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Electronic Lodgement – ERC0179

Dear Mr Pierce

RE: Consultation Paper – Embedded Networks Rule

United Energy (UE) appreciates the opportunity to respond on the Consultation Paper – National Electricity Amendment (Embedded Networks), Rule 2015.

UE is an electricity distribution network service provider to more than 650,000 customers across east and south-east Melbourne and the Mornington Peninsula over an area of 1,472 square kilometres.

AEMO has requested a rule change to introduce an embedded network manager (ENM) service provider role into the NER to provide regulatory certainty by formalising the role of the ENM to provide or administer business to market and business to business transactions. The new ENM role will need to comply with some of the Chapter 7 Procedures at the transaction level but has no requirements in relation to the operations of the embedded network relating to connection, supply and energisation. Where children within the embedded network select their own retailer of choice, the ENM will need to assign a NMI and create/maintain the standing data for that NMI in CATS.

The proposed rule change request notes a net cost in the short term with an expected network benefit in the longer term and notes that the costs may be overstated. In contrast UE do not consider the costs to be overstated. UE consider the average cost may be higher - introduce a new role in systems for the CATS and B2B transactions, implement and regression test these transactions and amend internal systems to cater for the new role and various new or different NMI ranges.

It is proposed that all new registered and individual exemptions after the proposed Rule commencement would require an ENM to be appointed by the Embedded Network Owner or Operator (ENO). Existing embedded networks in these two categories would have a 2 year period to appoint an ENM. Any deemed exempt networks, should a child customer wish to select a retailer of their choice, will need to appoint an ENM.

UE is supportive of the proposed rule that makes it clear that the licenced network is responsible at the parent connection point and is not responsible for the operations and management of NMIs and standing data within the embedded network for on/off market children.

In facilitating this ENM arrangement, it is unclear who is ensuring that the embedded networks created, ENMs appointed etc also have the required retail exemption from the Victorian Government. The oversight of the NER exempt network framework and the Victorian government exemption framework is uncertain.

UE has provided comments on the AEMC assessment framework and responses to the questions on the attachment. In summary:

- Drafting could be improved to increase clarity in a number of areas- DLF process, transitional arrangements, rules consultation of the ENM documents being created, NMI assignment and discovery etc;
- There is a cost of creating an ENM competitive market, this proposed rule only creates an administrative role for the NMI and standing data for the embedded network. Matters relating to other network connection services – obligation to offer, connection, energisation and other supply related services are less than clear;
- An alternative to creating the new role would be for the CATS IT system to be amended to be consistent with the CATS Procedures for the parent FRMP to take on the role of managing the NMI standing data. This could be an option to create a viable holding pattern whilst the broader policy for exemptions and new products is being considered, although it still does not address the energisation/supply activity issues;
- An ENM is required where a 1st tier child goes second tier after the end of the two year period in any exempt network;
- Transition arrangements for the licenced networks acting as ENM's up to the end of the two year period needs to be considered – change of NMI, meter, RP and metering roles etc;
- The proposed rule does not appear to place any time obligation on the ENO to appoint an ENM to allow the child customer to select their chosen retailer;
- No parties should be prevented from becoming an ENM, however parties who may seek accreditation in that category have no obligation to offer the services or offer on reasonable terms and conditions and could choose not to enter the market;
- Licenced networks provide the ENM service today to all the categories including the deemed category and have for the past decade or more to support the market complexity. Whilst UE is supportive of clarifying the arrangements, any ring fencing arrangements should result in an even playing field and facilitate customer choice of retailer;
- Transitional arrangements could be improved by having dates for the delivery of the amended CATS, B2B and Metrology procedures followed by dates to create the accreditation and registration and deregistration procedures;
- Having one touch on the procedures and build packs during the next 18-24 months will enable a more cost effective implementation of ENM. If the ENM rule change cannot be readily aligned with the metering competition rule implementation date we suggest that is deferred until the MTR rule change; and
- The proposed 6 months deeming arrangement may assist, noting that the more detailed obligations relating to the ENM role and accreditation requirements may not be available until 12-14 months later. Businesses will be in a better position to understand the full requirements once the necessary documentation is available.

UE welcomes the opportunity to participate in this rule change development and looks forward to the opportunity to participate in the development of the ENM service level procedures, the embedded network guideline and the accreditation/deregistration framework.

Should you have any comments in relation to this response please do not hesitate to contact me on (03) 8846 9856.

Yours sincerely

Verity Watson

Manager Regulatory Strategy Attachment

Requirements to Facilitate Competition

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?

AER network guideline

AEMO suggest that the metering/transformer testing arrangements apply to off market children and that ENO bills provide for unbundled network and retail charges. UE query whether some /all children in the ENM will need to have unbundled retailer bills by a certain date.

