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Your Ref: RPR0006
AEMC Contact: Kate Reid
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Ms Kate Reid
Senior Adviser
Australian Energy Market Commission
PO Box A2449
SYDNEY NSW 1235

RE: Review of Regulatory Arrangements for Embedded Networks

Dear Ms Reid

TradeCoast Central Pty Ltd ("TradeCoast") welcomes the opportunity to make a submission to the Australian Energy Market Commission ("AEMC") in relation to its consultation paper regarding the review of regulatory arrangements for embedded networks.

Whilst the review will look at a broad range of issues related to the regulatory framework for embedded networks, our submission focuses on the following key areas including:

1. The complex variety of Embedded Networks;
2. The benefits of Embedded Networks within the electricity market;
3. A requirement for the regulatory framework to remain flexible in relation to various embedded network circumstances;
4. Costs associated with changing any overarching customer frameworks and any additional administrative and compliance burden likely to be created; and
5. Request for an additional round of consultation following the Commission outlining its initial position.

Complex Variety of Embedded Networks

Given the broad range of issues to be addressed by the AEMC, we believe it is crucial that the review incorporate a detailed summary of the diverse variety of Embedded Networks in order to properly identify the various types of embedded networks and to recognise the important role that embedded networks fulfil within the electricity market.

It is considered inappropriate to simply categorise embedded networks as being mainly located in shopping centres, retirement villages, apartment complexes and caravan parks as common examples upon which to base the broad review. Embedded networks cover a complex range of customer classifications with a mix of small and large customers, low and high voltages and include a range of customer types benefitting from investment in an embedded network. As urban development has evolved, embedded networks currently provide flexible arrangements to service numerous customer types within a single community with the embedded networks servicing:

- Coal mines;
- Railway lines and related infrastructure including the supply of electricity to third party rolling stock;
- Airports;
- Football clubs;
- Office buildings;
- Defence installations;
- Water supply infrastructure including desalination plants and pump stations;

- High voltage substations and distributions networks (both 66kv & 11kv);
- Low voltage distribution networks;
- Large scale on market generation;
- Small scale off market generation;
- Subdivisions servicing a mix of retail and residential customers of both small and large customer classifications;
- Buildings incorporating multiple owners and a range of customers including large and small retail and residential customers; and
- Industrial sub-divisions.

Given the diverse range of customers taking advantage of embedded networks, it is recommended that within its review, the AEMC incorporate a comprehensive list of embedded network arrangements. This will ensure that the review properly establishes the extent and flexibility that the existing regulatory arrangements have to date been able to encompass.

As demonstrated above, the current regulatory framework enables a diverse mix of customer classifications (both large and small) and customer types (residential, retail and industrial) to collectively enjoy the benefits that Embedded Networks provide at a community level and this needs to be protected moving forward.

Benefits of Embedded Networks within the National Electricity Market

A recent search of the Public Register of network exemptions held by the Australian Energy Regulator ("AER") confirms that over 3,211 current embedded networks exist throughout the NEM.

This proliferation of network exemptions across the NEM is a clear market response to the significant benefits that embedded networks provide to their customers.

The review must ensure that any amendments to the regulatory framework do not create such additional regulatory burden as to prohibit customers from joint purchasing of electricity, as desired so as to access lower energy prices. Whilst the review may identify areas of direct market access for individual customers, it needs to be cognisant that embedded networks provide the opportunity for joint purchasing within the market with increased purchasing power than would otherwise be the case.

Given the broad range of issues to be addressed by the AEMC, we believe it is crucial that the review identify and publish within its report a summary of the market benefits associated with Embedded Networks in order to establish the role that embedded networks fulfil within the National Electricity Market ("NEM") against which any additional compliance burden or administrative costs need to be reviewed. This will ensure that the benefits that embedded networks provide is not unnecessarily eroded or diminished by unintended consequences.

Following a comprehensive review of the published material available and from our experiences, it is clear that the significant benefits provided by embedded networks include:

1. Increased customer access to the NEM

The proliferation of embedded networks has resulted in many situations where the customers' needs are currently not facilitated by the Distribution Network Service Provider ("DNSP"). In many situations embedded networks may be established where the DNSP construction and installation timeframes are inadequate to fulfil the customers' requirements. In these situations, the investment within the Embedded Network is necessary to enable connection to the NEM.

2. Increased Opportunities - Local Community Based Solutions

Embedded networks provide the potential for increased opportunity for community based solutions to achieve collective objectives due to increased scale and the economic benefits available. This includes sharing the benefits of environmental schemes (i.e. solar and batteries) whereby the aggregated consumption and demand improves the economic viability of alternative renewable generation or to support shared investment in local distribution augmentation to meet changing customer expectations at reduced costs.

Embedded networks provide the opportunity to combine buying power of numerous customers to achieve larger and more cost effective investment in electricity assets than that achieved for individual customers.

3. Increased ability for Joint Purchasing Arrangements

Embedded networks enable Embedded Network Operators (including Body Corporates) to negotiate energy supply prices collectively enabling access to greater market opportunities not available to individual customers.

