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Multiple Trading Relationships (MTR) Rule 2015

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Markets Commission (AEMC) Consultation Paper on the proposed MTR Rule.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL sells and markets natural gas, electricity and energy related products and services to more than 3.7 million residential and small business customer accounts across New South Wales, Victoria, South Australia and Queensland.

In responding to the MTR Rule proposal, AGL has examined the supporting documentation, and drawn upon its own experience in forming its views on this matter. AGL's view is that the MTR can be given practical effect within current arrangements and that the MTR Rule proposal will not attain either cost benefit or consumer benefit hurdles.

From a consumer or market benefit perspective, the MTR Rule proposal introduces unnecessary complexity to settlements, ignores advances in metering and does not take account of changes arising from the introduction of the Metering Coordinator role.

From a costs benefit perspective, the still valid analysis by Jacobs SKM on cost benefit showed costs will substantially outweigh benefits in most cases, and that proposed changes will require all participants to implement changes whether they are proposing to participate in MTR or not.

From a market functionality perspective, AGL is of the view that the MTR Rule proposal imposes significant system change costs on all participants, ultimately borne by all customers to achieve and outcome that is achievable through existing mechanisms. To date, using available technologies and rules, AGL has given practical effect to multiple trading relationships with its customers, reinforcing our view that the solutions being introduced are overly complex and inefficient.

Retailers have previously represented that parallel metering would represent the simplest approach and would require the least cost and complexity of changes to give practical effect to MTR. Conversely, changing the definition of connection point, and creating additional settlement points, would bring back much of the costs of the initial DSR design that was rejected by the jurisdictions.

Finally, from a priority perspective, our concern is that the timetable for MTR Rules is premature in any case, as the metering competition rule change, once effective, will facilitate a lot of the requirements identified.

Please find **attached** at Appendix A, AGL's response to the specific questions included in the Consultation Paper.

If you wish to discuss any aspect of this submission further please contact David Markham, Network Strategy and Regulatory Adviser on telephone (03) 8633 6510 or via email at david.markham@agl.com.au.

Yours sincerely,

Jenny Baltatzidis
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APPENDIX A

AGL response to the Multiple Trading Relationships Rule Change Issues Paper

Introduction

AGL supports the ability of customers to contract and trade with multiple parties. However AGL does not support the MTR Rule proposed by AEMO. AGL has formed this position because:

- The proposed Rule changes introduce unnecessary complexity in as much as they:
  - misstate the issues and current mechanisms available; and
  - ignore advances in metering technology.
- In AGLs experience, the benefits identified for Multiple Trading Relationships can already be provided by the mechanisms under the Rules.
- The key issue for participants is the resolution of the jurisdictional issues identified by the working group. This is the purview of the states and the AEMC needs to provide clear direction on how they need to be resolved.
- The application of metering competition will, of itself, resolve some of the concerns.

It is worth noting that the initial proposal floated by Betta Place was an embedded network not a multiple trading relationship, as defined in this Rule change, since there were to be two customers at the site; firstly, the site owner who would purchase energy from their FRMP and secondly Betta Place, purchasing energy from a FRMP and selling the miles to the site owner. This operating model is already supported by current Rules, which AGL believes should be the AEMO focus; in particular the procedures to support the virtual metering Rules.

The consultation background asks "What are multiple trading relationships", and whilst it provides a general discussion of the concept does not separate the potential site configurations. The Rule change proposed by AEMO only deals with one of the potential configurations and its specific issues; whereas other Rule changes and review are on foot for two of the other configurations.

In AGLs view there are at least four configurations:

1. **Two connections**. The granny flat arrangement where a separate set of wiring is used to supply two customers located on a single site;
2. **A FRMP and an exempt seller**. A single customer purchasing energy from both a FRMP at the boundary connection point and an exempt seller from generation at a site.
3. **One connection, multiple customers** (an embedded network). Two or more customers sharing a common network with a single connection point at the boundary of the site, where both customers can access their FRMP separately - the previous concept proposed by Betta Place. It is worth noting that the supply within the network may be made by an exempt seller on behalf of the network owner.
4. **Multiple Trading Relationships** (as proposed in this Rule change). A single customer seeking to contract parts of their load and/or generation with different FRMPs. The metering may be in parallel or sequentially connected.

