meter, along with a single MC. The allocation of network charges, which is a challenge more generally for MTR, would be uncertain in this scenario. There are likely to be barriers for MCs to install multi-element metering as the retention of a distribution network service prover's (DNSP's) device may impede the ability for a MC to install advanced metering of any kind. Arrangements for the retailer of last resort (RoLR) are also unclear. These factors further diminish the certainty of benefits associated with MTR.

Question 8 Network charges and network support payments

1. If a customer establishes a second connection point at a premises, will that customer face inefficient fixed DUOS charges? Will this issue be addressed by the new network pricing objective and pricing principles?
2. Would the allocation of capacity or demand based charges present particular challenges where multiple FRMPs are present at a premises?
3. Would MTR require changes to the framework for the billing of network charges and for credit support?

Network service providers are currently developing their Tariff Structure Statements. Until these statements are finalised it is unclear what impact future DUOS will have on a MTR framework.

Notwithstanding, with respect to new tariff structures that distribution businesses have indicated that they are likely to apply (for example demand or capacity based tariffs), the current arrangements (two connection points) and parallel metering should support their application. Downstream meters in a subtractive configuration will record demand (in kW) for loads served by this second settlement point. To the extent separate FRMPs are responsible for each of the upstream and downstream settlement points, the upstream FRMP will need to have the demand level adjusted at its metered boundary to reflect its load only and not that of the downstream meter. Such network use of system charge settlement will be complex because there will be at least two maximum demands to determine (since the two loads are unlikely to be at maximum coincidentally). The application of network tariffs in an environment of pricing reform adds another layer of complexity to the changes already required to implement other elements of the PoC reforms and rule changes.

The MTR rule change will impact upon administration of network charges and will have billing system impacts on distribution businesses and FRMPs that are likely to contribute to the cost of implementation.

Question 10 Customer classification

1. Should customers be classified as large or small, residential or business, according to consumption at individual settlement points?
2. Should FRMPs have the ability to reclassify only the settlement points for which they have responsibility, or should they be able to reclassify an entire premises?
3. Would these issues be any different where a customer had established multiple trading relationships supported by a second connection point at its premises?

The classification of a customer as small or large, residential or business should not be determined by the load associated with MTR arrangements. The spirit of the classification is to capture the nature of consumption by the customer as a whole. Allowing customers to reclassify as small or residential based on the load of individual settlement points within a MTR arrangements could lead to gaming of loads by a range of parties to access advantages that would otherwise not be accessible without the division of a customer's load. For example, a large customer could be reclassified as small based on the consumption of individual settlement points within a parallel-metered MTR arrangement. In doing so, the large customer would gain access to protections under the National Energy Consumer Framework (NECF). It would be subverting the intent of customer classification in this instance if it results in a large customer accessing small customer protections.

Therefore, Origin believes that FRMPs should only be in a position to classify an entire premise. The issues do not change if a second connection point is established to the premise.

Question 11 Relationship between DNSPs, customers and retailers

1. Will the current tripartite arrangements require adjustment to allow for multiple trading relationships?
2. Does this issue only arise under AEMO's proposed MTR framework, or also where a customer has established MTR supported by two connection points?
3. Are there any issues related to the coordination of billing cycles between multiple FRMPs at a premises that would need to be addressed in the NERR?

The current tripartite arrangements would require change to support the proposed rule change. The DNSP will require a relationship with each FRMP providing services to the customer. This is a fundamental change to the existing relationship and has complex implications for matters identified elsewhere in the consultation paper including network billing, wholesale and network settlement, de and re-energisation, network tariff allocation and credit support. These complexities may increase the final cost associated with the rule change and it is difficult to accurately estimate what this may be without trial experience in the market of MTR.

Where a second connection point is established (the current NER arrangement) this complexity may be reduced. However, Origin would again emphasise that such arrangements can and do take place today without the downstream services having to be covered by NEM arrangements. Customer preferences and competition will drive outcomes similar to those that may be enabled by the proposed MTR rule change.

Subtractive metering does present challenges to the coordination of billing cycles. Customers may wish to elect for one FRMP to bill them quarterly and the other monthly. This choice would not be possible given the dependencies that arise under subtractive metering. Changes to the National Electricity Retail Rules (NERR) in this case may perversely reduce rather than increase customer choice. Again, given other challenges confronting industry and AEMO to implement cornerstone rule changes (such as the metering competition rule change), further complication will impede on delivery on more material elements of the PoC recommendations.

