POWER OF CHOICE PROCEDURE CHANGES (PACKAGE 2)

DRAFT REPORT AND DETERMINATION

Published: 13 DECEMBER 2016

AEMO
AUSTRALIAN ENERGY MARKET OPERATOR

NOTICE OF SECOND STAGE CONSULTATION – POWER OF CHOICE PROCEDURE CHANGES (PACKAGE 2)

NATIONAL ELECTRICITY RULES – RULE 8.9

Date of Notice: 13 December 2016

This notice informs all Registered Participants, registered Service Providers and interested parties (**Consulted Persons**) that AEMO is commencing the second stage of its consultation on the PoC Procedure Package 2. AEMO has developed the PoC Procedure Package 2 in response to the following rule amendments (Amending Rules):

- The National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No. 12,
- The National Electricity Amendment (Embedded Networks) Rule 2015 No. 15, and
- The National Electricity Amendment (Meter Replacement Processes) Rule 2016 No. 2

The table below provides a list of procedures (Procedures) which AEMO has developed and amended to meet its obligations under the Amending Rules.

INSTRUMENT	NEW / AMENDED	NER REFERENCE
Qualification Procedure – Metering Providers, Metering Data Providers & Embedded Network Managers	New	7.4.1(a1) S7.2.1(b) 7.4.2(a) S7.3.1(c) 7.4.2A(a) S7.7.1(b)
Exemption Procedure – Metering Installation Malfunctions	New	7.8.10(b)
MSATS Procedure – National Metering Identifiers	Existing	7.8.2(d) 7.8.2(ea) (eb)(ec).
Service Level Procedure – Embedded Network Managers	New	7.16.6A
Default & De-registration Procedure – Metering Providers, Metering Data Providers, Embedded Network Managers & Metering Coordinators	New	7.4.4(a) 7.4.4(a1) 7.7.3(a)
Retail Electricity Market Procedures: Glossary and Framework	Existing	N/A[1]
Unmetered Load Guideline	Existing	N/A[2]

Invitation to Make Submissions

AEMO invites written submissions on this Draft Report and Determination (Draft Report) and the accompanying Procedures, to reach AEMO **by 5.00pm AEDT on 16 January 2017**.

AEMO may consider late submissions, but is not obliged to do so. Late submissions should explain:

1. The reason for lateness.
2. The detriment to you if AEMO fails to consider your submission.

[1] This document forms part of all other Procedures
[2] This is a supplementary document that forms part of the Metrology Procedures: Part B

Contact Details and Publication

Please send all submissions by email to: **poc@aemo.com.au**.

All submissions must be forwarded in electronic format (**both pdf and Word)**.

To assist AEMO in collating these submissions in a timely manner, Consulted Persons are requested to provide submissions using the template included in this consultation pack.

Please send any queries about this consultation to the same email address.

All submissions will be published on AEMO's website, other than content that AEMO deems to be confidential.

EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of the consultation on the PoC Procedure Changes (Package 2 Procedures).

AEMO has developed and amended the Package 2 Procedures to fulfil its obligations under the Amending Rules. AEMO has also undertaken significant drafting enhancements on all Procedures in accordance with the drafting principles followed for the Package 1 Procedures consultation.

On 10 October 2016, AEMO published the Notice of First Stage Consultation and the Consultation Paper for the Package 2 Procedures. AEMO received 26 submissions in response to that Notice from Retailers, LNSPs, Service Providers and intending participants.

AEMO has assessed all issues and addresses them in **Appendix A**.

AEMO identified three material issues, which are addressed in this Draft Report:

- The majority of submissions expressed a desire to abolish embedded network child NMIs.
- A number of comments were raised about AEMO's proposal to introduce application fees for MP, MDP and ENM applications for accreditation.
- A number of comments were raised about AEMO breach classification framework in the Default and Deregistration Procedure, and suggested the inclusion of a risk matrix to determine the materiality of a breach.

After considering the submissions, and evaluating comments against the requirements of the NER and the Amending Rules, in respect of the material issues identified by AEMO, AEMO proposes the following:

- Whether to retain or abolish embedded network child NMIs:
    - AEMO has amended the draft procedure to create a hierarchy of rules, to clarify the conditions that require a NMI to be made extinct and those that do not allow for an extinction of the NMI.
    - AEMO has amended the draft procedure to permit the movement of a metering installation from a LNSP's network to an embedded network and vice versa in the list of conditions that require the extinction of a NMI.
    - AEMO has identified consequential changes that will be required to procedures allowing the extinction of NMIs when transitioning to or from an embedded network.
- On AEMO's proposal to introduce application fees for MP, MDP and ENM accreditations:
    - AEMO has clarified that the initial deposit is non-refundable and the fees are applicable per application per applicant.
    - AEMO invites further feedback if stakeholders still have concerns about the proposed application fee.
- On the suggestion from a number of participants to introduce a risk matrix under the breach classification framework:
    - AEMO will not be developing a breach classification framework of the type suggested in submissions and considers that the initial framework proposed provides sufficient flexibility for AEMO to address breaches on a case-by-case basis, and by taking into account prior breaches, regardless of whether they arise under similar circumstances.

