



10 October 2016

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

EnergyAustralia Pty Ltd
ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Lodged electronically: www.aer inquiry@aer.gov.au

Issues Paper – Draft Amendments to the Electricity Network Service Provider Registration Exemption Guideline

Dear Mr Pattas

EnergyAustralia is pleased to provide this submission to the Australian Energy Regulator's Issues Paper (the Issues Paper) on the Draft Amendments to the Electricity Network Service Provider Registration Exemption Guideline (the Guideline).

We are one of Australia's largest energy companies, with over 2.5 million household and business customer accounts in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

We support the embedded network rule change, which aims to reduce the barriers for embedded network customers to access competitive offers in the market.¹ This is an important Power of Choice initiative that will offer significant benefits to a growing customer segment.

The sale and supply of energy is becoming increasingly competitive and diverse, with new market participants and business models competing with traditional retailers. Furthermore, there is greater differentiation within these alternatives, with numerous embedded network business models, for example. Customers will benefit when they can access competitive offers but also benefit from a certain regulatory environment that encourages competition in the provision of embedded networks and other exempt mechanisms.

¹ Australian Energy Market Commission (2015), Embedded Network Rule Change, ERC0179

Therefore, the AER's Guideline is an important reference for participants to understand their obligations in this area and as such, we appreciate that it will be finalised one year before the rule change takes effect. This provides Embedded Network Managers (ENM) the chance to become familiar with the changes and establish their businesses and processes to fulfil their obligations.

Consistency with AEMO procedures

While early publication of the Guideline has merit, the AER is aware that the Australia Energy Market Operator's (AEMO) procedures are still in development and this will also impact and shape the ENM role. In particular, the procedures and accreditation process will provide more insight into the costs associated with ENM responsibilities. It is very difficult to determine the likely costs for this function at this point in time.

It also means it is somewhat difficult to predict how the market will develop. For example, more onerous regulatory obligations could act as a barrier to entry, discouraging some potential market participants if they do not believe they can recover operating costs from their customers. Similarly, discrepancies and inconsistencies between the Guideline and procedures will impose costs and create uncertainty for participants. This will undermine the objectives of the rule change, with customers in some embedded networks effectively prevented from gaining access to the market. At the same time, this will inhibit competition and innovation in an increasingly significant form of energy sale and supply. Therefore, EnergyAustralia encourages the AER to ensure it works in parallel with AEMO to create a consistent and certain regulatory environment.

An important example is the apparent discrepancy between the Guideline and the AEMO procedures with respect to National Metering Identifier (NMI) registration. The procedures imply that the ENM is only required to register the NMI once a consumer wants to go on market. However, the Guideline suggests that the ENM is responsible for registering all connections once an ENM is appointed to an Embedded Network (EN) site.

In our view, it seems sensible that the NMI is created and registered once a customer seeks to go on market; this is an incremental approach that not only seems more cost-effective but is appropriate for the majority of embedded networks (i.e. greenfield and brownfield). Otherwise, a general obligation to register all connection points as soon as an ENM is appointed, particularly in brownfield sites, will create unnecessary costs for Embedded Network Operators (ENO).

Threshold for appointment of Embedded Network Manager

The AER raises the issue of a threshold for the automatic appointment of an ENM, noting that clause 2.5.1(d2) of the National Electricity Rules require it to determine if some network activity classes should be exempted from appointing an ENM immediately on the basis of costs outweighing benefits. The AER also suggested in the Issues Paper and at its forum on 16 September 2016 that 30 customers might be a reasonable threshold.

At this early stage and in the absence of final AEMO procedures, we believe it is challenging if not impossible to identify an appropriate threshold. We support the principle that all

customers in embedded networks should have access to competitive offers. However, regulatory obligations (AER and AEMO) will generate costs and effectively create a threshold below which an ENM becomes uneconomic.

It is impossible to consider the threshold issue in isolation of other aspects of the regulatory framework so we recommend the AER reconsider this issue once the AEMO procedures have developed to a point where participants might estimate their cost and where the minimum feasible size and scale of an economic EN becomes clearer.

The AER might also consider other ways of administering a threshold, noting that an ENM makes economic sense when there is a genuine chance that customers within an embedded network will seek out competitive retail offers. The number of customers in the network is one factor but it may also be a function of the type of customers (e.g. residential or small business) or the volume of energy consumed.

We also note the Australian Energy market Commission's recommendation in its Final Rule Determination that the threshold framework be flexible enough to adjust to 'evolutions in embedded networks'.²

Billing

The AER has sought participants' views on billing arrangements when customers in an embedded network buy their energy from a market retailer, questioning whether new obligations should apply. We agree with the AER that the best outcome is for a customer is to have a single bill but also acknowledge this will be difficult to achieve in the short term as retailers and EMNs develop arrangements for handling customers in embedded networks.

However, we expect the nature and extent of any problems with respect to billing – and therefore, the precise form of any obligations for any market participants that might be required to overcome those problems – will become apparent over time. Therefore, the current Guideline is suitable and reasonable, particularly when combined with the existing billing obligations for retailers regarding their accuracy and content (such as Rule 25 of the NERR for retailers to ensure customers are advised of all applicable charges).

A more conceptual issue with respect to pricing is how pricing models might evolve as the market develops. The AER rightly notes that the majority of EN customers who choose a competitive retail offer will be charged as if they were directly connected to a distributor and that the shadow pricing alternative for network charges is appropriate. Over the longer term, however, customers in an embedded network can have a wide range of cost profiles across the three main components: retail, network and wholesale costs.

For example, customers in an embedded network can have a peakier or flatter usage profile than a typical customer; this makes their wholesale costs significantly higher or lower than average. Similarly, retail and network costs can vary vastly for different types of embedded networks.

² Australian Energy Market Commission (2015), *Rule Determination, National Electricity Amendment (Embedded Networks) Rule*, page 49, <http://www.aemc.gov.au/getattachment/3ec818f7-38ae-412e-8d7b-b404ee8d7858/Final-rule-determination.aspx>

Therefore, oversight of pricing outcomes with reference to 'shadow prices' may not reflect actual market outcomes and seeking to set a regulated or benchmark price could influence pricing in ways that will not be in customers' best interests. Furthermore, an effective ENM would be expected to act in customers' best interest and identify whether the ENO is charging prices that significantly exceed costs.

We think this will be an area that may be open for debate and will be pleased to further contribute to these discussions.

The final matter we would like to comment on is the AER's discussion of metering types and access arrangements. Customers benefit greatly from access to the competitive retail market so we support a Guideline that ensures embedded network customers have meters that satisfy National Electricity Market (NEM) minimum standards. Consistent standards across the NEM also contribute to efficiencies in the customer transfer process and therefore facilitate competition.

If you have any questions regarding submission, please contact Geoff Hargreaves on (03) 8628 1479 or geoff.hargreaves@energyaustralia.com.au.

Regards

Melinda Green
Industry Regulation Leader