

14th March 2019

Attn: Sherine Al Shallah
Australian Energy Market Commission
PO Box A2449
Sydney South NSW

Re: Updating the regulatory frameworks for embedded networks – draft report (Ref. EM00036)

Enerven welcomes the opportunity to provide feedback regarding the Australian Energy Market Commission's (AEMC) draft report "Updating the regulatory frameworks for embedded networks (Ref. EM00036)".

Enerven is a wholly-owned subsidiary of SA Power Networks, the South Australian Distribution Network Service Provider (DNSP).

In general terms Enerven is supportive of the draft rule changes that provide customers with improved consumer protections and levels of service. In particular we support the proposed accreditation framework / regime. However, we note the AEMC has not undertaken any cost-benefit analysis of the proposed regime. We believe there are some aspects of the framework which will lessen competition and introduce significant costs – which is not in the long-term interests of customers.

With regards to retail market competition, we have a strong opinion that the barriers the AEMC are seeking to remove have been largely put in place by the Retailers. The key issue here appears to be that Retailers are not prepared to make energy-only offers to embedded network customers. This unwillingness has not to our knowledge ever been adequately justified, so we are left to surmise either that it is simply not a business segment valued by Retailers, or otherwise it's a strategic decision on the part of the Retailers.

The proposal to introduce a requirement for B2B systems to enable network charges to be passed from the Embedded Network Service Provider (ENSP) to the Retailer will be costly in terms of the size of this market. It will therefore be impractical for all but a few of the larger ENSPs and Retailers with existing embedded network businesses. It is of course likely that third party businesses will be established to act as clearing houses for ENSPs for whom it would be uneconomical or unfeasible to establish the required systems in house. This will result in an additional cost being created which will be passed through to customers.

The sole benefit we see from the B2B requirement is the customer receiving a single invoice. We believe this benefit will be far outweighed by an increasing cost to the customer, either from the requirement for smaller ENSPs to set up required systems or procure this service from a third party, or by effectively precluding such businesses from the market and thereby swinging the favour of competition back to the established on-market Retailers. Further, we do not see that it has been clearly established that there is a material 'cost' to the customer associated with receiving two bills.

In our view, the proposed rule change detracts from competition and does nothing material to strengthen the consumer protection framework.

Enerven would like to provide the following points to key aspects of the rule change:

B2B Communications

We are concerned with the cost of introduction of the proposed B2B systems which enable network charges to be passed from the ENSP to the Retailer. As our business comes from a DNSP background we are aware that B2B system costs can easily exceed \$10M. Even though the functionality to bill Retailers for the network charges is only a small component of a customer information system, we understand, based on the current relevant solutions available to DNSPs and ENSPs, it will not be possible to cherry-pick this specific function, which will make the B2B requirement uneconomical or unfeasible to all but the largest or established market participants.

Furthermore, such systems will need to accommodate jurisdictional network billing formats and specifications, which adds further cost.

It is unclear if legacy embedded networks would need to comply with this requirement. If this is a true impediment to competition, it would suggest the 200,000 current embedded network customers would be disadvantaged if they were not included.

A reasonable alternative may be to require the (proposed) Embedded Network Retailer of Last Resort (at least) to make energy-only offers to embedded network customers when requested by those customers. This simple measure will stimulate competition and institute a fundamental level of customer protection. In order not to unfairly prejudice existing parent connection point Retailers, it is recommended that this obligation only apply to new supply contracts or from the renewal of existing contracts.

Embedded Network Service Provider of Last Resort

In our opinion the role of Embedded Network Retailer of Last Resort has been suitably addressed, however we see no consideration as to how the physical asset will be dealt with in the scenario where the network owner becomes insolvent.

This is likely to be more of a concern for residential developments and apartments where the electrical asset is owned by an ENSP or a private enterprise rather than a body corporate.

In South Australia we are seeing instances where developers of apartments are transferring ownership of the electrical assets to Embedded Network Operators at occupancy.

We believe the framework needs to consider this issue and draw a distinction between network ownership and network operations.

In a residential development scenario an Embedded Network Retailer of Last Resort could simply involve the transfer of the electrical assets to the local DNSP (subject to construction standards, condition of asset and quality of supply considerations). The transfer would be made on the basis that the network cease operations as an embedded network.

Accreditations

Twenty-six business have spent considerable time and expense securing their Embedded Network Manager (ENM) accreditation. Enerven is one of those.

Much of the ENM responsibilities have been rolled into the ENSP framework, although we note these tasks could be contracted out to the current pool of ENMs.

To reduce the costs of ENSP accreditation Enerven would like to propose a tiered approach, as follows:

1. Full checklist applies to entities that do not currently have ENM accreditation.
2. An abridged checklist for entities that currently have ENM accreditation.

We see the latter excluding the general checklist which would have already been received and assessed by AEMO but including any new or modified requirements under the ENSP obligations.

Legacy Networks

How legacy networks are dealt with has been broadly covered but we believe the detail will uncover some significant issues.

The argument for competition and consumer protection suggests much of the framework should apply to those legacy networks which do not fit the future exemption regime, but this will come at a cost. Whether these networks can sustain such a cost remains unknown, but one scenario could see a number of current Embedded Network Operators exiting the market. The question then becomes, how are the affected customers protected.

General Observation

Enerven is supportive of the draft report and we are in a strong position to comply with the proposed framework. However, we believe it will be extremely difficult for a small operator to comply with this framework without incurring significant costs which will need to be recovered from their customer base.

The same cannot be said for Retailers who have, or are in the process of, establishing embedded network businesses.

We query whether this framework is enhancing competition or creating new entrant barriers which swings the pendulum in favour of the large and existing on-market Retailers. We note the AEMC workshop held on the 22nd February where the Retailers appeared supportive and the current Embedded Network Operators voiced significant concerns around the cost and viability of the framework. We encourage the AEMC to consider these costs further.

Should the AEMC require further clarification of any of our comments, please contact Paul Topping, Embedded Networks Manager, on 0403 582 007.

Sincerely,

Craig Julian
Head Energy Solutions