AEMO's draft determination is to make the Package 2 Procedures in the form published with this Draft Report and as published on AEMO's website at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2

Contents

1 Consultation Process

As required by the Amending Rules, AEMO is consulting on the PoC Procedure Changes (Package 2) in accordance with the Rules consultation procedures in clause 8.9 of the NER.

AEMO's indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

DELIVERABLE	INDICATIVE DATE
Submissions due on Draft Report and Determination	16 January 2017
Final Report and Determination published	28 February 2016

The publication of this Draft Report marks the commencement of the second stage of this consultation.

Note there is a link to all submissions received during the initial stage of consultation in **Appendix A**.

The updated draft Procedures are published on AEMO's website at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2

2 Background

2.1 NER requirements

AEMO is required to amend and publish existing procedures and develop and publish new procedures to take into account the Amending Rules in accordance with the consultation procedures in clause 8.9 of the NER.

The following is a list of the procedures AEMO is proposing to amend and develop (as appropriate). The NER Reference in the table is a reference to the clause in the NER as amended by the Amending Rules.

INSTRUMENT	NEW / AMENDED	NER REFERENCE
Qualification Procedure – Metering Providers, Metering Data Providers & Embedded Network Managers	New	7.4.1(a1) S7.2.1(b) 7.4.2(a) S7.3.1(c) 7.4.2A(a) S7.7.1(b)
Exemption Procedure – Metering Installation Malfunctions	New	7.8.10(b)
MSATS Procedure – National Metering Identifiers	Existing	7.8.2(d) 7.8.2(ea) (eb) (ec).
Service Level Procedure – Embedded Network Managers	New	7.16.6A
Default & De-registration Procedure – Metering Providers, Metering Data Providers, Embedded Network Managers & Metering Coordinators	New	7.4.4(a) 7.4.4(a1) 7.7.3(a)
Retail Electricity Market Procedures: Glossary and Framework	Existing	N/A[3]
Unmetered Load Guideline	Existing	N/A[4]

[3] This document forms part of all other Procedures
[4] This is a supplementary document that forms part of the Metrology Procedures: Part B

2.2 Context for this consultation

In 2012, the AEMC commenced the Power of Choice Review (Review). Its objective was to ensure that the community's demand for electricity services was met by the lowest cost combination of demand and supply side options. This objective was best met when consumers were using electricity at the times when the value to them was greater than the cost of supplying that electricity (i.e. the cost of generation plus poles and wires).

A number of recommendations made as a result of this Review have been implemented through a series of amendments to the NER.

The scope of this consultation is limited to the Procedures specified in section 2.1.

2.3 First stage consultation

On 10 October 2016, AEMO issued a Notice of First Stage Consultation, and published a Consultation Paper and draft procedures for Package 2. This information is available on AEMO's website[5].

All the procedures have undergone drafting enhancements in accordance with the principles published during the Package 1 consultation and the AEMO Information Paper that was published on 8 April 2016[6].

The Consultation Paper included details on AEMO's stakeholder engagement in the course of developing the draft procedures, including draft procedures that were discussed at workshops with industry representatives. The Consultation Paper included a summary of the specific amendments proposed in the initial consultation pack.

AEMO received 26 submissions in the first stage of consultation and has held the following meetings with stakeholders:

- Monthly updates and discussion at the Retail Market Consultative Forum and the POC Program Consultative Forum from September 2016.
- Discussions with stakeholders at AEMO-led PoC workshops on 9 September 2016, 20 September 2016, 4 October 2016 and 20 October 2016.

Copies of all written submissions, minutes of meetings and issues raised in forums (excluding any confidential information) have been published on AEMO's website[7].

[5] http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2

[6]

[7] Available at: http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-1

3 Summary of Material Issues

Table 1 summarises the material issues raised by Consulted Persons.

Table 1 Summary of Material Issues raised by Consulted Persons

NO.	ISSUE	RAISED BY
1.	Abolishment or retention of Embedded Network child NMIs (see section 4.1)	Active Utilities, AGL, Aurora, AusNet Services, CitiPower Powercor, Endeavour Energy, Energy Australia, Pacific Hydro, SA Power Networks, Simply Energy, Secure Meters, Shopping Centre Council of Australia, United Energy, WINConnect
2.	Application fees for MP, MDP and ENM accreditation services (see section 4.2)	AusNet, Endeavour, Energex, Energy Australia, Energy Intellegence, Ergon, Momentum, Origin, Pacific Hydro, Red/Lumo, Shopping Centre Council of Australia, Simply Energy, United Energy, VectorAMS, WINConnect
3.	Breach classification framework (see section 4.3)	AGL, Aurora, CitiPower/Powercor, EnergyAustralia, Energex Limited, Ergon Energy (Retail) & SA Power Networks, Simply Energy

A detailed summary of issues raised by Consulted Persons in submissions, together with AEMO's responses, is contained in **Appendix A**.

4 Discussion of Material Issues

This section details the material issues AEMO identified during the review process. It also provides AEMO's assessment of the issues and how AEMO proposes to address them.

Where an issue relates to a specific procedure, the procedure name is included in the name of the issue.

