



EnergyAustralia

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Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

AEMC 2016 - National Electricity Amendment (Updating the electricity B2B framework) Draft Rule Determination

1. Introduction

EnergyAustralia welcomes the opportunity to comment on the Commission's National Electricity Amendment (Updating the electricity B2B framework) Draft Rule Determination 2016. We are one of Australia's largest energy companies, providing electricity and gas to over 2.5 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

We appreciated the opportunity to discuss our concerns and suggestions on the Draft Rule Determination at the recent forum held on 29 April 2016 (Stakeholder Forum). This pre-submission forum was particularly valuable as it confirmed the key issues and ensured all parties now have an unambiguous and informed understanding of each party's position.

In this submission we comment on the following substantive issues:

- Industry Exchange Committee (IEC) membership structure and appointment
- Business to Business (B2B) procedures, B2B factors, principles and cost recovery
- Minimum services specification
- Implementation arrangements
- Transitional arrangements

2. Substantive Issues

2.1 IEC Membership Structure and Appointment Rights

a) IEC Membership Structure

IEC Membership			
AEMC Proposal		EnergyAustralia Proposal	
Member	Appointment	Member	Appointment
1 x Chair (AEMO Director)	AEMO	1 x Chair (AEMO Director)	AEMO
1 x Retailer	Category	2 x Retailer	Category
1 x Distributor	Category	2 x Distributor	Category
1 x Metering Parties	Category	2 x Metering Parties	Category
1 x 3 rd Party B2B	Category	1 x 3 rd Party B2B (if any exist)	Category
1 x Consumer	AEMO	1 x Consumer	AEMO
2-4 Discretionary	AEMO	2 x Discretionary	IEC

The table above lists both the Commission's and EnergyAustralia's proposed IEC membership structure. We are of the view that the IEC is an industry body and its membership should largely reflect the industry and be primarily appointed by industry. Retailers, distributors and metering providers will be the core users of B2B transactions in the short to medium term. These B2B transactions are and will continue to be fundamental to the successful operation of the competitive electricity market.

However, we strongly believe that two retailer and two distributor members (reduced from the three retailers and three distributors under the current IEC) will better support stability and balance in the future decision making of the IEC. Also, as the transition to metering competition for small customers from 1 December 2017 will be a significant change to the market, we believe this justifies the inclusion of two metering parties onto the IEC.

In terms of the other roles proposed for the IEC, we generally agree with the proposal put forward in the Draft Rule. The inclusion of a consumer member and AEMO as chair adequately replaces the current IEC independent members (including Chair) and will reinforce a customer focus on both content and cost of future B2B transactions. The third Party B2B member will allow the newly created Embedded Network Manager function to be represented or some other third party should it exist. Under the EA proposal, there are two discretionary member positions that provide the IEC with the flexibility to appoint additional members should new emerging business models appear or specific subject matter expertise is required by the IEC.

At the recent Stakeholder Forum, AEMO representatives suggested that it was highly likely, under the Commission's proposal, that an additional retailer and distributor member would be appointed to two of the four discretionary category members for the initial IEC. However, this does not provide retailers or distributors with certainty of multiple member representation in these categories. Nevertheless, it implies that AEMO is also supportive of multiple retailer and distributor members and that this would be beneficial at least in the short to medium term.

It appears that AEMO intends to use the discretionary members for additional retailer, distributor and metering members. Therefore it would provide more certainty, under EnergyAustralia's proposal, to formalise this in the membership structure and only have two discretionary members. The discretionary member positions could then be used for emerging technologies and additional third parties should they be required.

b) IEC Appointment Rights

We do not support the Commission's assertion that it would be too complex to include suitable rules for appointing the multiple retailer and distributor representatives. These could be selected by their industry associations or by a nomination and member category voting process managed by an independent party. The discussion at the Stakeholder Forum and the recent experiences in putting forward nominations for the transitional IEC have both highlighted the difficulties that can arise when seeking sufficient and balanced representation from a broad range of parties whose businesses are very different in size and focus¹.

Under the proposed appointment arrangements, businesses are unaware of who is nominating in their category as well as the process used by AEMO to choose between nominees for their category. Understanding these things has a significant bearing on the decision of a business or even business category to put forward appropriate nominations to ensure appropriate representation. Businesses do not take lightly, the decision to nominate a person for the IEC as it is a significant amount of work, especially as it requires consultation with other businesses within the category. This industry environment appears to be a relatively permanent feature of the market. In our view, the best way to ensure appropriate industry coverage without imposing too heavily on single businesses is to have two representatives each for retailers, distributors and metering providers.

