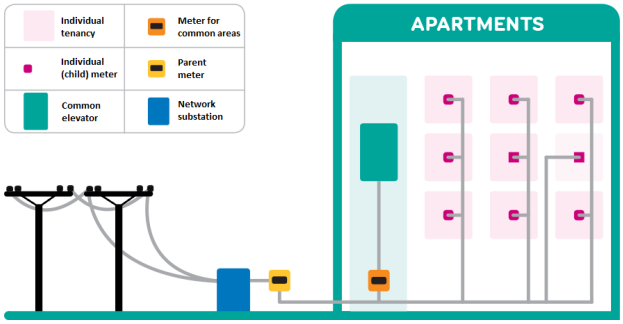
FACT SHEET:
EMBEDDED NETWORK TARIFFS

TasNetworks
Delivering your power

What is an embedded network?

Embedded networks are private networks which serve multiple premises and are located within, and connected to, our distribution network through a single connection point. Embedded network operators are usually commercial ventures that seek to aggregate multiple customers downstream of a single grid connection (or boundary/parent meter). This means they can take electricity from a network in bulk and on-sell it to the members of the embedded network.

Sites that might lend themselves to being set up as embedded networks include shopping centres, retirement villages, apartment complexes and caravan parks. In the case of a shopping centre set up as an embedded network, the shopping centre owner or managing agent would be the embedded network manager and the individual shops within the shopping centre the members of the embedded network.



Why an embedded network?

Embedded networks present a number of potential benefits for the owner and members of the embedded network.

Combining the electricity consumption of a number of end users potentially gives the embedded network manager greater bargaining power when negotiating power prices with electricity retailers than members of the network would have individually.

Having a single (or small number of) connection points between an embedded network and the distribution network also means that the embedded network manager may pay less in network connection charges than members of the embedded network would if they each paid for a connection with the network.

And operating an embedded network provides the embedded network manager with an additional income stream, through the onselling of electricity to the embedded network's members.

Not all shopping centres, retirement villages or caravan parks go down the embedded network path, however. Embedded networks may be common interstate, but in Tasmania there are currently restrictions on the use of parent/child meters which mean that embedded networks are quite rare.

However, developments in technology, an increase in the construction of apartments and the emergence of new business models may increase the number of embedded networks throughout the country, including Tasmania. Plus, in December 2017, a new rule made by the Australian Energy Market Commission (AEMC) will make it possible for members of an embedded network to choose their electricity retailer in the same way as a customer connected to the grid. And while full retail contestability was introduced a number of years ago, only one retailer currently services residential and small

business customers in Tasmania, which clearly limits customers in their choice of retailer.

What's involved in setting up an embedded network?

Embedded network managers usually have to be accredited and registered with the Australian Energy Market Operator (AEMO). They also need to comply with a range of regulatory obligations and standards, although the members of embedded networks don't get the same consumer protection as customers who are directly connected to the network.

So the costs and benefits need to be weighed up carefully before deciding to set up an embedded network. However, some embedded network managers are able to obtain exemptions from these requirements and, in Tasmania, a small number of embedded networks currently in operation have obtained the necessary exemptions.

What is TasNetworks doing for embedded networks?

TasNetworks recognises that there should be cost savings available to the operators of an embedded network from combining the purchasing power of multiple end users, in the form of a reduction in the delivered cost of the electricity supplied from the grid.

Without a purpose designed tariff for embedded networks, however, the members of an embedded network could potentially avoid making a cost reflective or equitable contribution towards the cost of the distribution network. Those avoided costs would end up being borne by other customers, effectively creating a cross-subsidy, and in keeping with the Distribution Pricing Rules in the National Electricity Rules, TasNetworks' aim is to set all our network tariffs in a way that is reflective of the cost of supplying all types of customers.

So, for the first time, we are introducing purpose designed tariffs for embedded networks that will ensure we have suitable pricing arrangements in place that protect equity outcomes for all of our customers, while still offering embedded network owners and their customers the scope to reduce their network charges overall.

We intend offering a single low voltage embedded tariff and another for embedded networks connecting to the grid at high voltage. This will provide proponents of this alternative energy supply model with consistent, predictable price signals about the value of their network connection, making it easier to weigh up the costs and benefits of setting up an embedded network.

The structure of both tariffs will feature a daily service charge (which reflects the number of connections or children within the embedded network) and two demand charges that reflect the embedded network's maximum demand for electricity recorded during each monthly billing period. One demand charge applies to the maximum demand recorded during peak periods on weekdays, the other to off-peak periods (including weekends).

The tariff will be introduced on a mandatory basis for all new embedded network customers from 1 July 2019.

For more information

To find out more visit our website **www.tasnetworks.com.au/customer-engagement/tariff-reform**.

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