



14/03/2019

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Australian Energy Market Commission
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RE: Updating the Regulatory Frameworks for Embedded Networks (EMO0036)

Locality Planning Energy (LPE) welcome the opportunity to provide a submission on the Australian Energy Market Commission's (AEMC) draft package of framework changes for embedded networks.

LPE Background

LPE is an authorised Australian Energy Retailer and one of the leading retailers in the embedded network sector, currently supporting over 20,000 customers with most of these customers within embedded networks throughout Queensland and New South Wales. LPE specialises in electricity sales to embedded networks and have grown into the leading embedded network retailer in South East Queensland, successfully winning over 250 embedded network sites through a consultative process ensuring consumer satisfaction and informed customer consent.

LPE considers an embedded network to be an exclusive opportunity, for those eligible, to receive a better value proposition than that of a standard market offer. LPE provides consumer protections and services for all customers, irrespective of the position of the service point, be it on or off-market. LPE customers can access rates that are lower than those available on-market, hardship policies and concessions. LPE is also a full scheme participant of EWOQ and EWON.

Position on Draft Report

LPE agree that a consumer within an embedded network should be covered by the same consumer protections as a customer in an on-market arrangement and, furthermore, consumers within the embedded network should be provided a value proposition that is better than what is available to an on-market customer.

To ensure these optimum outcomes for consumers, more accountability is required to ensure the current systems are appropriately enforced. Review of exempt sellers and service providers acting for exempt sellers is essential to improving consumer outcomes.

The recommendations within the updated framework do not address the fact that obligations for retailers are sound. The standards need to be uniform for all embedded network suppliers, to ensure accountability regarding consumer concerns and protections.

There appears to be a broad assumption within the framework that all embedded network customers are dissatisfied and disadvantaged. While the current trend is that embedded network service providers are taking advantage of the unregulated market, LPE challenges this assumption. LPE acknowledge that customers who enter into an established embedded network may appear to be disadvantaged as they are unable to readily compare retailers or rates, however, LPE believe if the embedded network is adequately and successfully managed to an on-market standard, these concerns around value and protections are invalid. Moreover, the primary benefit of an embedded network to consumers, are the significant savings achieved through the aggregation of network costs.



Registration and Authorisation Regime for Embedded Networks

Regarding registrations and authorisations for embedded networks, LPE suggest that rather than developing additional layers through the creation of new participants roles, there should be a focus on improving the regulation and enforcement of the current systems. AEMC recommendation doesn't necessarily guarantee more consumer protection or simplify the process, on the contrary, adding complexity to the system will increase management requirements and administrative burden and, in turn, increase costs for the service provider and ultimately for the consumer.

The suggestion of creating additional roles and credentials reinforces current poor behaviour. The application and approvals process need to be held to a higher standard. For example, in a retailer application, the applicants need to demonstrate their capability to adhere to requirements. There needs to be better enforcement of current roles and ensure all sellers of electricity are held to the standard equivalent to a retailer- the role and responsibility of a retailer is an onerous task- as it should be.

The improvement of exemption management could create a positive barrier to exemption application, by ensuring exemptions are only approved to eligible candidates. To raise service levels, LPE suggest the stringent requirements of ombudsmen schemes should be met, as well as state concession applications. There should be no differentiation between on or off-market energy sellers, the customer should have the same level of protection, benefit and service.

A major concern is the lack of recognition of off-market retailers for concessions which creates a detrimental position for customers within embedded networks, this can easily be resolved by holding all operators within embedded networks to the required level of on-market retailers. No changes to the systems are required, simply a uniform responsibility for all energy sellers.

This AEMC recommendation appears to bypass the underlying issues, LPE disagree that additional roles are required, rather, the retail exemption process needs to be formalised to strengthen guidelines and the focus needs to be to bring regulations up to par for exempted sellers and the service providers they engage to match that of a retailer.

Market and System Integration

LPE question the broad and somewhat inaccurate assumption regarding consumer protection issues relating to the safety and accuracy of meter data and billing within embedded networks. The majority of embedded networks transition from LNSP managed metering where the accuracy and safety compliance are adequate. If there are safety or accuracy issues when the meter is on-market, the meter responsibility is simply delegated to the embedded network service provider to maintain metering standards. LPE maintain that private metering is the most cost effective and accurate way to gain metering data when ENSP holds this **as an obligation**, improving the service.

The introduction of a metering coordinator role for embedded network operators will increase the cost of implementing the embedded network and become detrimental to the value of this supply model. This cost is unnecessary as there should be no issues regarding metering. The purpose of an embedded network is to provide a better value proposition to consumers that is not available on-market. Increasing the cost by adding unnecessary layers would be counterintuitive. LPE must emphasise, if the embedded network is well managed, this suggested change would be irrelevant and detrimental.

The issue of access for consumers to on-market retailers could have been addressed by the introduction of the embedded network manager role, yet this is cumbersome and not viable in its current form. The mechanism is also not viable for a retailer to present an energy only offer.



Network Billing for On-Market Embedded Network Customers

LPE are proud to share their business model with AEMC as a part of this consideration, which ensures embedded network customers are given a better rate than can be achieved through an on-market arrangement, if this is not the case, an embedded network is not viable option.

