

8 January 2016

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

Lodged via www.aemc.gov.au

Dear Mr Pierce,

Reference ERC0181: Multiple Trading Relationships – Draft Rule Determination

Simply Energy welcomes the opportunity to respond to the Multiple Trading Relationships – Draft Rule Determination (the Paper).

Simply Energy is a leading tier 2 energy retailer servicing Victoria, South Australia, New South Wales and Queensland.

The Paper provides the Australian Energy Market Commission's (AEMC) draft determination in relation to the multiple trading relationships (MTR) rule change proposal.

Simply Energy supports the AEMC's draft determination to not make the rule change to introduce MTR at a single connection point.

Simply Energy concurs with the AEMC's conclusion that the proposed MTR rule was not in the general interests of consumers. While a small number might have benefited from the rule change, its expected impact on the majority of consumers would be increased complexity and costs that put upward pressure on prices.

The potential benefits for consumers are very limited

Simply Energy considers that the benefits of MTR are limited, especially when compared to the expectations created by advocates of MTR.

First, the high-level view of MTR is that consumers will be able to achieve significant gains by being able to trade with multiple retailers at a single premises at the same time, and that this will unlock new business models. For example, the consumer can purchase energy for their electric vehicle (EV) charging from one retailer, while purchasing energy for their home from another retailer.

However, energy costs make up only one component of the costs incurred by a retailer when servicing a customer. Network and metering costs are to some extent already fixed, and are becoming less related to energy consumption due to demand - and capacity- based network tariff

reforms. The reference point for energy costs is the wholesale market, which is a transparent market, meaning that retailers face generally similar energy purchase costs. As such, it is unclear how one retailer could offer significantly different energy prices to another for a single appliance such as an EV charger.

Similarly, the benefits of a consumer being able to buy energy from one retailer and sell energy (such as the output of the customer's rooftop photovoltaic generation system) to another retailer are unlikely to be significant. The value of the energy to a retailer is primarily the avoided cost of purchasing energy in the wholesale market. The wholesale market is an open competitive market and it is unclear how one retailer could value the customer's energy significantly differently to another.

Additionally, the benefits of the proposed MTR model over what is possible under current arrangements are very limited, especially when other reforms are taken into account. Under current arrangements customers can establish a second connection point at their premises, which can be used to purchase power for an individual appliance (such as an EV charger) or to sell the output of generation at the premises.

Establishing a second connection point is expected to incur similar costs to establishing a second settlement point (as under the proposed MTR model). The ongoing costs of a second connection point are likely to be similar to the ongoing costs of a second settlement point, once cost reflective distribution tariffs are introduced. Additionally, in states where meters can be provided competitively, there is an opportunity for innovative smart meter solutions at sites with multiple connection points.

Finally, energy retail is a highly competitive market with new providers joining. If a customer is not satisfied with their current retailer's feed-in offer or EV charging rates then the customer can easily choose another retailer. The Australian Energy Regulator's register of authorised retailers shows that there are 57 current retailers, with two further applications under consideration (within the NEM). As a result, there is a wide and increasing range of retailers for customers to choose from. Restrictions on customers switching to a new retailer are minimal. If sufficient customers desire better feed-in or EV charging rates (for example) as part of their retail offering, then there are many retailers already authorised who could take advantage of this business opportunity.

The costs of the proposed MTR model are significant

Submissions to the MTR rule change request from distributors, retailers, and metering service providers have demonstrated that the one-to-one correspondence from connection point to National Metering Identifier (NMI) is at the core of the National Electricity Rules (NER), National Energy Retail Rules (NERR), Australian Energy Market Operator (AEMO) procedures, and industry participant systems and procedures.

As a result, implementing the proposed MTR model would require changes to rules, procedures, and potentially all participant systems. Information from industry participants indicates that these changes will be extensive and costly. Additionally, annual costs will also increase in order to manage the risks (such as disconnection in error) that would be created by the proposed MTR model.

Simply Energy supports the use of comprehensive cost benefit analysis

Simply Energy considers that regulatory changes should be supported by comprehensive quantitative cost benefit analysis that clearly demonstrates that the proposed changes will lead to improved outcomes. The impact of any change is to some extent uncertain, with unintended consequences always a possibility. With this in mind, cost benefit analysis should use sensitivity analysis to understand the potential range of outcomes, and regulatory changes should only be made when the analysis provides confidence that outcomes are likely to be in the positive range.

Simply Energy is confident that a formal cost benefit analysis undertaken in this way for the proposed MTR rule change would have found the rule change not to be in the interests of consumers.

The single meter model

The single meter model was proposed in a submission to the AEMC's MTR consultation paper, by the Alternative Technology Association (ATA) and the Consumer Utilities Advocacy Centre (CUAC). The submission is supported by a brief report by Phacelift Consulting Services Pty Ltd.

Simply Energy supports the AEMC's decision to make a determination in relation to the MTR model that forms the basis of the rule change request, rather than holding this rule change request open and allowing the single meter model to be considered as part of it. This is particularly important given the lack of detail about the changes to the NER, NERR, and AEMO procedures that would be required to implement the single meter model.

The essence of the single meter model is that the export and import data streams from a single metering installation can be allocated to two different retailers. This would enable the customer to buy energy from one retailer and sell it to another.

As discussed above, industry submissions to the MTR rule change request demonstrated that the one-to-one correspondence from connection point to NMI is at the core of the rules, procedures, and industry participant systems.

As a result, a change that breaks this one-to-one correspondence will have far-reaching implications that will require every industry participant to amend, and test, their systems and procedures. In the Paper, the AEMC acknowledges that this will incur significant costs across industry, which will ultimately be borne by consumers.

While it may not lead to the increased metering and wiring costs of the MTR model that is the subject of this rule change request, the single meter model breaks the one-to-one correspondence between connection point and NMI. This means that the industry costs identified as part of the current rule change request would also be incurred under the single meter model.

Additionally, the benefits of the single meter model are a subset of the benefits of the current rule change request. This is because this rule change request seeks to enable a customer to purchase energy from more than one retailer, as well as sell energy to a different retailer than the one energy is purchased from. The single meter model, however, does not enable purchase from

more than one retailer. As a result, while the costs of the single meter model may be lower (because it does not require a second meter), so are its benefits.

Finally, if the single meter model is the subject of a rule change request, Simply Energy urges the AEMC to use the information it has received in response to the MTR rule change request, rather than requiring industry participants to go over the same issues again.

Simply Energy, along with other industry participants, has spent considerable time and resources engaging with the MTR rule change request process. This included extensive engagement with the AEMO and its consultants, including meeting their detailed requests for information.

Simply Energy expended these resources to ensure that the costs and other problems associated with this proposal were well understood.

It is not in the interests of consumers, who ultimately bear the costs incurred by industry, that considerable resources are expended more than once on what is essentially the same issue.

If you have any questions concerning this submission, please contact James Barton on 03 8807 1171.

Yours sincerely

David Murphy
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