



INFORMATION

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Updating the regulatory frameworks for embedded networks

The AEMC has published the draft report for its review into *Updating the regulatory frameworks for embedded networks to implement a new regulatory regime for embedded networks*

The draft report sets out detailed amendments to national energy laws and rules to establish a new regulatory regime that will improve consumer protections and access to retail market competition for embedded network customers.

Context

Embedded networks are private electricity networks that are owned, controlled or operated by exempt network service providers. They are connected to a distribution or transmission network through a parent connection point, and serve multiple customers at child connection points. Common examples of embedded networks include shopping centres, retirement villages, apartment complexes and caravan parks.

Currently, service providers for embedded networks must gain an exemption from the Australian Energy Regulator (AER) from the requirement to register as a network service provider. If this party wishes to on-sell energy to customers within the embedded network it must also hold a retailer authorisation from the AER or be exempted from this requirement.

The COAG Energy Council requested that the AEMC undertake a review of the regulatory arrangements for embedded networks and, in December 2017, the AEMC published the final report of the *Review of regulatory arrangements for embedded networks (2017 Review)*. The 2017 Review found that, under the current regulatory regime, most embedded network customers are not able to access retail competition or important consumer protections. The review also found that the AER's monitoring and enforcement powers in relation to embedded networks are insufficient, leading to a lack of clarity whether embedded network operators are meeting their obligations as suppliers of an essential service. As such, the AEMC concluded that the existing regulatory frameworks for embedded networks are no longer fit for purpose.

Currently, over 4,000 embedded electricity networks are registered as exempt across the National Electricity Market (NEM). However, as this number does not include smaller embedded networks deemed to be exempt, the total number of embedded networks is likely to be much greater. In 2017, the AEMC estimated that there could be over 200,000 embedded network customers, but stakeholders have recently suggested that the current amount could be much higher than this - perhaps in excess of half a million. Therefore, any changes to embedded network arrangements could benefit a large number of customers.

Providing appropriate protections to customers in embedded networks

The framework amendments set out in the draft report are designed to allow the COAG Energy Council to deliver on the recommendations made by the AEMC in the 2017 Review. By extending the coverage of national energy laws and rules to include most new embedded networks, important consumer protections consistent with those provided to customers directly connected to the grid will be extended to embedded network customers. The Commission's view is that consumer protections should be driven by the needs of customers and not the business model of suppliers.

The key outcomes of the new arrangements for consumers include:

- providing customers in embedded networks with improved consumer protections in areas such as disconnections, billing information, payment options and notification of planned

outages, and new protections such as access to customer hardship programs and a retailer of last resort scheme

- enhancing the ability of the AER to monitor and enforce the compliance of sellers in embedded networks with the obligations to provide these protections
- improved industry financial and data transfer processes to help more retailers compete in embedded networks, giving customers more choice and access to competitively-priced market offers
- giving embedded network customers market-compliant meters that are registered with the Australian Energy Market Operator (AEMO) to make it easier for customers to switch retailer and get better information about their usage and bills
- give embedded network customers the same rights as grid-connected customers when upgrading their connections eg when installing electric vehicle charging stations within apartment blocks
- through changes recommended to state governments, improve access to concession schemes and emergency financial assistance, provide access to independent dispute resolution and introduce reliability protections

Proposed framework for embedded networks

The draft report presents and explains the package of legislative changes developed by the AEMC to implement the recommendations made in the 2017 Review and deliver the benefits set out above. Proposed drafting amendments to the National Electricity Rules (NER) and National Energy Retail Rules (NERR), and drafting instructions for the National Electricity Law (NEL) and National Energy Retail Law (NERL), have been published to accompany the report.

At this stage, the Commission is recommending that the new regime should only fully apply to **new** embedded networks that are established following its introduction, but is keen to receive feedback from stakeholders on the extent to which different types of existing embedded networks should be transitioned into the new arrangements.

Provide direct oversight of the operation of embedded networks

Under the new framework, for most new embedded networks, network service providers and on-sellers would no longer be eligible to be exempted from the requirements of the national energy laws and rules. Embedded network service providers would be required to register with AEMO, and would become subject to many of the requirements placed on Distribution Network Service Providers (DNSPs). Electricity on-sellers would be required to obtain a form of retailer authorisation from the AER, and would be subject to most of the requirements placed on existing authorised retailers.

Exemptions would only be retained for a small sub-set of network service providers and energy sellers, where the need for regulatory oversight is low. Exempt embedded network activities would include supply to some infrastructure sectors, electric vehicle charging stations, and temporary accommodation. Narrowing the scope of the exemption framework is necessary to provide permanent customers with consumer protections consistent with supply of an essential service. The Commission acknowledges that, in some cases, this may make the installation of an embedded network less attractive to property developers; those developers would still have the option of providing standard supply arrangements.

Extend consumer protections to embedded network customers

Requiring on-sellers to obtain a form of authorisation from the AER will allow consumer protections for embedded network customers to be closely aligned with those of standard supply customers under the NERL and NERR. While the creation of a separate class of authorised retailer would allow for a reduced set of protections, the Commission has concluded that almost all of the existing protections should apply. However, in some cases - such as notifications of supply interruptions and life support arrangements - existing processes will need to be amended to accommodate the additional relationships present in embedded networks. Moreover, an obligation to provide connection services in embedded networks would be applied by requiring embedded network service providers to offer new connections or connection alterations within the area served by their embedded network.

Improve access to retail market competition for embedded network customers

Under the new regime, NEM metering arrangements and market systems for standard supply customers would be extended to embedded network customers. These include the appointment of a metering coordinator at child connection points to enable customers to switch retailers easily. All customers at child connection points would be registered with AEMO so that they are visible in AEMO's market systems and 'discoverable' to all retailers, to make them competitive offers. To further support retail competition, network billing arrangements would require embedded network service providers to use standardised billing processes and data formats to facilitate transactions with retailers.

Next steps

The Commission requests written submissions from stakeholders on the draft package of framework changes presented in the draft report by 14 March 2019.

Prior to the publication of the final report, the AEMC will progress issues related to:

- the costs and benefits of transitioning legacy embedded networks to the new framework
- the case for developing a national framework for gas embedded networks and its scope
- interfaces with jurisdictional regulation that will require further consideration as part of the implementation process.

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31 January 2019