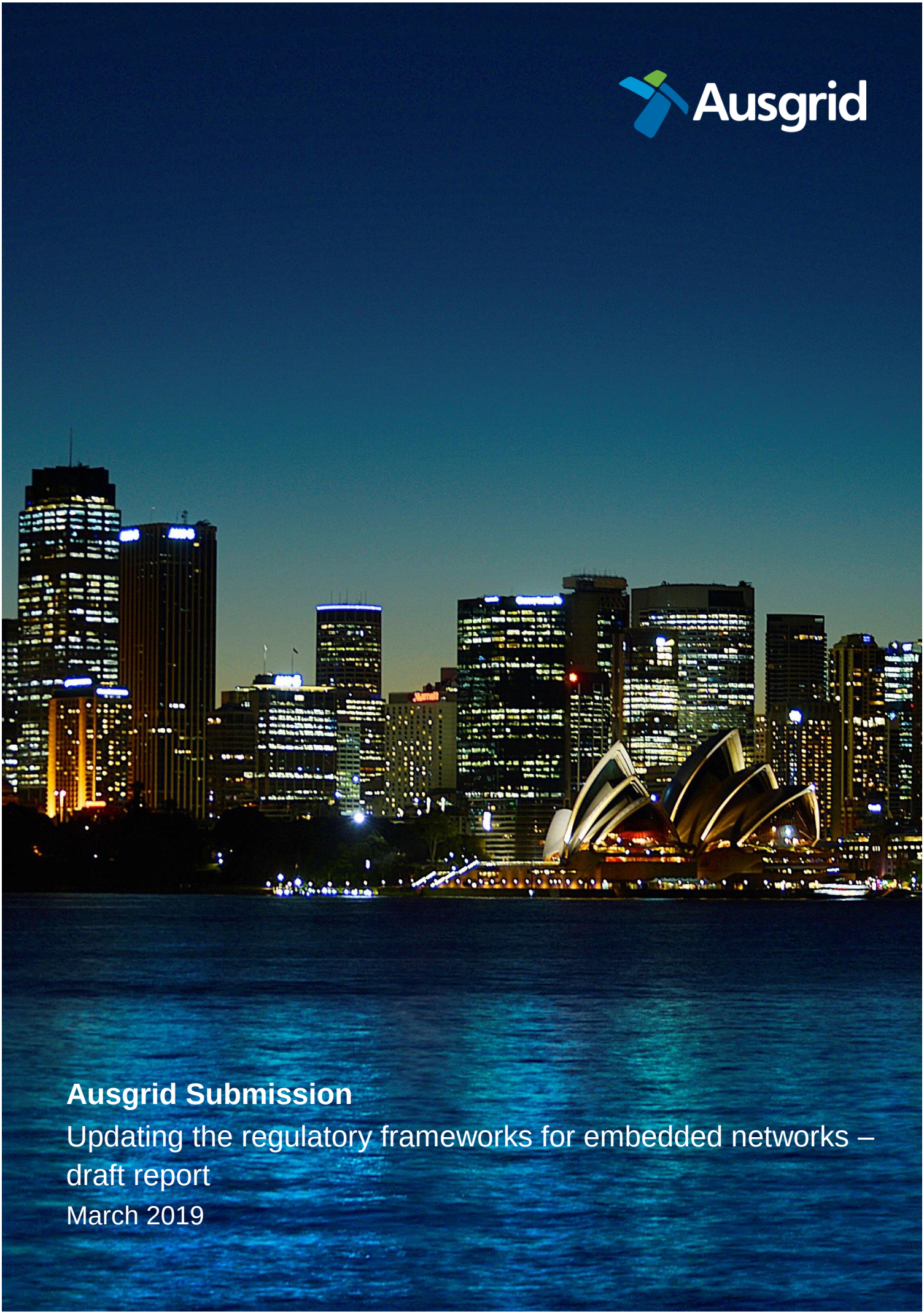

Ausgrid Submission

Updating the regulatory frameworks for embedded networks – draft report

March 2019

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14 March 2019

Attn: Ms Sherine Al Shallah
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online

Dear Ms Al Shallah

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (AEMC) draft report for updating the regulatory frameworks for embedded networks.

