



2 July 2015

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically: www.aemc.gov.au

Dear Mr Pierce,

Re: National Electricity Amendment (Embedded Networks) Rule 2015

AGL Energy welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) issues paper; "National Electricity Amendment (Embedded Networks) Rule 2015" (the proposed Rule change).

AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. We provide electricity and gas to 3.8 million customers, have a generation fleet of almost 11 Gigawatts, including the largest privately owned renewable generation fleet in Australia. We are therefore interested in the efficient operation of the National Electricity Market.

AGL supports the proposed Rule change. AGL was active in assisting the Australian Energy Market Operator develop the design document and generally support it. We are therefore keen that these reforms are implemented efficiently and effectively.

AGL believes the changes will:

- Significantly increase the clarity of the role and responsibilities of embedded network operators.
- Enable customers within embedded networks to have greater access to the competitive market. This is expected to increase competition (especially for third party sites) within the embedded network.
- Create a new market role, the Embedded Network Manager, which is a new competitive service that will allow improved management of embedded networks.

AGL fully supports the proposal to allow Market Customers to be Embedded Network Managers on application to both recognise the skills available from retailers as well as assist in a ready supply of Embedded Network Managers at the start of this Rule.

We also support a wide range of participants being able to take on the Embedded Network Manager role, including network businesses. We believe, however, that the provision of Embedded Network Manager services is a commercial undertaking and that effective ring-fencing of these activities away from regulated activities will be required to maximise competition.

We agree with the proposed Rule change that charges from the Embedded Network Owner must be unbundled and clear to prevent customers paying twice for the same service. This is implied in the conditions attached the the exemptions provided by the Australian Energy Regulator but we believe additional transparency will assist customers to verify what they are being charged for.



Finally, we note that the role and function of the Metering Coordinator, which will impact on the operation of the Embedded Network Manager, has not yet been finalised. We consider that it is important that the Rule to establish the Metering Coordinator is final before a draft determination is issued for this change to allow its ramifications to be included in this change.

Our detailed responses to the questions posed in the issues paper are attached.

Should you wish to discuss the details of this submission, please contact me by email to acruicks@agl.com.au or by phone on (03) 8633 6026.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'AC'.

Alex Cruickshank
Manager Metering Regulation and Market Interactions
AGL Energy

AGL response to the Embedded Networks Rule Change Issues Paper

AGL general comments

AGL supports the changes to the Rule. The changes will:

- Significantly increase the clarity of the role and responsibilities of embedded network operators.
- Enable customers within embedded networks to have greater access to the competitive market. This is expected to increase competition (especially for third party sites) within the embedded network.
- Create a new market role, the Embedded Network Manager, which is a new competitive service that will allow improved management of embedded networks.

AGL fully supports the proposal to allow Market Customers to be Embedded Network Managers on application to both recognise the skills available from retailers as well as assist in a ready supply of Embedded Network Managers at the start of this Rule.

We also support a wide range of participants being able to take on the Embedded Network Manager role, including network businesses. We believe, however, that the provision of Embedded Network Manager services is a commercial undertaking and that effective ring fencing of these activities away from regulated activities will be required to ensure competition.

Finally, we note that the role and function of the Metering Coordinator, which will impact on the operation of the Embedded Network Manager, has not yet been finalised. We consider that it is important that the Rule to establish the Metering Coordinator is final before a draft determination is issued for this change to allow its ramifications to be included in this change.

Comments on specific questions

Question 1. Requirements to facilitate competition.

- a) Are there any additional changes to the NER or the AER's network guideline that are necessary to allow embedded network customers access to retail market offers?*
- b) Are there any additional changes to the NER or the network guideline that are necessary to clarify the roles and responsibilities for management of embedded network customers?*
- c) Are any of the proposed changes to the NER or the network guideline proposed by AEMO not appropriate?*

AGL considers that there are no further changes to the NER for this change. We note, however, that changes to metering competition and other related areas will impact on the operation of this Rule. It is important to fully clarify how the metering competition rule change, particularly the role and operation of the Metering Coordinator, before the draft determination on this change is finalised.

We do believe that the AER network guidelines, and the associated exempt seller guidelines, will need to be reviewed to ensure that the benefits of this Rule change can be fully achieved.

Some of the changes to the AER network guidelines are already flagged in the Rule proposal, such as the need for an ENO to provide unbundled network charges so that retailers are able to quote and charge customers correctly.

It is also important to examine how network charges are to be allocated by the Embedded Network Owner, particularly for the infrastructure at the site. The exemption is clear that only a share of the boundary charges should be paid unless there are specific customer requirements that incur specific costs. AGL is concerned that

the charging for metering service and network provided within the network may result in customers paying twice for the same service.

In addition, while exempt selling is not the focus of the change, it is a feature of exempt networks and the AER guideline for exempt sellers need to consider the business models of both exempt networks and associated sellers to provide a balanced approach that both supports competition while not avoiding necessary oversight.

Question 2. Who should perform these functions?

- a) Should a new accredited service provider role (the ENM) be created to perform all or some of these functions as proposed by AEMO?*
- b) What, if any, functions should be performed by an existing party? And if so, which existing party? What would the advantages be of an existing party performing some of the functions?*
- c) Alternatively, if a new ENM role is not created, who should perform the functions identified by AEMO? What would the advantages be of other parties performing the functions?*

AGL thinks that it is entirely appropriate to create the new function of Embedded Network Manager. We also consider the defined functions are appropriate to be provided as a service to the Embedded Network Owner.

