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8th August , 2011

General Manager
Network Operations and Development Branch
Australian Energy Regulator
GPO Box 520
Melbourne, Vic 3001

Submission re network exemption guidelines.

Dear Sir,

This submission comments on the proposed Electricity Network Service Provider Registration Exemption Guideline dated June 2011

The comments are made primarily to represent a perspective of operators and residents of retirement villages and lifestyle villages that operate as exempt sellers in Victoria however some relevant aspects from other types of embedded networks will be raised to illustrate certain points.

Network Energy Services is the largest service provider for electricity on-selling in the proposed registrable exemption classes R3, and R2 where the site is a retirement village and a major service provider for R4 where the site is a manufactured home estate.

Normally we would seek to have our submission endorsed by the Retirement Villages Association (RVA) and the Residents of Retirement Villages Victoria (RRVV) to ensure that the views expressed are reflective of the operators and the consumers in embedded networks however time constraints have limited our opportunity on this occasion. We will provide this report to those parties after submission to AER.

The role of Network Energy Services is to assist sites to implement their embedded network and then to manage the operation of the embedded network in our role as service provider to the exempt seller and embedded network operator.

In this capacity Network Energy Services has been in a position where we have represented the retirement village sector in regulatory development over the past seven years and it is satisfying to see this next step in the development of the uniform framework.

We are very pleased that the AER proposal has included different classes of registrable retail exemptions and support the concept of the network service provider registration exemption using the same classification.

Typically consumers in class R3 purchase their electricity at cheaper prices than would be possible outside of their village, they receive service that is sympathetic to their needs and any operating surplus from the exempt selling is returned to the residents in the form of reduced village maintenance costs that may save residents as much as $30 per month. In the majority of villages 100% of the benefits of exempt selling is returned to residents either directly (cheaper electricity) or indirectly (cheaper village maintenance fees).

It should be noted that in retirement villages Class NR2 and NR3 there are large numbers of cases where the residents themselves are the exempt sellers and embedded network operators via their Residents Committee or Owners Corporation.

Our responses to the questions posed in the discussion paper follow;

Q1 Aligning the classes of exemption makes perfect sense in that the application for retail and network exemptions can occur and be considered in concert. We support that approach.

Q 2 & 3 Our response to this question is precursored by querying the relevance of network service provider registration. Sections 5.1 and 5.2 of the paper describe the legislative background for the need for registration and point out that it is recognized that there are many situations where there is no practical purpose served in requiring the full requirements of the NEL and NER to apply to NSPs and goes on to say that NSP exemptions are needed as the regulatory regime applies to all NSPs irrespective of their size.

It could be argued that for an embedded network with no Childs (consumers buying from a licensed retailer) that the market connection point marks the point of transistion from a NEM network to private reticulation and that there is no need for further regulation of the private reticulation over and above the regulations and standards relating to the installation and management of the physical private reticulation system. Certainly in sites such as retirement villages and other similar sites where the reticulation has always been installed, owned and operated by the village or site owner the concept that the reticulation system is, or has been, a "network" is curious and indeed in "normal" retirement villages that are not embedded networks their reticulation systems are owned, installed and managed by the site owner downstream from the LV side of the supplying substation, in exactly the same manner as is the case with an embedded network village (except that there is no Parent Meter market connection point), however those "normal" village electrical reticulation systems are not "networks".

Notwithstanding the above if registering a NSP involves no more than registering and complying with conditions that are in effect normal operational requirements or practice for any village then there is seemingly no problem with registration as an NSP other than there being another overlay of administration. If however registration of a NSP were to impose requirements upon the site owner or operator that were substantially different to requirements imposed upon other retirement villages (or similar) that were not embedded networks then the matter may have to be looked at because if some villages were discriminated against in a commercial sense vis a vis other villages then an unfair situation may have developed.

It appears that the guidelines that have been developed do not impose unfair conditions upon NSP and those guidelines can be embraced as providing a welcome statutory framework that is to the benefit of embedded networks and exempt selling.

From the perspective of retirement villages it may have been good if all retirement villages were covered by the same class however in practice while the majority of villages fall within Class NR3 there are a number of villages that fall under NR2 and that situation results in a shade of difference for the NR2 villages which are in all other cultural, community and operational senses the same as NR3 villages.

Despite the above quirk which cannot readily be overcome the classes of exemption proposed are clear and easily interpreted and we cannot see the need for any further exemption categories.

Q 4 & 5 Specific responses in respect to general conditions will be made later in this submission with most conditions being considered appropriate and some conditions considered to be not appropriate.

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Q 6 & 7 We consider the criteria for revocation of exemption to be appropriate and the process to be fair and reasonable.

Q 8 & 9 We support common standards for the accuracy of metering and the metering of all on-sold electricity.

It is important that options remain for the method of collecting data by NSP so that manual data collection (as opposed to AMR) can occur where appropriate for the circumstances of the embedded network.