We agree that existing regulatory arrangements for embedded networks are not fit for purpose and support the AEMC objective of extending competition and consumer protections to customers of embedded networks.

This submission provides views on several issues that are relevant to Ausgrid. While the AEMC is obviously cognisant of not placing unnecessary costs on industry participants, we are concerned that some of the AEMC's proposed recommendations will place significant costs on distributors, particularly in relation to network billing and interruptions to supply. We elaborate on these issues in our submission below.

The AEMC's draft report and accompanying rules and drafting instructions are voluminous and recommend a significant number of changes to electricity regulatory frameworks. It is possible that the AEMC's proposed changes may have unforeseen implications in other areas, including economic regulation. Therefore, we recommend that the AEMC consider whether further consultation on complex issues such as network billing is required prior to publishing its final report.

We will continue working with the AEMC to develop solutions for the issues raised in the draft report. Should the AEMC have any questions in relation to this submission, please contact John Skinner, Regulatory Policy Manager on 02 9269 4357 or john.skinner@ausgrid.com.au.

Yours sincerely

Iftekhar Omar
Head of Regulation

Submission

The AEMC review of the regulatory arrangements for embedded networks is an important initiative and one that should improve competition and customer outcomes.

That said, the AEMC's draft report and accompanying rules and drafting instructions demonstrate than many aspects of the proposed reforms are complex. There is a risk that expected competition benefits, such as lower prices and improved customer service, will not eventuate if retailers do not 'come to the party' and compete for customers within embedded networks. Particularly in areas like network billing, the AEMC should therefore continue to engage in targeted consultation with stakeholders prior to issuing its final report by May 2019.

Our submission raises several issues that are of relevance to Ausgrid. Key amongst these issues is the transparency of network charges for customers of embedded networks.

Network billing arrangements

We agree with views expressed at the AEMC's October 2018 public forum regarding the complexities of requiring the local network service provider (LNSP) to establish processes for netting off network charges for NEM retailer customers against network charges at the parent connection point.[1] If this option was selected, each LNSP would be required to establish processes and procedures for actions such as energisation/de-energisation, transfer of data and reconciliation of charges. In the absence of a coordinated approach, this approach is unlikely to lead to optimal outcomes.

We support the AEMC's proposed approach of establishing standardised procedures and a shadow network tariff. However, as recent experience with contestability in metering has shown, introducing new roles, responsibilities and procedures can lead to considerable complexity for some parties.

Certain aspects of the proposed new arrangements appear straight-forward but may in fact be difficult to implement in practice. For example, establishing a shadow network tariff during a period when a distributor is retiring flat tariff structures and introducing cost reflective demand and time of use charges will be a complex task. This is because determining the shadow network tariff will likely require choices to be made between different tariffs, consumption levels and load profiles.

We agree with the AEMC that the NSW B2B network billing processes are a useful starting point to establish processes and procedures for standardising billing arrangements between National Energy Market (NEM) retailers and Embedded Network Service Providers (ENSPs).

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1 AEMC, *Updating the regulatory frameworks for embedded networks, Draft Report,* 31 January 2019, p.81

Transparent and consistent network charges

In its discussion around network billing, the AEMC acknowledges that ENSPs are often charged less than the equivalent shadow network tariff at the parent connection point. This results from the fact that many embedded networks have a standard commercial and industrial (C&I) tariff based on their consumption threshold.[2] This C&I tariff means that the ENSP pays lower network charges across its child connections compared to the counterfactual where all the child customers are connected directly to the local distributor's network.

In our Revised Tariff Structure Statement (TSS) submitted to the Australian Energy Regulator (AER) in January 2019, we demonstrated that this arbitrage opportunity creates a clear incentive to establish an embedded network.[3] Box A4.1 from our Revised TSS clearly demonstrates that customers in an embedded network avoid a significant portion of the network charges that they would have otherwise paid if they connected directly to the local distribution network.

Box A4.1. Analysis of revenue impact from embedded network – residential

Modelling inputs
Interval data for 315 NMIs of residents in an apartment block each on a TOU network tariff.

