



EnergyAustralia

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Dear Mr Owens

AEMC 2015 - Multiple Trading Relationships (MTR) Consultation Paper

1. Introduction

EnergyAustralia (EA) welcomes the opportunity to comment on the consultation titled Multiple Trading Relationships Rule 2015. We are one of Australia's largest energy companies, providing electricity and gas to over 2.5 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

2. Background

The concept of customers engaging with more than one retailer (Multiple Trading Relationships (MTR)) at single premises was first considered by the Australian Energy Market Commission (AEMC) in 2012 as part of a market review covering the emergence of electric and natural gas vehicles. The need for this review was largely influenced by the emergence of new business models for electric vehicles that bundled the purchase and recharging of a vehicle. Electric vehicles have a small range and hence require readily available recharging points. It was also envisaged that new market entrants would package other domestic products such as the supply and operation of home appliances further enhancing choice and efficient outcomes for small customers.

The evolution of solar feed in tariffs also impacted the market with some consumers seeking to maximise the benefit of these initial, overly generous incentives by installing solar panels on out buildings on the same site under a second electricity supply arrangement.

3. Changed Market Environment

EA is of the view that the market has changed and the need for establishing MTR is still not required. The dramatic reduction in oil prices has once again seen the demand for electric and alternative energy vehicles subside along with their complex new business models. No longer is the energy market concerned with increased electricity consumption with unsustainable

demands. The focus is now on cost reflective pricing ensuring the users of electricity pay their true cost of supply. The introduction of interval meters and competition in metering for small customers will facilitate this paradigm and industry needs to direct its valuable and limited resources to these market initiatives. Moreover, the impacts on retailers' systems due to most Power of Choice (POC) initiatives are significant and there is a limit to the number of times that retail systems can be successfully opened and modified over the implementation period proposed under these initiatives. Delivering all of the POC initiatives in the proposed timeline places business as usual energy market functions at risk and this is especially relevant when the benefits of these initiatives do not support the costs. Any additional costs are passed onto all customers which is not an efficient outcome.

4. Engaging with Multiple FRMPs

The MTR arrangement proposed by AEMO involves either parallel metering or subtractive metering with the real possibility of two different Metering Coordinators (MC) having metering responsibilities at the same site via the same connection point. Under subtractive metering each MC would need to confer with the other and share metering data.

Splitting MC and Financially Responsible Market Participant (FRMP) responsibilities across the same premises also creates operational challenges for the market including the following:

- Suitable allocation of network charges that does not impose an unfair credit risk on either FRMP;
- Equal or shared responsibility to offer standard and deemed contracts to the customer ;
- Obligations to maintain and manage records of life support where applicable;
- Obligations to maintain and manage appropriate customer classification; and
- Disconnection processes that may require new notifications to each MC and FRMP especially where subtractive metering is involved.

Many of the solutions to these issues will undoubtedly result in further system changes for both market participants and AEMO that will further increase the costs of MTR.

It has been suggested that a form of MTR could be supported by multi-element meters with a different NMI and FRMP at each element. EA believes that this would create substantial retailer system impacts but additionally NMI discovery processes would also need to be amended to ensure that privacy rights were not breached and that only information related to the specific NMI (meter element) was returned in discovery requests. This could be especially problematic when third party providers become more active in the market.

5. Cost benefit

The initial cost benefit study undertaken by Jacobs SKM¹, commissioned by AEMO, found that the costs of MTR were greater than benefits under most scenarios and this was undertaken during a period where market growth prospects were more positive.

The recent KPMG² study explored the range of energy services that could be facilitated by MTR and from 9 different services they determined that MTR was essential for only 2 of these services (complete charging for EVs and Aggregator model). The other 7 services could be suitably enabled by the existing market arrangements.

¹ Jakobs SKM, Benefits and costs of multiple trading relationships and embedded networks – May 2014

² KPMG, New energy services and multiple trading relationships – July 2015

EA's estimated implementation costs for MTR were submitted to AEMO in the initial cost benefit study and were significant. EA believes that there are currently very few small customers seeking MTR services and these could adequately be delivered under current arrangements by establishing a second connection point or by sub-metering under a commercial arrangement. The recent Energia³ study provided advice on the wide ranging costs to the customer of establishing a second connection point. While these costs were not insignificant (\$366 to \$1437) they would be a far more efficient method of delivering MTR to the small number of customers, seeking this arrangement, as opposed to the total industry costs of the MTR model proposed by AEMO. Moreover the cost of a second connection point (or sub-metering) would be fully funded by the customer requesting it avoiding any smeared industry costs to all customers.

6. Summary

It is reasonable to understand why the AEMC considered that MTR was an emerging concept that needed to be addressed in 2012. However, the energy market has now changed considerably and as the concept of MTR can already be facilitated under current provisions (such as a second connection point) without imposing additional costs to industry, there is no reason to continue this aspect of POC. This is extremely important as the costs of the proposed MTR model, under various scenarios, still exceed the benefits and the widespread need for this facility is not needed.

Further questions remain for the AEMC and policy makers to consider. Is the market ready for this new level of complexity? More importantly, will customers understand MTR in conjunction with the numerous other POC initiatives? Consumers and consumer groups regularly appeal for simplicity in energy related issues and EA believes that industry and government already have an enormous challenge ahead to educate customers on metering competition and demand based pricing.

Should you require further information regarding this submission please call me on 03 8628 1437.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager

³ Energia, Advice on establishing a second connection point – July 2015