

Our Ref: 20171013mcrt  
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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 Draft Report regarding the review of regulatory arrangements for embedded networks.

**1. Summary**

- 1.1. During our review of the Draft Recommendations within the Draft Report, we identified an inconsistency which we believe would make implementation of one of the Draft Recommendations challenging.
- 1.2. This challenge relates to the application of Recommendation 1(a) within the Draft Report, when applied to large customers. Large customers have site specific network charges which vary as outlined below and may include agreed charges between large customers or large corporate entities.
- 1.3. In relation to network charges for large customers, the current wording of Recommendation 1(a) within the Draft Report conflicts with Section 7.2 of the Draft Report and sections 4.6.3 & 4.6.4 of the Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016 and also section 7.2 of the Draft Report.
- 1.4. Our view is that within the Final Report, to remove the existing conflict, the AEMC needs to amend the wording of Recommendation 1(a) in relation to large customers. This amendment will enable the permitted network charges applicable to large customers (both internal and external) to be recovered by the Retailer on behalf of the exempt embedded network service provider. This amendment will greatly assist implementation and enable retailers to recover all charges. This will align Recommendation 1(a) within the Draft Report with sections 4.6.3 & 4.6.4 of the Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016 and also section 7.2 of the Draft Report.
- 1.5. Extracts of sections 4.6.3 & 4.6.4 of the Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016 ( Attachment 1) and also extracts from section 7.2 of the Draft Report are attached (Attachment 2) relating to large customers and conflicts with Recommendation 1(a) within the Draft Report.

- 1.6. We acknowledge that proposed drafting is sufficient in relation to small customers and our concerns only relate to **large customers** where embedded network charges may be levied as agreed between large customers and large corporate entities.

## **2. Background**

- 2.1. Section 7.2 of the Draft Report acknowledges that embedded network service providers may recover from large customers and large corporate entities mutually agreed internal network service charges. These charges may be in addition to the standard published LNSP network tariffs which for example, may not include the site specific large customer connection charges.
- 2.2. Section 7.2 of the Draft Report aligns with the Section 4.6.3 & 4.6.4 of the current Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016 which enables internal network charges where the parties have entered into an agreement on mutually agreed terms and both parties are large customers or large corporate entities.

## **3. Draft Recommendation 1(a)**

- 3.1. The Draft Report incorporates numerous recommendations. Recommendation 1(a) within the Draft Report stated:

### ***1. Improving access to competition for customers in legacy embedded networks:***

- (a) *Improve access to competition for legacy embedded network customers by making the process for switching to a market offer as simple as possible. This can be achieved through two main changes:*
- *Where there is an embedded network manager (ENM) appointed, child embedded network customer connections should be issued with National Metering Identifiers (NMIs), registered by the Australian Energy Market Operator (AEMO) in their market settlement and transfer solution (MSATS) system and discoverable by retailers, regardless of whether the customer is on or off-market.*
  - *Allowing a retailer of an on-market embedded network customer to pay the exempt embedded network service provider a network tariff that is equal to the standard published LNSP network tariff that would apply if there was no intermediate embedded network.*

## **4. Challenges associated with implementing of Draft Recommendation 1(a)**

- 4.1. The identified issue associated with Recommendation 1(a) of the Draft Report relates to large Customers. In relation to Small Customers, internal network charges are prohibited and the published local network service provider network tariffs are clearly documented.
- 4.2. The challenges with the recommendation when applied to Large Customers includes the following.
- 4.2.1. For Large Customers, the published external network tariff (i.e. shadow price) which the DNSP would have charged contains site specific components which relate to the specific large customer connection requirements and demand profile. In addition, as the large customer connection is contained within the embedded network, the published tariffs will likely have insufficient information to determine the overall charge.

