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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY NSW 1235

Dear Mr Pierce

TradeCoast Central Pty Ltd ("TradeCoast") welcomes the opportunity to make a submission to the proposed rule change on Embedded Networks (AEMC Reference: ERC0179), which in general terms, would:

1. create an additional category of service provider termed the Embedded Network Manager (ENM) in the NER, to manage embedded network customers;
2. require the owner, operator or controller of the Embedded Network (ENO) to engage an ENM; and
3. require the ENO to pay the costs of engaging the ENM.

In summary, the proposed rule change fails to address the complex issues associated with the various types, corporate structures or ownership arrangements of embedded networks. We are concerned that adopting the rule change as drafted will not achieve the desired outcomes and simply increase the costs associated with users within embedded networks following the introduction of a further administrative requirement on stakeholders. The basis for establishment of embedded networks is varied and diverse and the rule change submission fails to address the complex nature of these arrangements. The reported implementation cost to the retailers and distribution service providers for this rule change alone is between $7,500,000 and $26,000,000. This is in addition to the ongoing costs of between $4,000,000 and $15,000,000 and the costs for the ENO to engage an ENM.

The reported benefits within Section 9 of the AEMO submission are only conceptual in nature and without quantitative support and may provide limited, if any benefit. Concerns are raised that the significant additional costs associated with this rule change considerably outweigh any potential benefits.

Whilst convenient to classify embedded networks as caravan parks or shopping centres, a review of the AER website confirms the nature of these networks is extremely complex and diverse with thousands of individual circumstances. This creates many complex matters which need to be addressed separately. A blanket solution as proposed for all embedded networks will create unintended consequences for many of these networks and the users within these networks.

A review of the proposed rule change as drafted raises numerous concerns in relation to embedded networks. These concerns include the following and further detail is provided.

- The supporting statements for the proposed draft rule change are based only on high level conceptual statements and no quantitative assessment is provided[1];
- The application for the proposed draft rule change fails to address the potential increase in prices and costs to existing embedded network customers should the proposed rule change be adopted.

[1] Section 9 of the AEMO Embedded Network Rule Change Request (page 18 of 22)

- The Cost Benefit Analysis fails to provide justification for the high implementation and ongoing costs and does not outline the specific costs of an ENO engaging an ENM. The costs of the rule change within the Cost Benefit Assessment is based on the estimated costs to Retailers and Distribution Network Service Providers only;
- Mandating a single compulsory additional requirement for all ENOs (with the accompanying additional costs) does not reflect the diverse type and scale of embedded networks within the NEM. It is considered that this will reflect a large marginal cost to ENOs.
- No estimates are provided within the application of the anticipated costs to each individual ENO within NEM to engage an ENM. Although the costs were not specified, it is considered likely that with the large number of Embedded Networks, the required workload will be considerable placing upwards pressure on ENM prices.
- The proposed rule change fails to address the various ownership structures, function and implementation of the thousands of embedded networks. Insufficient supporting evidence is provided demonstrating that users within embedded networks (which collectively have significant retail buying power) will actually benefit from the proposed rule change. For example, an apartment complex with 200 individual units has a large collective buying power as a single parent market customer and collectively may be able to access more competitive market rates compared to a single residential user. Typically, the users are classed as small customers and embedded networks servicing these customers are owned collectively by the unit holder's within a body corporate structure. The capital costs of the network were recovered by the sale of the apartments and the operational costs are recovered from the unit holders / customers via body corporate levies. Under the proposed rule changes, the unit owners, which are also the customers would be required to pay the costs to engage a ENM even if collective embedded network parent rate is cheaper than the retailer quotes provided to individual customers. In this instance, the logic to add significant additional costs to the customer will simply be passed to the customers through the body corporate levies and no cost savings are anticipated for to the customer. In a shopping centre arrangement, the embedded network is typically owned by a single property owner and collects rent to recover the costs associated with the capital expense of the network. Any operational costs associated with the network are typically collected from the tenants within outgoings by the landlord. Again, these customers are typically small customers and the costs of implementing the proposed rule change will be passed to the customer.
- We have identified several concerns within the Cost Benefit Analysis included with the proposed rule change. These include:
    - The summary of results on page 37 of the report is either incorrect or misleading as it compares the years 2015, 2020 and 2030 whilst throughout the report the information presented reflects the years 2025 and 2035.
    - It does not include the anticipated costs to the ENO to engage an ENM. Cost submissions quoted within the report were received only from retailers and DNSPs and not ENOs;
    - The Cost Benefit Analysis confirmed high up front implementation costs and high ongoing costs;
    - The Cost Benefit Analysis significantly under estimated the total number of embedded networks (it included only 500 major embedded networks) within the assessment. The requirement for ENOs to engage ENMs for all networks will significantly increase the number of ENMs required and the associated costs;
    - Insufficient assessment of cost impacts to users by embedded network type; and
    - The Cost Benefit Analysis assumed a total of only500 embedded networks.It is estimated that there are thousands of embedded networks with over 500 network exemptions listed within Qld on the AER website alone. This proposed rule change will therefore impact a significantly higher number of customers compared to the assumptions within the submission. In addition, as identified by the AEMC within its Issues for Consultation paper, where a customer within a deemed exemption network requests access to the retail market, an ENM is required to be appointed increasing the overall costs to the scheme.

Based on the above, it is evident that the proposed rule change as proposed, whilst having high implementation and ongoing costs does not reflect the long term interests of consumers within the electricity market.

Prior to implementing a rule change with the significant establishment cost impact as reported, it is recommended that additional clarity and investigation be undertaken to:

1. Address the uncertainty in relation to the costs associated with implementation of the proposed Embedded Network Managers (especially for ENOs);
2. Facilitate additional consultation with ENOs to discuss the complex issues associated with the various types of embedded networks;
3. Provide further investigation is necessary to remove the uncertainty in relation to the number of embedded networks which will be impacted should the rule change occur – it is estimated that thousands of embedded networks will be impacted by the rule change as drafted; and
4. Consider whether the additional cost burden associated with this rule change (reported as $126,000,000.00[2]) is justified to achieve the reported benefit (reported as $103,000,000.00[3]) to 2025 and whether this additional cost is considered efficient investment in electricity services.

It is recommended that initially only several trial sites are established for the various types and sizes of embedded networks. This trial will allow the AEMO to accurately measure the costs associated with the proposed rule change and any measure any resulting benefits. This will facilitate the opportunity to correct any unforseen issues, determine any appropriate thresholds for ENMs prior to mandating the rule change for all embedded networks. This would avoid costly unintended consequences arising for various embedded network types which could negatively impact electricity customers.

The proposed rule change will require significant investment both initially and ongoing. The information provided within the proposed rule change demonstrates that either limited or a negative return will result from this investment.

In deciding whether or not to change the National Energy Rules, it is requested that the AEMC apply the Rule making test and consider whether the proposed rule change which is reported by the applicant to cost over $126,000,000 and return only $103,000,000 in benefits to 2025, is in the long term interests of consumers of electricity.

We welcome the opportunity to discuss any of the above by contacting the undersigned on (07) 3124 7401.

Yours sincerely

for R.W.J. Tucker
Director

[2] Table 11 on Page 33 of the Jacobs SKM Cost Benefit Analysis
[3] Table 11 on Page 33 of the Jacobs SKM Cost Benefit Analysis