

19 May 2016



Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

**Draft Determination: Updating the electricity B2B framework (ERC0197)**

Energex Limited (Energex) appreciates the opportunity to provide a submission to the Australian Energy Market Commission on its draft rule determination relating to the two rule change requests received from the Council of Australian Governments Energy Council and Red Energy and Lumo Energy. These rule change requests were consolidated as they both relate to updating the existing business-to-business (B2B) framework in the National Electricity Rules to provide for parties using advanced metering services.

Energex's comments with respect to the intended membership structure and operation of the Information Exchange Committee, the body responsible for developing and maintaining B2B procedures, and the proposed implementation timetable for the new B2B framework are provided in **Attachment A**. As a member of the Energy Networks Association (ENA), Energex is also supportive of the views contained in the ENA's submission.

Should you have any queries regarding this submission, please contact Leigh Henderson, on (07) 3664 4118.

Yours sincerely

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# Energex

Draft Determination: Updating the  
electricity B2B framework  
(ERC0197)

May 2016



positive energy

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Energex Limited (Energex) is a Queensland Government Owned Corporation that builds, owns, operates and maintains the electricity distribution network in the growing region of South East Queensland, including the poles and wires and underground cables used to connect houses and businesses to the electricity network. We provide distribution services to almost 1.4 million domestic and business connections, delivering electricity to a population base of around 3.2 million people.

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# 1 Introduction

The Australian Energy Market Commission (AEMC) has made a draft rule determination on two rule change requests received from the Council of Australian Governments (COAG) Energy Council and Red and Lumo Energy. These rule change requests were consolidated as both requests proposed that the business-to-business (B2B) framework should be updated to enable communication between parties seeking access to the services provided by advanced meters.

The AEMC's draft rule is a more preferable rule proposing to amend the B2B arrangements in the National Electricity Rules (NER) to facilitate electronic communication between a greater range of parties providing or accessing the new services that will be available from advanced meters with the commencement of metering competition and other Power of Choice reforms on 1 December 2017. Key features of the draft rule determination relate to: membership and governance of the Information Exchange Committee (IEC), the body responsible for developing and maintaining B2B procedures; requirements for participants using the B2B framework; and the timetable for implementing the new framework.

In its submission dated 28 January 2016, Energex responded to the AEMC's consultation paper on issues raised by the AEMC with respect to the proposed B2B arrangements and implementation timeframes. While appreciative of the consideration the AEMC has given to the feedback provided by Energex and other stakeholders during the consultation process, Energex remains concerned about some key aspects of the proposed draft rule determination. This submission therefore provides Energex's views on the intended membership structure and operation of the IEC and the proposed implementation timetable.

## 2 Information Exchange Committee

The AEMC's draft determination amends the membership structure of the IEC to include: an Australian Energy Market Operator (AEMO) member (an AEMO director who will act as chair of the IEC); one retailer member; one Distribution Network Service Provider (DNSP) member; one metering member; up to one third party B2B participant member; one consumer member; and at least two, and up to four, discretionary members<sup>1</sup>. Four of these members are to be elected by industry, while up to six members are to be appointed by AEMO<sup>2</sup>. The AEMC considers that these membership arrangements will "enable the IEC to have both diverse membership and flexibility to enable it to reflect changing market conditions over time"<sup>3</sup>.

The current IEC was created to function as an independent industry body and is comprised of three DNSP, three local retailer or market customer members and two independent members. Energex understands that the IEC was established in this format to account for the fact that DNSPs and retailers are the parties utilising the B2B framework to conduct retail market business transactions and are therefore best placed to understand the financial and operational consequences of their decisions.

With recent Power of Choice energy market reforms, particularly those relating to contestable metering services, Energex acknowledges there is a need to amend the membership of the IEC to reflect the wider variety of parties that will be interested in meter services for small customers and in communicating via the B2B framework. Energex therefore remains supportive of the decision to expand IEC membership to include broader representation of industry and consumer representatives in the decision-making process, but is disappointed that the AEMC has not recognised the value in maintaining an adequate level of representation by primary market participants or the status of the IEC as an "industry body".