- 4.2.2. Furthermore, for Large Customers, the published network charges in Queensland contain additional site specific components. For example, with the Energex Distribution Area, the daily rate is unique to each individual large customer connection. It is therefore not as simple a matter as applying a published rate for embedded large customers.
- 4.2.3. There are circumstances where internal network charges for large customers are applicable. This is consistent with the AER's Network exemption guideline and the Draft Report. The current drafting creates uncertainty as to how these are recovered within the draft recommendation.
- 4.2.4. In relation to Large Customers, where the parties have agreed on mutually agreed terms to recovery of internal use of system charges (i.e. Large Customer Connection Charges), or additional charges relating to increased redundancy, these charges should be collected by the retailer of the embedded customer, in the same way they are collected by retailers of non-embedded market customers.
- 4.2.5. In the event these charges relating to large customers are not recovered by the Retailer (contrary to what currently occurs for large market customers not within embedded networks), a separate charge from the embedded network service provider will need to be billed to the customer directly.
- 4.3. As currently drafted, Recommendation 1(a) is ambiguous and appears to conflict with Section 7.2 of the Draft Report and sections 4.6.3 & 4.6.4 of the current Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016.

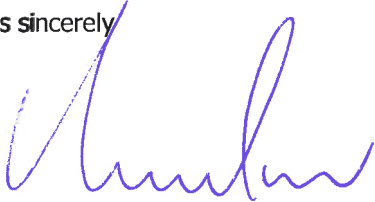
## **5. Clarification Required - Recommendation 1(a)**

- 5.1. Whilst the initial wording of Recommendation 1(a) is sufficient for Small Customers, in relation to large customers - the drafting fails to align with the existing charging parameters imposed within the AER's network exemption guidelines.
- 5.2. In addition, as outlined above, the published LNSP network tariffs for large customers are site specific and vary, and therefore the drafting is ambiguous in relation to large customers.
- 5.3. The current drafting of Recommendation 1(a) is ambiguous and raises confusion as to whether any additional charges for large customers will then be billed separately, making switching of retailer and comparing market offers significantly more complicated.
- 5.4. A potential solution would be for the AEMC to review the proposed wording of Recommendation 1(a) to clarify how currently permitted internal network charges for large customers will continue to be recovered. This would align the payments from the on-market large customer's retailer to the exempt embedded network service provider with the charging requirements within AER's current embedded network guidelines acknowledged by the AEMC within section 7.2 of the Draft Report.
- 5.5. For example, retailers of large customers in Queensland which are not located within embedded networks are required to be advised by the LNSP (i.e. Energex) of the applicable individual network charges on a case by case situation as they are site specific and vary. We believe a similar approach should apply to Retailers of embedded customers.

- 5.6. We believe that in relation to large customers it is inappropriate to refer to the standard published LNSP network tariffs as this conflicts with both the AER's Network exemption guideline and Section 7.2 of the Draft Report.
- 5.7. The AER's Network exemption Guidelines dated 1 December 2016 provide one example of how this issue could be resolved. Section 4.6.4 of the AER guidelines includes an additional mechanism in relation to large customers.
- 5.8. Section 4.6.4 of the AER guidelines clearly states that **when recovering network charges**, the requirement to not impose any network charge that would not be charged by the local network service provider if the customer were directly connected to the distributor **does not apply to large customers**.
- 5.9. As outlined above, it is necessary to amend Recommendation 1(a) to enable a large customer's retailer to recover and pay the exempt embedded network service provider charges as agreed between large customers or large corporate entities.

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

Yours sincerely



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

**Attachment 1**

**Extract from the Electricity Service Provider – Registration Exemption Guideline issued by the AER dated 1 December 2016 - Sections 4.6.3 & 4.6.4 which conflicts with Recommendation 1(a).**



# **Electricity Network Service Provider - Registration Exemption Guideline**

Version 5  
1 December 2016

#### 4.6.1.5 Group E

Charge group E registration is largely historical. It remains available on our website application form but a new application is not required for anyone registered in any of charge groups A,B,C or D. This is because we now treat charge groups A, B, C and D as including charge group E. Charge group E may be necessary in some embedded networks to deal with energy exported to the NEM when individual members of a community generate excess energy that is not used within the private network.