4.1 Abolishment or Retention of Embedded Network Child NMIs

4.1.1 Issue summary

AEMO proposed that when a NMI at an LNSP network connection point moves to an embedded network, the NMI is not required to be changed. A number of participants during the pre-consultation workshops supported the AEMO proposal, while a number of others believed the NMI should be made extinct.

4.1.2 Summary of submissions

Active Utilities disagrees with retaining the existing connection point when it becomes a child connection point, and they feel that the NMI should be abolished at this point.

AGL, EnergyAustralia, & Simply Energy have substantial concerns about the implementation of this rule, which would require a network NMI becoming an embedded network NMI and an embedded network NMI becoming a network NMI.

They believe that, in general, NMIs should be abolished rather than having them move between LNSP responsibility and ENM responsibility for the following reasons:

1. Remaining obligations on the retailer;
2. Costs of implementing changes to network system validations;
3. Long term obligations imposed on ENMs and other participants;
4. Unnecessary obligations imposed on small ENOs; and
5. Movement of a NMI between connection points.

Remaining obligations on the retailers:

They referred to the National Electricity Retail Law, Div 3 R22, which states:

> 22—Obligation to make offer to small customers
>
> (1) A retailer must make an offer (a standing offer) to provide customer retail services to small customers for whom it is the designated retailer—
>
> (a) at the standing offer prices; and
>
> (b) under the retailer's form of standard retail contract.
>
> Note—
>
> This subsection is a civil penalty provision.

In the situation of the NMI moving between LNSP and ENM with the roles retained, leads to the potential for the previous retailer to be obligated to make an offer to that customer should other commercial arrangements not be completed or at a later date in the future when the next customer is making their decision. These parties do not believe that this is an acceptable obligation to be placed on any retailer and believe that it would be cleaner for the NMI to be abolished so that the obligation assigned to the FRMP as the 'designated retailer' (and other market participants) would cease.

Cost of changing network system validations:

The implementation of the Embedded Network Manager was predicated on providing a clear management and responsibility for managing NMIs relating to Embedded Networks.

The proposed requirement of having NMIs move between NSPs and ENMs will require the NSPs to implement further system changes to ensure they can validate the small number of unique NMIs which are moving between both environments. This will require substantial changes to NSP systems which can validate a small number of unique NMIs rather than validating NMI blocks.

There is no specific rule which requires NMIs to be maintained across NSPs and ENMs. AGL, EnergyAustralia and Simply Energy would suggest that a cost benefit analysis of the NSP changes for such a small number of NMIs would not be worthwhile and therefore proposes that this obligation be removed. If NMIs move between NSPs and ENMs then AGL, EnergyAustralia and Simply Energy believe they should be made extinct and new NMIs created.

Long term obligations imposed on market participants:

AGL, EnergyAustralia and Simply Energy believe that by retaining a market NMI with the associated roles when a NMI is returned to the embedded network is not acceptable as this places various ongoing obligations on all those associated roles (see point 1). If that NMI was to be reactivated then those previous participants are likely to be affected by the market processes structure (e.g. CATS transfers etc.), metering obligations etc. when they may have no commercial interest in the new parties at that NMI.

Again, they do not believe that it is appropriate to require long term obligations to be retained by market participants in this situation.

Unnecessary obligations imposed on small ENOs:

Small ENOs are not required to have an ENM permanently appointed. The proposed process of not extinguishing a NMI which is no longer in the market will require small ENOs to continue to engage ENMs where there is no market requirement. AGL, EnergyAustralia and Simply Energy believe that this is inefficient in terms of the NEO and adds an unnecessary burden of cost on ENOs and ENO customers for no benefit.

Movement of a NMI between connection points:

In clause 1.1 AEMO has stated that:

> The *NMI* is a unique identifier for each *connection point*

When a NMI is no longer connected to the LNSP network, but rather is supplied through the Embedded Network parent connection point or vice versa, it would be reasonable to argue that a connection point has changed, which supports Rule 1:

> *A NMI cannot be changed or reallocated to another connection point*

As such, they believe that it is more appropriate for NMIs which move between an embedded network and an NSP to be extinguished, thus ensuring clarity of the NMI connection and closure of all associated roles.

EnergyAustralia acknowledge that for this suggestion to work long term for the market, access to abolished/historical data would be required in the case there was a need for back billing.

Aurora Energy believes that while Tasmania does not currently have any embedded networks, they would like to suggest that NMI's going from a Network to an embedded network or vice versa should be abolished rather than transitioned from LNSP responsibility to ENM responsibility.

AusNet Services notes Rule 2: "If the physical location of the connection point changes, then a change of NMI is appropriate". AusNet Services considers that the statement of "NMIs cannot be changed where a Child NMI becomes directly connected to a distribution network or reverts to an embedded network connection" is conflicting, because such circumstances result in physical connection points changing.

Further, when an embedded network is closed and the local DNSP is required to provide network services to all previously Child NMIs, it is not apparent who is responsible for effecting this change when the ENO is no longer functioning. In these situations it is best for everyone for each Child NMI to be re-established in the market with a new NMI. This should be no different to:

- LV NMI changing to HV or
- Overhead to an Underground connection or
- The abolishment of a temporary supply.

CitiPower Powercor has substantial concerns about the implementation of this rule, which would require a network NMI becoming an embedded network NMI and an embedded network NMI becoming a network NMI.

