



19 January 2017

Ms Victoria Mollard
Director
Australian Energy Market Commission
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Lodged Online

RE: DISTRIBUTION MARKET MODEL

Origin Energy (Origin) appreciates the opportunity to provide input to the Australian Energy Market Commission's (AEMC) Approach Paper to examine future distribution market design options to address technological innovation.

As the AEMC note, the considerable uptake of distributed energy resources (DER) across the National Electricity Market (NEM) will have a material impact on the conventional supply chain as increasing numbers of households become both consumers and generators of electricity.

Origin fully supports a strategic investigation to identify market models that optimise the interoperability of the supply chain in response to increasing DER. We believe that as alternative forms of supply become more dynamic, the distribution market design must be sufficiently agile to not only allow networks to meet their technical and regulatory obligations but also empower customers, support innovation and promote competition.

The AEMC has proposed an assessment framework underpinned by principles of good market design. These principles will guide the AEMC's analysis of the advantages and disadvantages of possible market design and system operation options.

Origin agrees with this approach and considers that the proposed principles are consistent with the National Electricity Objective. However, the AEMC has yet to identify the market design models it will assess. The AEMC has proposed releasing a final report in early to mid 2017. Given the preliminary stage of its investigations, we believe that stakeholders should be afforded the opportunity to formally comment on the AEMC's analysis and any recommendations prior to it finalising this project.

Origin's responses to specific issues identified in the approach paper are set out below.

Definitions

Origin supports the AEMC's definition of DER as smart energy equipment co-located with consumer load with the ability to respond automatically to short term price signals. However, we believe that in undertaking its analysis, the AEMC should also consider how customers synchronise their smart and passive devices and the implications of this on the operation of different market designs.

In addition, Origin seeks clarification regarding how the AEMC defines controlled load. Given the magnitude of this load and its potential contestability, we consider that the AEMC needs to consider the implications of controlled load on different market models as part of this project.

Project Scope

The AEMC states that the scope of this project is to examine whether changes to the regulatory framework are required to support increased amounts of DER and to provide appropriate incentives for the ways in which these resources can be used.

The AEMC states that the project is not intended to be a prediction of or pathway for future regulatory reform, but rather an exploration of the possible distribution market design options that may be available to harness the opportunities presented by DER, while addressing technical and regulatory impacts.

Origin agrees that the current market design should be tested to ensure that it supports innovation, whether this is through DER or any other technology, and enables customers to make informed decisions. We also support any assessment to be bound by the National Electricity Objective.

Role of the DNSP and the Regulatory Framework

In a well-functioning market, supply choices and the corresponding investment decisions are driven by price signals. When markets are integrated or dependent on a monopoly intermediary, the regulatory framework must ensure this does not compromise upstream and downstream market-driven environments.

Given a network's monopoly status, its primary role should be to provide open access to the network to facilitate competition in markets where possible. In the case of DER this does not prevent a network from procuring this service, or any other service, for network purposes; rather the condition should be imposed that networks must source these services from a competitive market.

The AEMC noted a number of Rule changes and reforms associated with ring-fencing and network conduct. These go some way to putting in place frameworks governing a network's conduct. Regardless, when assessing different market structures, we consider that the AEMC must also remain cognisant of the potential for a network as a potentially dominant buyer to distort market outcomes, especially when markets such as DER are in their infancy. Therefore, control over the coordination of DER is critical to ensure the market evolves and delivers long-term efficiencies.

Coordination of distribution systems with DER

As previously mentioned, a market-driven investment environment is the best means to provide long-term efficient price signals. We consider that the importance of market-driven price discovery should not be underestimated. Where competition is weaker, access to information and contracts (or their equivalent) typically become more sensitive. This is of particular relevance when there is a dominant participant in the market, such as a monopoly network.

We believe that a fundamental feature of the operation of an efficient market is that the control of DER must reside with the customer. Where other parties see value in controlling DER they must contract that control from the customer. This can take the form of a number of different service offerings reflecting the highest value the market places on this service, which in turn drives efficient investment. This market price can only be revealed through workable and effective competition.

We believe the role of the market model in this regard is to provide a framework that makes available information necessary for informed decision making and fairly coordinates buyers and sellers.

Furthermore, we believe that the AEMC should also examine the high level data requirements and control/dispatch standards needed for different market designs, including implications for metering or other data and control arrangements.

Principles of Good Market Design

Origin supports the market design principles proposed by the AEMC to guide its analysis of the different market design and system operation options. We believe that to be an effective market the proposed model must promote innovation, enable cost-effective smart grid investments and do this within a model that ensures safe and reliable grid security. Origin agrees with the AEMC's approach and considers that the proposed principles are consistent with the National Electricity Objective.

Closing

We believe that the objective of good distribution market design is a well-functioning market that delivers efficient and reliable electricity. A well-designed and well-functioning market will produce economic signals that incentivise progress towards the optimal mix (investment) and use (dispatch) of available assets driven by efficient price signals. This in turn empowers customers, supports innovation and promotes competition.

We support the market design principles proposed by the AEMC. Applied in a rigorous and consistent manner we believe this will identify an efficient and workable distribution market model. We also believe that the AEMC should provide stakeholders with the opportunity to examine and interrogate its analysis before finalising this project.

We would welcome the opportunity to discuss our views further with the AEMC. If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely



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