Where a generator within a private network earns credits for energy exported to the NEM all credits remain the property of the embedded generator. All credits must be rebated to the embedded generator or, if more than one, to each embedded generator in proportion to the credits earned. However, this requirement does not prevent the owner of an embedded generator from entering into an agreement with another party to reallocate those credits.

For example, a retirement village may develop a community scheme whereby each resident with a PV system surrenders their rights to the credits earned on appropriate terms.

#### 4.6.2 External network charges

External network charges may be levied by a registered NEM network service provider and charged to the parent meter of a private network. These charges are known variously as 'transmission use of system charges' (TUOS), 'distribution use of system charges' (DUOS) and 'network use of system' (NUOS) charges depending on the State or Territory in which the network is located. Such charges may be apportioned to each customer in a private network on a 'causer pays' basis in proportion to the metered energy consumption of each customer over the equivalent period no matter which charge group or groups apply (see Table 11).

Alternatively, the charges borne by each customer may be determined on a 'shadow price' basis. In this context a 'shadow price' is charging each customer a tariff no greater than the tariff that would have applied had that customer obtained supply directly from the local NEM registered distribution or, where appropriate, transmission company.

We recognise that these charges may be difficult to apportion on a precise basis, especially where time variable charges apply. The shadow price approach may be simpler to implement in those situations or in situations where bulk supply is obtained at a different voltage level.

#### 4.6.3 Internal network charges

We do not encourage separate network charges for private networks. Few, if any, situations currently exist where such charges are warranted. The formal determination of network charges by the AER is a complex and involved process, the costs of which will usually be disproportionate to the scale of a private network.

Where an embedded network exists within a commercial building, shopping centre, airport, residential apartment building, retirement village or the like, the AER considers the network development costs to have been met in the initial establishment of the facility. Such costs are capital in nature and are normally recoverable through lease payments, fit-out charges

or the like. A charge for network services is not appropriate as it may result in the customer being charged twice for the same facility.

Accordingly, no charge is permitted for internal network services except where the parties have entered into an agreement on mutually agreed terms and both parties are:

- large customers; or
- large corporate entities.

#### 4.6.4 Charging customers

Our agreement to a network charging mechanism is predicated on a requirement that there must not be a sustained over-recovery of any network charge. Where an over-recovery occurs, it is required to be rebated to customers at intervals of not more than annually. Note that the energy component of any charge is subject to the Retail Exempt Selling Guideline in those jurisdictions where that guideline applies or otherwise, jurisdiction specific retail selling requirements.

An exempt embedded network service provider must:

- (a) not impose any network charge on an exempt customer that would not be charged by the relevant local area distributor to that customer if the customer were directly connected to the distributor and subject to a standard distribution connection contract;
- (b) provide notice to the exempt customer of any change in the exempt customer network tariff as soon as practicable, and no later than the exempt customer's next bill; and
- (c) limit any fee charged to a customer for late payment to a recovery of reasonably incurred costs by the exempt embedded network service provider as a result of the customer's late payment.

A charge under this provision must be directly linked to a tariff schedule approved by the AER and published by the relevant local distributor. A charge may not exceed (but may be less than) the applicable tariff schedule item.

Exception: Condition 4.6.4(a) does not apply to, or limit, an agreed charge between large customers or large corporate entities under charge group C and condition 4.6.3.

##### 4.6.4.1 Meter reading charges

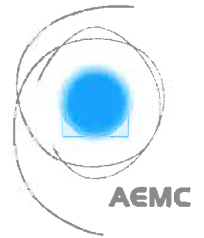
A meter reading charge may only be levied at a frequency of once per billing cycle (if the billing cycle is greater than monthly) and, in any other circumstances, not more than once per month.

A manual meter reading charge may only be charged for a type 5 or type 6 metering installation which was compliant with this guideline at the date of commissioning or first use of the metering installation.

