

12 February 2015

Ms Meredith Mayes
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted to the AEMC website

Dear Ms Mayes

Reference EMO0029 Consultation Paper – Implementation advice on the shared market protocol

Simply Energy welcomes the opportunity to provide input to the Australian Energy Market Commission's (AEMC) consultation on the implementation advice for the shared market protocol that will support retailer-led roll out of smart meters.

Implementation of the shared market protocol

In its Final Report on the framework for open access and common communication standards released in March 2014, the AEMC recommended that a shared market protocol be developed for the communications between authorised parties and the parties that are managing access to a smart meter's functionality (the Metering Coordinator). It recommended that the shared market protocol should be a services-based protocol built by extending the current arrangements in place for the business to business (B2B) communication arrangements managed by the Australian Energy Market Operator (AEMO).

AEMO is due to provide advice to the COAG Energy Council in February 2015 on the minimum requirements for a shared market protocol. This advice was informed by an industry stakeholder reference group, which included Simply Energy.

We understand that AEMO's exploration of the appropriate technical solution for the proposed shared market protocol will assess options to develop a new communications protocol, as well as the option to extend the current B2B protocol as initially recommended by the AEMC. These issues have significant implications for those discussed in this Consultation Paper, and we would recommend them being considered jointly to the greatest extent possible.

Governance should balance timeliness with the need for wide-ranging consultation

Governance arrangements for the shared market protocol should strike an appropriate balance between an agility to adapt quickly to market needs, and rigorous and inclusive consultation arrangements.

The AEMC recommended the implementation of a shared market protocol on the basis that this is likely to deliver a more efficient outcome than where participants each use different protocols to communicate with each other. While parties would be free to use an alternative communication method where required, it would be more efficient for the market as a whole if the shared market protocol was used for all services that were common between parties. We believe timely change management is vital to the achievement of this objective.

Consider the scenario where a participant has developed a new service that is not yet supported by the shared market protocol. If the capability for the shared market protocol to support this service cannot be delivered in

the required timeframe, the participant may decide that developing its own proprietary protocol to enable service delivery would be preferable. Where the number of participants utilising proprietary protocols increases, the benefits of the shared market protocol decrease.

In order to reduce the instances of this occurring, it is important that the change management process for introducing new services in particular is not so onerous or drawn-out that it provides participants with a disincentive to include new services in the shared market protocol.

In the evolving market for advanced products and services enabled by smart meters, it is important that decisions are influenced by a diverse range of parties that represent current and future stakeholders. Governance arrangements for the shared market protocol must provide equal opportunity for participation by market participants, metering service providers, new energy service providers, industry organisations and consumer representatives. This should include the right to propose change, attend and participate in meetings, respond to issues of interest, and vote on proposed solutions (if it is decided that voting is the means of decision making). There should be no discrimination between participant views on the basis of incumbency, market share or novelty.

This diversity should help decisions be informed by a full range of factors that may otherwise be unforeseen by a more limited membership. More informed decision-making should lead to the implementation of solutions with greater whole-of-market benefits.

Responses to questions posed by the AEMC

What are the advantages and disadvantages of the different governance models?

The Consultation Paper considers two options for the governance of the proposed shared market protocol:

- Industry-led decision making.
- AEMO decision making.

The industry-led decision making option is based on the current arrangements for the B2B e-Hub, governed by the Information Exchange Committee (IEC).

Our key concern with the industry-led decision making model is that the current IEC arrangements do not provide interested parties with an equal opportunity to participate, because membership is restricted. For example, there are only three retailer positions, whereas there are approximately 25 retailers in the market. Nevertheless, it should be noted that the IEC has been working to increase its engagement with stakeholders, and we have been attending meetings as an observer.

Further, to become a member of the IEC, a nominee must complete an application form outlining their experience and qualifications for the role, which the IEC will consider at membership elections.

This process is not conducive to the inclusion of new entrant businesses, which may have important perspectives to share but may lack the NEM experience to qualify for membership. This process also does not allow a member to be a joint representative of a number of participants (such as an industry association), though this option would provide smaller resource-constrained businesses with a more viable means of participating.

In contrast, the AEMO-led decision making approach generally involves an open forum of interested stakeholders who advise AEMO on issues.

As discussed above, we believe that the governance arrangements for the proposed shared market protocol should provide all interested parties equal opportunity to participate. The current IEC arrangements fall short of this requirement.

