



14 March 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically: www.aemc.gov.au

Dear Mr Pierce

Updating the Regulatory Frameworks for Embedded Networks

Origin Energy appreciates the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC) Updating the regulatory frameworks for embedded networks, Draft report (EMO0036).

Origin strongly supports the AEMC's proposal to elevate embedded networks into the national framework. We believe that a market framework that allows consumers to easily choose the retail product that best meets their needs will drive competition and efficiency.

Embedded networks are becoming an increasingly common alternative to standard supply arrangements in the NEM and the market is increasingly seeing a range of energy management solutions for embedded network developments. It is important that the new framework supports innovation and choice. However, it is also important for the framework to recognise the unique characteristics of embedded networks and how benefits can accrue to consumers.

One of the key objectives ought to be removing distortions to ensure that all participants face the same regulatory obligations and oversight. This will remove biases towards specific commercial arrangements and operating models that may deliver sub-optimal or inefficient outcomes. The application of a level playing field should apply equally to off-market and on-market arrangements.

It is also important to recognise that consumer choice and the benefits of that choice can be achieved through different models of delivery.

Embedded networks offer small customers the potential to access benefits through a scale purchase from a NEM retailer. These benefits can deliver potentially lower cost metering and related services as well as some embedded networks (such as the embedded networks Origin services) offering customers evergreen contracts at the best generally available market rate. For this reason, it is important that the new framework ensures that customers in an embedded network are provided with the opportunity to make an informed decision on whether to be on-market or off-market customers.

Where legacy arrangements provide consumers with a service or benefit that exceeds what they could otherwise access, it is important that these benefits are preserved. The new framework should also recognise that consumers and existing embedded network operators have made investments in good faith and they should not be unduly harmed under any new arrangement. Careful consideration needs to be given to how, and when, legacy embedded networks are transitioned to the new regime.

Origin's responses to specific issues raised by the AEMC are provided at Attachment A.

We look forward to working with the AEMC as it finalises its framework ahead of its recommended changes to the COAG Energy Council for endorsement. If you have any questions regarding this submission, please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

Jonathan O'Kane
Manager, Embedded Networks & New Property Channel



Attachment A

Registration and Authorisation Regime for Embedded Networks

Origin supports the proposal to establish an ENSP and an off-market retailer as market participants requiring authorisation. These arrangements should apply to future embedded networks. To avoid the duplication of roles and to simplify the existing arrangements, we agree that the future role of the Embedded Network Manager (ENM) should be subsumed under the role of the ENSP.

As we understand, the embedded network owner will appoint an ENSP who in turn will nominate a retailer who will operate as the local embedded network retailer. However, the sequencing of appointments during and after the construction phase and how and by whom a customer will be made an offer in the first instance is not sufficiently clear.

Providing customers with choice is a fundamental aspect of any competitive market design. This should allow the customer to make a fully informed decision about what product best suits their needs.

One of the significant benefits for a customer remaining off-market in an embedded network is to obtain the benefits of scale purchase. These benefits accrue in a number of ways. First, aggregating the load within an embedded network can often result in better ongoing contract terms such as evergreen contracts at the best available market rate; enabling the customer to reduce search costs. Second, enabling metering services to be provided at scale will result in lower cost of both the installation of the meter as well as the ongoing management of metering related services.

It is important that customers in embedded networks are afforded the opportunity to understand the differences in prices and services between an off-market embedded network versus an on-market or mixed embedded network. This will enable the customer and the Owners Corporation to make informed decisions.

The framework needs to ensure that the customer will be afforded this opportunity before entering into a contract, otherwise the benefits of an off-market model may be diminished. We believe that where the meter is off-market in an embedded network, then that retailer should be obliged to inform the customer that their premises are within an embedded network and that the ENSP may be able to offer the customer a better offer. Cooling-off periods do not provide sufficient time, nor do they provide customers with the necessary information to make a proper, informed decision.

This also provides a framework that does not bias one service offering over another. In addition, the framework needs to make it clear that if an embedded network customer chooses an on-market offer, they will be permitted to revert to an off-market if they choose to in the future.

