



27 August 2012

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

Submitted by email: Alex.Fattal@aemc.gov.au

Dear Mr Pierce

ERC0141 - Small Generator Aggregator Framework

Origin Energy (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) draft rule determination on the Australian Energy Market Operator's (AEMO) proposal for Small Generator Aggregator (SGA) Framework.

Origin supports options to reduce the registration costs for small generators as a way to lower the entry barriers for their participation in the National Electricity Market (NEM). However, we are concerned that the Draft Rule proposes changes that may have broader longer term implications for the integrity and settlement of the NEM.

Our primary concern is the Draft Rule appears to enable the introduction of multiple financially responsible market participants (frMP) at a single connection point without resolving the consequential and complex operational implications. Such a change has much broader ramifications than reducing registration costs for SGAs; it changes the nature of the connection interface between a customer and the market.

The AEMC is considering this concept in both its Power of Choice Review and its Review on Energy Market Arrangements for Electricity and Natural Gas Vehicles. We consider those reviews provide a more appropriate forum to consider and assess the net benefits of such a market. They are also better placed to consider how best to resolve the complex operational implications.

As such, we recommend the AEMC clarifies in its Final Determination and the Rule as Made that the current Rules only allow one FRMP per connection point and that any considerations to amend that arrangement are outside the scope of this particular Rule change proposal. We discuss the reasoning for this position in more detail below.

Confusion around policy to introduce multiple frMPs per connection point

The Draft Rule and the Draft Determination appear to introduce the concept of two FRMPs at a single connection point. Draft Rule clause 5A.4.3 suggests the MSGA would be the agent for a retail customer's small generating at a connection point. Under this clause "...the Market Small Generation Aggregator will be financially responsible for the market connection point at which the small generating unit is connected to." This was explained in the Draft Determination:

The draft rule separates the role of the MSGA and the role of the retailer (for any associated load). Therefore each entity would be the Financially Responsible

*Market Participant for their respective meters. In situations where a load and small generator are on the same premises the MSGA would be the Financially Responsible Market Participant for the small generating unit's metering installation, while the retailer would separately be the Financially Responsible Market Participant for the load's metering installation.*¹

The introduction of two frMPs at a single connection point is a significant change in the current market design and policy settings. It has significant implications for customers, retailers, AEMO and other market participants. As such, it seems appropriate that such a change is best considered in the context of a market review rather than a seemingly more minor Rule change process.

Should the AEMC decide to pursue this change in the context of this Rule change, there are a number of critical operational implications that require further consultation and consideration prior to finalising a Rule. For example, two of the more significant issues arising from the explicit introduction of two frMPs at a single connection point include:

1. The lack of a resolution process for managing a dispute between the retail frMP and the market SGA (MSGA) frMP in reaching agreement on a Responsible Person; and
2. The increased complexities and cost to meter and settle multiple Market Participants at a single connection point.

In its Draft Determination, the AEMC identified that potential conflicts may arise between two frMPs when agreement cannot be reached in selecting a single Responsible Person. However, the Draft Determination considered "resolving this issue [was] outside the scope of this rule change request."²

If it is the AEMC's intention to introduce this market change, a formal dispute process is necessary from the outset. Without a clear resolution process, retailers - as frMPs - may find it difficult to access customer data information from the Responsible Person in a timely manner. This could impede their ability to continue to provide a quality service to their customers. This is unlikely to be a change that is in the long term interest of consumers.

In addition, having two frMPs at a connection point significantly increases the complexity of the settlements process. Currently, a spot mark transaction occurs for each trading interval resulting in a trading amount for that a Market Participant is financially responsible. To calculate each Market Participant's net settlement amount, AEMO aggregates these trading amounts at each of the Market Participant's connection points. If multiple frMPs start using the same metering installations, AEMO will need to distinguish between each frMP's energy allocation and calculate settlement accordingly.

AEMO will therefore need to review its Metrology Procedure to identify what amendments are required to ensure quality data continues to be available for wholesale market settlement. There will also be a cost associated with implementing any metering changes. A more comprehensive cost-benefit analysis is important in considering whether such a change is in the long term interest of consumers.

Origin understands that AEMO has since discussed this interpretation of the Draft Rule and Draft Determination with the AEMC. AEMO has clarified that while this Draft Rule

¹ AEMC 2012, *Small Generation Aggregator Framework*, Draft Rule Determination, 5 July 2012, Sydney, p.25.

² *ibid.*

may identify situations where multiple frMPs may wish to use the same metering installation, it was not the intent of this proposal to provide a framework to support that concept. As such, we support AEMO's recommendation that the AEMC consider the case for multiple frMPs at a single connection point in its broader market reviews.

Application of distribution losses

On a more technical issue, there appears to be an anomaly in the Draft Rule around the application of distribution loss factors to small generating units.

Distribution losses are electrical losses incurred in the transfer of electricity over a distribution network. Distribution losses can be calculated differently depending on the size of the generating unit. For generating units below 10MW, the Distribution Network Service Provider (DNSP) can provide a notional adjustment for the electricity losses at a connection point. For generating units greater than 10MW, a site specific distribution loss factor can be calculated based on a methodology determined by the Australian Energy Regulator (AER) or the distribution network service provider.

AEMO originally proposed that generating units both below and above 10MW obtain either an average or site specific distribution loss factor depending on the applicable size of the generating unit. The proposal sought to amend NER clauses 3.6.3 (b)(2) and (b1) to incorporate the SGA and small generating units.

The Draft Rule, however, only seeks to apply a distribution loss factor to units below 10MW in size. There is no reference to apply such a factor to SGAs above 10MW. The rationale for this is unclear. The definition in NER Chapter 10 for a "small generating unit" is "a generating unit with a nameplate rating of less than 30MW". It is unclear why the Draft Rule omits the application of a distribution loss factor for small generating units that are between 10 and 30MW. It appears to introduce a discrepancy in the treatment of differently sized small units.

The consistent application of loss factors is crucial to promoting efficient settlement of a market generating units in the NEM. Settlement should be based on energy delivered to the regional reference node - irrespective of whether that energy originates in the transmission or distribution system. This is to ensure all generating units are treated equally. The proposed framework appears to treat small generating units between 10 and 30MW differently, by not applying a loss factor to their settlement output.

Conclusion

While we support the principle of reducing registration costs for SGAs, Origin has concerns around the policy intent implied by the Draft Rule regarding the number of frMPs permitted at a single connection point. Origin considers such a change introduces a fundamental change to the interface between the market and customer at a connection point. As such, we consider a change of that scope is better considered in the context of a broader market review. The AEMC's Power of Choice Review and its Review of Energy Market Arrangements for Electricity and Natural Gas Vehicles are preferred forums. Removing that uncertainty from the Draft Rule addresses the main issues identified in this submission with respect to SGAs.

Should you have any questions or wish to discuss this information further, please contact Hannah Heath (Manager, Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Phil Moody', with a stylized flourish at the end.

Phil Moody
Group Manager - Commercial, Analysis and Risk Services
Energy Risk Management