CitiPower Powercor believes that in general, NMIs should be abolished rather than having them move between LNSP responsibility and ENM responsibility for the following reasons:

- Costs of implementing changes to network system validations; and
- Movement of a NMI between connection points.

Cost of changing network system validations:

The implementation of the Embedded Network Manager was predicated on providing a clear management and responsibility for managing NMIs relating to Embedded Networks.

The proposed requirement of having NMIs move between DNSPs and ENMs will require the DNSPs to implement significant system changes to ensure they can validate the small number of unique NMIs which may move from the ENM back to the responsibility of the LNSP.

There is no specific rule which requires NMIs to be maintained across DNSPs and ENMs. CitiPower Powercor has already conducted a high level cost benefit analysis and the IT system changes alone would result in significant investment and for such a small number of NMIs would not be practicable. CitiPower Powercor therefore proposes that this obligation be removed. If NMIs move between DNSPs and ENMs then CitiPower Powercor believes they should be made extinct and new NMIs created.

Movement of a NMI between connection points:

In clause 1.1 AEMO has stated that:

> The *NMI* is a unique identifier for each *connection point*

When a NMI is no longer connected to the LNSP network, but rather is supplied through the Embedded Network parent connection point or vice versa, it would be reasonable to argue that a connection point has changed, which supports Rule 1:

> *A NMI cannot be changed or reallocated to another connection point*

As such, CitiPower Powercor believes that it is more appropriate for NMIs which move between an embedded network and a DNSP to be extinguished thus ensuring clarity of the NMI connection and closure of all associated roles.

In the example of the Builders Temporary Supply where we create a NMI which is then abolished once the permanent structure is in place and then create a new NMI. The location of both NMI's is at the same site. This process service the market well.

Endeavour Energy notes Rule 2 states that "A NMI cannot be changed or reallocated to another connection point" and "If an End User changes the physical location of the connection point, a new NMI must be allocated to the new connection point". They agree with this statement because this rule is consistent with the Rules defined in the existing version of the NMI Procedure and existing market participant systems and process have been designed to comply with this obligation.

However Rule 2 now has new statements that contradicts the underlying principle of Rule 2, such as "NMIs cannot be changed where a Child NMI becomes directly connected to a distribution network or reverts to an embedded network connection" and "If an existing connection point becomes a child connection point the NMI will not be changed"

When an existing connection point becomes a child connection point the physical location of the connection point changes and the agreed point of supply also changes because electrical configuration work is required to move the point of supply from the distribution network to the embedded network. Similarly, this also applies when a child connection point becomes directly connected to a distribution network.

AEMO also highlighted a concern that if a NMI was made extinct then retrospective changes cannot be made to the NMI in MSATS. However testing in MSATS pre-prod indicates that retrospective changes can be made to an extinct NMI in MSATS.

The AEMC's final rule for embedded networks allowed for the AER to provide an exemption from the requirement to have an ENM under clause 2.5.1(d2). It is not clear what the obligations are if an existing connection point becomes a child connection point but there is no ENM. In this scenario the most appropriate action would be to extinct the NMI.

The changes proposed in this section would place extra costs on participant to comply with and would result in two different processes depending on if an ENM is required or not. Allowing for the NMI to be extinct when an existing connection point becomes a child connection point, and vice versa, would maintain the current industry practice and align with existing market participant systems and processes. Further, this would reduce any implementation cost and risks, and allow for a consistent market process across various scenarios.

We would suggest deleting the following contradictory statements from Rule 2:

"NMIs cannot be changed where a Child NMI becomes directly connected to a distribution network or reverts to an embedded network connection."

"If an existing connection point becomes a child connection point the NMI will not be changed."

Pacific Hydro notes Rule 2. 3. A *NMI* cannot be changed or reallocated to another *connection point*.

NMIs cannot be changed or reallocated to accommodate changes to Participant IT systems, changes to assumed associations, changes to Network Tariffs, changes to LNSP network boundaries or ENM changes or because an LNSP's or ENM's allocation system has changed. *NMIs* cannot be changed where a Child NMI becomes a directly connected to a *distribution network* or reverts to an *embedded network* connection.

The above implies that a NMI at a child connection point in an embedded network cannot be changed (i.e. abolished and a new NMI allocated) but must remain the same whether the connection point is on or off market. Pacific Hydro questions if this is correct?

SA Power Networks does not support the re-use of a NMI allocated and assigned to a customer directly connected to our Network as a Child NMI within an Embedded Network. Physical changes to wiring will be required at the site to enable this to occur and as part of that process, a new NMI should be established for the Child connection and the customers previous DNSP NMI made extinct. This approach will enabling the new relationships to be clearly established for the Child NMI and not create any confusion for the Industry with regards to the relationships prior to this significant change in electricity supply arrangements at the site.

United Energy disagrees with the proposed wording inserted into Rule 2 regarding the transfer of NMIs from an Embedded Network back to the Distributor. The sentence below must be deleted in the Procedure:

> *NMIs can not be changed for situations where a Child NMI becomes a directly connected to the registered a distribution network and or vice versareverts to an embedded network connection.*

And replaced with:

> *NMIs cannot be changed for situations where a NMI directly connected to the registered distribution network becomes a Child NMI.*

There is no clear benefit to enforcing this as an approach for what will be an extremely rare scenario (the transfer of a child NMI from an Embedded Network back to the UE Network has never occurred).

