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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

Ref: ERC0179

National Electricity Amendment (Embedded Networks) Rule 2015 Draft Rule Determination

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission) Embedded Networks Draft Rule.

Origin agrees with the principle underlying the rule change, namely that embedded network customers should be provided with the opportunity to choose a retailer through the competitive retail market where it is efficient and practical to do so.

Origin therefore supports the proposed rules that will create a new role, the Embedded Network Manager (ENM), and the functions that will be associated with this role. We believe there will be a sufficient number of market participants and new entrants to support the establishment of a number of ENMs to offer services to Embedded Network Operators (ENOs).

The Commission has highlighted that this rule change applies only to the National Electricity Rules (NER) and that a range of retail market issues may arise as consequence of it. Accordingly, as the Commission flags in its report, changes to the National Electricity Retail Rules (NERR) may be required to follow this rule change. Notwithstanding, consumers that opt for a competitive retailer will be classified as customers under the NERR and will consequently receive many of the protections that ordinary customers otherwise receive.

One aspect of the Commission's rule change that concerns Origin is the requirement to provide embedded network customers with unbundled bills in certain circumstances. In Origin's view, the potential costs of changing retailer billing systems to facilitate unbundling of bills are likely to outweigh the benefits to customers. We provide further detail below.

As part of implementing the rule change, Origin supports the development of a new Australian Energy Market Operator (AEMO) Embedded Networks Manager procedure, in addition to amendments to existing AEMO procedures and the relevant Australian Energy Regulator (AER) guidelines for embedded networks. We also support the Commission's decision to align the effective date of the draft rule, and associated changes to procedures and guidelines, with the Expanding Competition in Metering and Related Services rule change.

The remainder of this response addresses aspects of the draft rule determination.

Should you wish to discuss the contents of this response, please contact Timothy Wilson, Retail Regulatory Analyst, on (03) 8665-7155 in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sean Greenup', with a stylized flourish at the end.

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Embedded network manager (ENM)

Origin supports the creation of an ENM role to facilitate embedded network customers accessing competitive retail offers. Rather than all exempt ENOs appointing an ENM, as AEMO proposed, the Commission suggests that exempt ENOs be required to appoint an ENM unless: (a) the relevant jurisdiction does not permit embedded networks to access the competitive retail market; or (b) the AER believes that the costs of doing so would exceed the benefits in a particular ENO. The Commission has added an additional caveat to (b), namely that an ENM will be appointed where a customer elects to go on-market.

Origin agrees with the Commission's more preferable rule; it is sensible to provide the AER with discretion to exempt certain ENOs from appointing an ENM where the costs exceed the benefits, except where a customer wants access to the competitive retail market. Origin is also comfortable with the proposed minimum accreditation standards that will be included in the NER and the use of AEMO procedures and guidelines to establish a process for applying for accreditation. The proposed framework that this draft rule establishes should result in the efficient provision of ENM services to the market. Origin agrees that guidelines, rather than the NER, are the appropriate place for these matters to be specified.

Unbundling bills

As part of its draft rule determination, the Commission has decided to make a more preferable rule in relation to bundled bills: ENO's must provide unbundled cost charges on request from either a customer or a retailer that a customer is seeking an offer from. Origin agrees with the intent of the proposed rule, which is to provide customers with information about their energy use, but we believe that the potential costs of implementing this are likely to outweigh the benefits.

Small and SME customers on embedded networks, and the distribution system, presently receive bundled bills from retailers; accordingly, retailer billing systems are designed to produce bundled bills. Requiring retailers to provide unbundled network and retailer charges for small and SME customers requires a system capability that retailer billing systems otherwise lack. It would be a very costly exercise for retailers acting as ENOs to upgrade these systems to accommodate the issuing of two separate bills.

