



INFORMATION

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Updating the regulatory frameworks for embedded networks

The AEMC has published the final report for its review into *Updating the regulatory frameworks for embedded networks to implement a new regulatory regime for embedded networks*

The final report sets out detailed amendments to national energy laws and rules to establish a new regulatory regime that will improve consumer protections and access to retail market competition for embedded network customers.

Context

Embedded networks are private electricity networks that are owned, controlled or operated by exempt network service providers. They are connected to a distribution or transmission network through a parent connection point, and serve multiple customers at child connection points. Common examples of embedded networks include shopping centres, retirement villages, apartment complexes and caravan parks.

Currently, service providers for embedded networks must gain an exemption from the Australian Energy Regulator (AER) from the requirement to register as a network service provider. If this party wishes to on-sell energy to customers within the embedded network it must also hold a retailer authorisation from the AER or be exempted from this requirement.

The COAG Energy Council requested that the AEMC undertake a review of the regulatory arrangements for embedded networks and, in December 2017, the AEMC published the final report of the *Review of regulatory arrangements for embedded networks (2017 Review)*. The 2017 Review found that, under the current regulatory regime, most embedded network customers are not able to access retail competition or important consumer protections. The review also found that the AER's monitoring and enforcement powers in relation to embedded networks are insufficient, leading to a lack of clarity whether embedded network operators are meeting their obligations as suppliers of an essential service. As such, the AEMC concluded that the existing regulatory frameworks for embedded networks are no longer fit for purpose.

Currently, almost 4,500 embedded electricity networks are registered as exempt across the National Electricity Market (NEM). However, as this number does not include smaller embedded networks deemed to be exempt, the total number of embedded networks is likely to be much greater. While there is limited data available on the current number of embedded network customers, stakeholders have suggested that there could be as many as half a million. Therefore, any changes to embedded network arrangements could benefit a large number of customers.

Providing appropriate protections to customers in embedded networks

The framework amendments set out in the final report are designed to allow the COAG Energy Council to deliver on the AEMC's recommendations in the 2017 Review. By extending the coverage of national energy laws and rules, important consumer protections consistent with those provided to customers directly connected to the grid can be extended to embedded network customers. The Commission's view is that consumer protections should be driven by the needs of customers and not the business model of suppliers.

The key outcomes of the new arrangements for embedded network customers include:

- improved consumer protections in areas such as disconnections, billing information, payment options and notification of planned outages, and new protections such as access to customer hardship programs and a retailer of last resort scheme

The new regulatory regime set out in the final report would improve consumer protections and access to retail market competition for embedded network customers

- an enhanced ability for the AER to monitor and enforce the compliance of sellers in embedded networks with the obligations to provide these protections
- improved industry financial and data transfer processes to help more retailers compete in embedded networks, giving customers more choice and access to competitively-priced market offers
- giving embedded network customers market-compliant meters that are registered with the Australian Energy Market Operator (AEMO) to make it easier for customers to switch retailer and get better information about their usage and bills
- giving embedded network customers the same rights as grid-connected customers when upgrading their connections eg when installing electric vehicle charging stations within apartment blocks
- through changes recommended to state governments, improved access to concession schemes and emergency financial assistance, provide access to independent dispute resolution and introduce reliability protections

Proposed framework for embedded networks

The final report presents and explains the package of legislative changes developed by the AEMC to implement the recommendations made in the 2017 Review and deliver the benefits set out above. Proposed drafting amendments to the National Electricity Rules (NER) and National Energy Retail Rules (NERR), and drafting instructions for changes to the National Electricity Law (NEL) and National Energy Retail Law (NERL), have been published to accompany the report.

Provide direct oversight of the operation of embedded networks

Under the new framework, network service providers and on-sellers would no longer be eligible to be exempted from the requirements of the national energy laws and rules. Embedded network service providers would be required to register with AEMO, and would become subject to many of the regulatory requirements placed on Distribution Network Service Providers (DNSPs). Electricity on-sellers would be required to obtain a form of retailer authorisation from the AER, and would be subject to most of the requirements placed on existing authorised retailers.

Class exemptions would only be retained for a small sub-set of network service providers and energy sellers, where the need for regulatory oversight is low, and all in cases exempt parties would need to register with the AER ('registrable exemptions'). Embedded network activities continuing to be exempt would include supply to some infrastructure sectors and temporary accommodation. Exemptions for individual parties would also be available in special circumstances, subject to an assessment by the AER.

Narrowing the scope of the exemption framework is necessary to provide permanent customers with consumer protections consistent with supply of an essential service. The Commission acknowledges that, in some cases, this may make the installation of an embedded network less attractive to property developers; those developers would still have the option of providing standard supply arrangements.

Extend consumer protections to embedded network customers

Requiring on-sellers to obtain a form of authorisation from the AER will allow consumer protections for embedded network customers to be closely aligned with those of standard supply customers under the NERL and NERR. While the creation of a separate class of authorised retailer would allow for a reduced set of protections, the Commission has concluded that almost all of the existing protections should apply. However, in some cases - such as notifications of supply interruptions and life support arrangements - existing processes will need to be amended to accommodate the additional relationships present in embedded networks. An obligation to provide connection services in embedded networks would also be applied by requiring embedded network service providers to offer new connections or connection alterations within the area served by their embedded network.

Improve access to retail market competition

Under the new regime, NEM metering arrangements and market systems for standard supply customers would be extended to embedded network customers. These include the

appointment of a metering coordinator at child connection points to enable customers to switch retailers easily. All customers at child connection points would be registered with AEMO so that they are visible in AEMO's market systems and 'discoverable' to all retailers, to make them competitive offers. To further support retail competition, network billing arrangements would require embedded network service providers to use standardised billing processes and data formats to facilitate transactions with retailers.

Implementation

The proposed framework will be implemented when the COAG Energy Council has redrafted electricity and energy retail laws based on the AEMC's proposed law change descriptions, and submitted these to the South Australian Parliament to make, and the South Australian Minister has made the proposed rule changes. The Commission anticipates this could occur by mid-2020.

Following the making of the law and rule changes, the AER and AEMO will need to update a number of guidelines, procedures and systems. State governments, regulators and ombudsmen will also need to consider and implement any required changes to jurisdictional regulations.

All new embedded networks will become subject to the new laws and rules twelve months after they are made, following the completion of these additional implementation steps.

Legacy embedded networks

The final report also includes a staged plan to transition certain legacy embedded networks to the new arrangements. Only those legacy embedded networks currently subject to registrable exemptions would be transitioned. Legacy embedded networks that currently operate under deemed or individual exemptions under the AER's exemption guidelines would not be required to undertake a transition.

A full or partial transition will be required depending on when the embedded network was established. Recently established embedded networks will, over time, be required to transition in full. Those established prior to the Power of Choice reforms being implemented on 1 December 2017 will only be required to partially transition - they will be required to register as retailers but will be able to remain exempt from registering as an embedded network service provider. This partial transition approach has been designed to improve access to consumer protections while recognising the concerns raised by many stakeholders regarding the costs that could arise if older embedded networks were required to upgrade metering and associated network equipment under a full transition.

Changes between the draft and final reports

The framework recommended in the final report is broadly consistent that in the draft report. The main differences are the addition of the arrangements for the transition of legacy embedded networks and the introduction of a framework for the connection of registered participants (for example, large generators), including the application of performance standards.

The Commission has also made a number of changes in response to stakeholder submissions, including reintroducing the AER's ability to grant individual network exemptions and no longer requiring the registration of off-market retailers by AEMO.

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