The AER could also consider clarifying the Victorian arrangements. Given that Victoria is the only jurisdiction who has not adopted NECF the AER exempt network guideline could recognise the specific Victorian rules from the Electricity Industry Act and the underlying orders in the obligation 5. D. This would provide increased transparency in 5.d to the specific matching retail exemption framework for Victoria as is the case for the AER exempt selling guideline applying in other jurisdictions in 5 c.

UE raise a few points below in relation to the ENM's DLF obligations. The AER may like to consider whether there are any further amendments that need to be made to the exempt network guideline in relation to part years eg greenfield or brownfield embedded networks are created during the DLF year and there is a second tier child requiring a site specific DLF.

Proposed NER amendments

In discussions and submissions to both the AEMC and AEMO UE have proposed that the adoption of the new role for the ENM be implemented at the same time as the metering competition rule to allow the CATS and B2B changes to cater for the new MC and ENM to occur together. This allows the alignment of the procedure development, consultation and build packs, industry IT development, build and test phases as this may be the most cost effective implementation. This approach does mean that the proposed rule change is better written in the context of the future metering competition rule base.

UE also note that the ENM rule, under AEMO's proposed project plan that the ENM rule implementation is expected to commence prior to metering competition. UE's following response attempts to deal with both scenarios;

- The AER cannot grant any person an embedded network exemption unless the exemption is subject to the appointment of an ENM except where it is a deemed embedded network. The drafting does not seem to accommodate the following:
 - The carve out in 2.5.1 (i) to appoint the ENM for deemed exempt network should not operate if one child customer wishes to have their own retailer of choice from the commencement of the embedded network arrangements;
 - What constrains the establishment of the embedded network being set up if the ENO has not appointed an ENM? Is this the distributor role?

- In the 3.6.3 amendments it would be useful to clarify that the ENM is calculating the site specific DLF's as incremental DLFs reflecting the losses within the embedded network only. The ENM submits the DLF proposal for these incremental DLFs on 1 April to AER and AEMO. UE submits the parent DLF (whether site specific DLF or a general DLF category) at the same time and would not have the information available earlier to provide to the ENM to allow them to calculate a site child DLF. Both the proposed NER drafting and the AER exemption guideline should make this clear. If the alternative were proposed then the DLF submissions would need to be staggered and the ENM DLF annual submissions would need to be later in April or May;
- In the rule 3.6.3 (g3) UE could only provide the current approved DLF category or the site specific DLF within 10 business days (and the ENM should be able to look this up in CATS anyway), UE would not be in a position to provide the next years unapproved DLF that was still undergoing internal calculations and approval. The rules drafting should make this clear;
- In the two year grace period it make be worthwhile clarifying the DLF submission obligations in a transitional requirement;
- 7.2.2 (a) (2) drafting appears to cut across the current rights if the distributor to provide types 5,6 metering. UE has taken the view that an on market child could have type 5 metering provided by the distributor as RP or type 4 metering provided by the retailer as RP. Based on the current rules the drafting should be removed. If the drafting were to remain then there needs to be consideration of a grandfathering clause in Chapter 11 for the existing type 5 child meters. UE does not consider that matters of competition in metering should be determined by AEMO, there would also need to be changes to 7.2.3 (d);
- 7.2.2 (a) (2) as drafted is inconsistent with the approach of the large customer or retailer appointing the MC and would need to be amended if the two rule changes were implemented together;
- Given both the exempt embedded network service provider (ENO) and the ENM will have access to B2B data, metering data, NMI standing data etc, UE seek confirmation from the AEMC that both of these parties are captured in relation to the confidential information in Rule 7.2A.4 (l) and 7.10 and the 8.2. Rule 7.16.3 (d) (2) would only capture the ENM;
- By adding ENM into 7.2A.4 for B2B procedures does this mean that the ENM and ENO are now bound to the connection, meter upgrade, re-energisation and de-energisation, meter configuration B2B arrangements as a provider of the service or a receiver of a notification of that service?
- Consideration should be given to whether Rule 7.16.3 (d) (3) should be extended to disputes beyond just AEMO;
- There appears to be no obligation proposed in either the NER or the exempt network guideline on the timeframe for an ENO to appoint an ENM, ie how long can they hold up a child customers choice of retailer?
- Rule 7.16.2 proposes ENM service level procedures and ENM guidelines for accreditation and registration, 7.16.7 proposes a guide to embedded networks and 7.16.4 proposes an ENM de-registration procedure;
- Only the ENM service level procedures are covered by the transitional arrangements in 11.68.4, it may be useful that all of the ENM documentation is covered in the transitional arrangements including the accreditation, registration and deregisation;
- The completion of the procedures and guidelines needs to be done by a certain date so that parties are aware of their obligations and can deliver the necessary system changes. UE assume that evidence of work instructions and testing success would form part of the final accreditation and hence would need to be available in the first half of the two year period? Dates for completion of the documentation should be included (in a similar manner to the metering competition rule change);
- The accreditation and registration arrangements are in a guideline and the deregistration arrangements are in a procedure. It would be useful for the accreditation, registration and de-

registration to be in like document types eg procedures and be subject to rules consultation for any changes;

