

17 May 2017



Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Pearson

RPR0006: Review of Regulatory Arrangements for Embedded Networks

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission, on its consultation on the *Review of Regulatory Arrangements for Embedded Networks – Consultation Paper*. The attached submission is provided by Energy Queensland, on behalf of its related entities Energex Limited, Ergon Energy Corporation Limited and Ergon Energy Queensland.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Jenny Doyle".

Jenny Doyle
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Encl: Energy Queensland submission to the Consultation Paper

Energy Queensland

Submission to the Australian Energy
Market Commission

Review of Regulatory Arrangements for Embedded Networks – Consultation Paper

Energy Queensland Limited

17 May 2017



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1. Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on their *Review of regulatory arrangements for embedded networks* Consultation Paper (Consultation Paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy) and Ergon Energy Queensland Limited (EEQ). Energy Queensland is a recently established Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex and Ergon Energy; and
- A regional service delivery retailer, EEQ, limited in its scope of operations by jurisdictional legislation.

Energex manages an electricity distribution network and delivers world-class energy products and services to one of Australia's fastest growing communities – the South East Queensland region. Energex has been providing electricity to Queenslanders for more than 100 years and today Energex provides distribution services to both residential and business customers.

Ergon Energy manages an electricity distribution network across regional Queensland, a vast operating region that covers around 97 per cent of the state. Ergon Energy owns and operates 33 stand-alone power stations that provide electricity supply to isolated communities not connected to the main electricity grid. Its Retail business (EEQ) sells electricity to residential and business customers. Ergon Energy is actively involved in alternative energy generation solutions and is one of Australia's largest purchasers of renewable energy. Ergon Energy continues to innovate and think forward in order to meet the unique challenges faced in servicing regional Queensland.

Together, Energy Queensland is Australia's largest electricity distribution business, covering 1.7 million km² from Tweed Heads up to the Torres Strait and from Brisbane across to Birdsville; supplying 37 208 GWh of energy to 2.1 million connected customers across Queensland; selling electricity to 740 000 retail customers; and servicing over 4.8 million people.

Energy Queensland's vision is to "be at the core of how Queenslanders choose to use electricity" and it is focused on working across its portfolio of activities to deliver customers:

- Lower, more predictable, power bills while maintaining a safe and reliable supply;
- A great customer service experience;
- Greater control over their energy consumption; and
- Access to the next wave of energy linked innovative technologies and renewables.

Energy Queensland has provided commentary on questions raised in the Consultation Paper in the following section. Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

2. Specific Comments

2.1 Is the regulatory framework fit for purpose?

Energy Queensland notes that there are design and coverage challenges with embedded networks due to the diversity of physical arrangements for embedded customers across the National Electricity Market. Furthermore, Energy Queensland considers there are gaps in the current regulatory framework as it applies to embedded networks, which impacts on the applicability of the consumer protection framework, the ability for DNSPs to confidently comply with their regulatory obligations, and access to retail competition.

The owners and operators of private embedded networks generally manage these networks as incidental to their main business activities. Many reviews over the past decade or more have recognised the difficulties in applying a “one size fits all” approach to a set of customers that have different physical network configurations. Energy Queensland suggests that a pragmatic approach is to continue with the existing two tiered approach to regulation of embedded networks, with some amendments, as suggested below.

Energy Queensland notes that the final rule determination on the *Embedded Networks Rule* in 2015 highlighted the potential for lesser consumer protections for off-market embedded network customers and introduced a new role of embedded network manager to reduce the barriers for embedded network customers accessing competitive retailer services from authorised retailers. Therefore, Energy Queensland’s key concerns with the current regulatory framework for embedded networks is the ability for DNSPs to confidently comply with their regulatory obligations, particularly those relating to planned outage notifications and reliability standards. This stems from the current lack of consistency and/or obligation for the provision of data about the embedded network operation from the embedded network operator (or embedded network manager as applicable), meaning DNSPs often have no visibility of, among other things, life support customers or solar photovoltaic installations within the embedded network, which have the potential to impact the DNSP’s obligations in respect of the main connection point to its network.

