



Ref.: JD/AC

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General Manager – Mr Tom Leuner  
Markets Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

97-99 Adelaide Street  
Maryborough QLD 4650  
PO Box 163  
Maryborough QLD 4650  
Telephone 13 10 46  
Facsimile 07 4123 1124  
Website [www.ergon.com.au](http://www.ergon.com.au)

Attention: Pip Dodgson

Dear Mr Leuner

## **Retail Exemptions – Consultation Paper and Response to Submissions**

Ergon Energy Corporation Limited and Ergon Energy Queensland Pty Ltd (collectively referred to as Ergon Energy) welcome the opportunity to provide a submission to the Australian Energy Regulator (AER) on its *Consultation Paper and Response to Submissions – Retail Exemptions* (Consultation Paper) and Draft *Exempt Selling Guideline* (Draft Guideline). This submission is provided by Ergon Energy in its capacity as a Distribution Network Service Provider (DNSP) and non-competing area retail entity in Queensland. This submission is made available for publication.

Ergon Energy supports the development of a national framework for exempt selling and acknowledges the complexities faced by the AER in seeking to develop a regime that captures the range of on-supply arrangements that exist i.e. from caravan parks to large customer-owned networks such as airports and industrial parks. Ergon Energy generally supports the AER's Draft Guideline and appreciates the changes the AER has made to some positions in response to comments received during public consultation.

In particular, Ergon Energy supports the AER's position that it is not practicable in the short to medium term to require Full Retail Competition (FRC) in embedded networks in Queensland. While Ergon Energy generally supports the principle that customers in embedded networks should be allowed the choice of retailer, there are a significant number of complex issues that need to be resolved before FRC should be extended to these customers. In Queensland, prior to the commencement of FRC, the Energy Competition Committee (appointed by the Queensland Minister to oversee the implementation of FRC) considered the issue of whether FRC should be extended to customers with embedded networks, and stated:

*...."Introducing contestability for a customer in embedded network, who is a party to an On-Supplier contract, is a very complex problem. In many situations where the embedded network is supplying small customers, the Parent customer includes electricity as part of the overall service charges without any metering at all. Some examples are holiday units let out and caravan parks for short term stays. These child customers have no interest in the legal status of electricity supply and would not apply for contestable status".*

Some of the issues to be considered and resolved include:

- The Local Network Service Provider (LNSP) does not have a relationship with the "child" customer because there is no direct connection to the distribution network. Therefore the LNSP has no knowledge of the embedded network beyond the parent connection point and has no responsibility for those assets;
- Under the National Electricity Rules (NER), the LNSP would be required to register the National Metering Identifier in the Market Settlement and Transfer Solution (MSATs) for each child customer and maintain the associated Standing Data. The LNSP does not have access to the information required given there is no relationship with the child customer. Therefore, the LNSP would be reliant on the Embedded Network owner to provide the information such that it could meet its obligations under the NER;
- Assets beyond the parent connection point may not meet the LNSP's standards for safety, design or access. This becomes an issue if the LNSP or its contractors are required to perform work within an embedded network i.e. the installation of meters under Chapter 7 of the NER;
- In Queensland, the LNSP has regulatory obligations associated with Guaranteed Service Levels and Quality of Supply. The LNSP has no control over the quality of supply of outages within an embedded network. Limits of responsibility and accountability will need to be clearly defined;
- Changes may be required to LNSP and retailer systems to accommodate FRC for customers in embedded networks; and
- If FRC were to be extended to customers in embedded networks within a regulatory control period, recovery of costs would need to be resolved, especially where the threshold for a cost pass through under Chapter 6 of the NER may not be met, but costs were still significant.

As a number of the issues to be resolved are specific to individual jurisdictions (for example changes to building and planning codes), Ergon Energy believes that the decision to extend FRC to customers within embedded networks should lie with the jurisdiction rather than the AER.

Ergon Energy notes that the Consultation refers to the Australian Energy Market Operator's Embedded Network Guidelines. Specifically, a reference that Queensland does not allow choice for "small" consumers supplied by embedded networks. This statement is not correct. In accordance with the Queensland *Electricity Act 1994*, in order to access retailer of choice in Queensland a customer must be directly connected to the LNSP's network. This requirement does not differentiate by the size of customer. That is, no customer in an embedded network, whether large or small, can access retailer of choice. It should also be noted that customers in embedded networks in Queensland can access retail of choice if they arrange a direct connection to the LNSP's (Ergon Energy or Energex) network.

Ergon Energy notes that the AER anticipates that consultation will commence on the Network Service Provider Exemptions Guidelines in 2011 and that consultation on both the retail and network exemptions guidelines will occur concurrently. Given that some issues are relevant to both guidelines, Ergon Energy strongly supports these guidelines being developed and finalised concurrently.

Should you wish to discuss any aspect of this submission, please do not hesitate to contact Mrs Jenny Doyle, Manager Regulatory Affairs – Policy and Regulation on (07) 4092 9813.

Yours sincerely



**Troy McKay-Lowndes**

Acting Group Manager Regulatory Affairs

Telephone: (07) 4122 5312

Facsimile: (07) 4123 1124

Email: [troy.mckay-lowndes@ergon.com.au](mailto:troy.mckay-lowndes@ergon.com.au)