The effort and cost associated with modifying processes and systems to address a requirement which may never occur is unreasonable given there is no clear benefit to offset the effort. The cost to amend UE systems/processes to cater for non UE range NMIs is not prudent or efficient and does not meet the NEO.

UE strongly believe a more reasonable approach is to align more closely to a property re-development scenario (e.g. knock-down/re-build) where the original NMI at the premise is made extinct and a new connection is performed once the new dwelling occurs. This is a much higher volume scenario and the NMI is always changed in these scenarios. This allows the direct connected customers on the UE network to always only have the UE allocated NMI range which benefits all participants and service providers.

Given that the re-connection of an off market NMI to the Distribution Network will often require supply works, this seems a much more reasonable approach.

UE consider it would be cleaner if UE NMIs were abolished when becoming a child NMI managed by an ENM. The creation and reversion of an EN is ultimately a significant change in the connection characteristic and the party's responsibilities for NMI standing data and network charges. If AEMO does not enable this to occur, this will necessitate UE ensuring that the UE NMI is inactive in our systems. AEMO may have built systems to cater for the rare occurrence of LNSP role churn, however this is not the case for UE and probably not the case for other NEM participants.

WINConnect believes that Rule 2 requires clarification. "NMIs cannot be changed where a Child NMI becomes directly connected to a distribution network or reverts to an embedded network connection." In the first instance, this would depend on whether the relationship between the Child NMI and the Parent NMI (i.e. the EN ID) can be end-dated, as otherwise, there would be market data settlement issues. WINConnect questions how will the Parent Meter FRMP know whether to subtract the Child NMI data or not and for what period? In the second instance, is this referring to a brownfield conversion of a site to an EN? It does not take into account the different scenarios – EN Orphan (off-market, no NMI required) and EN Child (NMI required, but is the connection point considered the same for market settlement purposes?) Similar issue as highlighted previously.

Secure Meters believes the changing of the metering point to metering installation does not remove the conflicting statements in this clause, The NMI is allocated to a connection point not to a metering point, and if a NMI was issued to a metering point the market would not have NMIs with multiple metering points. The change should have been metering point to connection point.

In the section Rule 2 – it contradicts itself by saying A NMI cannot be changed to relocated to another connection point, then in the next sentence, a NMI cannot be changed to LNSP network boundaries or ENM changes ----

1. If a NMI moves to an embedded network it could argued they have changed their connection point hence needs a new NMI
2. But a NMI cannot change because LNSP boundary change, it could be argued that moving into an embedded network is a LNSP change hence now we are saying it cannot change

Then to just confuses all again, "if an End User changes the physical location of the connection point a New NMI must be allocated" – well it could be argued that the connection changes when an embedded network is created the connection point moves to the parents connection point, hence a new NMI is required.

Shopping Centre Council of Australia supports that when a NMI moves from a distribution (LNSP) network to an embedded network (or vice versa), the NMI cannot be changed.

4.1.3 AEMO's assessment

Clear rules for management of NMIs when a metering installation is moving to an embedded network from an LNSP's network, and vice versa, are required to ensure consistency of approach across the NEM, to support the framework for embedded networks, established in the AEMC Embedded Networks rule change.

There are two simple approaches that have been considered:

1. Making the NMI extinct in all cases when moving between an LNSP's network and an embedded network; or
2. Retaining the NMI in all cases when moving between an LNSP's network and an embedded network (subject to there being no change in the physical location of the connection point).

The majority of submissions, across a range of participant roles, favoured a model which sees the NMI being made extinct. In the initial draft of the procedure AEMO favoured the model which retains the NMI, for reasons which include:

- It is an extension of the current NMI rules for movement between one LNSP's network and another LNSP's network;
- Retention of the NMI ensures continuity of load profile for an End User's load;
- Avoids adding any new barrier to an End User gaining access to their metering data as required in the Meter Data Provision Procedures;
- Avoids the need for retailers to coordinate the extinction of an existing NMI and the creation of a new NMI, with its associated roles and metering changes (where required) to ensure that there is no overlap;
- Reduces the likelihood of a NMI being made extinct in error;
- Avoids the need for the MP and MDP to establish a new metering installation in MSATS at the new NMI (in the case that the current metering installation is retained); and
- The risks of misalignment between extinct and create dates if the NMIs were routinely made extinct as a result of transferring between networks. Such changes in the past have resulted in End Users being double billed because both NMIs were active at the same time, due to delays with old NMIs being made extinct, resulting in complex rework to ensure the dates aligned.

In response to a number of specific points raised by one or more submissions in support of making the NMI extinct, AEMO considers that:

1. **Remaining obligations on the retailer (Obligation to make an offer to small customer):**

   The situation appears no different to the re-energisation of supply to a NMI, where the NMI is made active in MSATS prior to the transfer of retailer (where relevant). In this situation, the management of the NMI and NMI status confers no such obligation on the retailer. The application of the quoted section of the NERL does not rely on an historic identifier in MSATS to determine the designation of retailer, as has been proposed.