Question 12 De-energisation and disconnection arrangements

1. Should DNSPs and FRMPs be able to de-energise a settlement point if this results in subsequent de-energisation of a downstream settlement point?
2. How is the metering configuration adopted by a consumer relevant to disconnection issues? Do these issues arise only where a subtractive metering configuration is adopted?
3. Would the prospect of disconnection of a downstream settlement point deter potential new energy service providers from entering the market? Are additional safeguard mechanisms needed to deal with third party disconnection?

Disconnection is a further complicating factor associated with the rule change. If the metering scheme under a MTR arrangement results in a downstream settlement point being de-energised when an upstream point is isolated, then this will impact on customer experience significantly. At the same time, individual FRMPs need to retain the right to disconnect a settlement point and associated load for non-payment or in conjunction with the DNSP, for reasons of safety or network security. These matters further erode the benefits of formalising MTR in the NER.

A net metering configuration would result in similar de-energisation of downstream loads and settlement points if the upstream meter is de-energised.

This prospect of downstream settlement point disconnection would be a deterrent for potential service providers, impacting upon take up (and therefore the benefits) associated with the MTR rule change.

Question 13 Life support equipment

1. How should the risk of disconnection of life support equipment be managed where an MTR arrangement is in place? Are the new requirements proposed by AEMO sufficient to manage this risk?
2. Are the risks of disconnection of life support equipment affected by the specific metering configuration used by a consumer to enable MTR? Would the risks of disconnection of life support equipment be any different where MTR was supported by a second connection point?

AEMO's proposed requirements go some way to addressing the risks of disconnecting a customer in a MTR arrangement. However, there will be additional administrative costs for FRMPs who may not have any involvement in the load associated with life support equipment and oversight of responsibility and obligations will need to be extended to cover such FRMPs. Again, this is a complication that will require system changes to manage risks that are critical, but may be required in very limited circumstances.

Where a second connection point is in place, there is lower risk of disconnection of life support equipment if de-energisation of one connection point does not affect load to the equipment required for this purpose.

Question 14 Standing offer and deemed customer arrangements

1. If multiple retailers are active at a premises with MTR, should all of these retailers be required to make the standing offer available? If not, which retailer should have this responsibility?
2. Would this issue arise where MTR was supported by a second connection point?

With respect to question 14(1), the requirement to make available a standing offer demonstrates why only a FRMP (and therefore an authorised retailer) should make arrangements for metering coordinators and provide services. The NERR requirement of access to a standing offer for small customers is universal; otherwise it is not required to protect small consumers. Origin considers that all retailers should be obliged to make available a standing offer under an MTR arrangement.

This scenario is distinct from the situation where one retailer is responsible for a single settlement and connection point and the customer makes subsequent choices that are outside of the NEM on its side of the meter. These arrangements are subject to ACL and conditions imposed by the AER under its exempt selling guideline.

In the scenario of a second connection point (current NER arrangements) without MTR, similar obligations should apply. It is not clear why secondary supply from the electricity grid to a small customer would be exempt from the consumer protection regime.

Question 15 Implementation

1. Are there potential synergies available from implementing any rule made in response to AEMO's rule change request in coordination with any rule made in response to the Demand Response Mechanism? If so, to what extent?
2. What are the potential timeframes for implementing AEMO's proposed MTR framework? Do stakeholders have any specific suggestions to transitional implementation timeframes?
3. Are there any other subsequent changes to AEMO procedures or jurisdictional codes that will need to be made following any rule made in response to AEMO's rule change request?
4. What changes may be needed to the RoLR arrangements to allow for AEMO's proposed MTR framework?

With respect to implementation, Origin emphasises that work on the MTR rule change and/or the Demand Response Mechanism (DRM) will divert resources away from the timely implementation of other PoC related rule changes. The competition in metering rule change, CAD and SMP changes should be prioritised given the more certain nature of the net benefits associated with them. All stakeholders impacted by implementation of these changes are aware of the scale of investment that will be required to meet an effective date, now likely in 2018. Adding the MTR and DRM changes to this schedule will put at risk the effective date of rules supporting the core recommendations from the PoC.

Origin believes that once the first wave of PoC reforms have been implemented and consumers and industry gain experience in the market, MTR should be re-evaluated as the costs and benefits of its application will be more certain.

There will need to be changes to procedures and jurisdictional codes to support the MTR framework, including AEMO procedures supporting MSATS and CATS, the metrology procedures and so on, as well as the NERR. There are changes required to support MTR that are not yet anticipated and will add to the cost of implementation.

RoLR arrangements under MTR will be complex and will impact which FRMP has default or optional RoLR responsibilities. The AER may need to change its processes for registering default or additional RoLR's and the nature of responsibilities for RoLRs in MTR scenarios requires further consideration.