The What If scenario
Total Network Use of System charges for the 315 individual NMIs on the 2018/19 seasonal TOU tariff (EA025) vs as a single embedded network on a large business tariff of EA310 >750 MWh a year.

Comparison of Network Use of System revenue, 2018/19

	Individual NMIs in Ausgrid network (EA025 TOU)	Individual NMIs in Embedded Network (EA310)
Consumption per NMI	3,260 KWh	
Total consumption	1,027,000 kWh	
Fixed – network access charges	$52,000	$8,900
Energy consumption charge (kWh)	$76,700	$21,100
Demand/capacity charge (kVA)	-	$40,300
Total network bill pa	**$128,700**	**$70,300**
Difference ($)		**-$58,400**
Difference (%)		**-45%**

We provided this analysis to the AER in support of a placeholder tariff for embedded networks. We indicated that we would develop the structure and charging parameters for the proposed tariff in consultation with customers as part of our pricing proposal for 2020/21 or 2021/22.

2 AEMC, *Updating the regulatory frameworks for embedded networks, Draft Report,* 31 January 2019, p.82-83

3 Ausgrid, *Revised Tariff Structure Statement,* 8 January 2019, p.62

We recognise the arguments for an embedded network operator being charged less for a connection to the local distribution network than the child customers would be charged collectively if they each had an individual connection. However, our initial investigations suggest that there are many scenarios where there is no material difference in connection costs for an embedded network with a single connection point and a conventional arrangement with multiple connection points. In both cases, the network infrastructure is likely to be the same, with the central body that manages the building supply (either the body corporate or the ENSP) responsible for maintaining the electrical assets within the installation, and the distributor managing the upstream network. Given the customers in both cases are likely to be similar, this finding suggests that the significant difference ($58,500) between the two scenarios in Box A4.1 reflects an inequitable allocation of network costs that is unlikely to be in the long-term interests of customers.

In its draft report, the AEMC is proposing arrangements whereby retailers will pay ENSPs a 'shadow network tariff' for each child connection that goes 'on market'. This shadow network tariff will be passed from the retailer to the ENSP through standardised procedures established by AEMO. The AEMC has not proposed rules to prevent the ENSP from being able to 'over recover' network charges from on-market customers, on the basis that the ENSP and off-market retailer will be incentivised to lower their prices to retain and win back on-market customers.

We are concerned that by allowing an ENSP to 'over recover' network charges, there may be a reduced incentive for the ENSP to win back on-market customers. That is, if the ENSP is receiving a 'shadow network tariff' that significantly exceeds the network charges that the customer was paying while it was a 'child', there may be little incentive for the ENSP to win back the customer. This is because the ENSP may still be making sufficient margin from the customer without all the other obligations that apply to retail customers. We encourage the AEMC to provide further evidence that there is no need for rules to prevent the ENSP from being able to 'over recover' network charges.

Changes to key terms in the law and rules

In its draft report, the AEMC proposed changes to several key definitions in Chapter 10 of the *National Electricity Rules.* For example, the AEMC proposed amendments to the definition of *Distribution Network Service Provider* and *distribution system.* We have not reviewed all the proposed law and rule amendments in detail, however it is possible that the AEMC's proposed changes may have unforeseen implications in areas beyond embedded networks.

For example, we are concerned about the AEMC's proposed amendments to the definition of *distribution system.* Under the AEMC's proposed amendments, certain network assets, such as a temporary supply on a construction site, may be excluded from becoming part of the *distribution*

system. [4] If this type of network asset is excluded from the *distribution system,* we would no longer be able to provide a *distribution service* using those assets and therefore recover any revenue.

Similarly, the exclusion of network assets forming part of a *metering installation* may also be problematic, as some High Voltage customer metering units are integrated into our network assets. If these assets are excluded from the definition of *distribution system,* we would no longer be able to provide distribution services using those assets, which may significantly increase costs on some customers who would then be required to install separate high voltage metering installations.

We recognise that the AEMC has based these amendments on the AER's current deemed network exemption classes to avoid capturing networks where there is no benefit in regulation. However, we are concerned about any unintended consequences that might arise. We suggest that the AEMC review its proposed amendments and consider whether clarification is required prior to publishing the final report.