Where the installed meter type is an advanced technology meter, the applicable metering charge and the charge for energisation, re-energisation or de-energisation must not exceed



**Attachment 2:**  
**Extracts from section 7.2 of the Draft Report which conflicts with Recommendation 1(a).**



**Australian Energy Market Commission**

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## **DRAFT REPORT**

# Review of regulatory arrangements for embedded networks

12 September 2017

**REVIEW**

## 7 Access to competition

### 7.1 Introduction

This chapter sets out the Commission's recommendations for further improving access to competition within exempt embedded networks by simplifying and reducing the cost for all authorised retailers to access child embedded network customers, while allowing on-market customers to continue to receive a single, combined network and retail bill.

In summary, the Commission recommends making the process for embedded network customers switching to a market offer as simple as possible. This can be achieved through two main changes:

- (a) Where there is an embedded network manager (ENM) appointed, issuing child embedded network customer connections with National Metering Identifiers (NMIs), registered by AEMO in their market settlement and transfer solution (MSATS) system and discoverable by retailers, regardless of whether the customer is on- or off-market.
- (b) Allowing a retailer of an on-market embedded network customer to pay the exempt embedded network service provider a network tariff that is equal to the standard published LNSP network tariff that would apply if there was no intermediate embedded network.

### 7.2 Background

Under the National Electricity Law (NEL) and the National Electricity Rules (NER) a person must not engage in the activity of owning, controlling or operating a distribution system that forms part of the interconnected national electricity system unless:

- the person is registered with AEMO as a Network Service Provider, or
- the person is the subject of a derogation that exempts the person, or is otherwise exempted by the Australian Energy Regulator (AER) from the requirement to be registered.<sup>106</sup>

As required by the NER, the AER has issued an "Electricity Network Service Provider – Registration Exemption Guideline" (network exemption guideline).<sup>107</sup>

The network exemption guideline was most recently updated on 1 December 2016 and incorporates changes resulting from the AEMC's 17 December 2015 Embedded Network Final Rule Determination. It requires exempt embedded network service providers to take reasonable steps to facilitate access to retail competition for child embedded network customers where it is available in a jurisdiction. However, practical impediments to

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<sup>106</sup> NEL s. 11(2) and s. 13, NER cl. 2.5.1(a) and 2.5.1(d).

<sup>107</sup> NER, cl. 2.5.1(e).

competition remain including:

- bespoke embedded network tariffs
- embedded network billing arrangements that require retailers to implement special processes
- lack of visibility of off-market embedded network connections
- transaction costs for the retailer in negotiating access to meters.

Importantly, the AER's network exemption guideline provides that no charge is permitted for internal network services except where the parties have entered into an agreement on mutually agreed terms and both parties are large customers or large corporate entities.<sup>108</sup>

This is helpful in facilitating a proposed regime where, for billing purposes, market retailers can effectively 'look through' the embedded network directly to the child embedded network customer.

### 7.3 Support for competition

The AER strongly supported further improving the level of competition for customers within embedded networks, describing them as inherently monopolistic.<sup>109</sup>

True competition in embedded networks is the missing element that would offer the greatest benefit to customers.

Retailers, including AGL, EnergyAustralia, Red Energy and Lumo Energy, also supported further changes to improve competition. EnergyAustralia suggested "competition in the retail space between traditional retailers and emerging business models is the best way to get optimal outcomes for consumers".<sup>110</sup> AGL said "where possible, competitive markets should be relied upon to facilitate the advancement of customer interests".<sup>111</sup> Red Energy and Lumo Energy said "(g)reater competition will lead to a more efficient allocation for resources delivering greater choice and more competitive offers to consumers in embedded networks".<sup>112</sup>

Other submissions also commented on the benefits of retail competition within embedded networks.<sup>113</sup>

Flow actively promotes the customers right to select a retailer of their choice.

<sup>108</sup> AER, *Electricity Network Service Provider - Registration Exemption Guideline*, version 5, 1 December 2016, p. 59.

<sup>109</sup> AER, Submission on the consultation paper, p. 3.

<sup>110</sup> EnergyAustralia, Submission on the consultation paper, p. 2.

<sup>111</sup> AGL, Submission on the consultation paper, p. 2.

<sup>112</sup> Red Energy and Lumo Energy, Submission on the consultation paper, p. 2.

<sup>113</sup> Flow, Submission on the consultation paper, p. 9.