The appointment responsibility appears unbalanced under the Commission's proposal. AEMO would have responsibility for appointing six out of a possible ten members if all discretionary members were utilised. Alternatively with only two discretionary members AEMO would still have control over the appointment of four of the possible eight IEC members. This is not necessarily reflective of industry needs. We believe that AEMO would take seriously its responsibilities to appoint appropriate people to the IEC; however, they are also an interested party who must provide resources, make system changes and incur costs in working with industry to manage the B2B framework. Given too much power to a non-independent party seems unnecessary and could foreseeably result in adverse outcomes.

Similarly, EnergyAustralia believes that an AEMO director as chair of the IEC provides AEMO with significant influence over IEC decision making and that the appointment of the discretionary members should be undertaken by the IEC. The IEC will have a broad view of emerging technologies and new business models and will be better placed to identify where the discretionary members could be sourced. Allowing IEC members to vote in the discretionary members would mean that the selection process has two steps. This would provide the benefit of allowing IEC members to supplement the IEC with the required representation and would mitigate the risk that industry parties feel they are not appropriately represented.

2.2 B2B Procedures, B2B Factors and Principles and Cost Recovery

The Draft Rule more clearly outlines the responsibilities for both AEMO and the IEC regarding creating and amending B2B procedures. The IEC must now have regard to the National Electricity Objective (NEO) and the new B2B factors whilst AEMO now only has veto rights for an IEC B2B recommendation if it has an inconsistency with Market Settlement and Transfer System (MSATS) procedures. We support this change.

¹ For example, some business have very small or very large customer bases; only focus on particular customer segments; are restricted to one region (distributors); only operate in Victoria where smart meters have already been rolled out; have a business model that includes a metering provider in addition to being a retailer or distributor; etc.

We also support the proposed cost recovery mechanism which is similar to the existing arrangement whereby B2B costs are recovered by AEMO through participant fees. It is appropriate to only allocate participant fees to those parties that have the ultimate responsibility for charging customers. Hence, retailers and third party B2B participants (when they exist) will fund B2B costs until such time as other participants are deemed to be providing direct services to customers. We acknowledge that AEMO continues to have the obligation to review the participant fee structure as required. Given that there are many changes to be made to the B2B transactions, procedures and the B2B ehub before the implementation date, we anticipate that the costs are likely to be higher in 2016 and 2017 than in later years. Therefore we urge the Commission and AEMO to consider the timing of the consultation of the structure of the participant fees and the timing of the impact of the costs on participants so that the fees are allocated to relevant parties from the start.

2.3 Minimum Services Specification

The following draft National Electricity Rule (NER) rule limits the flexibility of the IEC in its selection of priority services that it decides are mandatory for a smooth transition to metering competition under a market led roll out:

Draft NER rule 7.17.3(a)(1) Content of the B2B Procedures

- (a) *The B2B Procedures may be constituted by one or more separate documents and:*
 - (1) *Must provide for B2B Communication to support each of the services set out in the minimum services specification...*

The new and replacement meter responsibility under Competition in Metering imposes significant new obligations on various parties within the market. For instance EnergyAustralia will have a new obligation to install approximately 180,000 meters nationally in 2018 for small customers that must be managed in an orderly and efficient manner, with minimal interruptions, to their electricity supply. Additional smart meter installations will come as a result of some customers accepting smart meter product offerings that complement their energy supply. The initial success of Competition in Metering will be largely judged by customers' meter installation experiences compared to that when managed by distributors.

Some preliminary work has been undertaken by industry to identify the new transactions that will be required for these rule changes. However the delivery of all of the required transactions prior to 1 December 2017 may not be possible and therefore we believe that the IEC should prioritise the essential transactions to minimise customer impacts. For instance, transactions related to meter changes and new installations would have priority over some of the other minimum services transactions. The IEC should not be restricted in their prioritisation by rule 7.17.3(a)(1), which mandates the delivery of transactions related to the Minimum Services Specification. Rather they should base their assessment on what will support the continued reliable supply of electricity to customers with minimal interruptions. We suggest that this rule be deleted or supported by an additional rule that allows the IEC to deliver transactions for the minimum services post 1 December 2017 if other transactions are deemed more critical.

2.4 Transitional arrangements

While we acknowledge that the transitional arrangements are complex and somewhat difficult to deliver in the timeframe allowed, we believe that the IEC election procedures and operating manual (developed by AEMO) should be briefly consulted on and accepted by an industry vote. The voting process can be very brief with acceptance based on a majority of members. This

will give the new IEC confidence in their approach and allow them to focus on the immediate task of approving the B2B procedures.