NMIs should not be required for exempt customers in embedded networks because they would serve no purpose in the Classes N2, N3 and N4 where almost 100% of consumers choose to be exempt customers. In cases where consumers choose to purchase from a licensed retailer then a NMI can be created within MSATS for that consumer. To require NMI for exempt customers would be the tip of the tail wagging the whole dog with perhaps less than a percent of consumers likely to be affected and most exempt customers enjoying conditions that retailers would be unlikely to want to match, remembering also that the exempt customers enjoy price protection under the exempt selling guidelines.

Q 10 We endorse the AER conditions in respect to safety standards

Q 11 We agree that the cross-over condition will align the retail and network exemption and minimize the prospect of gaps arising in the on-selling framework.

Q 12 It is important that dispute resolution process apply to both retail and network activities and in this regard we have provided our submission to the DPI for jurisdictional consideration.

Q 13 It is necessary for aggregation to occur in certain situations within embedded networks for reasons of practicality and benefit to the exempt customer. An example may be a situation where an exempt customer may have hundreds of individual meters within an embedded network all charged to them (say a hotel within an EN complex) and by arrangement only requires a single summary invoice combining the usage of the many individually metered rooms. There should be no barriers to a common sense approach to such a situation therefore aggregation is supported.

Q 14 We agree that the registration arrangements should be ENO specific to ensure that any new ENO is fully aware of their obligations. Whether this process will only involve registration of the new ENO details rather than complete re-registration of the site has not been detailed at this time however we are assuming that the process would not be onerous in cases where site and process and procedural conditions are maintained and that only the ENO entity has changed.

Q 15 The AER metering conditions can perhaps be more explicit for exempt networks. Firstly we endorse the opinion expressed in the forum that SIRS do not represent a jurisdictional requirement and as such certain requirements of SIRS should not apply to NSP because the requirement may have more to do with convenience for the Distributors business than for the safety or operation of the embedded network. Other truly jurisdictional requirements are endorsed.

As discussed previously exempt retailers and NSP should have appropriate dispute resolution procedures in place and we have made separate submissions on jurisdictional basis in that regard.

The “reasonable accessible location” of meters condition is considered soft although we understand the challenge of being specific across jurisdictions in this matter when there are jurisdictional variations in respect to right of choice of retailer. Our view is that there should be free access for meter readers so that in the event that a consumer exercises their right of choice of retailer that the meter can be read by the Distributor and the consumers rights are not

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compromised. It is noted that not all jurisdictions have the same approach to right of choice however jurisdictions that currently do not strongly support ROC may in future change their approach and it may be better to take a position now that will stem the installation of inaccessible meters rather than continue to exacerbate a potential problem. The option to have AMR facilities does not help in these situations because if free access to the meter is not available then the consumers rights may be compromised and the consumer will be inconvenienced either because if they wish to exercise right of choice of retailer then there will be extra costs involved for the consumer to make changes so that the meter can be accessed or if the AMR system fails or is no longer available then inconvenience or loss of benefit to the consumer can result.

The latter comment in relation to AMR should be carefully noted because with changing technology obsolescence of AMR systems has frequently occurred resulting in stranded meters located within houses or garages and causing cost or inconvenience in cases where the consumer has to provide access for meter readers or even relocation of the meter.

Q 16 The proposed condition for metering in accordance with the applicable requirements for direct connection to the NEM in situations where there is energy generation is patently unfair and inappropriate.

Currently the PFIT is not paid by the government to exempt customers whilst the PFIT is paid by the government to retailers customers. That means that a commercially unsustainable PFIT (say 60 cents/kWh) cannot be paid by the exempt seller to exempt customers who have PV panels because it is completely unviable to do so. Therefore there be no compulsion for metering of exempt customers to be the same as for direct NEM connected customers if the feed in tariffs available to retailer customers is not available to exempt customers.

In Class NR3 (and similar) the residents themselves are the NSP and exempt seller and the residents choose to either not receive payment for the electricity exported from their house or may receive only the equivalent value of the imported electricity to the embedded network. The residents recognize that they use less imported electricity in their houses because of the PV electricity that they generate and they also realize that any surplus electricity also benefits them by reducing the amount of electricity that must be imported for common area use, which residents pay for anyway via their village fees.

In these situations to regulate that residents (or NSP which comprises the residents anyway) install meters with solar registers is unfair and can penalize the exempt customer. The exempt customer should have the right to either retain a traditional Type 6 meter where the disc can spin backwards thereby providing the consumer with a one for one credit for exported electricity, or if the consumer has an electronic meter that does not reverse when there is exported electricity then the consumer can decide whether the consumer wishes to pay for a new meter with a register to record exported electricity. If the village does not pay a feed in tariff or if the pay back period for installing a new meter is unattractive then the customer should be able to choose whether or not to purchase a meter with a solar register.

Classes NR3 and NR2 have been very proactive in the installation of solar panels with as many as 90% of residents in some villages installing PV. Many NSP could not afford to retrospectively abide by the proposed AER condition unless the government PFIT was extended to include exempt customers. If the payment of the PFIT was extended to exempt customers then it would be worthwhile for the residents themselves to pay for the meters to comply with any regulated requirement however while the current situation regarding non payment of PFIT to exempt customers remains then the proposed metering requirement could not apply retrospectively.