Market and System Integration

The absence of on-market meters in legacy networks has been a significant barrier to enabling consumers to choose their preferred supply arrangement and provider. To address this, we support changes in the NER to extend the application of the definitions of a 'registered participant' and a FRMP in Chapter 7 of the NER to apply to off-market retailers that are selling electricity to off-market child connection points. This means that before starting to sell electricity in respect of a connection point, the off-market retailer must ensure that: 1) an MC is appointed; 2) the connection point has a metering installation; and 3) prior to registration a NMI has been obtained.

The proposed changes will also require an ENSP to:

- apply to AEMO for NMIs for all child connection points;
- register the NMI for connection points with AEMO (i.e. through MSATS); and
- maintain information in the metering register (i.e. NMI standing data kept in MSATS).

These arrangements will result in the off-market child connection point being discoverable. However, it is not clear whether the status of the NMI will identify that it is in an embedded network. This is important because there is value in the retailer knowing where the customer is located to allow it to make an informed offer to the customer, and also in order for the retailer to inform the customer that the ENSP may be able to provide the customer a better offer because the meter forms part of an embedded network.

In addition, we agree that ENSPs and off-market retailers ought to become B2B parties under the B2B framework and be permitted to use B2B communications if they acquire accreditation with AEMO.

We also agree that electricity losses are not of a sufficient magnitude to warrant calculating a DLF for child connection points and that it would be sensible to apply the AER's current standard loss factor approach (or a relevant alternative methodology) in embedded networks with a total load less than 10MW peak demand or 40GWh per annum.

Network Billing for On-Market Embedded Network Customers

We consider that the ENSP ought to be responsible for billing the retailer using a shadow network tariff for on-market customers equal to the tariff that the customer would have paid if they were directly connected to the distribution network. We agree that to provide clarity regarding how this will be applied that it is appropriate for AEMO to establish shadow network charging procedures for the billing and payment to standardise arrangements between NEM retailers and ENSPs.

Because of this arrangement, we consider that it is appropriate to extend the existing network credit support arrangements to retailers selling to on-market customers in embedded networks.

Connection and Network Charging Framework

We believe it is essential that an ENSP make it clear how and under what terms basic connection services will be provided. We also believe that it is appropriate for the AER to establish the embedded network connection policy and a model standing offer but that the ENSP can propose an alternative model standing offer to the AER for approval.

We consider that the connection policy ought to only apply to prospective connections to a new embedded network.

Updating Consumer protections in the NERL and NERR

We support the extension of the consumer protections that currently apply to NEM retailers extending to embedded networks.

To recognise the sequence of timing relating to DNSP planned interruption notifications, we consider that it is appropriate for the ENSP to provide a notification to each affected customer in its embedded network within one business day of receipt of the notification of the interruption. We also consider that it is appropriate that for life support customers that these are registered with the ENSP and DNSP consistent with the NER and NERR and that retailers, DNSPs and ENSPs advise life support customers of any planned interruptions (retailer, distribution or embedded network) and in any event within one day of becoming aware of the proposed interruption.

In terms of price notifications, to the extent that a NEM retailer at the parent connection point varies the prices the off-market retailer is paying more frequently than once every six months, it is appropriate to allow the off-market retailer to vary its tariffs more frequently than once every six months.

We also agree that the default ROLR from an off-market connection point should be the FRMP at the primary parent connection point.

Legacy Embedded Networks

We recognise that there are challenges in applying the new framework to legacy networks because of physical constraints around metering and to ensure that consumers or other participants who made investments in good faith are not unduly harmed under any new arrangement.

In addition, in many embedded networks there are genuine impediments to the ability to upgrade off-market meters. In many networks, market-meters will not physically fit where the existing off-market meter is located noting that most embedded network meters are installed on meter panels that accommodate multiple meters. In these cases, upgrading metering infrastructure will most likely be required to transition to the new framework and this will be costly, and any upgrade is likely to exceed the potential benefits.

In addition, imposing restrictions on pricing such as requiring that a customer in a legacy network pays a price no higher than a generally available or DMO price would ensure appropriate protection for the customer without imposing unnecessary costs on the embedded network to transition to the new arrangements; costs which would ultimately be borne by the customer.

Retail Price Regulation

We agree that a price no greater than the Standing Offer price should apply to all off-market embedded network customers in legacy and new embedded networks.

This will provide an appropriate safety net for these customers but equally would not restrict these customer from accessing a better market offer, subject to metering constraints.