Energy Queensland understands that DNSP obligations pertain only to the National Metering Identifier (NMI) which has a direct connection to the distribution network. As a DNSP has no visibility of, or relationship with, the connection points within the embedded network, there are no obligations in respect of these connections under the National Electricity Rules, National Electricity Law, National Energy Retail Rules (NERR) and National Energy Retail Law (i.e. these are not customers of the DNSP). Notwithstanding, in the eyes of the public, Energy Queensland’s DNSPs would ultimately be seen as responsible for any failing of the embedded network operator to correctly register a life support customer or provide a planned outage notification. Furthermore, while the general requirements of an exempt network service provider includes life support obligations which replicate those obligations contained in the NERR, these do not apply to all classes of exempt embedded network operator, and as such, could expose these vulnerable customers to further disadvantage.

Energy Queensland believes that the current exemption framework, which is essentially based on a self-assessment, would benefit from further oversight from the Australian Energy Regulator (AER) and that the AER should be afforded greater powers to approve and monitor exempt embedded network operators. Energy Queensland suggests that all embedded network operators should be required to register for exemption which is assessed by the AER. While the level or class of exemption, and associated conditions and obligations, should be based on a cost benefit analysis, registration of all exemptions will provide the AER with greater visibility of compliance with the exemption conditions. Moreover, Energy Queensland recommends each registered embedded network operator is provided with the conditions of their registration and associated obligations, in order to improve consumer protections and the ability for DNSPs to comply with their obligations. In particular, Energy Queensland recommends exempt embedded network operators (or embedded network managers as applicable) be required to provide the following information to DNSP as a minimum:

- Embedded network operator name and address
- Embedded network description
- Parent NMI Financially Responsible Market Participant
- Maximum load including total load of all embedded NMIs
- Existence of life support customers
- Existence of embedded generation (solar)

The following information would also be useful for DNSPs in order to fulfil their obligations:

- Address range on the embedded network (e.g. housing estate with many street addresses)
- Number of meters / NMIs within the embedded network
- On-market or off-market NMIs

Energy Queensland would welcome further discussion on this requirement and also which party would be responsible for the provision of the information to the embedded network operator – the retailer on creation of the account, the DNSP on creation of the embedded network ID code, the Australian Energy Market Operator once the code has been sent to the market, or the AER on registration of the exemption.

Finally, Energy Queensland would support increasing the powers of the AER to enable them to audit all exempt embedded network operators to ensure compliance with their registration as outlined above.

2.2 Can access to retail market offers be improved?

Energy Queensland notes that access to retail market offers, and retail competition for small embedded network customers in regional areas is limited in Queensland due to existing jurisdictional legislation. Notwithstanding, embedded network customers in Queensland are protected to the extent that prices that embedded network operators can charge are limited either to the cost of supply or to the applicable standing offer, depending on the circumstance. This

ensures that while there may not be effective competition for customers in some circumstances they are no worse off financially.

Energy Queensland is unable to comment on examples or cases of small or large embedded network customers' experience in wishing to go on-market.

Energy Queensland understands the Queensland Government is currently reviewing the regulatory arrangements in Queensland and Energy Queensland is working with the relevant government departments as required. Progress of this review is a matter for the Queensland Government.

2.3 What consumer protections should apply to embedded network customers?

On-market embedded network customers

As noted above, Energy Queensland is comfortable with a two tier approach to regulation of embedded network arrangements. We recommend that the AEMC ensure that:

- existence of life support customers are identified with the DNSP so that outages can be planned appropriately. While as noted earlier in this submission, DNSP obligations only apply in respect of the connection points with its network, Energy Queensland considers it necessary from a customer protections perspective, that where life support customers are connected within an embedded network, the embedded network operator (or embedded network managers as applicable) be required to register the embedded network connection as one including life support ;
- that electrical safety is assured;
- concessions are applied to the appropriate customers; and
- prices to end users are equivalent to other customers on the broader network.

Embedded network operators should be regularly audited to ensure that these key conditions are ensured for the end use consumer.

Off-market embedded network customers

Energy Queensland is unable to comment as to what the current level of consumer protection is provided to off-market embedded network customers, as it does not have visibility of any child NMI within the embedded network. However, we do recommend that the criteria listed above for on-market customers should also apply to off market customers.