- The suite of documentation that impacts rights and responsibilities should be developed and consulted in a transparent manner. Only the ENM service level procedures are considered procedures for the purposes of 7.1.3 and subject to the rules consultation processes. In establishing the opportunity for new competitive markets and in changing the obligations or requirements in those markets which impact a variety of registered participants and stakeholders, at a minimum the changes in the framework should be open and transparent. The proposed rules should make it clear that changes in the accreditation, registration and de-registration and guidelines should be subject to rules consultations and included in 7.1.3 (b). This is important as the number of exempt retailers has well outstripped the number of licenced retailers and public formal rules consultation processes are required to ensure that all interested stakeholder views are taken into account.

Given that the ENM will have a range of NMIs to utilise on second tier children, it would also be useful to make it clear in the NER and the underlying procedures that the licenced LNSP is not assigning these NMIs in 7.3.1 (d) and (e) and the licenced LNSP is not obliged to help find the NMI and the standing data for these children NMIs when the NMI discovery processes don't work, 7.5A.2 and 7.5A.3.

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?

Who should perform these functions?

The requirements for retail competition and presumably meter competition within the embedded network do not sit neatly with any of the roles identified – ENO, retailer or networks. The CATS procedures have required the parent retailer to manage the NMI/standing data obligations although the CATS IT system has only been built for the licensed networks to provide and manage this type of data.

There is a cost of creating an ENM competitive market, this proposed rule only creates an administrative role for the NMI and standing data for the embedded network. Matters relating to other network connection services – obligation to offer, connection, energisation and other supply related services are less than clear. Does the ENM need to administer the B2B arrangements for such services, is there an obligation that the MC may do some of the remote re-energisation services, meter reconfiguration, meter upgrade etc via the B2B arrangements that deal with mass market customers today. Is a Victorian AMI meter or national smart meter the minimum meter requirement for a child who chooses to go to a retailer of choice?

The proposed rule does not appear to place any time obligation on the ENO to appoint an ENM to allow the child customer to select their chosen retailer. It is also not clear whether the set up costs and the ongoing costs of employing an ENM and the ENMs accreditation costs could be charged to the child who caused the cost or smeared across all the customers within the embedded network.

UE note that the broader exemption framework and new products and services is part of the consideration by the Federal Government, COAG.

An alternative to creating the new role would be for the CATS IT system to be amended to be consistent

with the CATS Procedures for the parent FRMP to take on the role of managing the NMI standing data. This could be an option to create a viable holding pattern whilst the broader policy for exemptions and new products is being considered, although it still does not address the energisation/supply activity issues.

When is an ENM required?

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 option with the least negative benefit (in the short term) to consumers was the option where the ENM was required to only provide second tier children NMIs and standing data into the market. On this basis we understand that the exemption condition for the AER network exemption framework would only say that the ENM was required where there were second tier children within the embedded networks. If there are no second tier children within the exempt network it does not seem efficient to require an ENO to appoint and pay an ENM for that network.

UE understands that the proposed rule is made on a certain date, effective on a different date and then has a two year transition after the effective date. Sometime during this period all new registrable and individual exemptions granted by the AER will have the requirement within the exemption to appoint an ENM where a child customer chooses to go second tier. If there is a child within these newly created exempt networks that chooses to go second tier within the two year transition period then it seems reasonable that the ENM might be appointed earlier rather than start with the licensed network needing to provide a NMI and provide the administrative capability for a short interim period and then arrange for some later transition.

When the proposed rule takes effect the existing registrable and individual networks at that date have a two year grace period to appoint an ENM and during this two year period the licenced network continues to assign NMI's and manage standing data. What happens at the end of the two year period? How do the second tier children transition – NMI, meter, RP role etc?

Deemed embedded networks do not require an ENM until a child customer chooses to go second tier after the end of the two year period. Presumably the AER will have a requirement in the deemed exempt networks to support such an arrangement.

How does the child customer know who the ENM appointed for that network is in order to commence the ENM activities and retail transfer? Is there an obligation on the ENO not to hold up the child customers transfer to their retailer of choice either by delay or by suggesting that the child might need to pay the extra costs?

Where the AER is in control of the threshold for appointment, it would seem that they can draft a different threshold and have repercussions on this new competitive market for ENM services and the underlying commercial contracts.