New embedded networks could be required to install meters with registers to record exported electricity (either gross or net as per jurisdictional requirements) however the proposed AER

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condition should also not compel NSP to install meters such as AIMRO smart meters in situations where on-site generation occurs, whether PV or other generation, when there may be better and more appropriate meters and metering systems available for the embedded network.

It seems absurd to require the NSP to seek details from the local distribution network for metering specifications for check meters in situations where generation may occur within the embedded network when better, more innovative and more appropriate compliant meters may be available for the NSP and the exempt consumers.

Q 17 Despite Classes NR3 and NR2 having high incidence of electric vehicles there does not seem to be a need for a specific exemption class for this purpose as the NSP can cater for that need by a variety of means within the embedded network.

Q 18 We agree with the AER approach to distribution loss factors.

Q 19 The approach proposed by AER to internal network charges cannot be supported by this submission on the grounds that it is unfair to the NSP and is unworkable on the basis of apportioning the external charges among exempt customers.

The proposal is unfair because it does not consider the cost to the NSP of maintaining the embedded network reticulation system. A single incident of physical failure within the embedded network can results in huge costs to the NSP the payment for which should be recovered by past and ongoing recovery from any difference between the external transmission and distribution costs and the internal distribution recoveries. The analogy of distribution business charging network charges to cover among other things their maintenance costs is no different to what occurs within the embedded network.

The proposal is also unfair because it does not reward the NSP for efficiencies and innovation introduced within the embedded network that can benefit the environment, the grid and the exempt consumer. An objective of an NSP is to lower the external costs so that exempt consumers can benefit. As mentioned because the NSP in classes NR3 and NR2 is frequently the residents themselves a community approach to reducing external network costs occurs and residents are proud of their efforts and should not be denied the opportunity for such self help.

The proposed AER approach is also unworkable. An example is where the external transmission and distribution charges apply to a HV supply however the supply of electricity to exempt customers is at LV and the customer profiles are very diverse. Firstly the NSP has higher costs because they must cater for the maintenance and operation of HV facilities as well as the LV reticulation and provision for those costs has to be accommodated within the difference between the external costs and the internal revenue. Equally impractical is the notion of apportioning the external cost when one customer may be a very large warehouse with lighting of a huge area comprising the majority of consumption whilst another customer has a very large forklift fleet which is the most prominent feature of their usage. One customer has large usage in kWh and very low demand in kVA whilst the other customer has very high demand for comparatively low usage. In such a situation how would external costs be apportioned, by kWh is unfair for one customer and by demand in kVA is unfair to the other customer.

Our suggested approach is “shadow pricing” whereby the applicable jurisdiction network tariff that would apply to the respective exempt customers is charged. Such an approach is transparent and reflects what the consumer would be charged for network costs were they a customer of a licensed retailer. It also addresses the issues raised above in that it caters for the usage profiles of different types of consumer and also contributes in proportion to the maintenance fund required for the NSP to provide for repairs and maintenance of the system. The NSP should charge no more than the applicable jurisdiction network tariff which means that the exempt customer is not disadvantaged.

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Of course Charge Group A is straight forward where the retail selling price is no more than the Standing Offer Bundled Price, which means in effect that shadow pricing occurs for the network component of the price and we support that approach.

Q 20 &21 As outlined in the previous point we do not agree with the view in the Exemption Guideline external network charges should be apportioned to each exempt customer and that “few, if any situations currently exist where” internal network charges should apply.

As previously stated Charge Group A is endorsed as the Standing Offer incorporates the external network price as a shadow price.

Other situations such as unbundled billing for large or specialized customers require shadow pricing to ensure that both the customer and the NSP are treated fairly and so that the customer can compare pricing within the embedded network to other pricing from licensed retailers. It is natural for the customer to expect that the regulated portion of their price will be at worst the same in each case and more than likely cheaper in the case of the embedded network where the exempt seller may not charge for items that Distributors and Licensed Retailers will charge for, such as metering and data collection. It then means that the customer can get a clear picture of the difference in the energy price between the exempt seller and licensed retailers. Such an approach is fair to both the NSP and the consumer.

Comments related to Charge Group E are not supported where the AER states that it is not appropriate for the NSP to retain the benefit of credits earned by the generator in this case houses with PV. The assumption is made here that the statement refers to the broader definition of exported energy rather than referring to RECS. We agree that RECS should belong to the generator.

In the case of houses in a retirement village the net excess generation can offset the cost of imported energy and hence reduce the cost of common area electricity. When that occurs the village as a whole benefits (because residents pay for the cost of their common area electricity via their monthly village service fees). As mentioned residents are themselves often the NSP and they view this use of credits (exported electricity) as being a community activity and they would not necessarily want those credits to be rebated to the houses to the detriment of the community.

We can understand that situations would exist where NSP should not “rip off” generators within the embedded networks but there must be the flexibility within an embedded network for community minded strategies to exist.

Q 22 & 23 The discussion paper has been well prepared and by and large demonstrates a very good appreciation of the situation. Our response is focused on the needs of a particular segment namely retirement village NSP and consumers.

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