2. **Costs of implementing changes to network system validations:**

   AEMO considers that as LNSP systems should be able to accommodate the current requirements of the NER and procedures under the NER which include retention of NMIs when moving between LNSP networks, and that extending these provisions to the operation of embedded networks should not, in principal, be highly problematic or costly.

3. **Long term obligations imposed on Market Participants:**

   See response to point 1 above – AEMO does not consider that the arrangements for NMIs in embedded networks pose any new issue or risk to retailers, or other Market Participants.

4. **Unnecessary obligations imposed on small ENOs:**

   Retention of the NMI does not impose any additional requirements on the appointment of an ENM for ENOs, for either a large or small embedded network.

5. **Connection point changes upon moving to a embedded network:**

   AEMO does not agree with the proposition that when a NMI becomes a child NMI, the location of the connection point changes by default. In many circumstance, the physical location of the connection point will not change. For example, a floor in an office block with its own market contract could move within an embedded network through the introduction of a 'gate', or 'parent' metering installation that would not require any physical changes to the connection point for that office block floor.

6. **Retrospectivity:**

   AEMO acknowledges that retrospective changes can be made to a NMI prior to its extinction, however, that is not relevant in the context of the retrospectivity issue that would be created where NMIs are routinely made extinct when moving from a distribution network to an embedded network, or vice versa. Issues regarding retrospectivity on extinction include matters such as error correction and in the case of the Metering Data Provision Procedures, and the potential barriers for an End User to obtain metering data prior to the period of their most recent NMI 'create date'.

7. **Structure of the NMI rules in the procedure:**

   AEMO does recognise that the structure of the NMI rules section of the procedure requires amendment to ensure that the requirements are clear and unambiguous and that where there is a hierarchy of rules, this is clearly stated.

4.1.4 AEMO's conclusion

AEMO has agreed to amend the draft procedure to include the movement of a metering installation from a LNSP's network to an embedded network and vice versa in the list of conditions that require the extinction of a NMI. Whilst this is not AEMO's favoured option, AEMO recognises that as the potential risks and costs associated with this option are most likely to reside with participants whose submissions unanimously supported NMI abolishment, and as AEMO have identified no material risk to the management of AEMO obligations in the NER, such a change can be justified.

AEMO considers that requiring the extinction of NMIs when transitioning to or from an embedded network means that there are consequential changes that will need to be considered in other procedures, which AEMO might be able to align with the planned POC package 3 document release. This is likely to include:

1. **MSATS CATS and WIGS procedures:**
   - Potential removal of CRs related to 'Make the NMI a child NMI'; and
   - Review the NMI status code or other identifier to be applied by the LNSP and ENM when making a NMI extinct as a result of a move to or from an embedded network (such as applying a NMI Status Code of "T" for transfer to an embedded network).
2. **Meter Data Provision Procedures (MDPPs):**
   - As the MDPPs were predicated on the current requirements to retain a NMI upon change of LNSPs, AEMO will need to consider whether changes to the MDPPs are required to ensure that the proposed extinction of the NMI for embedded networks in the draft procedure does not materially disadvantage customers who wish to obtain their metering data for a period of time which includes their transition to or from an embedded network.

With regard to the points raised in submissions on the structure of the NMI rules section of the procedure, AEMO has amended the draft procedure to create a hierarchy of rules, to clarify the conditions that require a NMI to be made extinct and those that do not allow for an extinction of the NMI. Whilst a new structure has been established, the NMI rules in the pre-consultation version of the NMI Procedure that are not directly related to embedded networks, are not the subject of this consultation and have not been materially changed.

4.2 Application Fees for MP, MDP and ENM Accreditations

4.2.1 Issue summary

In the Qualification Procedure, AEMO proposed to introduce an application fee for MP, MDP and ENM applications for accreditation. The purpose of this fee is to recover AEMO's costs involved in assessing applications for accreditation or re-accreditation, which can be considerable given the amount of time and effort involved. For example, a typical MDP accreditation can take between 70-100 hours for AEMO staff to process.

Given the move from a regulated to a competitive framework, it's expected that there will be an increase in the number and type of service provider wishing to join the market for the provision of metering services, metering data services or embedded network management services. In these circumstances, AEMO considers that it is reasonable to start charging an application fee, rather than continuing to recover AEMO's costs associated with accreditation through participant fees.

The application fee will be treated as an incremental charge and have two components:

- a deposit of $5,000 payable by the applicant with the submission of its application; and
- a fee of $150 per hour (plus GST) for AEMO staff time involved in reviewing and assessing an application to recover the costs actually incurred by AEMO as a result of the application. The applicant would only be charged this hourly fee after AEMO has incurred $5,000 in costs. After this point is reached, AEMO will invoice the applicant on a monthly basis on an as-incurred basis in arrears over the duration of accreditation.

4.2.2 Summary of submissions

Pacific Hydro expressed its support for the introduction of the Application Fees for MP, MDP and ENM accreditation.

VectorAMS is of the view that the move by AEMO towards charging fees on a commercial basis introduces a number of issues.

