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Mr Christiaan Zuur  
Project Leader – Multiple Trading Relationships  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

By electronic lodgement

### **ERC0181 Multiple Trading Relationships – Draft Rule Determination**

Origin Energy (Origin) welcomes this opportunity to comment on the Australian Energy Market Commission's (AEMC) draft rule determination on the multiple trading relationships (MTR) rule proposal lodged by the Australian Energy Market Operator (AEMO).

Origin supports the determination made by the AEMC, the cost of implementing and managing the rule change now is almost certain to outweigh any benefits. We agree that the benefits in the foreseeable future would accrue to only a small niche of customers, but the costs of implementation will be borne by the vast majority of customers not able or not interested in the products or services that MTR may facilitate.

The task of implementing the suite of recommendations and rule changes within the required timelines arising from the Power of Choice (PoC) review will be challenging for regulators, industry and new market participants alike. Market experience arising from the competition in metering rule change, customer access to data, the shared market protocol and the embedded network manager rule change will likely create similar benefits to those facilitated by the MTR rule change. In the short to medium term the need for formal MTR arrangements may not be necessary, since similar benefits that it may deliver to consumers may be captured under other reforms.

Furthermore, customers (and in particular small customers) can achieve similar outcomes at lower cost to those facilitated by the MTR framework if they installed additional meters. This would essentially result in an off or on-market embedded network being created at a customer's premise. There is nothing preventing this alternative being offered or sought by customers under current regulatory arrangements and the metering competition rule change may further reduce the cost of this option for those customers seeking to engage two retailers.

As Origin identified in its response to the AEMC's consultation paper, the costs of implementing the MTR proposal will inevitably divert resources from other PoC related reforms.<sup>1</sup> Given the effort involved to successfully meet the timeline for changes to be effective (particularly in relation to the competition in metering rule changes to the National Electricity Rules and Energy Retail Rules), it is appropriate at this time not to make the proposed MTR rule.

Origin agrees with the assessment criteria and analysis applied by the AEMC in arriving at its draft rule determination not to make the proposed MTR rule.

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<sup>1</sup> Origin (2015), Response to Multiple Trading Relationships Consultation Paper, pages 2, 9.

We discuss further below our views on a number of matters contained in the draft determination and would welcome further discussion with the AEMC on this response. In the first instance, please contact David Calder on (03) 8665 7712.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Robertson'.

Keith Robertson  
Manager, Wholesale & Retail Regulatory Policy  
(02) 9503 5674 – [Keith.Robertson@Originenergy.com.au](mailto:Keith.Robertson@Originenergy.com.au)

## Response to specific issues in the Draft Determination

### 1. Incremental benefits of the proposed MTR framework

As previously noted by Origin and a number of stakeholders responding to the AEMC's consultation paper, many of the potential benefits under the MTR framework are likely to be achieved through related PoC reforms. These include the competition in metering and related services and embedded network manager rule changes, and supporting initiatives such as the customer access to data and shared market protocol reforms. Metering competition will improve customer access to a range of new services, not the least of which include access to more cost reflective pricing structures. Cost reflective pricing has the potential to capture efficiencies along the supply chain as described on page 30 of the draft determination. Benefits that the rule change support are likely to be captured at lower cost through rule changes already implemented or in development, reducing the need to make changes to support a MTR framework at this time. Until experience is gained as to which services best meet customer needs, the value of implementing a MTR framework in addition to the investment required for other PoC reforms is questionable.

The market will take time to evolve and demand-side management technologies are developing rapidly, with costs declining and choice for large and small customers expanding. Origin agrees with Energen's view that it is difficult to predict the direction of technological change in relation to demand-side technologies and that implementing a MTR framework now may not be the best use of industry resources, given it could be redundant in a short period of time.<sup>2</sup>

The lack of a clear market demand for MTR is an important factor in determining the value of net benefits associated with implementation via the rule change proposal. Origin believes it is better for the market to develop through competition between participants and new entrant third parties, including the provision of services on the customer side of the meter that are not 'on market', rather than develop a new framework where there is little evidence that large numbers of customers are seeking the services it supports.