A difficulty for network billing, for on-market embedded network customers, is that there are separate entities involved. This is creating confusion as the majority of embedded networks have network operators and sellers as separate entities. It must be emphasised this does not represent the LPE business model, nor our operating capacity.

LPE recognises that the network billing for on-market embedded network customers is a difficult area and is in need of improvement. Addressing this specific area, however, isn't the solution. It is the bigger task at hand, relating to the management and accountability of embedded network service providers, that needs to be recognised and addressed.

The assumption made around transparent and consistent network charges is invalid, providing the embedded network is well managed, as the very purpose of an embedded network is to aggregate network charges and therefore reduce costs. Adding levels of complexity to an embedded network by introducing full cost charges defeats the purpose of the embedded network. Ultimately, confusion will arise for consumers if the retailer charges full energy rates and shadow billing for network charges from another entity within the same embedded network.

Connection and Network Charging Framework

The suggestion of additional steps to the current system will incur additional costs to manage. Fundamentally, with an increase in complexity, there will be an increase in management costs and ultimately this will be to the detriment of the embedded network value proposition for the consumer. Between the cost of service to provide and sell to the customer there must be a level of arbitrage, however, LPE understand the attempt to remove profiteering capacities.

A simple change to the guidelines referenced below would see embedded network service providers required to provide a rate below the lowest market offer available in the jurisdiction and will self-regulate the consumers rates and will assist ease of enforcement. The implementation of the regulation will create competition and therefore a better value proposition for the consumer. Our suggestion is to create a rule specifically for exempt sellers/ENSP that states they must sell at a rate which is equal to or lower than the best market rate, this will also remove business models that cannot comply. Please note, the rule as it stands is effectively obsolete with the discussions around standing offers.

The suggested change to the AER (Retail) Exception Selling Guideline (Version 5 released March 2018);

Appendix A2 Condition 07: "An exempt person must not charge the exempt customer tariffs higher than the standing offer price that would be charged by the relevant local area retailer for new connections, if the local area retailer were to supply that quantity, or estimated quantity, of energy directly to the premises of the exempt customer"

Appendix E Section 3.3 "To ensure that small customers receive some price protection, condition 7 provides that an exempt seller must not charge small customers more than the local area retailer's standing offer tariff rate for similar supply.⁵⁸ This applies separately to all components of the tariff. For example, the supply charge imposed by the exempt seller must not exceed the supply charge imposed by the local area retailer, and same for the usage charge"

LPE recommend the following updates, to change the reference from "standing offer" to "best market offer" and update, "relevant local area retailer" to "a local retailer" as well as updating "exempt person" to "embedded network service provider" which would see the rule read;



"An exempt person embedded network service provider must not charge the exempt customer tariffs higher than the standing offer price best market rate available that would be charged by the relevant local area retailer a local retailer for new connections, if the local area retailer were to supply that quantity, or estimated quantity, of energy directly to the premises of the exempt customer"

Updating Consumer Protections in the NERL and NERR

The suggestion for consumer protections to be improved is a valid point which LPE agrees with. LPE recognise that the current consumer protections are already at a high standard for on-market customers, the area needing improvement is the responsibility of the embedded network service providers to adhere to the same standard as on-market retailers. Implementing an improved regulatory regime for service providers will require exempt sellers to engage a compliant service provider. LPE stand by the opinion that all consumers should be eligible for standard market protections. Lowering the standards for retailers is counterintuitive, rather, the standard must be enforced consistently to ensure tangible benefits to the consumer.

For LPE, customer protections and customer service are synonymous. All mechanisms can be enforced for all embedded network service providers; however, the role change isn't required. Increases to the standards of ENSP to make the process clear on requirements and remove any non-compliant models are needed. For example, the ombudsman already has the high standards, LPE don't suggest a mechanism where current systems need to be amended and standards lowered, on the contrary, LPE ask to maintain these current standards for the best consumer outcome and request all service providers to be held to the standard of retailers. All service providers must be accountable to these standards and meet the obligations required to provide service.

Conclusion

The introduction of the suggested framework changes will have little effect on LPE customers or customer interactions, as LPE upholds the retailer obligations and standards and our customers' service point position.


LPE is sympathetic to efforts to improve the framework for embedded networks, but these should be addressed from a higher vantage point rather than focusing on increasing the complexity around embedded networks, which are simple mechanisms to provide a beneficial value proposition.

The recommendations within the updated framework do not address the fact that the obligations in place need to be lifted and embedded network service providers need to be held accountable. These counterproductive recommendations that add complexity and remove the benefit of embedded networks do not address the underlying issues or reduce the cost of electricity.

LPE provides this submission to AEMC in the spirit of collaboration and support for positive developments for consumers within embedded networks. LPE strongly appreciate AEMC's commitment to working with stakeholders within the industry to fostering effective systems for embedded networks.

LPE look forward to participating in the ongoing consultation process and would encourage consideration of the addressed points. If you wish to discuss any aspect of this submission further, please contact feel free to contact me directly.

Sincerely,


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