



EnergyAustralia

LIGHT THE WAY

27 March 2019

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Australian Energy Market Commission

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Dear Commissioners

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AEMC – Updating the regulatory frameworks for embedded networks draft report – January 2019

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation in the National Electricity Market (NEM).

We make this submission as EnergyAustralia Pty Ltd, which has interests as an on-market retailer in embedded networks, as well as in The Embedded Networks Company Pty Ltd (trading as Seene) which holds a retail authorisation outside of Victoria and operates under a registered exemption in NSW and Victoria.

EnergyAustralia supports the general thrust of the AEMC's draft report that customers in embedded networks should be afforded the same protections and access to benefits as customers in the market generally. While we consider this could be done under the existing exemptions framework, we agree with the AEMC that the growing number of affected customers may justify a more standardised approach across a range of regulations. A wide range of implementation issues are canvassed in the draft report and we consider the AEMC has sufficiently highlighted major areas where the costs and benefits of regulatory change are finely balanced or difficult to determine. Our view on some of these is outlined in the following.

Exemptions and registrations

It seems appropriate to preserve current exemptions and streamline arrangements for the smallest exempted operators to minimise costs.

In terms of understanding the costs of the proposed arrangements, [*Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 48 of the National Electricity Law/sections 71 and 331 of the National Gas Law/sections 223 and 234 of the National Energy Retail Law*] with once off costs including ombudsman registrations of \$20,000 (for example in NSW).

These costs, which may vary for other businesses, are significant and represent a barrier to entry, while forcing some current businesses to exit the market. This could result in a consolidation of service providers and less choice for consumers, although this may not be a material concern when considered in the context of the total expected costs and benefits of the entirety of the AEMC's proposed changes.

We note the AEMC's comments regarding the similar obligations for proposed off-market and NEM-authorized retailers, and consider that the off-market retailer category may be redundant. The AEMC should also consider clarifying NER and NERL provisions that would apply to retailers operating only in embedded networks.

Network billing, connections and pricing arrangements

We support the standardisation of network billing, including the development of shadow network tariffs and data/ file formats. These and related charging arrangements will need to be accompanied by a standardised use of system agreement. Agreements arising under the AEMC's proposed rule 6.1.5(a)(2) for mass market customers would be costly to develop in each circumstance or may otherwise result in provisions that are not in the interests of consumers without further restrictions or regulatory oversight. In the same way as envisaged for connection offers and agreements, the AER could be given a role to develop a model use of system agreement from which retailers and embedded network service providers could depart by agreement.

Regulatory changes to billing arrangements should address the gap in the existing framework regarding 'unknown customer' and related non-payment issues. We encourage the AEMC to ensure:

- retailers and embedded network operators can share customer information
- any newly created obligations on embedded network service providers to connect and supply customers also extend to retailers, that is, whether retailers can refuse to offer to certain customers (e.g. because of credit-worthiness) and whether there is a default retailer in these circumstances
- clarity in the process where a retailer requests re-energisation of a NMI after a disconnection for non-payment by an embedded network operator, e.g. what occurs if the customer holds debt with both parties.

In expanding the coverage of regulation to customers inside embedded networks, the AEMC and policy-makers may need to anticipate the expanded scope of a range of proposals currently under consideration, including the passing through of cost-reflective price signals and retail price regulation. We note that draft Default Market Offer and Victorian Default Offer exclude customers in embedded networks however the coverage of price regulation, including comparison rates, best offer requirements etc may need to anticipate being expanded to cover embedded network customers. The AEMC should also consider whether its proposed changes affect, or should affect, condition 7 in the AER's retail exemption guideline or clause 10 of the Victorian General Exemption Order 2017, which cap prices in embedded networks relative to local area retailers' prices.

B2B arrangements

We are aware that AEMO and the Information Exchange Committee are examining B2B issues in embedded networks. Some industry participants are also already using the NSW B2B billing file specifications, which are different for each distributor. There was an unsuccessful attempt to harmonise this several years ago and it may be useful to re-examine this in terms of benefits for retailers, embedded network managers and market participants.

Whether embedded network managers will be required to use the B2B e-hub (and therefore upgrade their systems, pass technical certification etc) is dependent on what type of market registrant they are. The AEMC therefore needs to be clear on its intention and similarly ensure clarity in the rules on registering with AEMO, as well as be mindful of the costs and lead-times involved.

Retailer of last resort arrangements

The AEMC's proposal is for the FRMP at the parent connection point to be the default RoLR for off-market child connection points. The AEMC should be aware that this would place smaller end users under retailers that are potentially not equipped to service them. That is, any retailer that offers to parent and gate connection points would also need to be equipped to service small connection points in a way that is compliant with the regulations of small customers in each relevant state.

New network billing arrangements also need to anticipate retailer failure and RoLR arrangements as NUoS charges are currently not passed on in almost all circumstances.

Legacy embedded networks

In principle we support transitioning existing embedded networks into the new regulatory framework. Metering costs appear to be the main barrier in making this transition, which the AEMC should investigate further. Metering requirements for embedded networks introduced since January 2013 means that child meters installed since this date should be NEM-compliant, with further requirements applied for meters installed from December 2017. However, these requirements are only in place where the embedded network has been required to appoint a metering coordinator, and standards may not have been enforced. To address the risk of burdening some customers with premature meter upgrades to facilitate competition, the AEMC could consider a transition trigger where all meters in the embedded network are replaced. A further option is to explicitly manage the recovery of metering upgrade costs, for example, provisions for embedded network operators to be compensated if a customer moves on, or via transfer of assets. Metering charges could also be subject to standardised arrangements in the same way as envisaged for network shadow pricing. Existing requirements on the ability to recover metering costs may need to be examined.

The AEMC should also consider the allocation of metering coordination responsibilities between the ENSP, off-market and authorised retailers under its proposed arrangements. Allowing retailers to choose their preferred metering coordinator and provider may create coordination issues where meter changes are required that involve multiple service providers. Conversely, in the event there is only one metering

coordinator for all child connection points, this restricts the ability of retailers to choose their preferred metering service provider.

In generally considering the speed and scope of transition, the AEMC should take a targeted view at the risk of (or observed) negative outcomes in embedded networks currently. We expect that expanding the monitoring and enforcement regime through registration and reducing the scope for exemptions will bring significant benefits and can be done separately from reforms dependent on metering such as consistent network billing, B2B, etc. Any Concerns around excessive pricing in legacy embedded networks may be addressed indirectly via the introduction of the VDO and DMO as noted above.

Gas embedded networks

We do not consider there are clear or material benefits in expanding regulatory arrangements for gas embedded networks at this time. In addition, there appear to be considerable technical and cost barriers to introducing additional customer protections, as well as problems in defining a gas embedded network.

Jurisdictional arrangements

From our perspective, jurisdictional regulations targeted at the reliability of supply are probably of most interest to customers:

- Reliability measures applying to DNSPs should cover customers in embedded networks and recognise customer impacts behind the parent meter. This may already be the case on terms of energy/ volume measures but may not be so for those that depend on customer numbers.
- Establishing reasonable arrangements around GSLs in embedded networks is likely to be problematic.
- Technical installation standards already apply beyond the parent meter e.g. building wiring.
- Quality of supply issues stemming from the embedded network service provider may be adequately addressed through ombudsman arrangements.

Seene has had some issues in joining Queensland's ombudsman scheme due to recognition of authorised entities only. We understand the Queensland Government is addressing this and it may be an issue for other jurisdictional governments to consider.

If you would like to discuss this submission, please contact Lawrence Irlam on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

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