### 2.1 IEC membership

In its current format, the IEC has been responsible for effective decision-making with respect to the ongoing development and change process for B2B procedures since the introduction of B2B arrangements. DNSPs and retailers therefore have extensive experience and specialist knowledge and expertise in maintaining and complying with the B2B procedures and communicating high volumes of market transactions through the B2B e-hub.

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<sup>1</sup> Australian Energy Market Commission, *Draft Rule Determination: National Electricity Amendment (Updating the electricity B2B framework)* Rule 2016, 7 April 2016, p. 16.

<sup>2</sup> *Ibid*, p. 16.

<sup>3</sup> *Ibid*, p. iv.

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In Energex's view, there is a risk that limiting DNSP and retailer membership on the IEC to only one member each will:

- not provide an adequate level of experience and knowledge of B2B arrangements and retail market operations to support effective decision-making within critical timeframes;
- fail to provide sufficient coverage of business operating models of primary market participants and/or jurisdictional arrangements so that differences can be adequately represented;
- not provide a sufficient level of DNSP and retailer representation to cover temporary absences; and
- compromise the ability of the IEC to function effectively and achieve efficient and timely outcomes for industry and an optimum level of service delivery for electricity customers.

Consequently, Energex considers that DNSPs and retailers should continue to have a prominent role in the B2B decision-making process and therefore greater representation on the new IEC.

## **2.2 IEC's status as an industry body**

While the new IEC membership will be expanded to include broader representation by key stakeholders, Energex considers there is no valid reason why the status of the IEC as an industry body should not be maintained. As currently drafted, the rule determination effectively empowers AEMO with unlimited discretion over the appointment of a majority of IEC members. However, as already noted, market participants, not AEMO, will be the parties using the B2B framework and it is those businesses that will be impacted financially and operationally by the IEC's decisions.

Consequently, it is not unreasonable for market participants to expect that the IEC should continue to function as an industry body with a majority of industry-appointed membership or that market participants should have input into the appointment of other membership categories for which AEMO has been allocated responsibility.

## **2.3 IEC budget and operations**

Similarly, Energex considers it is important that the IEC should have control over its own budget and resources to effectively implement B2B procedure changes critical to the functioning of the retail electricity market. The lack of control by the current IEC over these matters has, at times, inhibited the IEC's capacity to effectively undertake its responsibilities.

As it is intended that market participants seeking to use the B2B framework will be paying participant fees to AEMO to fund the new B2B framework, it is also not unreasonable to expect that the body they are funding to make decisions on their

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behalf should have control of its budget and manage its resources to ensure the delivery of optimal outcomes for participant businesses and fulfil essential customer service requirements.

## 2.4 Recommendations

In light of the above, Energex considers that the final rule determination should:

- specify that IEC membership must include a minimum of two DNSP and two retailer members (to be elected by those member categories) to provide the necessary level of knowledge, experience and diversity of membership to facilitate effective decision-making and maintain a clear majority of industry-appointed members;
- reduce the number of “discretionary” members to two and, insofar as AEMO is to have responsibility for overseeing the appointment of IEC members, require AEMO to consult with industry participants and have regard to participant views in making such appointments; and
- provide for the IEC to be allocated control over its budget and operations in order to fulfil its functions effectively.

As the new B2B framework is critical to the delivery of existing and advanced metering services, Energex considers these amendments are necessary to ensure optimal outcomes for the energy market and, most importantly, customers.

## 3 Implementation

Under the draft rule determination, the AEMC has determined that necessary changes to the B2B framework should be implemented by 1 December 2017 in line with the commencement date for the new competition in metering, embedded networks and meter replacement processes rule changes<sup>4</sup>. The draft rule determination also makes recommendations regarding transitional arrangements to facilitate implementation, including proposed dates for key implementation tasks<sup>5</sup>. However, the AEMC has, in Energex's view, proposed an ambitious implementation timetable that will be challenging for AEMO, market participants and other stakeholders to achieve by 1 December 2017.