The development of the initial B2B procedures, following the formation of the new IEC, is time-critical and the sooner industry has certainty on the minimum transaction changes required the better chance all industry participants will have to meet the go live date of 1 Dec 2017. While we fully support existing procedure consultation processes, this unique change event (Competition in Metering, Embedded Network and B2B Framework rule changes) all currently scheduled for 1 Dec 2017 would benefit from a more flexible approach. With a complex industry transition of this type, including many new parties, sometimes problems are not identified until late in the system /transaction build phase. If these problems are significant they need to be addressed urgently.

Therefore we feel it would be highly beneficial for industry if the IEC could make changes under brief special shortened consultation processes, where critical necessary changes to transactions were identified. This could occur during the period after the final procedures were published but prior to or shortly after the rule change commencement date. We would support the inclusion of a new Draft Rule, with an expiry of perhaps six months after the commencement date, for this purpose.

The IEC has been given until 1 May 2017 to recommend changes to the B2B procedures consistent with the Draft Rule. It is generally understood that a much earlier recommendation by the IEC will facilitate a preferred increased build and implementation time for industry. AEMO has been given until 1 June 2017 to publish the new B2B procedures and we believe that this should be amended to one month after the IEC makes its recommendation, to maximise industry certainty and to minimise any unnecessary administrative delays.

2.5 Implementation arrangements

The recommendation, by the IEC, of the necessary B2B changes by 1 May 2017 as proposed in the Draft Rule allows some flexibility for the IEC to make this determination much earlier. We believe this is essential to ensure EnergyAustralia and other market participants have sufficient time to assess system impacts and to build, test and trial these new transactions nationally.

Competition in Metering changes many aspects of a retailer's business daily operations and how it manages the different types of service orders for customers (many at high volumes). This will involve changes to many internal systems, processes and associated staff re-training across the industry and must be tested concurrently per the usual process for changes of this nature. Not only is industry making changes required for the B2B Framework, but we are also making even wider ranging changes that affect our business models, resourcing and contractual arrangements to accommodate the Competition in Metering and Embedded Networks changes at the same time. The transition to Full Retail Competition (FRC), in various separate jurisdictions, had a comparable impact to industry participants some time ago. However it was at a much lesser scale. The testing and market trials undertaken for FRC were significant and EA believes that this level of market testing needs to be completed nationally for competition in metering to ensure all market impacts and consequences are understood and effectively managed.

Therefore, our strong preference is for at least 12 months' lead time from final B2B procedures before implementation. It would be highly disruptive for the market to implement Competition in Metering and Embedded Networks without implementing the agreed set of Minimum B2B Services. B2B transactions are fundamental to providing an essential service to customers and

to do so safely. We do not see that workarounds and interim measures for B2B Services will be adequate in any way. While we want all these metering changes to be implemented as soon as possible, we don't want to compromise customer safety and experience.

3. Summary

The introduction of metering competition and emerging technologies has necessitated a change to the IEC structure and membership. The IEC has important and imminent decisions to make, shortly after their formation on the minimum B2B procedures required by 1 December 2017. These are critical decisions for industry, thus the IEC would benefit from multiple inputs from the parties that will incur the most impact – retailers, distributors and metering providers. It seems reasonable that the IEC membership should be able to leverage various views of the key parties affected covering retailing, distribution and metering in order for the best decisions to be made. We therefore disagree with the Commission's proposal and have outlined why we continue to support our original proposal for two members each from retailers, distributors and metering parties.

We believe that the IEC would be better placed to appoint the discretionary members should they be required. The IEC has the responsibility to prioritise and deliver the B2B transactions required by industry now and into the future and therefore they should have the control over the industry participant members of their committee. AEMO will have suitable influence over the IEC as chair and the appointee of the Consumer representative under our proposed membership structure.

With well over one million electricity customers, the new and replacement metering obligations alone, transitioning to EnergyAustralia on 1 December 2017, are substantial and these cannot be effectively managed via ad hoc manual transactions. Therefore we seek as much flexibility as possible for the IEC to assess the impacts across the multiple parties in the new market and to ensure that the necessary automated transactions are developed and implemented prior to the proposed commencement date.

In most jurisdictions, full retail competition (FRC) rules and B2B requirements were implemented over a period of one to two years. We believe that competition in metering is a much larger industry transition than a jurisdictional move to (FRC), considering its national focus, inclusion of multiple new metering parties, new widespread field asset responsibilities for retailers and the condensed timeline for implementation. Therefore we would support the measures and proposed rules, identified in this submission, to assist industry to deliver by this fast-approaching implementation date.

Should you require further information on this submission please call me on 03 8628 1242 or Randall Brown on 03 8628 1437.

Yours sincerely

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Industry Regulation Leader