Whilst individual customers can obtain market offers, embedded networks provide the opportunities to seek competitive retail offers at the single parent meter (or gate meter) providing access to additional market opportunities at lower prices than individual customers would otherwise obtain individually from a retailer. Given the expertise required and costs associated with obtaining competitive market prices, this process is simply uneconomical for individual customers as the fixed costs associated cannot be spread over multiple accounts compared to the collective bargaining opportunity created within Embedded Networks resulting from the aggregated quantity of electricity sought to be purchased.

A clear example of this market advantage is described on Origin Energy's website (<https://www.originenergy.com.au/for-home/electricity-and-gas/info/centralised-electricity.html>) stating:

"...Body Corporates will negotiate rates for you - this means the electricity for your building is **purchased in bulk** and is **supplied to you at rates discounted** to our standard prices. But each apartment and retail tenancy has its own electricity meter – so you're only billed for the electricity you use."

Whilst some embedded network customers may wish to seek individual contracts, it is recommended that the review closely consider any proposed changes to ensure that customers wishing to combine their purchasing power to obtain electricity at significant discounts to what they could achieve individually as available under the current regulations is maintained to avoid negative outcomes for these customers.

Requirement for regulatory framework to remain flexible in relation to various Embedded Network situations;

The current regulatory framework provides significant flexibility for the AER by way of discretion to address the diverse scope of embedded networks within the NEM. The proliferation of embedded networks adopting various classes of network and retail exemptions on a case by case basis demonstrates that the current regulatory arrangements provide the necessary flexibility to achieve the purpose for which they are proposed.

A review of the AER Public Register of network exemptions demonstrates that the large majority of the recent network exemptions fall within the various Registerable Exemption categories. As the majority of embedded networks can currently be categorised under the various Registrable Exemptions, this demonstrates that the current regulation is operating successfully and being efficiently implemented whilst minimising unnecessary regulatory or prohibitive implementation costs. It is necessary to ensure that any amendments to the

regulatory framework must continue to support embedded networks, given the important role they play within the NEM.

Notwithstanding the majority of Network Exemptions are categorised as generic and therefore "registerable", the current framework provides the necessary flexibility where necessary when a group of customers require special individual consideration. This is clearly evident upon review of the AER's Public Register of embedded network exemptions.

The most important and successful aspect of the current regulatory framework is that it provides a balance between simplicity and complexity whilst minimising prohibitive implementation costs where possible. Importantly, the discretion is afforded to the AER to apply the various exemptions (i.e. Deemed, Registerable or Individual) as the situation requires and this discretion needs to be maintained in the future.

Under the current arrangements, the AER provides a range of services to embedded network participants via its website. This includes publishing for each embedded network the relevant network and retail exemption conditions specific to that individual situation and also publishes on its website details regarding protections available to customers of exempt sellers.

Costs associated with changing any existing customer frameworks or any additional administrative and ongoing compliance burden

Given the concerns relating to the recent rising costs of electricity, it is necessary to ensure that any changes that may further increase electricity costs do not create unnecessarily complex compliance or administrative burdens for stakeholders. The current framework has evolved to cater for many diverse embedded network situations and concerns are raised that significant changes may create new conditions which are difficult and costly to implement, thereby ultimately increasing market costs of electricity and removing the opportunity for joint purchasing for electricity customers.

It is requested that the commission closely review any recommendations and provide robust assessment to ensure that any proposed amendments outweigh the compliance burden created. In addition, it is suggested that changes be introduced gradually adopting incremental reform to enable stakeholders to adjust appropriately.

Request for Additional Consultation following the Commission outlining its initial position

Given the broad nature of the review and the range of issues identified within the Consultation Paper, it is requested that the Commission provide an additional round of consultation. This requested additional consultation would be in the form of a Directions Paper to be circulated before issuing any draft recommendations and prior to the public forums scheduled for mid-2017. It is requested that the Commission clearly outlines the factors which contributed to the Commission's final rule determination on the *Embedded Networks* rule change recommending to the COAG Energy Council this review to be undertaken.

Whilst the AEMC Consultation Paper refers to broad issues and a number of problems being identified, it would be considered highly beneficial if the Commission could provide any additional clarity regarding the above recommendation.

This will provide all stakeholders the opportunity to understand the Commission's current position and potentially identifying solutions which may then be raised at the public forums mid 2017, prior to the draft report being released. This additional engagement is requested to promote confidence and remove participant uncertainty in relation to potential changes regarding the regulatory framework potentially impacting upon further investment and market participation within embedded networks.

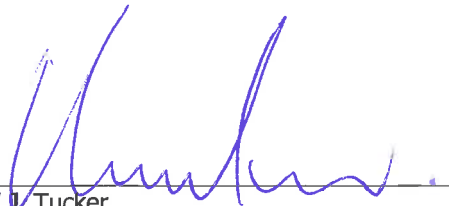
This suggested process has recently been implemented by the AEMC in relation to the Five Minute Settlement Rule Change (AEMC Reference: ERC0201) whereby the Commission has provided the necessary additional

round of consultation. We believe this approach is again warranted in this situation as understanding the AEMC's position is crucial in order for all participants within embedded networks to make informed long term investment decisions.

We believe this approach will provide transparency throughout the review process and enable all participants within the NEM to provide further valuable feedback to the Commission.

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

Yours sincerely



R.W.J. Tucker
TradeCoast Central Pty Ltd
Director