Of these four probable configurations, the current MTR Rule change proposal is designed to address option 4. We note that Option 2 is currently part of reviews by the AER, and Option 3 is being examined by the AEMC. AGL's view is that the MTR aspirations can be given practical effect within current arrangements at this early stage, and that each of these four options above can be achieved within current rules.

In particular, option 4 (and sometimes option 1) is achieved by representing each physical meter as a virtual connection and NMI, located at the physical connection point. This is possible because the definition of connection point is construed to be that same as an agreed point of supply. This definition allows both parallel and serial physical meters to be represented as two parallel meters using algorithms agreed between the FRMPS, NSPs and AEMO.

AGL's view is that the MTR can be given practical effect within current arrangements. Our direct responses to specific questions follows.

Specific questions and responses

Question 1 Previous projects and changed market environment

1. *Have changes in market conditions or new information since these projects were completed affected the potential benefits and costs of MTR?*
2. *Are there additional costs and / or benefits associated with MTR that were not identified or assessed by Jacobs SKM in its analysis?*

The potential benefits are increased as more solutions, such as energy storage, are available to small users. This means that the demand for multiple contractual arrangements may increase.

The costs, however, of the proposed changes are comparable to DSR implementation, and the Jacobs SKM analysis is still valid – that the cost will outweigh the benefits in most cases. AGL's view is that the current framework could readily give practical effect to solutions to meet this demand.

Retailers have previously represented that parallel metering would represent the simplest approach and would require the least cost and complexity of changes to give practical effect to MTR. Conversely, changing the definition of connection point, and creating additional settlement points, would bring back much of the costs of the initial DSR design that was rejected by the jurisdictions.

Question 2 Assessment framework

1. *Are there any other issues that should be considered in the Commission's assessment of AEMO's rule change request?*

The main change to consider is to more clearly define the current options for MTR. The AEMO Rule change proposal does not clearly identify how the current Rules could be used and therefore assumes greater benefits from the change than is actually the case.

Question 3 New services facilitated by MTR

1. *Does KPMG's analysis represent a reasonable summary of the services that may be facilitated by MTR? Are there any other services that may be facilitated by MTR?*
2. *Would these new services be more effectively enabled by AEMO's proposed MTR framework than under current arrangements which require a second connection to the distribution network? Would AEMO's proposed MTR framework better enable customers to capture the value associated with the demand response, as opposed to current arrangements?*

1. The KPMG analysis is broadly valid but AGL notes that:

    - The concept of regulatory initiatives is flawed, as an NSP cannot be a market participant. If the reference is to the provision of services under Rule 5.10, then this is outside the scope of this MTR Rule change, and;

- The quadrant related to assisting vulnerable customers is unrelated to the MTR issue; and
- The concept of peer to peer energy is already possible under the rules. This is achieved by defining the peer group to be an embedded network, or using reallocation between customers. AGL agrees it may be worth examining ways to improve the operation of these methods to assist in peer sales.

AGL agree with the KPMG report that both the demand or generation aggregator would be a major beneficiary of the MTR approach (indeed the Demand Side Response model required it) but note that the current arrangements already allow these models to work, given resolution of jurisdictional and operational issues.

AGL notes that a major driver for establishing embedded networks and multiple trading relationships is the desire to use networks more efficiently or to reduce network charging. For example, a major benefit sought by multiple trading relationships for electric vehicles was that the same network would be used at different times and therefore should not be charged for twice (as would be the case for two connections). We consider that improved network charging, particularly capacity based charging would better resolve this issue rather than attempting to use multiple connection points at a site combined with more complicated pricing models.

2. AEMO's proposal is not required to give effect to MTR, and does not improve a customer or FRMPs ability to capitalise on the new technology. The assumption that a second connection to the distribution network is required is invalid, as the virtual metering approach meets that requirement.