Accreditation and governance of an ENM

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?

The proposed accreditation requirements and hence compliance, should include:

- An understanding of the role relationships for RP/MC, MP and MDP
- Detailed understanding of network obligations as they relate to the Electricity Distribution Code and Victorian instruments, safety instruments, Victorian Governments onselling exemption framework etc

As noted above the obligations of the B2B transactions and the ENMs obligation to comply is less than clear.

It is the ENO who might undertake the supply and energisation actions and needs to appropriately register and communicate life support children to parties at the parent connection and appropriately manage life support customers during supply interruptions. The requirement that the ENO appoint an ENM to undertake ENM services does not seem the most appropriate civil penalty provision compared to the management of supply and life support customers.

If the ENM market is not fully competitive then the ENO might be forced to contract for the services in a less prudent manner and might be subject to unfavourable costs or terms with only a few customers over which to smear the costs within that network. The proposed rules assume these markets will be fully competitive with a range of offers capable of being accepted. If the ENO does not appoint an ENM or if the licenced network is still performing the service in an interim capacity, who receives the civil penalty?

Who can be an ENM?

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?

No parties should be prevented from becoming an ENM, however parties who may seek accreditation in that category have no obligation to offer the services or offer on reasonable terms and conditions and could choose not to enter the market.

Licensed networks provide the ENM service today to all the categories including the deemed category and have for the past decade or more to support the market complexity. Whilst UE is supportive of clarifying the arrangements, any ring fencing arrangements should result in an even playing field and facilitate customer choice of retailer.

Grandfathering

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?

The papers appear to suggest a rule is made, commences on a later date, sometime procedures get completed and two years after the commencement date the relevant ENO's need to have an ENM in place. This is an overly lengthy process. It would be simpler for the rule to be made and commence two years later, allowing time for procedure development and implementation.

The two year transitional period appears reasonable from the making of the rule as long as the requirements on the ENM in the CATS, Metrology and B2B Procedures are made clear early in the process. The consultation paper suggest there will be new ENM service level procedures, new ENM accreditation and deregistration procedures, and a new or revised embedded network guideline. These arrangements need to be in place in sufficient time for the parties to understand fully the requirements and make the decision on buy services or develop the ENM capability in house. Time still needs to be allowed for consultation on these procedures and time to deliver the changes to systems and processes and time to gain accreditation. Two years seems reasonable as long as the procedures are finalised early in the piece, similar to the work sequencing being proposed for the metering competition rules.

The two year period can't be adjusted as at the end of the two year period the licenced network may not be in a position to continue to provide the services and may choose not to enter the ENM market as a ring fenced business.

Transitional provisions

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?

Transitional arrangements could be improved by having dates for the delivery of the amended CATS, B2B and Metrology procedures followed by dates to create the accreditation and registration and deregistration procedures.

Implementation timing

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?

The work to implement the metering competition rule change is significant and will require extensive documentation being amended or created and requiring two rounds of rules consultation, followed by the development of build packs, industry development, internal testing and industry testing and release management. Having one touch on these procedures and build packs during the next 18-24 months will enable a more cost effective implementation of ENM. If the ENM rule change cannot be readily aligned we suggest that is deferred until the MTR rule change.

UE is not supportive of a further set of changes being progressed closely following (or prior to) the metering competition rule change, if the rule cannot be implemented with the metering competition rule then it is preferred that the rule is implemented 6-9 months at least after the metering competition rule change. This will result in less versions of procedures and build packs across industry and less confusion. It is not unusual for the detailed review of the build packs or IT projects to uncover changes required to procedures and potentially a catch up consultation process to align the new procedures with the as built arrangements. Adding further complication to the extensive changes already taking place in Chapter 7 and the underlying procedures should be avoided.

Competition in the ENM market

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?

The proposed 6 months deeming arrangement may assist, noting that the more detailed obligations relating to the ENM role and accreditation requirements may not be available until 12-14 months later. Businesses will be in a better position to understand the full requirements once the necessary documentation is available.

Consequential or corresponding changes to the NERR

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?

Changes are not just a matter for the NERR but also the Victorian instruments under the control of the ESC. The timing of both sets of amendments needs to be considered in the timing.

In the licenced retailer providing the child customer energy and metering only retail tariffs, it is presumed that the ENO in providing the network tariff component will absorb the costs of the ENM.

The requirements for a faults and emergency number on a child's licenced retail bill should refer to the ENO's faults and supply number. The licenced network may not be able to assist a child customer in relation to supply issues created by the ENO.

As noted in responses to earlier questions the B2B arrangements relevant for the ENM and the ENO supply and energisation services is less than clear in the framework.