- Internal business processes will require a commercial agreement to be established with AEMO before a Purchase order can be raised. Statement of Work describing work to be done by AEMO, expected duration, governance and reporting, and estimations of costs at a minimum will be required.
- The mechanism on how fees are set needs to be transparent.
- AEMO could consider moving to a competitive model for these services so that participants have choice across a number of service providers and to realise the benefits of competitive tension.
- If the average cost of an accreditation can be determined then a fixed price arrangement would be more appropriate rather than a T&M method.

Rather than proceeding down this path AEMO should consider recovering these costs via existing Participant Fees.

Red/Lumo believes the application fee process should be consistent with the fee structure of other applications made with AEMO. AEMO has been accrediting MPs and MDPs for a while and should be able to come up with a median cost, which can be published in the Fee Structure, similar to all other participant categories. This will reduce any perceived barriers to entry.

Energy Intelligence expressed its concern that the proposed ENM accreditation fee is very high given the relatively small customer base.

WINConnect also expressed its concern that upfront application fees may pose as an entry barrier to potential ENMS and that accreditation costs may be better served through an ongoing fee.

SCCA stated that while it does not disagree with the principle that AEMO charge fees to be able to recover their internal costs, SCCA is concerned about the nature of the application fees, which is possibly modelled on other roles, given the relatively reduced scope of an ENM to other roles and that costs will have to be

borne and distributed across a relatively smaller customer base. SCCA would like to discuss AEMO's view about the specifics of ENM accreditation.

Secure Meters sought clarification as to whether:

- deposit will be refunded if the application is cancelled,
- there will be a schedule of changes, and
- where multiple parties (companies) use the same software system, full qualification fee will need to be paid by each of the parties.

Ergon Energy recommended it is stipulated that if surplus deposit funds remain once the accreditation process is complete, or when an applicant withdraws from the process, these funds be returned to the applicant.

4.2.3 AEMO's assessment

To clarify, AEMO proposes that the application fees will apply per application, per applicant.

A number of sub-issues arise from submissions on the application fees:

Whether the Deposit is Refundable:

AEMO proposes that the deposit and any fees paid for work carried out by AEMO in processing an application should be non-refundable.

Whether the Application Fees are Cost Reflective:

AEMO considers that the proposed deposit is modest and the fees are reflective of the work involved. The charges will be on the basis of actual time spent by AEMO staff in reviewing applications and are payable monthly in arrears. The principle that applies to the fees is consistent with how all other fees are charged by AEMO, namely, cost recovery, based on the actual costs incurred.

Cost reflectivity also means that where an applicant shares IT systems with a related entity that is also applying for accreditation in the same, or another, category, the costs of the accreditation will be shared between those applicants, thus reducing their contribution towards their accreditation.

Whether the Application Fees are a Barrier to Entry:

While AEMO appreciates the concerns expressed about the application fees to be imposed on ENM applicants, the costs of processing an application for accreditation cannot be determined on the basis of whether potential applicants can easily recover the costs of the application. It would give rise to the unequal treatment of applicants and run counter to the fundamental principle by which AEMO charges its fees more generally.

Whether the Application Fees establish a Commercial Arrangement:

Vector's assumption that the introduction of fees establishes a commercial arrangment is inappropriate and incorrect.

AEMO charges fees for the performance of a statutory function on an 'as-incurred' basis. AEMO is certain that Vector does not operate its business on the basis that all statutory bodies it must pay for services rendered, such as local government rates, or even stamp duty and other taxes, can only be paid on the basis of a 'commercial agreement', 'statement of work' or 'purchase order'.

Transparency of Charges:

AEMO considers that the mechanism of charging on an hourly basis for actual time spent is transparent. The suggestion of moving to a competitive model is not appropriate at this stage. In contrast, a fixed fee would not be transparent.

Fixed Fees:

AEMO does not consider a fixed charge based on the median time spent on applications suggested by Red/Lumo is appropriate as it benefits those who take up most of AEMO's time, which is inherently unfair. It is also not appropriate to compare the accreditation and registration of service providers under Chapter 7 with the registration of participants under Chapter 2. They are vastly different processes and the level of ongoing compliance monitoring far more intensive under Chapter 7.

4.2.4 AEMO's conclusion

AEMO proposes that the structure of the application fee be as drafted in the updated Qualification Procedure.

4.3 Breach Classification Framework

4.3.1 Issue summary

A number of submissions were made on the need for industry to understand how AEMO will determine the materiality of a Breach for the purposes of the Default and Deregistration Procedure.

Essentially, what was being sought was some type of matrix, similar to a risk matrix, which could provide industry with a degree of certainty of outcome.

4.3.2 Summary of submissions

AGL, Citipower/Powercor, Simply Energy, SA Power Networks all sought greater understanding of the levels of impact for an Immaterial, Significant and Material Breach in very similar terms:

The procedure provides no guidance on how AEMO or a participant would assess what constitutes a non-material breach through to a material breach.

There is no gauge on cost of service, number of customers impacted, cost to affected participant etc.

AGL believes that an impact table – much like the ones used for risk consequence assessment which would provide a clear and common understanding of breach levels for all parties and avoid any consideration of bias or inconsistent application by AEMO or the Auditor.

The table/criteria could indicate

- Number of customers / load affected
- Cost to affected participants
- Impact on Customers
- Impact on wholesale market
- Impact on customer billing etc.