Origin would reiterate that emerging business models may achieve the benefits that a MTR framework could support. In particular, solar power purchase agreements (SPPAs or 'solar as a service') are one example of off-market arrangements that have similar benefits to those that a MTR approach may facilitate. Furthermore, the rapidly evolving energy storage market will likely encourage a number of new business models, none of which require a second connection point, but may require the installation of an advanced meter, which will be supported by the recent changes to chapter 7 of the NER. Market participants, customers and third parties are free to agree on a range of on and off-market arrangements that will support the same types of benefits that could be realised through the MTR framework. For these reasons, Origin considers that there are more cost-effective approaches to capturing the incremental benefits of the proposed MTR rule change through existing market regulation and those reforms committed to from the PoC review.

Embedded networks offer an alternative to capturing the benefits supported by a MTR framework. The recently created embedded network manager role will enhance opportunities for service providers to participate in on and off market arrangements and provide services to customers akin to those that MTR may facilitate.

The narrow class of customers who may benefit from the proposed MTR arrangements do not justify the cost of implementing the proposed rule and given the alternative means that exist today (and will increase in scope and scale in the future through the PoC rule changes). We therefore support the AEMC's determination that incremental benefits to customers from the proposed rule are small.

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<sup>2</sup> Energen (2015), Response to Multiple Trading Relationships consultation paper, page 1.

## **2. Implementation costs**

### Changes to the NER and NERR to enable the framework

Material changes to the NER and NERR at a time when other PoC initiatives are being implemented would create uncertainty and further work for market participants. Timeframes and project planning to meet the December 2017 implementation date for competition in metering rule changes are likely to be effected if fundamental architecture such as the relationship between a financially responsible market participant, connection point and national meter identifiers is altered. Consequential impacts of any changes to the NER and NERR will also impact on procedures and guidelines, further diluting resources away from other more important PoC reforms. In Origin's view, the impact on rules and procedures of the rule proposal will be significant and will add to the cost of implementation without any corresponding benefit of a similar scale.

### Information technology and process impacts

The implementation of a MTR framework is complex and impacts upon a large number of market participant systems and processes. Origin supports the comments made by stakeholders in relation to the investment required and complexity involved with implementing MTR under the proposed rule. The focus of industry in particular will be to deliver the changes required to support metering competition in the NER and the implementation of the shared market protocol. Further changes to support the embedded network manager role and current work to implement customer access to data require the commitment of a material level of resources for distribution and retail businesses.

As discussed in our response to the consultation paper, the uncertainty associated with a MTR framework (including for example, arrangements for life support customers and retailer of last resort arrangements) will inevitably add to the cost of implementation and impact upon delivering on changes with demonstrable benefits (such as competition in metering).

### Complexity and impact on customers

While increasing customer choice is a principle supported by Origin and other market participants, the potential complexity that a MTR framework may generate could result in customer confusion and a limited uptake of services supported by the proposed rule. Origin would suggest that there will be significant changes brought about by changes already underway from the PoC reforms and these will be challenging enough for customers and service providers to digest and test to develop customer propositions that they can become familiar and comfortable with. When further experience is gained over time (following the implementation of metering competition and cost reflective pricing for example), the merit of a MTR approach could be re-examined to establish if it supports any gap in the market that would justify its implementation. As such, Origin agrees with the AEMC's conclusions in relation to customer impact of the complexity implied by the proposed rule.

Origin also supports the AEMC's analysis of the complexity that the proposed rule would impose upon market participants, with an increase in the number of scenarios that may lead to disputes between participants, uncertainty associated with last resort events and so on. There would undoubtedly be further scenarios that would emerge and the detail of procedures and guidelines supporting the proposed MTR rule is not known at this time.