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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

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National Electricity Amendment (Embedded Networks) Rule 2015 Consultation Paper

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission's) consultation on amendments to the National Electricity Rules as they relate to embedded networks.

Embedded networks serve an increasing number of residential and commercial customers, yet oversight of this significant segment of the electricity market has been limited historically. Origin agrees with the principle underlying the rule change: providing customers choice to the competitive retail market where efficient to do so.

Origin therefore supports the proposed changes, which include the creation of an 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.

We also support a gradual transition for ENM appointment and the alignment of the effective date of the new rule with the Expanding Competition in Metering and Related Services rule change and related rule changes.

The remainder of this response addresses questions raised by the Commission in its consultation paper.

Should you wish to discuss the contents of this response, please contact David Calder, Regulatory Strategy Manager on (03) 8665-7712 in the first instance.

Yours sincerely

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Question 1- Requirements to facilitate competition

- (a) Are there any additional changes to the NER or the AER's network guideline that are necessary to allow embedded network customers access to retail market offers?
- (b) Are there any additional changes to the NER or the network guideline that are necessary to clarify the roles and responsibilities for management of embedded network customers?
- (c) Are any of the proposed changes to the NER or the network guideline proposed by AEMO not appropriate?

In relation to question 1(a), Origin considers that the proposed changes appear to support customers within ENs in choosing their own retailer and accessing offers from the retail market. As the Commission is aware, there will be a strong relationship between the Expanding Competition in Metering and Related Services rule change (herein the metering rule change) and the EN rule change. The metering rule change will support access to the market by EN customers. Until the market matures, it is difficult to foresee deficiencies in the NER or AER guidelines.

Similarly, the proposed changes to the NER and the network guideline appear to support new obligations and responsibilities through the creation of the ENM role. Origin supports this new role and believes it is the most efficient means of supporting EN customer choice and access to retail market offers.

In relation to question 1(c), Origin does not believe any of AEMO's proposed changes are inappropriate, with the exception of the requirement for unbundling of retail bills for embedded network customers. This may not be necessary in all cases and could result in customer confusion where a retailer intends to make a bundled retail offer to customers within an embedded network. Origin believes that retailers, ENOs, ENMs and other relevant parties will be able to adopt a process for small customers that minimises confusion and allows comparisons of offers available to them. This issue is discussed further in our response to question 10 below.

Question 2- Who should perform these functions?

- (a) Should a new accredited service provider role (the ENM) be created to perform all or some of these functions as proposed by AEMO?
- (b) What, if any, functions should be performed by an existing party? And if so, which existing party? What would the advantages be of an existing party performing some of these functions?
- (c) Alternatively, if a new ENM role is not created, who should perform the functions identified by AEMO? What would the advantages be of other parties performing the functions?

Origin supports the creation of the ENM role to undertake the functions proposed by AEMO.

Existing parties could perform functions where they choose to. Since the ENM role will be contestable in nature, existing parties can enter the market as an ENM and perform all of the functions; alternatively an ENM can negotiate for other participants, with an interest in the parent or child meter of an EN, to undertake some of the functions on its behalf.

In Origin's view, if the ENM role is not created, there is limited benefit in proceeding with the rule change. Other parties may be conflicted in their performance of the functions that would otherwise be undertaken by the ENM. For example, a network service provider may support its meter provision business over others in its dealings with incoming FRMPs when a customer chooses an alternate retailer within an embedded network.

Question 3- When is an ENM required?

- (a) Should all registrable and individual embedded networks be required to appoint an ENM? What are the advantages of such a requirement?
- (b) Should deemed embedded networks be required to appoint an ENM?
- (c) Is another threshold appropriate?
- (d) Should the threshold for appointing an ENM be a matter for the AER under the network guideline? Should the NER provide factors for the AER to consider when setting the threshold?

All registrable and individual embedded networks should be required to appoint an ENM as this will provide:

- Certainty for existing ENOs and other market participants;
- A consistent approach across the NEM; and
- Scale in the market for ENMs to offer their services to ENOs.

Deemed embedded networks should not be required to appoint an ENM until such a time as one of their child customers seek access to the competitive retail market and they are required to seek an exemption from being a network service provider on a registered or individual basis (as is the case in Victoria, New South Wales and South Australia). This option balances the incentives that customers with different characteristics (e.g. size of load) may have and ensures that the burden of regulation is minimised for deemed ENOs.

At this stage, Origin does not have an alternative suggested threshold to that set out in the rule change. We believe the AER is best placed to determine and if need be, consult on the appropriate levels of thresholds that apply to the appointment of an ENM.

Question 4- Accreditation and governance of an ENM

- (a) Are the proposed requirements appropriate?
- (b) Are any other requirements needed for the accreditation and governance of ENMs?
- (c) Are any of the requirements proposed by AEMO not necessary for the accreditation and governance of ENMs?
- (d) Should the requirement to have ENM services provided by an accredited ENM be classified as a civil penalty provision?