AGL also suggested that this complete process be reviewed by the AEMO Market Auditors as the application of this procedure will undoubtedly be audited and scrutinised.

Ergon Energy (retail) sought additional clarity with regard to how AEMO or their representative would assess what represents a 'non-material', 'significant', or 'material' breach. EEQ suggests that AEMO develop an assessment framework which could be provided to participants which would demonstrate how AEMO determined the level of breach. These criteria could include the following elements:

- Number and classification of customers impacted
- Impact on customers – e.g. 'inconvenience' through to 'financial', billing impacts etc.
- Impact on other market participants
- Impact on market – e.g. reputational damage, market confidence, settlements impact

Energex recommended that consideration is given to amending the current breach hierarchy from "immaterial, significant and material" to a hierarchy that is more intuitive such as "immaterial, material, significant and critical".

In addition, each level in the hierarchy should have impact assessment criteria to allow participants to determine where they sit on the scale. Assessment criteria could include the following:

- Number of customers impacted – less than 40 GWh pa
- Number of customers impacted – greater than 40 GWh pa

- Cost implications for affected participants
- Timing impacts on customers and market participants
- Impacts on wholesale market and settlement
- Impacts on customer services such as billing, service works, metering, etc.

Examples for "immaterial" and "critical" are as follows:

Immaterial:

- Number of customers impacted – Less than 40 GWh pa: less than 1000
- Number of customers impacted – Greater than 40 GWh pa: less than 10
- Cost implications to affected participants: less than $10000
- Timing impacts on customers and market participants: Short-term, less than 7 days
- Impacts on wholesale market and settlement: No impacts
- Impacts on customer services such as billing, service works, metering etc.: Breach of obligation dates

Critical

- Number of customers impacted – Less than 40 GWh pa: More than 100,000
- Number of customers impacted – Greater than 40 GWh pa: More than 1000
- Cost implications to affected participants: Greater than $1M
- Timing impacts on customers and market participants: Indefinite
- Impacts on wholesale market and settlement: Unable to provide settlement information
- Impacts on customer services such as billing, service works, metering etc.: No customer billing for indefinite period

EnergyAustralia sought the inclusion of assessment criteria to determine breach type, for instance it could include or make consideration of number of customers impacted, affected parties cost, impact to customers, impact to participants etc.). (This is approach is common in compliance breach reporting in our industry (e.g. refer to the AER Compliance Reporting Guideline or ESC Compliance Reporting Guidelines).

Aurora noted that AEMO did not specify a framework for assessing how other participants' obligations may be affected causing them to be in breach.

4.3.3 AEMO's assessment

The way in which AEMO has defined the types of Breach is qualitative. All types of Breach share a common characteristic in that they are founded on whether there is any material adverse effect on either of the following two items:

(a) AEMO's ability to perform its functions or comply with its obligations; and

(b) Participants' ability to perform their services, conduct their business operations, or fulfil their regulatory obligations.

Looked at this way, the differences between these remain qualitative when one compares the three types of Breach and how they have been defined:

Type of Breach	Number of Breaches Required	Material Adverse Effect?
Immaterial Breach	One	No.
Significant Breach	One or more	Could, if not remedied.
Material Breach	One or more	Yes.

The definition of Material Breach includes additional matters that could form the basis for such a conclusion.

Therefore, AEMO considers it to be impractical to provide a matrix or the type of metrics proposed in the submissions. On the contrary, AEMO considers that the degree of predictability of outcome that would arise from the provision of such metrics would provide miscreants with an opportunity to game the process so that they could minimise the circumstances in which a Breach could be considered to be one type, as opposed to another.

AEMO also considers that there is no uncertainty in the proposed definitions insofar as they are clear as to what is important. The impact on AEMO or other participants has to be material and adverse for it to be considered relevant and its presence or absence determinative of the type of Breach.

Another matter to be taken into consideration is that when AEMO is assessing what action to take following an Immaterial Breach or Significant Breach, there two levels of warning that can be issued. The extent of any material adverse effect on AEMO or Participants will be a factor to be taken into consideration in determining whether a low, or high, level warning is warranted. The impact of a warning is a factor to be considered when a Participant has committed a further Breach.

Finally, AEMO will be working with its auditors to ensure that the requirements of this procedure are factored into their reviews.

4.3.4 AEMO's conclusion

AEMO will not be developing a breach classification framework of the type suggested in submissions as it considers that the framework proposed provides sufficient flexibility for AEMO to address Breaches on a case-by-case basis and by taking into account prior Breaches, regardless of whether they arise under similar circumstances.

GLOSSARY

Term	Meaning
Amending Rules	National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No. 12, National Electricity Amendment (Embedded Networks) Rule 2015 No. 15 & National Electricity Amendment (Meter Replacement Processes) Rule 2016 No. 2
Jurisdiction	A 'participating jurisdiction', as that term is defined in the NER.
NER	National Electricity Rules
NERR	National Energy Retail Rules

Appendix A - Consolidated Summary Responses

A consolidated summary of all issues raised by Consulted Persons in submissions, together with AEMO's responses, is publishes on AEMO's website at:
http://aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-2