   AGL considers that enhancing virtual metering capabilities and resolving the jurisdictional and operational barriers would be a more productive approach than further considering the AEMO proposal.

Question 4 Efficiency benefits

1. *Does KPMG's analysis effectively describe the ability of these different energy services to capture efficiency benefits along the supply chain?*
2. *Do the current arrangements raise coordination and split incentive issues? If so, to what extent would AEMO's proposed MTR framework allow service providers to address such coordination and split incentive problems?*

1. AGL considers that the KPMG analysis does correctly describe the capture of the benefits.

2. AGL does not consider that the AEMO proposal improves the issues of coordination or split incentives.

Question 5 Impacts on customers of enabling MTR

1. *Are the costs associated with establishing a second connection point likely to deter customers, particularly small customers, from engaging with multiple FRMPs at a premises?*
2. *Would AEMO's proposed MTR framework significantly reduce direct costs for customers who want to engage with multiple FRMPs? Could AEMO's proposed MTR framework deliver any other direct cost savings for consumers?*
3. *Are the direct costs of engaging with multiple FRMPs at a premises markedly different for small and large customers under current arrangements? Would AEMO's proposed MTR framework have a more significant impact for small customers than for large customers?*

AGL considers that the cost of establishing a second connection at a house will deter customers and therefore the FRMP will need to show a commercial benefit to customers to get this arrangement established. This is entirely appropriate.

AGL does not consider that the AEMO approach will reduce the costs since the metering and rewiring costs will be similar in both cases. The AEMO approach also requires system changes that must be implemented by all participants (both retailers and DNSPs) that will increase costs overall, whether customers take up the option or not.

Small customer benefits from multiple trading relationships will always be lower and therefore the relative cost benefit ratio will be better for larger customers. As noted above, AGL does not consider that AEMO's approach to be of any benefit as the bulk of the costs (not counting system change costs) are the same under the current and new approaches.

AGL agrees with the Energeia analysis, with one major exception. We consider that it is possible to establish multiple trading relationships with a sub-meter, and without extensive rewiring (assuming the existing wiring can meet the loads), by using virtual metering.

Question 6 Impacts on AEMO and market participants of enabling MTR

1. *What costs would retailers, DNSPs and AEMO face in adapting their systems to implement AEMO's proposed MTR framework?*
2. *Could these adaptation costs be reduced through a staged implementation process?*
3. *Could these adaptation costs be reduced by implementing at the same time as any other projects? What other projects might present opportunities for joint implementation?*

AGL considers that the current proposal by AEMO is not significantly different from that analysed by the Jacob SKM report, and we anticipate that the costs will still be high.

AGL considers the changes unnecessary and that the focus should be on improving the current arrangements rather than introducing new ones. However staged implementation and combining the changes with other projects generally reduces the impact of project costs

Notwithstanding, the Rules do not contain specific detail to allow staged implementation. In any staged implementation the parameters of the eventual state need to be clear from the beginning so that the procedures developed by AEMO do not increase the impact of the Rule changes.

AGL is concerned that if the outcomes are not clear then un-necessary scope creep will occur in the implementation of this proposal, leading to even greater implementation costs.

Question 7 Metering arrangements

1. *What issues could arise for Metering Coordinators as a result of MTR? What issues arise for MTR as a result of the role of Metering Coordinators?*
2. *Should only financially responsible market participants be able to engage with customers through MTR arrangements? If not, what other parties should be allowed to engage through MTR and what benefits would this provide to consumers? What are the implications for the AER's exempt selling guidelines?*
3. *Could multi-element meters support MTR at a lower cost to consumers than other metering configurations? Are there limits or barriers to stop Metering Coordinators installing meters?*
4. *Can multi-element meters be supported by existing AEMO and participant IT and settlement systems? Would a requirement on AEMO and participants to support multi-element meters create costs for participants? What is the extent of these costs?*