In terms of timely change management, we have observed instances under both the industry-led and AEMO-led models where change has not responded to market needs quickly enough to avoid participants choosing to implement individual “work-around” approaches rather than wait for a shared market solution.

The decision-making model alone is not necessarily the determinate factor in a group’s responsiveness to market needs; this may instead be a product of features outside the scope of the current NER provisions such as group facilitation, prioritisation or the steps in the procedure change process itself.

We consider there may be a case for the introduction of an expedited change management process that caters for timely inclusion of new services in particular, to help address some of the features that may delay change through normal processes. We suggest the AEMC consider whether such a process should be established in the NER, or within market procedures.

Could the challenges around membership and voting for an industry led model be addressed? If so, how?

We believe member voting is not an appropriate approach to decision making. Voting leads to decisions based on the number of individual members who prefer a solution. We believe that a more appropriate approach would be to determine outcomes based on whole-of-market costs and benefits.

This is more consistent with the National Electricity Objective, having consideration to the efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity.

Regardless of whether an industry-led or AEMO-led decision making model is adopted, decision making should be determined by cost-benefit analysis rather than member voting. Submitted costs and benefits should then be pro-rated to account for known impacted parties who are not participating in the consultation process.

Should implementation of a shared market protocol include the development of an objective or principles for governance?

If yes, what objectives or principles should be included?

If the governing body is AEMO, should there be any objectives or principles in addition to the NEO?

That National Electricity Objective (NEO) is the overarching objective for all electricity-related rulemaking in the NEM. However, for the development of market procedures, it is helpful to have objective guidance at a more granular level (which should in turn be consistent with the NEO). This is the case for the B2B e-Hub, which has its own objective and set of guiding principles.

The B2B objective is as follows:

The benefits from B2B communications to local retailers, market customers and distribution network service providers as a whole should outweigh the detriments to local retailers, market customers and distribution network service providers as a whole.

B2B and the shared market protocol both have the role of facilitating communications between interested parties at a connection point. As a result, we believe an objective for the proposed shared market protocol should be aligned with the current B2B objective. The focus on net industry costs and benefits is a sound approach consistent with the NEO. To ensure clear applicability to any new parties that could utilise the

shared market protocol, the stakeholders listed in the objective could be expanded or generalised to become more inclusive.

We also believe the current B2B principles (for procedures) would be equally relevant for the proposed shared market protocol, and could be adapted for that purpose. These are:

- provide a uniform approach to B2B communications in participating jurisdictions in which there are no franchise customers;
- detail operational and procedural matters and technical requirements that result in efficient, effective and reliable B2B communications;
- avoid unreasonable discrimination between local retailers, market customers and distribution network service providers; and
- protect the confidentiality of commercially sensitive information.

In addition to these principles, we propose an additional principle is considered:

- respond to changing market requirements in a timely manner.

This principle aims to support a competitive market for new services by requiring consideration of the changing environment. Where market procedures do not respond to new developments in a timely manner, individual parties are likely to introduce inconsistent business practises which may not support the efficient operation of the industry as a whole.

We believe this principle provides balance to the second principle, which emphasises technical detail and achievement of definitive outcomes, but does not require consideration of the time that developing such procedures may take.

There is often a trade-off between achieving the most rigorous, technically correct outcome and the timeliness of achieving the outcome, and we believe this reality should be reflected in the principles for procedures of any shared market protocol. However, it is particularly important for the proposed shared market protocol which will act as an enabler for new services in a dynamic environment.

Should the shared market protocol be required to provide for (as a minimum) the services that are listed in the minimum specification?

Yes. The primary services in the minimum specification should be provided using the shared market protocol. This will enable retail competition to continue because retailers are only required to engage with the shared market protocol to provide the primary services required of a retailer (rather than having to engage with a variety of proprietary protocols).

Should the shared market protocol also include other common services that are not mandatory under the minimum specification?

Yes. There is value in considering that the shared market protocol should also support the secondary services identified in the minimum specification. The service level and performance requirements included in the minimum specification should also guide the capabilities of the shared market protocol.

It is necessary for the shared market protocol to have the option to include new non-mandatory services over time, so that the efficiencies of the shared protocol may be accessed in relation to common but non-ubiquitous services. The governance structure will need to establish a process for participants to propose new services to be included in the shared market protocol, and this should be an expedited change process as discussed above.

Is it appropriate that the metering coordinator be required to offer its services through the shared market protocol, unless otherwise agreed?

