



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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Email: submissions@aemc.gov.au

Dear Mr Pierce

MULTIPLE TRADING RELATIONSHIPS

CitiPower Pty and Powercor Australia Limited (**the Businesses**) welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper relating to Multiple Trading Relationships (MTR).

The Australia Energy Market Operator's (AEMO) rule change request is intended to facilitate customers' ability to choose different retailers for different portions of their load, for example engaging with one retailer for general supply and another retailer for supply of energy to a specific appliance such as an air-conditioner unit or electric vehicle.

AEMO propose that the concept of MTR is best achieved through the separation of the physical connection point from the settlement point, which is the point at which energy is measured and financial settlement occurs. AEMO identified three potential metering arrangements that could support MTR namely:

- parallel metering; involving a separate meter and National Meter Identifiers (NMIs) for each load type at a premise;
- net metering, involving two meters and two NMIs (one for export and one for consumption) ; and
- subtractive metering, involving one parent meter and NMI with multiple downstream (child) meters and NMIs at a site

AEMO propose that the decision of which MTR arrangement be implemented be left to the market. AEMO also propose that operational details be determined through retail market procedures.

For the reasons set out below, AEMO's proposal will impose significant costs on industry to facilitate the implementation of MTR, which will ultimately be borne by consumers, without providing commensurate benefits. The Businesses therefore do not support the proposed change to the National Electricity Rules (**Rules**) to implement AEMO's MTR proposal.

REGISTERED OFFICE

40 Market Street, Melbourne VIC Australia Telephone: (03) 9683 4444 Facsimile: (03) 9683 4499
Address all Correspondence to: Locked Bag 14090, Melbourne VIC 8001 Australia
CitiPower Pty ABN 76 064 651 056 General Enquiries: 1300 301 101 www.citipower.com.au
Powercor Australia Ltd ABN 89 064 651 109 General Enquiries: 13 22 06 www.powercor.com.au

Importantly, customers already have the ability to have multiple trading relationships at a premise by:

- installing multiple connection points with different metering, tariff and retailer arrangements. Installing multiple connection points at a customer site achieves the same outcome as AEMO's parallel metering MTR option, except that there are multiple connection points; and
- developing an embedded network, where there is one aggregate connection point with multiple downstream metering points. Under this model DUOS billing occurs at the aggregate connection point. It could be possible for MTR to be facilitated through allowing different metering points within an embedded network to have different retailers. This could be accommodated with existing distributor operating systems provided the distribution network billing and information responsibilities related only to the parent connection point.

Significant costs on industry participants and therefore all customers

These potential benefits of MTR need to be balanced against the significant system changes and costs on market participants, particularly retailers and distributors. Consistent with the Rules, the Businesses existing operating systems are based on the fundamental principles of:

- the customer's physical connection point is a one to one relationship with the customers settlement point;
- each customer load having a single physical connection point;
- each connection point being associated with a single Financially Responsible Market Participant (**FRMP**) and metering installation;
- each metering installation having a unique NMI; and
- each connection point having a separate tariff.

Accommodating AEMOs proposed MTR scenarios, which require more than a one-to-one relationship between connection points, FRMPs, meters and NMIs, would involve reengineering of the fundamental principles that the following operational systems adhere to:

- billing system;
- standing data system;
- meter data management system;
- meter management system;
- works management system (SAP);
- faults management system;
- Geographic Information System (GIS);
- SCADA (supervisory control and data acquisition) system which remotely monitors and controls the distribution network assets, including zone substations and feeders;
- reporting (including operational, managerial and regulatory reporting); and

- IT integration system – which orchestrates communications between IT systems, as well as orchestrating business process management.

The above systems are highly integrated and therefore any changes required to facilitate MTR would need to be made across the different systems in parallel. The logic for how MTR is implemented within a system needs to be replicated across all systems (i.e. the same logic must be taken across all systems given the integrated nature).

The lead time for implementing the necessary changes to our systems would be up to approximately two years from the time AEMO developed the retail market procedures. The long lead in time for system changes is due to the extensiveness of the changes required and the requirement for the Businesses to engage with multiple system vendors who work on separate release schedules.

Our IT systems changes would need to be fully implemented and tested prior to the first customer being able to utilise the arrangements proposed through the rule change request. Management of our connection points are all done within systems and cannot be managed outside of the system process – from initial NMI generation, through to the establishment of the standing data and metering data, to collection of meter data, aggregation and billing.

Our initial indicative estimate of the capital costs to implement any one of the AEMO's MTR models is over \$19 million for our businesses. In addition, the Businesses expect to incur operating costs associated with:

- facilitating the introduction of new system processes;
- increased systems licencing costs (where licencing charges are levied on a per NMI and/or meter basis);
- duplication of billing services (including management and resolution of any disputes);
- increased billing inquiries and customer services calls;
- developing and maintaining new tariff structures. In order to apportion fixed charges across a site we would need multiple versions of any given tariff. For example, a 100% version for where there is only one FRMP for the site, a 50% version when there are two, 33% for when there are three etc. Similarly, demand charges would need to be determined based on the coincident peak demand across all settlement points at a site; and
- reconsideration of how to measure reliability performance for the purposes of the AER's service target performance incentive scheme.