### 3.1 Proposed implementation timetable

The competition in metering final rule determination made on 26 November 2015 will introduce significant changes to the NER that will have major impacts upon the operation of the National Electricity Market (NEM). Energex therefore agrees with the view that it is important for the new B2B framework to be implemented at the same time as this major market reform to ensure efficient delivery of contestable metering services to customers. However, with the new B2B procedures now scheduled to be published by no later than 1 June 2017, the proposed timetable potentially provides AEMO and market participants with only six months to fully implement all necessary process and system changes (including IT system builds and industry testing).

Energex is committed to progressing to the new metering contestability framework as soon as possible and has been actively participating in market activities to facilitate its timely implementation. Indeed, Energex is supporting the earliest possible introduction of advanced meters for domestic customers and retailers are already actively deploying advanced meters in South East Queensland. The deployment of these meters is currently being managed in line with requirements for Type 4 metering installations via existing B2B arrangements and manual work protocols established with retailers.

As there is now little likelihood that all new and amended B2B transactions can be fully automated to support the new metering contestability framework and other reforms within a constrained timeframe, urgent consideration of the options for implementing Power of Choice functionality by 1 December 2017 is required.

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<sup>4</sup> Ibid, p. 83.

<sup>5</sup> Ibid, p. 83.

## 3.2 Options for implementation

One option for updating the B2B e-hub and participant systems and processes is to delay commencement of the Power of Choice reforms. A delay in commencement would provide market participants with more time to build and test their systems and would also minimise the risk of disruption to the market and additional implementation costs that are likely to result from an accelerated or staged implementation program. However, delaying commencement of metering contestability would require a rule change and potentially delay the benefits of Power of Choice to some customers.

As an alternative, the AEMC has proposed two potential options for the IEC's consideration with respect to implementation, that is, either:

- expedite the proposed implementation arrangements by publishing B2B procedures at a much earlier date; or
- adopt a staged approach to implementation by deciding that only certain new communications should not be made via the B2B e-hub at commencement, with communications being made by other means until a later date<sup>6</sup>.

Energex notes that there are risks and costs associated with both of these alternative implementation options.

### 3.2.1 Expedited implementation

Energex has previously indicated that it would not be prudent or efficient to commence development of new IT systems and operating processes prior to the publication of the final B2B procedures and has estimated that a period of 12-18 months following finalisation would be required for implementation<sup>7</sup>. This estimate is supported by past experience which has shown that the energy industry has not been able to deliver an implementation program of similar magnitude and complexity in less than 14 months.

With this in mind, Energex considers there are now limited, if any, opportunities available to expedite publication of the B2B procedures to such an extent that it would allow sufficient time for full implementation of new systems and processes by 1 December 2017. This has been exacerbated by the fact that the AEMC's final determination on this rule change will not now be published until the end of June 2016 as well as a delay in the formation of the transitional IEC until June 2016.

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<sup>6</sup> Ibid, p. 94.

<sup>7</sup> Energex, *Submission to AEMC on Consultation Paper: National Electricity Amendment (Updating the electricity B2B framework)* Rule 2016, 28 January 2016, p. 9.

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As it is currently unlikely that it will be possible to publish the B2B procedures at a sufficiently earlier date to allow enough time for cost-effective and efficient implementation (i.e. at least 12-18 months), there remains the risk that an accelerated implementation timetable may severely disrupt the efficient operation of the NEM. This could lead to adverse service delivery consequences for electricity customers and higher implementation costs for market participants (and potentially customers).

### 3.2.2 Staged implementation

As highlighted by the AEMC in its draft determination, “it may not be necessary for AEMO and participants to develop new IT systems and processes in order to send B2B communications ... because the B2B procedures are able to allow for a method of communication that does not use the B2B e-hub if the IEC considers it appropriate for that particular communication”.<sup>8</sup> Consequently, the new IEC has the ability to recommend that certain new B2B communications need not be made via the B2B e-hub at commencement.