The requirements proposed on pages 19-20 of the consultation paper are appropriate for the ENM role. Origin would urge that periodic reviews be streamlined and made as efficient as possible to keep compliance costs to a minimum. We would support a light-handed regulatory and compliance framework to allow the market for ENM services to develop and support negotiation between ENOs and service providers.

Origin agrees that ENM services must be provided by an accredited ENM and that violating this would be sanctioned by a civil penalty provision.

Question 5- Who can be an ENM?

- (a) Should any party be prevented from becoming an ENM?
- (b) Should the AER be able to determine the ring-fencing arrangements for ENM services?

Origin believes that any party should have the opportunity to become an ENM. We also support the AER's role in determining ring-fencing arrangements for providers of ENM services where those providers are also engaged in economically regulated activities (such as network service providers), similar to the views set out in our submission to the metering rule change.¹

Question 6- Grandfathering

- (a) Taking into account potential implementation timing, how long should ENOs with current registrable or individual network exemptions be provided to appoint an ENM?
- (b) Should the transition period be set in the AER's network guideline or with the NER?

Origin supports the two-year time frame suggested by AEMO for existing registrable or individual network exemptees to appoint an ENM. This will support an orderly transition and planning for impacted ENOs. The transition period should be established in the AER's network guideline.

Question 7- Transitional provisions

- (a) Are the proposed transitional provisions appropriate?
- (b) Are any other transitional arrangements necessary to facilitate the implementation of the proposed rule?

Origin believes the proposed transitional provisions are appropriate, noting the amount of related work that industry and AEMO will be undertaking at the same time to support metering rule change, customer access to data implementation and so on. When the final rule determination for the metering rule change is confirmed, work could begin on the embedded networks rule.

Question 8- Implementation timing

- (a) Are there potential synergies available from implementing the proposed rule in co-ordination with the Expanding Competition in Metering and Related Services rule change, the Meter Replacement Process rule change and/or the advice on the Shared Market Protocol? If so, to what extent?

Origin believes that there is merit in aligning the development of supporting procedures for the embedded networks rule change with the metering rule change and related changes to the market. Given the same resources from market participants and service providers will be participating in this work, the timing of the effective date of the rule change should align with this related work.

¹ Origin Energy response (2015), *Draft Rule Determination - Expanding competition in metering and related services*, pages 8-9.

Furthermore, Origin considers that work on the embedded network rule change can commence soon after the final determination on the metering rule change is made, providing supporting alignment in procedure development and eventual AEMO B2B releases.

Question 9- Competition in the ENM market

- (a) Will AEMO's proposed six month deeming of ENMs assist ENOs in finding an ENM or aid in the development of ENMs?
- (b) Are any other regulatory arrangements necessary to facilitate competition in the provision of ENM services?
- (c) Are retailers, NSPs, ENOs or other parties likely to seek to provide ENM services?

AEMO's suggestion that a six month deeming of ENMs, for those market customers and network service providers who wish to be nominated as ENMs, will support ENOs to appoint this role to their embedded network.

Origin does not believe that any form of regulation is necessary to support competition in the ENM services market; as noted by the Commission, there are a potentially a large number of existing market participants and accredited parties who could undertake this role in the market. We suspect that ENOs, some NSPs and a number of retailers are likely to enter the market as ENMs. There are a number of reasons that would motivate such participation.

Question 10- Consequential or corresponding changes to the NERR

- (a) How should the potential corresponding issues in the NERR be addressed?
- (b) Are there any other necessary, consequential or corresponding changes to the NERR that may be relevant to the making of the proposed rule?

Origin notes the consequential changes to the National Energy Retail Rules (NERR) described on pages 23-24 of the consultation paper. We discuss each of these in turn below.

Standing offers

Retailers may offer customers within embedded networks standing offers that include network charges. For small customers in particular, unbundling of energy and network charges will present challenges for comparison of offers from different retailers. ENOs in many cases will bill the retailer directly for network costs, rendering the need to unbundle costs unnecessary.

Origin agrees that references to distribution network service providers will present a contractual challenge under the NERR should AEMO's rule be made.

Explicit informed consent

We would expect that authorised retailers would follow the routine approach of obtaining explicit informed consent from embedded network customers when making an offer consistent with a market retail contract (MRC). Customers electing to revert back to an exempt ENO supplier would not need to provide EIC as the ENO is exempt from holding a retailer authorisation. Changes to the NERR may therefore be minor if required.

Content of bills

Origin believes that, for small customers in particular, customers who are no longer supplied by an ENO and choose an authorised retailer may continue to receive invoices containing bundled charges. This is because the ENO may pass on its network costs to the new retailer and would no longer issue a bill to the customer who has switched to the incoming retailer. Therefore, rather than compel ENOs to unbundle their charges through the network guideline, Origin would suggest that this be only required if it is requested by an incoming retailer.

ENOs may have sound commercial reasons to support bundled billing for downstream children supplied by a third party within their embedded network. The ENM could have a role in facilitating this outcome.