



6 February 2015

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

Dear Ms Mayes

**RE: CONSULTATION PAPER - IMPLEMENTATION ADVICE ON THE SHARED MARKET
PROTOCOL (Reference: EMO0029)**

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the AEMC's Consultation Paper relating to its implementation advice on the shared market protocol (Consultation Paper).

About ERM Power Limited

ERM Power is a diversified Australian energy company with interests in electricity sales and generation, and gas production and exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in the National Electricity Market by load, with operations in every state. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 497 megawatts of low emission gas-fired peaking power stations in Western Australia and Queensland, operate an electricity metering business that trades as Powermetric, sell conventional gas and condensate from onshore discoveries in Western Australia, and have gas exploration operations in Western Australia and New South Wales.

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 (i.e. the Metering Coordinator). It recommended that the shared market protocol 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, to which ERM Power was party. 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 the Consultation Paper, and we would recommend them being considered jointly to the greatest extent possible.

Our response to the Consultation Paper comprises two parts. Part A discusses the key considerations for issues relating to the implementation of the proposed shared market protocol. Part B responds to the specific questions posed in the Consultation Paper.

Please contact me on the number below if you would like to discuss this submission further.

Yours sincerely,

[signed]

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PART A: KEY CONSIDERATIONS

This section outlines the primary factors that ERM Power has considered in assessing the appropriate implementation approach for the proposed shared market protocol. Ultimately, we believe 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. Implementation advice should also give due consideration to the strengths and weaknesses of the existing B2B protocol to ensure that new arrangements leverage existing infrastructure and processes appropriately to meet project objectives while minimising implementation costs.

The B2B e-Hub and the proposed shared market protocol

Registered participants and accredited service providers can currently use the B2B e-Hub to communicate with other interested parties in relation to a connection point. Expressed another way, the B2B protocol is the shared market protocol currently in use in the NEM. The proposed shared market protocol discussed in the Consultation Paper refers specifically to the requirement for a protocol to enable advanced metering services that are not currently supported by the B2B e-Hub. In addition to supporting new services, the proposed shared market protocol is also expected to be utilised by new parties that do not currently use the B2B e-Hub (although it is expected that most of the current B2B e-Hub users will also use the shared market protocol).

The AEMC is yet to decide whether current B2B arrangements should be expanded to support communications relating to advanced metering services and new parties, or whether a separate shared market protocol should be developed (either to coexist with the B2B e-Hub or to replace it). While this decision is outside the scope of this consultation, we note it is central to a number of the issues discussed in the Consultation Paper, and could to some extent dictate the most appropriate solution to these issues.

Nonetheless, we provide our views on these issues based on the expected similarities and differences between the B2B e-Hub and the proposed shared market protocol, and our expectations of the contestable metering framework as currently described by the AEMC. In general, we consider that the B2B e-Hub has met industry needs effectively, and in many areas sets a reasonable precedent for matters relating to the implementation of the proposed shared market protocol. Having said that, this consultative process provides the opportunity to discuss improvements that could be made (either to the B2B e-Hub itself, or through the provision of a new platform) and we highlight where we believe these opportunities may exist.

Timely change management

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.

Timely change management is vital to the achievement of this objective. It is important that the change management process for introducing new services in particular is not so onerous or drawn-out that it disincentivises participants from proposing inclusion into the shared market protocol.

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.

Equal opportunity for participation

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. This is not the case in the industry-led decision making model currently governing the B2B e-Hub, as discussed further below.

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.

PART B: RESPONSE TO QUESTIONS

Governance models

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:

1. Industry-led decision making.
2. 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). ERM Power is not a member of the IEC, but receives IEC papers and other correspondence and consults with members on issues of particular interest.

Our key concern with the industry-led decision making model is that the current IEC arrangements do not provide interested parties with equal opportunity to participate, because membership is restricted. For example, there are only three retailer positions available. With over 25 retailers in NEM, many of which with different business models, target customer segments and service offerings, the views of the three member retailers are not likely to be representative of all retailers' views. Non-member retailers may be permitted to attend meetings as observers only, and therefore are not able to share their views or vote. The IEC Operating Manual requires the three retailer members to consult with other retailers "as is reasonable in the circumstances".¹ In our experience, consultation with non-members is not common. Given the number of retailers operating in the NEM, it is likely that explaining each policy issue and representing each interested retailer's views on these issues back to the IEC would not be considered reasonable. However, there is no other mechanism for non-members to actively participate.

¹ See *Information Exchange Committee Operating Manual*, Section 10, p. 6.

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. Therefore, decisions may significantly vary if the membership-base was more inclusive. We believe 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- 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.

An objective and principles for decision-making

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.

Given the common role of the B2B-eHub and the shared market protocol in facilitating communications between interested parties at a connection point, 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 as follows:

- 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. These changes may be in response to new technologies, customer needs, or other opportunities. Where market procedures do not respond to new developments in a timely manner, individual parties are likely to introduce inconsistent business practises which do 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.

Interactions with the minimum specification

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

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

ERM Power believes that the services outlined in the minimum specification would be a suitable starting point for those that should initially be supported by the proposed shared market protocol. 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.