Distributor interruptions to supply

In the draft report, the AEMC outlines it proposed recommendations in relation to planned interruptions to supply.[5] The AEMC proposes that:

> *the ENSP should have an obligation to notify each affected customer on its embedded network as soon as practicable after receipt of notification of the interruption. Further, the Commission is of the view that ENSPs must provide this notification within one business day of receipt of notification of the interruption.*

The AEMC then goes on to state that:

> *the DNSP or retailer at a parent connection point planning the interruption to supply, which will interrupt the supply of electricity to the embedded network, should be required to provide notification to the ENSP and the retailers at each affected child connection point detailing the area affected by the interruption to supply, the date, time and duration of the planned interruption, and contact details for more information on the planned interruption.*

These new obligations are shown in Figure 7.1 of the draft report. We support the intent of this obligation but are concerned about the potential costs of the distributor having to notify the authorised retailer at each affected child connection point. Any additional costs should be reflected in the network charges faced by ENSPs, rather than passed onto the local distributor's customers.

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4 AEMC, *Updating the regulatory frameworks for embedded networks, Draft Report,* 31 January 2019, p.43

5 AEMC, *Updating the regulatory frameworks for embedded networks, Draft Report,* 31 January 2019, p.121

Currently, a LNSP has limited information about customers behind the parent connection point. By expanding Ausgrid's responsibilities for notifying child customers of interruptions, additional costs will be incurred for:

- System enhancements, as this function is not currently performed by Ausgrid. At a minimum, we will be required to upgrade:
  - (i) our metering business system, to import (from MSATS) child connection point NMIs and information pertaining to the retailer of child connection points; and
  - (ii) our geographical information system, to store and align geographic location information for child NMIs, to ensure we uphold our NECF obligations relating to life support.
- Additional staff to manage additional administrative tasks associated with notification of outages to participants not connected directly to our network.

In our view, the ENSP, rather than the LNSP, should be responsible for contacting affected customers at child connection points and the retailer at child connection points. This is because the ENSP will have existing relationships with retailers of child connection points through the proposed billing arrangements. Having more than one party responsible for notifying child customers and child retailers is likely to create confusion and unnecessary duplication of effort.

ENSP will also have a much better understanding of how its network is configured. If there are multiple supplies to the embedded network, the distributor would notify the supply point being isolated. In Ausgrid's case, however, we would be unaware of which child NMIs are connected to which service point. In a shopping centre with three separate supplies, for example, we would not be aware of which shops are connected to which supply point. This supports the ENSP, rather than the LNSP, being responsible for contacting affecting customers at child connection points.

For the same reasoning, life support notifications present a similar problem. If a retirement village has multiple supply points, for example, we would be unaware of which child NMIs are connected to which service point. Only the ENSP can provide accurate outage and life support notifications to child NMIs.

Life Support requirements in new embedded networks

Life support obligations are critical to support the welfare of customers that utilise life support equipment. Any new obligations must be unambiguous and ensure that there is no confusion in which party has responsibility for providing life support information.

In its draft report, the AEMC recommended that: [6]