Yes, but only for primary services. The metering coordinator should be required to make the primary services in the minimum specification available to retailers using the shared market protocol. This will enable retail competition to continue because retailers are only required to engage with the shared market protocol, no matter who is the metering coordinator for the site.

Are there any risks in allowing third parties to access a shared market protocol platform?

Today, parties can only access the B2B protocol following successful registration by AEMO, and payment of a nominal fee. The authorisation process ensures all users are known to AEMO and other participants through inclusion on the Retail Operations Contact List that is circulated to all participants. This is required to ensure system notices can be communicated to all users, and for participants to contact others with roles at a connection point to discuss operational issues.

It is equally important that all participants using the proposed shared market protocol are registered with AEMO. The fact that some third party providers may have no other obligations within the electricity market is irrelevant. AEMO must be able to identify and contact all users. Where there are energy services being delivered at a shared connection point, they may interact with other parties' operations and therefore the responsible user must be contactable by AEMO and other parties with responsibilities at the connection point.

If so, would it be necessary to develop a separate authorisation process for users of the shared market protocol?

If a participant is already registered with AEMO to use B2B, additional authorisation to use the proposed shared market protocol is not required. If prospective users of the shared market protocol are not registered for B2B then they need to be specifically authorised for the shared market protocol.

Is AEMO the appropriate body to develop these requirements?

We believe AEMO is the appropriate party to manage authorisations to access the shared market protocol. This is because we understand that AEMO will be responsible for development, maintenance and reporting functions associated with the proposed shared market protocol, and we believe that user authorisation is complementary to these functions.

Is there a need for the current B2B e-hub to be maintained beyond the implementation of the shared market protocol? What factors would need to be considered when making this assessment?

The key factor is the choice of approach to developing the shared market protocol. If the shared market protocol is developed for advanced services alone (which is one of the options AEMO is considering), then the current B2B e-hub must continue, in order to provide a mechanism for basic services transactions.

However, we understand that AEMO is also considering the following options for the shared market protocol:

- Expand and upgrade B2B to allow it to support advanced service delivery.
- Replace B2B with a new shared market protocol that supports both basic and advanced services.

Should AEMO find that one of these options is the most efficient, then B2B in its current form would not need to be continued, as the upgraded B2B or new protocol would provide for the transactions managed by the current B2B.

Could all the services that are currently provided through the current B2B e-hub be provided via the shared market protocol?

There is no conceptual reason why the current services could not be provided via the shared market protocol.

Whether this is the most efficient approach is being considered by AEMO, which is also looking at other options as discussed above.

If there are organisations that do not wish to provide or receive advanced services, and have systems that interact with the current B2B e-hub, then AEMO could consider offering a protocol translation service to these organisations so they do not need to incur the costs of developing new systems. This would enable these organisations to send and receive transactions in B2B e-hub, which are translated by AEMO and received and sent by other organisations in the shared market protocol. AEMO currently performs this function for a limited period when a new version of the aseXML schema is being implemented.

Would there be an advantage in having a transition period during which both the B2B e-hub and the shared market protocol operate? How long should such a period be? Would the costs of operating both systems for this period be justified?

The feedback from the majority of participants on the AEMO smart metering industry stakeholder reference group, including Simply Energy (as indicated by Note SMP-N-4 in the meeting record) was that the option to operate the shared market protocol and the B2B e-Hub in parallel would not be an efficient outcome. There was a preference for the “Big-Bang” approach, whereby the B2B e-Hub was discontinued as the shared market protocol began live operations. This avoids the costs and complexities of running two systems in parallel.

Effective industry testing of the new system before it ‘goes live’ will reduce the risk of problems with the new system, and reduce any benefit that may be obtained from running the old system in parallel in case of problems with the new one.

Are there any significant implications should the shared market protocol not be operational on the same day that any changes from the expanding competition in metering and related services rule change take effect?

It is preferable that the protocol is operational on the same day that changes from the rule change take effect. This will reduce the risk that businesses that want to offer advanced services have to develop alternative communications methods or delay offering services until the shared protocol is operational.

The impact of this risk will depend on factors that are currently unknown, in particular the scale of the activities that are delayed or subject to alternative communication methods. This will depend on how quickly businesses seek to roll out smart meters.

If you have any questions concerning this submission, please contact James Barton, Regulatory Policy Manager on (03) 8807 1171.

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