



Review of regulatory arrangements for embedded networks

The AEMC has commenced a review of regulatory arrangements for embedded networks under the National Energy Retail Law (NERL) and National Energy Retail Rules (NERR). The Terms of Reference was received from the COAG Energy Council in December 2016.

What are embedded networks?

Embedded networks are private electricity networks which serve multiple premises and are located within, and connected to, a distribution or transmission system through a parent connection point in the National Electricity Market.

While an embedded network is within, and connected to, a distribution or transmission system, a party other than the registered local network service provider owns and operates the local area of the network that customers connect to. This party is known as an embedded network operator and is usually the embedded network customers' retailer as well.

Common examples of embedded networks include shopping centres, retirement villages, caravan parks, apartment blocks and office buildings. Embedded networks may occur as greenfield or brownfield developments and may, or may not, use distributed energy resources such as solar photovoltaic panels, battery storage, or diesel generators.

Purpose

Consumers could potentially benefit if a number of issues in regulatory arrangements for embedded networks are addressed. These issues arise because the NERL and NERR are designed on the basis of the relationships that typically exist between a customer, its retailer and its local network service provider. These relationships are different for embedded network customers because there is no local network service provider. Instead there is an embedded network operator.

The purpose of the review is to identify and assess any issues for embedded network customers under the NERL and NERR and identify appropriate solutions. This will be informed by the experiences of embedded network customers.

The review will determine whether current regulatory arrangements under the NERL and NERR for embedded network customers remain appropriate. The AEMC will consider:

- regulatory arrangements for exempt network service providers and exempt retailers
- customer protections for embedded network customers
- barriers to embedded network customers accessing competitive retail energy offers.

The review will also consider broader issues related to embedded networks in the National Electricity Law, National Electricity Rules, National Gas Law, National Gas Rules and jurisdictional instruments. We will have regard to the National Energy Retail Objective and the COAG Energy Council's broader work on energy market transformation.

The AEMC will recommend to the COAG Energy Council any further work required, if necessary, including any changes to the NERL and NERR.

Process and timeframe

The AEMC will consult with stakeholders throughout the review process and welcomes stakeholders to contact the project team at any time.

A consultation paper will be published in April 2017, which will outline key issues and questions for stakeholders and call for written submissions.

A draft report will be published by 15 September 2017 and a final report by December 2017.

The AEMC's 2017 Retail Energy Competition Review, which will be published by 30 June, will also consider the increasing number of embedded networks in the market and the associated issues for competition and consumers.

Background

In 2014 the Australian Energy Market Operator submitted a rule change request related to embedded networks under the National Electricity Law (NEL) setting out proposed changes to the National Electricity Rules (NER) to make it easier for embedded network customers to change retailer. The rule change request stemmed from recommendations in the AEMC's Energy Market Arrangements for Electric and Natural Gas Vehicles and Power of Choice reviews.

A number of substantial retail market issues were raised during the AEMC's work on the rule change. Due to the limited scope of the rule change request, the Commission did not have the power to make changes to the NER. The Commission also considered that further analysis and consultation was required on the retail market issues raised by embedded networks, including potential NERL changes.

In the Final Rule Determination, published in December 2015, the AEMC recommended that the COAG Energy Council request the Commission to undertake a review of the NERL and NERR to identify and assess the issues regarding the arrangements for embedded network customers. The Commission also recommended that the COAG Energy Council consider whether this review should consider broader embedded network issues.

The Terms of Reference were received from the COAG Energy Council in December 2016 and are available on the AEMC website.

A number of potential issues in relation to the NERL and NERR were identified in the Terms of Reference and in the AEMC's Final Rule Determination. The review will consider these and other issues raised by stakeholders.

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