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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

Strategic Priorities for Energy market Development: Discussion Paper

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (AEMC) Strategic Priorities for Energy market Development Discussion Paper.

Origin supports the AEMC's approach of reviewing how existing priorities may need to evolve in response to a rapidly evolving policy and operational landscape. Origin considers that the AEMC's proposed strategic priorities capture the key market challenges around promoting competitive outcomes and balancing regulatory intervention and market led outcomes.

Origin's responses to specific issues identified in the consultation pack are set out below.

Consumer priority

Origin agrees with the AEMC's proposed three areas of focus under the consumer priority. Engaged consumers are more likely to choose their own retailer and to seek out new products (such as solar power purchase agreements) in the market. To become engaged, consumers need to overcome an initial lack of understanding about how the market works; to do so they must have access to information explaining the market in the first place. As the AEMC points out, there may be a role for governments to provide independent information to consumers to help customers understand their role in the market and the benefits of shopping around. However, we also acknowledge that retailers have a role in educating consumers and ensuring that information about our products is presented in an accurate and comprehensible manner.

Given that the primacy of the National Electricity Objective is the long term interests of consumers, Origin agrees that it will be a necessary strategic priority for the AEMC to assess how rule changes and other matters impact on customer engagement and participation in the market. To that end, Origin considers that for tariff reform to succeed tariffs must be not only cost reflective, but sufficiently simple in order to be easily communicated to and understood by residential customers so they are able to respond to the signals that network businesses (and retailers) seek to send. This will support the objective of the distribution network pricing rule change made by the AEMC.

To the extent that technology changes the relationship that customers have with their energy use, and new products are created in response to technological advances, customer protection frameworks will need to remain relevant and up to date. Origin's preference is for any regulation to be technology neutral and to recognise that consumers are generally empowered by new technologies. Accordingly, as we have seen in the debate over solar power purchase agreements, it has not been appropriate for some existing customer protections to apply to new products and technologies.

For this reason, it remains a concern that Victoria has not adopted the National Energy Customer Framework (NECF). Origin appreciates that state and territory jurisdictions will reserve the right to derogate from national frameworks but at the same time it needs to be acknowledged that customers are not fundamentally different from one jurisdiction to another. It is Origin's hope that these customer

protections can continue down the path of unification and consistency and that the Commission remains focused on the benefits of doing so.

Gas Priority

It has been well documented that the east coast gas market is undergoing a significant period of change with the advent of LNG exports. Origin supports the maintenance of a gas priority and considers that the AEMC's current work program should assist in ensuring the robustness and resilience of the market into the future. The clear articulation of an overarching strategy for market development (through the COAG Energy Council's vision) is welcomed as this will help to focus policy activity, and enhance coordination amongst various work streams.

Origin supports an incremental approach to gas market reform and where practicable the AEMC should first look to build on the existing framework. This is not to say that significant changes may not be required but that there should be a sufficiently high threshold if such reforms are to be adopted – i.e. there should be demonstrated net benefits that go beyond conceptual considerations. The cost of transitioning to new arrangements should also be taken into account. We support the AEMC's approach in drawing on international experience to help guide domestic market reform, but it is important that any measures adopted adequately consider the innate characteristics of the east coast gas market. Additionally, proposed policy solutions should be proportionate to the underlying issues they are intended to address, and the AEMC should remain cognisant of any potential impacts on market participants' incentives to innovate and invest in the market.

In our view the above principles could assist in guiding the AEMC's work as it progresses the various work streams under the gas priority.

Markets priority

Origin agrees that the AEMC will need to focus on technology and emerging business models. However we would emphasise that the AEMC should not recommend the development of pre-emptive regulation of new technologies and business models, particularly in relation to consumer protections. Customers will voluntarily enter into arrangements where these new products and services are provided; therefore the basis of consumer protections should be the Australian Consumer Law (ACL). Any additional regulation of new business models needs to be demonstrated and tested under cost-benefit analysis.

Furthermore, as technology and new business models compete and substitute for customers and the products and services provided by traditional energy utilities, the appropriateness of existing regulation (i.e. the NECF) needs to be prioritised. As competition intensifies, the need to maintain the existing regulatory framework of consumer protections will need to be addressed. There is a risk of distortion in the market if such considerations and appropriate changes are not made. The role of regulation in this instance is not to second guess future business models, but to ensure that customers are informed when making choices in an increasingly competitive environment.

To ensure that competition in emerging technologies is allowed to flourish, it is essential that the existing ring-fencing framework of network businesses are reviewed to ensure they are fit for purpose. This is particularly relevant to the expansion of activities into areas such as distributed stored energy solutions (e.g. solar PV and batteries) which are being utilised by network businesses.

We believe that at the time the current arrangements were established, the expansion of current technologies was not fully anticipated. A fundamental objective of the AEMC should be to ensure, where practicable, the licence and regulatory framework for retailers, networks and alternative energy sellers is clear to avoid market distortions and the potential for competitive disadvantages.

For this reason, we consider the AEMC should encourage a review of existing arrangements by the Australian Energy Regulator as a matter of priority to ensure all participants can compete on a level playing field to ensure emerging markets and technologies are able to evolve in a non-distorted manner.

The National Electricity Market and climate change policy

As Australia looks to meet its climate change policy objectives, the alignment of carbon abatement policy and energy policy more broadly will take on greater importance. Going forward it is crucial that the market design allows for the efficient integration of these technologies into the broader energy mix, allowing for continued system reliability and security. Given their intermittent nature, the current suite of renewable technologies need to be supplemented by thermal plant which assist in maintaining reliable supply as well as providing ancillary services to maintain system security and stability. For this to occur, the energy only market must continue to provide adequate investment signals to ensure the requisite plant mix. Already we are beginning to see in South Australia that as thermal plant exit there are new challenges in ensuring that reliability and security are maintained. Origin therefore considers it important that in finalising its strategic priorities, the AEMC gives due consideration to these issues and that at the very least a watching briefing is established to keep track of this issue.

If you have any questions regarding this submission please contact me in the first instance on (02) 9503 5674.

Yours sincerely

A handwritten signature in blue ink that reads "R. Keith Robertson".

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