These are the costs to implement MTR for two distributors, and it is clear that when calculated across the industry, the costs will be exorbitant.

The choice of model cannot be left to the market to determine

It is imperative that the AEMC specifies only one model for MTR, should it be minded to implement MTR arrangements. If the model for implementing MTR is left to the market, distributors will be required to make systems changes that accommodate all possible models. This would result in industry incurring significantly higher IT system costs and complex processes compared to if only one model is specified.

Distribution charges

The question of whether a customer with multiple connection or settlement points should receive two fixed DUOS charges is a much broader question than just MTR related. For example there are already single-titled multi-occupant dwellings such as units, townhouses and apartment blocks that receive multiple fixed distribution charges.

Where there are multiple customers on a single property we typically have one supply point (where network assets cease and customer assets commence) but multiple connection points (where the service fuse and metering assets are placed) with separate network tariffs. Each connection point on the site has an individual entitlement to receive separate network services including disconnection, reconnection, quality of supply, fault response and customer services.

In some cases, the ability to avoid multiple fixed charges has incentivised the introduction of embedded networks. In which case the network is no longer responsible for supplying separate network services to each connection point as this responsibility is transferred to the embedded network operator.

Under AEMO's proposal each settlement point would have a separate entitlement to network services. It is therefore not clear why MTR customers should be treated differently to single-titled multi-occupant dwellings. Further, allowing MTR customers to split fixed tariffs across settlement points would create a new precedent and it would become unclear where to draw the line between which categories of customers should pay multiple fixed tariffs and which shouldn't, i.e. should this also be applicable to single-titled multi-occupant dwellings.

Importantly, if MTR customers are able to avoid multiple fixed charges then ultimately all other customers would need to pay more to recover total network costs.

Marginal individual customer benefits

The evidence presented by AEMO to date indicates its proposed MTR arrangements would provide only marginal benefits to individual customers.

AEMO engaged KPMG to explore the range of energy services that MTR could promote. KPMG found that:¹

- MTR was not a pre-requisite for most of the potential new energy services but may better enable customers to capture the value of these services;
- most of the potential new services identified would provide limited value across the electricity supply chain; and
- the uptake of MTR is highly uncertain and subject to a range of external drivers.

AEMO also engaged Energeia to assess an individual customer's costs of implementing MTR using AEMO's proposal of multiple settlement points, compared with customer's existing option to establish multiple connection points. Energeia found that the costs of the two approaches were similar, with the exception of some customers, where their specific circumstances meant that their costs may be reduced under AEMO's subtractive metering MTR option.²

¹ AEMC, Consultation paper, Multiple Trading Relationships, 30 July 2015, pp. 18-25.

² Ibid, p.30.

The reports commissioned by AEMO indicate that where the MTR model involves multiple financial settlement points, the costs to individual customers are no lower than under existing options, customers in aggregate are unlikely to obtain benefits from existing new services and it is unclear if there is any demand for MTR. The exception to this is that individual customers may incur lower costs in the subtractive metering model.

Unclear there is presently demand for MTR type arrangements

Our Businesses have experienced very limited interest from customers to undertake MTR type arrangements. Customers on a single premise that have established secondary connection points generally do so to accommodate multiple dwellings on a single site. Even our large customers have not expressed much interest which is telling given large customers would generally be expected to reap greater benefits from MTR type arrangements than small customers.

For mass market customers the MTR arrangements are likely to create considerable confusion and could lead to the customer unknowingly being made worse off. For example customers could end up paying more in total if retailer administration costs increase with multiple retailers. It would also make it more complicated for customers to compare retailer offerings as some retailer offerings may only be available if the full load is subject to the same retailer. Further, introducing MTR at the same time as new meter contestability arrangement will compound customer confusion.

At this time we do not consider that the mass consumer market is sufficiently mature for the individual customers to actively pursue MTR for the benefit of splitting load across multiple retailers. In this regard, AEMO's rule change proposal appears premature.

Conclusion

AEMO's proposed MTR rule change would impose costs on all customers, via distributors and retailers, and would only provide marginal benefit to some individual customers that choose to take up MTR arrangements for private benefit. The Businesses therefore consider that amending the Rules to facilitate AEMO's proposed MTR would not be in the long term interests of electricity consumers.

The Businesses therefore do not support the AEMO rule change request.

The Businesses would be pleased to discuss any aspect of this letter with the AEMC. Please contact Megan Willcox on 03 9236 7048 or mwillcox@powercor.com.au.

Regards



Renate Tirpcou
Manager, Regulation