

28 April 2025

Ms Stephanie Jolly  
Acting Executive General Manager, Consumers, Policy & Markets  
Australian Energy Regulator  
Via email: AERexemptions@aer.gov.au

Dear Ms Jolly

**Ausgrid response: Review of AER Exemptions Framework for Embedded Networks – Draft Decision**

Ausgrid welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Review of the *AER Exemptions Framework for Embedded Networks – Draft Decision (Draft Decision)*. Ausgrid operates a shared electricity network powering the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

We welcome the AER's Draft Decision which acknowledges the systemic risks in the current embedded network arrangements that are resulting in a lack of customer choice and weaker consumer protections.

The existing regulatory framework for embedded networks was established at a time when there were relatively few embedded networks. However, as at April 2025, there are over 1,100 embedded networks in Ausgrid's network alone. Further, while embedded networks can be well suited to single sites with a few (less than 10) customers who are managed by one party and/or where it is not feasible to establish a physical connection point with each customer (e.g. small-scale retirement villages or caravan parks), new embedded network applications are dominated by strata residential buildings, shopping centres and other large 'mixed use' developments. With these changes, the embedded network customer experience is worsening. Since 2018, when exempt entities servicing residential customers were first required to join an ombudsman scheme, the Energy and Water Ombudsman NSW has reported more than a ten-fold increase in embedded network complaints received quarterly<sup>1</sup>.

Ausgrid therefore supports the AER taking further action to safeguard consumers from these risks and negative experiences. The Draft Decision proposes a number of positive amendments to the Retail Exempt Selling Guideline and Network Exemption Guideline, including:

- **Closure of D1 and D2 retail, and ND1 and ND2 network exemption classes:** We agree with the AER that requiring more prospective energy sellers and embedded networks to register with the AER will improve visibility of arrangements that may currently be putting consumers at risk.
- **Extending family violence protections to embedded network customers:** We strongly support the AER's decision to extend an obligation to exempt sellers to provide support to customers experiencing family violence. Providing standardised family violence policy templates is an

---

<sup>1</sup> In its [Quarterly Activity Report \(January – March 2018\)](#) p 27, the Energy and Water Ombudsman NSW received 22 complaints from customers of exempt entities. This rose to 231 complaints in the [EWON Insights Oct-Dec 2024](#)

appropriate way to minimise the administrative burden and complexity that some smaller exempt sellers may see as a barrier to providing this support.

- **Increased visibility of ENs through reporting:** We support the AER's proposed new notification requirement for both exempt sellers and networks to improve pricing visibility and for NR2 networks to report annually on customer numbers. This increased visibility is both crucial for market bodies to ensure embedded network frameworks are fit for purpose and for distribution businesses to securely run their networks, which will ultimately assist in supporting positive outcomes for customers in embedded networks.

However, while Ausgrid is supportive of the steps the AER has taken in its Draft Decision to improve consumer protections, we consider that, on some issues, the AER could go further to resolve the systemic risks identified. For example:

- **Closure of all deemed exemptions:** Given the minimal administrative burden associated with registration, we encourage the AER to consider closing all remaining deemed network and retail exemption classes so that all future prospective exempt sellers and networks are required to register with the AER, thereby working towards greater oversight of exemptions across the National Electricity Market (**NEM**).
- **Compliance reporting:** We accept the AER's view that many small-scale exempt sellers would not have adequate systems and processes in place to undertake regular compliance reporting<sup>2</sup>. However, we urge the AER to consider introducing compliance reporting requirements for those classes of network exemption, such as NR1 and NR2, that service large developments such as strata residential buildings and shopping centres.
- **Closure of NR1 and NR2 network exemptions:** We ask the AER to reconsider its position on the closure of NR1 and NR2 network exemption classes. While we note the AER's finding that "consumer harm risks relate more to the customer-energy seller relationship"<sup>3</sup>, the new embedded network model (described above in our submission) being developed through NR1 and NR2 network exemptions, is effectively enabling the creation of unregulated, large monopolies. Closing these classes of exemption is an efficient way to ensure the majority of prospective embedded network customers will receive the same protections as their grid-connected counterparts.

The problems facing embedded network customers are well documented. As the AER's Draft Decision acknowledges, there are many parallels between its findings and the Australian Energy Market Commission 2017-2019 "Review of the Embedded Networks Regulatory Framework". The NSW Government is also finalising a formal response to the NSW Independent Pricing and Regulatory Tribunal's 2024 review "The Future of Embedded Networks in NSW", which similarly highlighted significant consumer issues in embedded networks.

Ausgrid therefore strongly supports the AER's call to action for jurisdictional governments to progress holistic changes to the embedded network framework including extending guaranteed supply and life support protections, extending pricing protections and improving competition, and introducing civil penalties for breaches by exempt sellers and networks. However, where a suite of legislative and/or regulatory solutions are known, we encourage the AER to consider submitting a rule change request to provide a consistent

---

<sup>2</sup> AER, [Review of the AER exemptions framework for embedded networks – Draft decision](#), p 39

<sup>3</sup> Ibid. p 33

approach for consumers across the NEM and reduce the potential for implementation delays by jurisdictional governments.

We also note that the AER has additional levers, outside its Guidelines, to improve consumer protections for embedded network customers. For example, as part of Ausgrid's 2024-29 regulatory determination published on 30 April 2024, the AER approved Ausgrid introducing three tariffs for large-sized embedded networks over a seven-year transition period. Our tariff reforms will unwind the tariff arbitrage discount received by embedded network operators, currently being funded by grid-connected customers. We encourage the AER to continue working with network businesses to identify, and implement, other opportunities that equalise protections for both embedded network and grid-connected customers.

We would welcome the opportunity to discuss these issues further with the AER as it finalises its updated Guidelines. Please contact Emma Vlatko, Senior Policy Advisor ([REDACTED]).

Regards,

Fiona McAnally  
Head of Regulation