Energex acknowledges that while it is preferable that the B2B procedures, B2B e-hub and market participant systems and processes should be ready to support all necessary business-as-usual and a range of essential advanced meter-related transactions at commencement of metering contestability, it is possible for participants to utilise other forms of communication and manual processes for an interim period until full B2B functionality can be delivered. However, it is important to bear in mind that there are risks and costs associated with a staged approach, particularly with respect to managing mass market transactions efficiently and cost-effectively. Those risks and costs include the following:

- Any requirement to support manual processes for a protracted period is likely to be inefficient and resource-intensive and lead to higher implementation costs for participants (which may potentially be passed on to customers);
- Multiple IT system and process changes would also likely result in significantly higher implementation costs for participants (and therefore potentially customers);
- Without automated transactions, particularly for high volume market transactions, service delivery to electricity customers may be adversely impacted;
- The ability for participants to be fully compliant with legislative obligations, including the requirements under the new Chapter 7 of the NER, may be compromised; and

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<sup>8</sup> AEMC, op. cit., p. 93.

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- By requiring market participants to invest in developing their own bespoke processes and system enhancements to support business transactions for an interim period, there is a risk that participants may be reluctant to invest further in industry-wide enhancements at a later stage, making it difficult to establish a shared platform.

### 3.3 Recommendations

In light of the above, and given the criticality of the B2B framework, the B2B e-hub and market participant systems and processes to the efficient operation of the NEM, Energex considers that:

- further work is required to assess the benefits to customers of delivering full Power of Choice functionality on 1 December 2017 using manual processes relative to a delayed deployment to allow cost-effective and efficient delivery of B2B functionality;
- the benefits to customers should be assessed against potential costs, including poor service delivery outcomes for customers and higher participant costs for implementation (which may ultimately be borne by customers), and those costs need to be fully understood and acknowledged by industry and stakeholders; and
- in the event that the preferred approach is to adopt a staged implementation, it is imperative that the transitional IEC is formed as soon as possible in order to finalise work already commenced on identifying the range of services that will be essential for provision by B2B at commencement and the additional functionality to be delivered at a subsequent date.

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## 4 Conclusion

The introduction of metering contestability and other Power of Choice reforms will have major impacts on the operation of the NEM and involve complex and costly system and process changes by industry. As noted in this submission, Energex remains concerned that certain aspects of the AEMC's draft rule determination will inhibit industry's ability to successfully implement the necessary changes to support these major reforms efficiently and cost-effectively, while at the same time maintaining essential service delivery to customers. These concerns relate primarily to the membership structure and operation of the IEC and the AEMC's proposed implementation timetable.

With respect to the membership and operation of the IEC, Energex has recommended that the AEMC's final determination:

- should specify that IEC membership must include a minimum of two DNSP and two retailer members (to be elected by those member categories) to provide the necessary level of knowledge, experience and diversity of membership to facilitate effective decision-making and maintain a clear majority of industry-appointed members;
- reduce the number of "discretionary" members to two and, insofar as AEMO is to have responsibility for overseeing the appointment of IEC members, require AEMO to consult with industry participants and have regard to participant views in making such appointments; and
- provide for the IEC to be allocated control over its budget and operations in order to fulfil its functions effectively.

Given the criticality of the B2B framework, the B2B e-hub and market participant systems and processes to the efficient operation of the NEM, Energex considers that with respect to implementation:

- it appears unlikely that B2B implementation can be expedited cost-effectively or efficiently by commencement of Power of Choice reforms on 1 December 2017;
- further work is therefore required to assess the benefits to customers of delivering full Power of Choice functionality on 1 December 2017 using manual processes relative to a delayed deployment to allow cost-effective and efficient delivery of B2B functionality;
- the benefits to customers should be assessed against potential costs, including poor service delivery outcomes for customers and higher participant costs for implementation (which may ultimately be borne by customers), and those costs need to be fully understood and acknowledged by industry and stakeholders; and

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- in the event that the preferred approach is to adopt a staged implementation, it is imperative that the transitional IEC is formed as soon as possible in order to finalise work already commenced on identifying the range of services that will be essential for provision by B2B at commencement and the additional functionality to be delivered at a subsequent date.

Energex is committed to continuing to work closely with AEMO and other market participants in developing and implementing the necessary B2B process and system changes to support the timely introduction of Power of Choice reforms. Energex also appreciates the AEMC's consideration of the issues outlined in this submission.