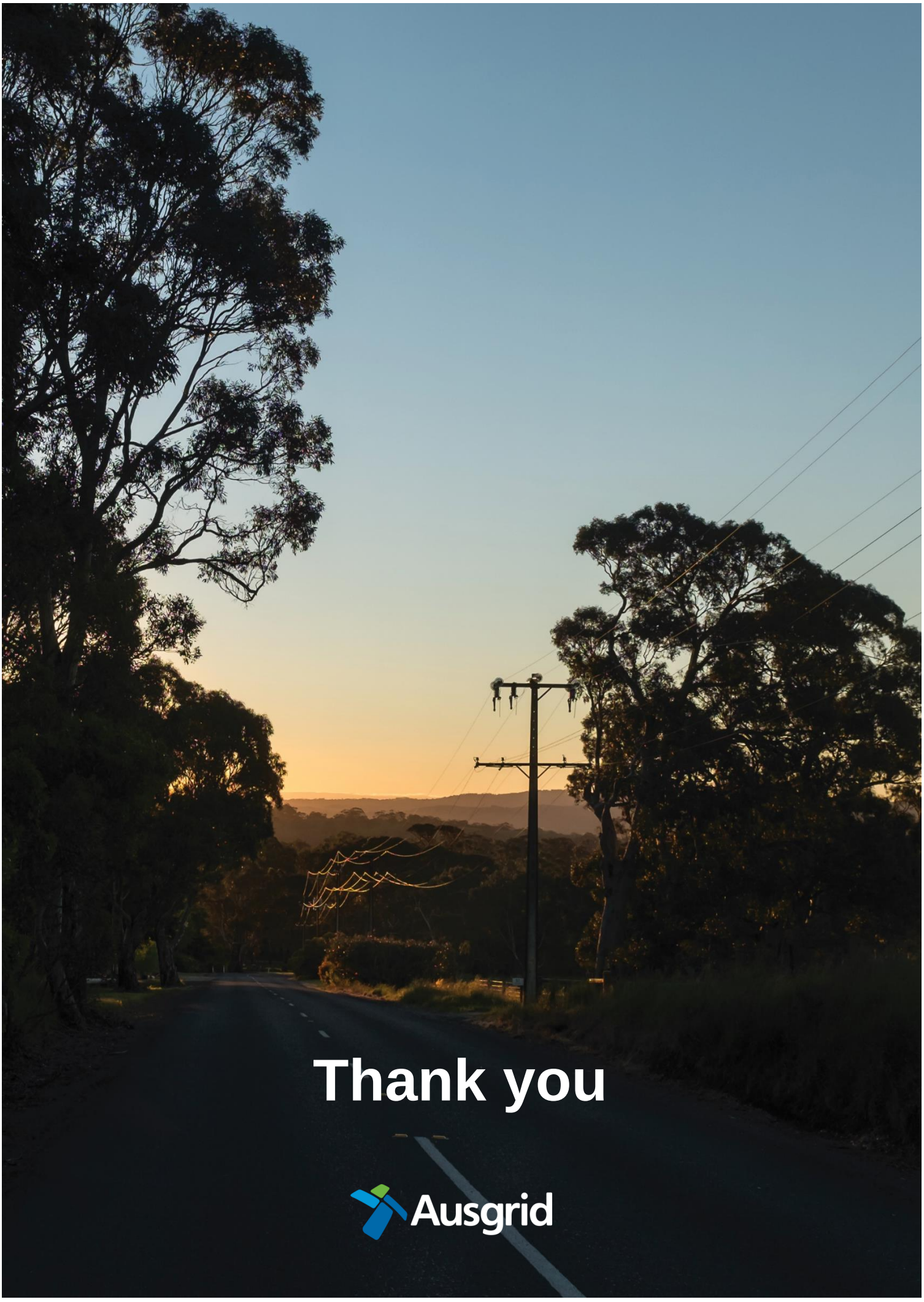
6 AEMC, *Updating the regulatory frameworks for embedded networks, Draft Report,* 31 January 2019, p.126

> *In addition to the current obligations in Part 7 of the NERR, the Commission considers that the retailer at the child connection point, or the ENSP (whomever the customer contacts in relation to life support equipment), should be required to inform both the retailer at the parent connection point, and the DNSP whose distribution network the embedded network is connected to.*

It is vital that both the distributor and retailer at the parent connection point are aware of any life support requirements within an embedded network. However, consistent with our comments for supply interruptions, we are of the view that the ENSP should be responsible for passing life support requirements of the embedded network onto the distributor and retailer at the parent connection point.

We have come to this view considering all the relationships that will exist under the AEMC's proposed changes. Under the proposed arrangements, the ENSP will be the sole party with an ongoing relationship with ALL parties within an embedded network and will be able to verify the name and other details of customers with life support equipment. The distributor at the parent connection point, on the other hand, will have little or no information about the customers at child connection points and will have no way of verifying customer details. To ensure that responsibilities are clear, in our view the ENSP should be the conduit for providing life support information to the distributor.

Ausgrid is also concerned about additional costs it will incur in meeting any new requirements. In addition to systems enhancements, we will also require additional staff to manage exceptions and additional administrative tasks associated with B2B transactions.


Thank you
Ausgrid