

10 September 2015

Australian Energy Market Commission
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Lodged online: www.aemc.gov.au

Multiple Trading Relationships

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Multiple Trading Relationships Rule consultation paper.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 34 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 59,000 people and contribute \$24.1 billion directly to the nation's Gross Domestic Product.

The advent of new technologies and business models is setting the stage for evolution in the retail electricity market. As customers become more proactive and take greater control of their consumption and generation through technologies such as smart meters and solar panels, having a retail market that supports this changing dynamic will be important. Encouraging innovation in electricity retail is a necessary part of this change. Multiple trading relationships (MTR) could form part of this evolution. Facilitating such a change should occur where the benefits outweigh the costs. Customer protections must also be retained. The esaa considers that at this stage, there is little evidence that the benefits of MTR outweigh the costs and that MTR is necessary to facilitate the kinds of services outlined in the consultation paper. At some point in the future, adopting MTR could provide net benefits to the market, but current evidence suggests it would be more prudent to wait.

As mentioned in Appendix A of the consultation paper, a previous cost-benefit analysis of MTR found that there were net costs associated with MTR. This is a strong, first indication that implementation of MTR is not warranted. Given that only one sensitivity found that MTR would bring net positive benefits it appears that at this stage, from an economic perspective, the costs of implementing MTR are likely to outweigh the benefits. While Jacobs argued that there was scope for the costs to be lower than their own analysis suggested, the same applies to the benefits.

The consultation paper identifies a wide range of services that could be enabled through the introduction of MTR. Yet, there are ways for almost all services discussed in the consultation paper to be offered in some way without the need to resort to MTR. Innovation in retail markets should be encouraged, but there does not appear to be a need to introduce additional complexity and costs into the marketplace where the rationale is so unclear. The potential

MTR services identified by KPMG would not necessarily require MTR and could be implemented through existing frameworks.

Even in the case of complete EV charging, which is one of the few initiatives that KPMG argue does require MTR in order to be implemented, the justification is unclear. It is possible for EV charging networks to operate outside of a customer's home and allow the EV user to charge on that network for one cost. The fact that the charging network does not extend into a consumer's home should not be seen as a major impediment. There may be ways for a kind of complete EV charging to occur using other means such as installing a second connection point.

Crucial to the realisation of benefits from implementing MTR is that various services are taken up at a greater rate by customers than under current arrangements. Logically that will occur because of material cost savings from making arrangements with a second (or other) service provider at a customer premises. But as table 4.1 shows in the consultation paper, there is a lack of systematic cost savings arising under AEMO's proposed design. The customer will have to pay the network for a new connection point and meter in any case and additional electrical installation or modification costs are contingent on the existing state of the wiring and the physical location of the load(s) to be separated from the existing connection point.

The other avenue for savings is the prospect of regulatory arbitrage; i.e. that providers operating under an MTR would benefit from not being subject to the same regulatory obligations as a conventional retailer. Their savings from avoided red tape would presumably be shared with customers, which may drive quicker take-up of the relevant services. But this scenario raises a fundamental question about the nature of electricity supply. Due to the framing of electricity as an essential service, electricity retailers face various compliance requirements, including high thresholds to disconnect a customer and the obligation to offer hardship schemes for customers finding it difficult to pay bills.

If parts of a customer's usage can be split between providers through MTR and the alternate service providers are able to avoid retail compliance requirements, existing retailers would have to bear these requirements alone and spread the cost of doing so over a smaller level of consumption.

Not only does this raise questions of equity but also, if the party offering the new energy service enabled by MTR can disconnect part of a customer's supply, then this raises a question of what the essential service part of energy supply is.

For this reason, MTRs should not proceed without a clear framework for how alternative service providers are to be regulated that ensures that the MTR framework does not result in an imbalance where one party has regulatory obligations and the other party can avoid them. This includes policy obligations such as passing on of premium feed-in tariffs or renewable and white certificate liabilities.

This does not necessarily mean that traditional retailers and alternative service providers should have the same regulation or that the starting proposition should be the existing level of regulation. As part of the process of refining regulation in the evolving energy supply sector, policy makers and regulators should ask themselves: is the current regulatory burden still appropriate in light of the changing market dynamic?

The esaa also notes that the AEMC is currently in the process of implementing a metering competition rule change. This rule change includes specific requirements for meter data and services to be provided by a party who is independent of the retailer and distributor, to parties authorised by the customer. It is probable that arrangements will evolve in this space to meet consumer demand for new services. This may be able to provide the outcomes sought by the rule change at a lower cost. This is because competitive solutions may be found that maximise consumer benefits without imposing costs on the industry as a whole.

As such, the esaa considers that given the available alternatives, it is unnecessary to implement a change on the scale of MTR without clear evidence that it will better enable the delivery of energy *services* (as opposed to energy). To do so without consideration of whether the broader regulatory landscape is fit for purpose would not result in a more efficient energy system, because the competing price signals of traditional and alternative energy services will be distorted.

Enabling innovation in the retail electricity market will ultimately provide benefits to consumers through more competition and improved offerings. MTR may eventually form one way of providing energy services to consumers. At this stage though, there is little indication that MTR will provide net benefits to consumers. Furthermore, the kinds of services that are identified as being supported by MTR, do not in fact require it to be implemented. As a result, the esaa considers that there is no justification for the MTR Rule 2015 to be implemented.

Any questions about our submission should be addressed to Ben Pryor, by email to ben.pryor@esaa.com.au or by telephone on (03) 9205 3103.

Yours sincerely

A handwritten signature in cursive script that reads "Kieran Donoghue".

Kieran Donoghue
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