1. There are no specific issues for Metering Coordinators that are different from the Responsible Person role but there are a number of practical issues:
   a. Multi-element meters could provide a more cost effective solution to multiple trading relationships (using the virtual meter approach). We note, however, that MPs and MDPs may incur significant costs, which would make this untenable. Where it is possible, the customer would need to nominate which FRMP would

appoint the MC or be the RP. AGL considers a simple rule of thumb – "first in, best dressed" would suffice with the obligation to support the customer desire for multiple trading relationships.

b. Coordination will be required between MDPs to ensure that the correct meter values are established where meters are in series
c. Arrangements for site reversion will need to be clear. Where a customer seeks to remove the multiple trading relationships, any costs will need to be borne by customers

2. By definition, only FRMP's can operate at a connection point so that the market can settle. As noted above, other parties can operate at a customer site using embedded network or exempt selling approaches where the additional relationships are not at the connection point. If other parties want to participate in the market, and therefore operate at the connection points, they will also need to be financially responsible.
3. See 1.
4. See 1. If a multi element meter is resolved into multiple virtual meters, there are no apparent issues with participant systems as each virtual meter would appear as a parallel connection at the site. However this does not resolve the MP/MDP cost issues associated with this approach.

Question 8 Network charges and network support payments

1. *If a customer establishes a second connection point at a premises, will that customer face inefficient fixed DUOS charges? Will this issue be addressed by the new network pricing objective and pricing principles?*
2. *Would the allocation of capacity or demand based charges present particular challenges where multiple FRMPs are present at a premises?*
3. *Would MTR require changes to the frameworks for the billing of network charges and for credit support?*

AGL considers that the issue of efficient network charges is best dealt with by making those charges more cost reflective of the connection's impact on the system. AGL has previously supported capacity pricing which would support, for example, an electric vehicle that uses energy off peak in not incurring additional network charges at a premise.

Given improved network charging approaches, no changes would be necessary to network pricing for multiple trading relationships.

Question 9 Definition changes, market registration and market rules

1. *Are the changes proposed by AEMO to Chapters 2, 3 and 10 of the NER sufficient to enable AEMO's proposed MTR framework?*
2. *Are AEMO's proposed substitutions of settlement point for connection point appropriate in each instance*

AGL does not support the changes proposed by AEMO.

As noted above, we are concerned that minimalist changes, as proposed by AEMO, exposes participants to scope creep during procedure development. We would therefore propose that any changes clearly define the limits of the proposal. To achieve this aim, the changes to chapter 3 and 10 need to be reviewed.

AGL is concerned with the proposal to introduce settlement points as this will increase the costs of multiple trading relationships. The current term of *connection point* serves the purpose of defining both the point where ownership of the network, and ownership of energy, is transferred.

It is important to note that, while a meter should be near the connection point, for most practical purposes this is unnecessary and the metering point can be considered to be at the physical connection point.

The use of virtual meters, where the virtual connection point is considered to be at the physical connection is a simpler solution to imposing settlement points.

AGL has specific examples of this point. At the ISIS Sugar Mill for example there are three meters distributed around the site that are resolved into two virtual meters considered to be at the physical connection point (in this case the transformer yard). This allows two FRMPs to settle at the site.

Question 10 Customer classification

1. *Should customers be classified as large or small, residential or business, according to consumption at the level of the premises, or according to consumption at individual settlement points?*
2. *Should FRMPs have the ability to reclassify only the settlement points for which they have responsibility, or should they be able to reclassify an entire premises?*
3. *Would these issues be any different where a customer had established multiple trading relationships supported by a second connection point at its premises?*

1. The customer classification is used for a number of purposes under the NER and NERR. It is therefore important to resolve this issue with jurisdictions. AGL considers that each FRMP should only be responsible for its own connection.
2. FRMPs should only classify their own connections. We note that this may be an issue for the appointment of MCs at a customer site.
3. No.

Question 11 Relationship between DNSPs, customers and retailers

1. *Will the current tripartite arrangements require adjustment to allow for multiple trading relationships?*
2. *Does this issue only arise under AEMO's proposed MTR framework, or also where a customer has established MTR supported by two connection points?*
3. *Are there any issues related to the coordination of billing cycles between multiple FRMPs at a premises that would need to be addressed in the NERR?*

The tripartite arrangement already exists between the NSP, customer and FRMP for each connection point. This will not change under multiple trading relationships, there will just be more relationships.