In considering whether existing parties should provide some or all of the functions, the key point is that any services provided within the embedded network need to be done on a commercial basis. It is possible for other parties to contractually add the services to their existing offerings to the primary customer at the site. It is, however, preferable for the services to be clearly defined so that various, competitive business models can develop.

For example a combined ENM/MC/MDP/MP could offer a range of services. Similarly it could be the FRMP/ENM or possibly a specialist Embedded Network Manager. Each party could arrange the services in a different way inside the organisation depending on how or where they would find efficiencies.

No other party should, however, be required to perform a part of the services since that would reduce the clarity of the role. In addition, requiring other parties to provide the services could result in reducing competition for this service.

Question 3. When is an ENM required?

- a) Should all registrable and individual embedded networks be required to appoint an ENM? What are the advantages of such a requirement?*
- b) Should deemed embedded networks be required to appoint an ENM?*
- c) Is another threshold appropriate?*
- d) Should the threshold for appointing an ENM be a matter for the AER under the network guideline? Should the NER provide factors for the AER to consider when setting the threshold?*

The issue here is the balance between ensuring efficient management of the embedded networks, particularly access to competition, and the costs imposed on smaller embedded networks.

AGL considers that the threshold should err on the side of allowing competition for customers. We do, however, support the proposed initial threshold and the mechanisms for changing it.

In particular, we support the obligation on the Embedded Network Owner to register their embedded network should a customer seek access to the competitive market as long as the embedded customer is fully aware of this right, the threshold issue becomes of lesser significance for small embedded networks.

Question 4. Accreditation and governance of an ENM.

- a) Are the proposed requirements appropriate?*
- b) Are any other requirements needed for the accreditation and governance of ENMs?*

- c) *Are any of the requirements proposed by AEMO not necessary for the accreditation and governance of ENMs?*
- d) *Should the requirement to have ENM services provided by an accredited ENM be classified as a civil penalty provision?*

AGL supports the proposed requirements and does not consider any additional requirements are necessary.

AGL also supports the requirement to appoint an Embedded Network Manager when required be a Civil Penalty provision on the basis that it supports customer access to competition.

Question 5. Who can be an ENM?

- a) *Should any party be prevented from becoming an ENM?*
- b) *Should the AER be able to determine the ring-fencing arrangements for ENM services?*

AGL considers that any party that meets the accreditation requirements and that operates commercially should be able to be an Embedded Network Manager.

It is important that entities that operate in the regulated space be required to ring fence the party that provides Embedded Network Manager services. AGL considers this an over-arching consideration for all entities that operate in both regulated and commercial spaces and therefore that the AER is the appropriate body.

Question 6. Grandfathering.

- a) *Taking into account potential implementation timing, how long should ENOs with current registrable or individual network exemptions be provided to appoint an ENM?*
- b) *Should the transition period be set in the AER's network guideline or within the NER?*

AGL accepts the proposed two year "amnesty" to allow current embedded network operators to appoint Embedded Network Managers.

We would have preferred a shorter timeframe since we consider that there will be many parties willing to provide the services but accept two years as the upper bound on the basis that there are a large group of parties that will be unaware of the impending requirements. For large embedded networks, we consider a shorter timeframe should apply.

The transition belongs in the AER guideline.

Question 7. Transitional provisions.

- a) *Are the proposed transitional provisions appropriate?*
- b) *Are any other transitional arrangements necessary to facilitate the implementation of the proposed rule?*

AGL has no concerns with the transitional provisions.

Question 8. Implementation timing.

- a) *Are there potential synergies available from implementing the proposed rule in co-ordination with the Expanding Competition in Metering and Related Services rule change, the Meter Replacement Processes rule change and/or the advice on the Shared Market Protocol? If so, to what extent?*

AGL believes that it is important to ensure that changes to procedures are carried out efficiently and therefore that the release of this Rule change be coordinated with similar changes.

Question 9. Competition in the ENM market.

- a) *Will AEMO's proposed six month deeming of ENMs assist ENOs in finding an ENM or aid in the development of ENMs?*

- b) Are any other regulatory arrangements necessary to facilitate competition in the provision of ENM services?*
- c) Are retailers, NSPs, ENOs or other parties likely to seek to provide ENM services?*

AGL supports the deeming of market customers as Embedded Network Managers on request but queries why this is limited to a six month period. We consider that the option to be an Embedded Network Manager as well as a market customer should be permanent.

We do not consider any other regulatory arrangements are required, given effective ring-fencing of regulated entities.

Question 10. Consequential or corresponding changes to the NERR.

- a) How should the potential corresponding issues in the NERR be addressed?*
- b) Are there are other necessary, consequential or corresponding changes to the NERR that may be relevant to the making of the proposed rule?*

The NERR deals with selling activities of retailers. As such the key instruments to deal with selling within the embedded network will be the AER guidelines. As long as the guidelines effectively deal with the unbundling of embedded network prices, an on-market retailer should be able to provide a standing offer price to a customer that wants to go on market as well as provide the relevant bill information.

As the Embedded Network Manager is required, with the support of the Embedded Network Manager, to operate its own network the embedded network guidelines are the relevant place to deal with NERR matters for embedded networks.