All services supported by the shared market protocol (as they are added over time) should also be defined in the minimum specification to provide guidance to participants on the minimum industry standards of services.

Roles and responsibilities

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

We do not believe it is necessary for regulation to require Metering Coordinators to offer their services through the shared market protocol, as they would already have a strong incentive to communicate with their service providers via an efficient and mutually-acceptable means. We expect that in the majority of cases this is likely to be via the shared market protocol. However, in some cases a unique (non-mandatory) service may be developed where an alternative means of communication is preferable, because using the shared market protocol could compromise service quality, or increase cost (for example). Metering Coordinators should not be required to offer this service through the shared market protocol in such circumstances.

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

The COAG Energy Council is currently consulting on the appropriate level of regulation that should apply to alternative energy sellers and energy service providers. ERM Power believes that the regulatory framework for energy and energy-related services must be expanded to cater for the range of new and evolving business models to ensure customer protection and competitive neutrality with traditional energy market roles. The AEMC should carefully consider the outcome of this process in relation to its advice on third party access to the proposed shared market protocol.

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 to be communicated all users, and for participants to contact others with roles at a connection point to discuss operational issues. The Retail Operations Contact List specifies the business contacts for various areas of operations such as life support, Retailer of Last Resort, outage notifications and Responsible Person.

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?

We do not consider there to be grounds to require a separate authorisation requirement for the shared market protocol. If a participant is already registered with AEMO to use the B2B e-Hub, additional authorisation to use the proposed shared market protocol is not required.

However it may be appropriate for participants to gain some level of authorisation in order to offer a particular advanced service with particular safety or customer protection considerations. We understand the AEMC is considering this under the competition in metering rule change process.

Is AEMO the appropriate body to develop these requirements?

We believe AEMO is the appropriate party to manage authorisations to access the proposed shared market protocol. This is because we understand 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.

Transition from the B2B e-Hub to the shared market protocol

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?

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

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?

ERM Power understands that AEMO is currently considering the most appropriate technical solution for the proposed shared market protocol. We understand the options being considered are:

1. Expand and upgrade the B2B e-Hub to allow it to support advanced service delivery.
2. Develop a shared market protocol that supports only advanced services, and operate this in parallel to the B2B e-Hub.
3. Replace the B2B e-Hub with a new shared market protocol that supports both basic and advanced services.

While discussion of the technical solution is out of scope for this consultation, we will comment on considerations for the protocol transition with reference to these three options. As we were a member of AEMO's industry stakeholder reference group, we also provide insight from our participation in that group.

Under Option 1, the current B2B e-Hub would be enhanced to support both basic and advanced services. There would be no need to continue to operate the current version of the B2B e-Hub, as this functionality would continue to be delivered through the enhanced protocol.

Option 2 requires the ongoing use of the B2B e-Hub to support basic services, as the shared market protocol would support advanced services only. New participants or those current participants that do not currently use the B2B e-Hub would have to establish access to the protocol required to support the services they wish to offer.

For Option 3, the B2B e-Hub could continue to run in parallel with the new shared market protocol for a period of time to mitigate any risks associated with transitioning to the new protocol. This period should be at least one year, to allow participants to schedule their transition at a convenient time, and provide a back-up protocol if they experience problems with their initial transition. During this period, AEMO would provide a translation function so that communications via either the B2B e-Hub or the shared market protocol can be delivered. AEMO currently performs this function when a new version of the aseXML schema is being implemented. Under this process, participants submit to AEMO the date at which they will be adopting the new version. AEMO's systems then perform a protocol translation so that messages are delivered under the required version before and after implementation. We believe a similar, centralised translation and protocol conversion process would be a suitable approach to facilitate participants' transition to the proposed shared market protocol, at the lowest overall cost to the industry.

However we do not believe that under this option, the B2B e-Hub should continue to operate, as it would duplicate the functions of the new shared market protocol. Maintaining the B2B e-Hub would represent unnecessary cost. It has been suggested that some participants may choose to only offer basic services in the future and therefore would incur additional cost in establishing connectivity with the new shared market protocol, despite the B2B e-Hub already meeting their needs. We believe it is unlikely that there would be a material number of participants in this situation, such that the continued operation of the B2B e-Hub for those participants would be justified.

The feedback from the majority of participants on the industry stakeholder reference group (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 a viable or 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. ERM Power shares this preference.

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?

The implications would depend on whether participants seek to immediately offer advanced services when the proposed metering competition framework commences. If there are participants that decide to offer a service that is not supported by the available protocol at the required time, then it is likely that they will develop their own communications method to deliver that service. If there is a material number of participants that are communicating in this manner, then the efficiency benefits of establishing a shared market protocol could be compromised.

Using the B2B e-Hub to deliver some advanced services as a transitional measure should be avoided. This approach would require participants to establish one approach for the transitional period, and then undertake additional system development to establish the long-term solution under the proposed shared market protocol. This duplicates the cost for participants. Additionally, new participants or those current participants that do not currently use the B2B e-Hub would have to establish access to the B2B e-Hub just for the transitional period, where otherwise they would only need to establish access to the shared market protocol. This is not a desirable outcome. It is preferable that the commencement date of the contestable metering framework is aligned to the availability of the proposed shared market protocol.