There is no need to coordinate billing cycles between FRMP but there will be a need to coordinate meter reading cycles where virtual meters or meters in series exist. This will need to be prescribed in the procedures.

Question 12 De-energisation and disconnection arrangements

1. *Should DNSPs and FRMPs be able to de-energise a settlement point if this results in the subsequent de-energisation of a "downstream" settlement point?*
2. *How is the metering configuration adopted by a consumer relevant to disconnection issues? Do these issues arise only where a subtractive metering configuration is adopted?*
3. *Would the prospect of disconnection of a downstream settlement point deter potential new energy service providers from entering the market? Are additional safeguard mechanisms needed to deal with third party disconnection?*

1. Yes. The customer is providing the network for the downstream connections. The customer must be made aware of impending disconnection, and should be aware of any impacts on downstream connections. If they allow one of their settlement/connection points to be disconnected, they are in effect taking the step of disconnecting themselves.

2. Only connection points in series will be impacted by this issue. Parallel metering would not.

3. We note that a site should only have a single service fuse (for technical and safety reasons) so that a network initiated disconnection would impact all connections. This is an appropriate configuration and is different to *de-energisation via the meter*.

Exempt sellers are readily entering the market despite this "downstream" issue and therefore we don't consider this to be an area where additional safeguards are necessary.

Question 13 Life support equipment

1. *How should the risk of disconnection of life support equipment be managed where an MTR arrangement is in place? Are the new requirements proposed by AEMO sufficient to manage this risk?*
2. *Are the risks of disconnection of life support equipment affected by the specific metering configuration used by a consumer to enable MTR? Would the risks of disconnection of life support equipment be any different where MTR was supported by a second connection point?*

1. Life support obligations should apply equally to all parties at a site, whether FRMP or not. A procedure must be in place so that all parties know that the site has a life support requirement and the relevant circuits to which it applies.

2. This requirement should be mediated via the networks, with any party that has been advised by the customer required to advise the NSP, who in turn is required to advise all other parties at the site. All parties must maintain a register. We also note that life support arrangements are currently being considered in other consultation.

Question 14 Standing offer and deemed customer arrangements

1. *If multiple retailers are active at a premises with MTR, should all of these retailers be required to make the standing offer available? If not, which retailer should have this responsibility?*
2. *Would this issue arise where MTR was supported by a second connection point?*

1. MTR sites will be more sophisticated and should not require a standing offer. In fact, given the nature of the different prospective services identified by KPMG, a standing offer would be an unlikely requirement.

2. Where a customer moves in and is not aware of the MTR arrangements at their site, there will inevitably be the possibility of reversion to a single trading relationship and a standing offer could apply.

Question 15 Implementation

1. *Are there potential synergies available from implementing any rule made in response to AEMO's rule change request in co-ordination with any rule made in response to the Demand Response Mechanism rule change? If so, to what extent?*
2. *What are the potential timeframes for implementing AEMO's proposed MTR framework? Do stakeholders have any specific suggestions to transitional implementation timeframes?*
3. *Are there any other subsequent changes to AEMO procedures or jurisdictional codes that will need to be made following any rule made in response to AEMO's rule change request?*
4. *What changes may be needed to the RoLR arrangements to allow for AEMO's proposed MTR framework?*

1. There may be benefit in coordinating this change with the Demand Response Mechanism change but AGL notes that this change is not necessary.

2. Multiple trading relationships exist now and will be required quickly to assist in the deployment of new technologies such as storage. AGL notes that the key issues to be resolved relate to jurisdictional and operational issues rather than AEMO's proposed change.

3. This change would require consequential jurisdictional and AEMO changes. That said, changes required for both embedded networks and the new Metering Coordinator role may go a significant way towards addressing such consequential requirements.
4. The ROLR provisions will still work under multiple trading relationships, and we have not identified consequential requirements.