In Origin's view, the requirement to provide unbundled bills risks reducing competition in this market, as retailers may be unwilling to enter the embedded network market due to the upfront system cost of unbundling bills. These costs may act as a barrier to entry for retailers who want to compete for customers in embedded networks. Consequently, this may undermine the principle of this rule change, which is to provide embedded network customers with more choice through better access to the retail market. For these reasons, the Commission should not require retailers to provide embedded network customers with unbundled bills.

Metering

Origin supports the AEMO proposal to amend the AER's network guideline to require routine reading, testing and inspection of off-market meters pursuant to the same conditions under the NER. We agree with the Commission that this will assist some embedded network customers with accessing a competitive market by ensuring that there is metering technology that meets broader NER standards.

In terms of allocating a NMI for child connection points, the proposed rule allocates this responsibility from the responsible person (or metering coordinator under the new rules) to the ENM. We support this change as it ensures one role, the ENM, is responsible for bringing the child meter on market. However, Origin is uncertain of the basis for AEMO allocating a unique NMI for each child connection point. Any NMI that AEMO allocates to a child meter downstream will have to mirror the Local Network

Service Providers (LNSP) predefined characters/algorithms that are used for that distribution area. Given that draft clauses 7.3.1 (fa) and (fb) entrenches this process in the NER, Origin seeks clarity on which algorithms will be applied to the NMI. In our view, a possible solution for the Commission is to require LNSP to provide blocks of NMI's for embedded network child connection points at the request of the ENM under the auspices of AEMO. This will encourage a smooth transition should these child connection points migrate on market.

Timelines.

The Commission has aligned the effective date (i.e. 1 December 2017) for both the Competition in Metering and Embedded Network rule changes. Origin agrees with the Commission's approach as it sensible from an operation perspective for the necessary system changes to occur concurrently under both rules. In the event that the dates for the Competition in Metering rule change are again delayed, Origin suggests that the Embedded Networks rule change continue to be aligned with it.

Consequential or corresponding changes to the NERR

Origin notes the consequential changes to the NERR described in detail on pages 98-105 of the draft determination. We discuss two of these matters below.

Standing offers

As the Commission notes, there is no obligation to make standing offers to customers in an embedded network. This reflects the fact that these customers belong to a private network where the ENO (or their agent) supplies electricity for customers. In Origin's view it is unnecessary to oblige retailers to extend standing offers to embedded network customers. The relationship between an ENO and embedded network customer is the equivalent of a standing offer to supply a customer's premise; ENOs have an obligation to supply under the terms of their retail exemption. A customer has the choice to enter into a market retail contract with an alternative provider, rather than remain with their ENO's supply arrangement.

Life support

The Commission's proposal is to amend the AER's exemption guidelines to require the ENO, rather than the ENM, to inform child connection point retailers of any life support requirements. This reflects the existing requirements under the AER's exemption guidelines for ENOs to inform parent connection point LNSP of any life support customers on their embedded network.

However, Origin notes that within the distribution network, the obligation is on customers to advise their retailer of their life support requirements and for the retailer to inform the LNSP. Where a life support customer churns on the distribution network, there is no obligation on LNSP to advise the new retailer; the customer must advise the retailer themselves. Whilst the customer may advise the LNSP directly, and formal processes are in place for retailers and LNSPs to exchange life support information through the B2B and MSATS Working Groups, the regulatory responsibility is primarily on the retailer as the entity most likely to interact with the customer.

In an embedded network, a similar principle should apply that the retailer is responsible for life support registration and notification to other parties. For example, if a customer in an embedded network chooses to have a NMI allocated to their meter and that customer subsequently leaves the embedded network, the ENO will be unaware if the incoming customer has life support requirements, as the customer will have no direct contact with the ENO. In practice, the customer will notify their retailer, and hence it is only sensible the retailer be responsible for registering and notifying the ENO of customer life support requirements.

Origin therefore disagrees with the Commission's proposal that would require the ENO to inform the retailer of the child connection point of any life support requirements. Instead, Origin suggests that retailers are best placed to capture and notify life support requirements, as is the case outside of embedded networks.