

17 October 2017

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

Draft Report: Review of regulatory arrangements for embedded networks

Simply Energy welcomes the opportunity to provide a submission on the Australian Energy Market Commission's (the Commission) draft review of the regulatory arrangements for embedded networks.

As a growing retailer operating in the National Energy Market, we are committed to delivering cost effective outcomes for consumers and promoting competition, particularly in emerging markets. One segment of the market that has experienced exponential growth is the construction, operation and sale of energy through embedded networks.

Over recent years, energy on-selling through embedded networks has evolved into a core function for many service providers who are now behaving more like quasi-retailers than traditional exempt-sellers. This has challenged regulators and raised the question of whether the regulatory framework is fit for purpose.

In view of this changing environment, consideration needs to be given to how the energy market should be regulated into the future. To this end, we support the Commission's view that the emerging embedded network market needs to be underpinned by three key elements:

- 1) **Appropriate and adaptable consumer protections:** non-traditional service delivery will only be successful and embraced by the wider community if the safety and reliability standards expected of the service are maintained.
- 2) **Balanced regulation:** The costs and benefits of any regulatory intervention needs to be taken into account and where necessary exemptions should be granted, but only in exceptional circumstances.
- 3) **Competition:** Innovation and investment in new markets will only continue to take place if there is sufficient competitive tension to drive efficient outcomes.

Simply Energy will briefly address each of these points in further detail below, focusing on the main questions posed in the Commission's draft report.

Consumer Protections

From a safety and reliability standpoint, there are numerous benefits of requiring embedded network operators to be authorised and comply with major elements of the National Electricity Rules. As the Commission points out, this requirement would ensure that embedded network operators have the capabilities to perform their energy supply functions.

Further, as a general principle all energy consumers should have access to key consumer protections regardless of whether they are serviced through the main grid or an embedded network. For this reason, Simply Energy is supportive of the Commission's proposal to require those who on-sell through an embedded network to be authorised market participants.

Some of the main obligations that will assist in protecting embedded network customer under this proposed arrangement include:

- access to the energy ombudsman scheme to help resolve disputes
- greater powers conferred to Australian Energy Regulator (AER) to monitor and enforce compliance
- better protections for hardship customers.

It is acknowledged that the primary instruments that make up the National Energy Customer Framework will need to be substantially amended to facilitate these interactions appropriately.

Balanced Regulation

As the Commission and the AER have acknowledged, a tailored approach to the authorisation framework is required to regulate new and non-traditional energy supply arrangements.

This means it will be necessary to provide the AER with some discretion to exempt authorised embedded network on-sellers from certain regulatory obligations that are not relevant or where the costs of compliance would outweigh the benefits to consumers. This flexibility will be needed to ensure obligations are adapted to the scale and nature of the activities being undertaken by the relevant on-seller.

That said, as a minimum requirement all on-sellers should still be required to comply with basic consumer protections around dispute resolution, life support customers and disconnection requirements.

Additionally, Simply Energy believes that the exemption framework should be retained in limited circumstances, where the costs of regulation are expected to outweigh the benefits to consumers. Examples include where companies are supplying electricity to a related body corporate, energy is being provided to those staying in short-term accommodation, or where energy is being provided temporarily to an adjacent property.

The AER should also retain the flexibility to exempt retirement villages and caravan parks who service only a small number of permanent residents. It would also be reasonable to exempt shopping centres without any separate metering, as energy supplied in such circumstances would be negotiated commercially as part of a party's relevant tenancy contracts.

Competition

Competition and customer choice is the best way of ensuring optimal and efficient outcomes are provided to energy consumers. The present structure of embedded networks means that off-market service providers have limited incentives to pass on savings that they may gain through negotiating more favourable power purchase arrangements. This is because customers cannot easily source energy from an alternative service provider.

In view of this, it is imperative that child metering sitting behind the master meter in off-market arrangements are discoverable to the wider market. Improving access to competition and requiring embedded network service providers to inform customers about service options will ultimately provide embedded network customers with greater opportunities to source energy through an authorised retailer if they are dissatisfied with their current service arrangement.

Gas Market Arrangements

In respect of gas, it is agreed that the COAG Energy Council should work together to set up a regulatory framework for the operation of embedded gas networks that is consistent with the requirements of authorised participants in the National Electricity Market.

Final Remarks

The Commission's proposed changes to the regulation of embedded networks may not be the ultimate solution. That said, Simply Energy is encouraged by the proposed changes. They are incremental steps towards recognising that the energy sector is rapidly evolving and the way it was governed in the past may not necessarily be suitable to address the challenges posed in the future.

Now there is increasing recognition by government and the energy market institutions that the current regulatory framework is not fit for purpose we are in a stronger position to work together as industry to become more proactive and forward looking in meeting the long-term interest of energy consumers.

I trust the above feedback on your draft report provides you some helpful context and direction. If you would like to contact me about Simply Energy's submission please feel free to do so on (03) 8807 1171 or by email at James.Barton@simplyenergy.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'James Barton', with a stylized flourish extending to the right.

James Barton
General Manager, Regulation
Simply Energy