



2 July 2015

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Electronic Lodgement – ERC0179

Dear Mr Piece

RE: Consultation Paper – Embedded Networks Rule

AusNet Services appreciates the opportunity to respond on the Consultation Paper – National Electricity Amendment (Embedded Networks), Rule 2015.

AEMO has requested a rule change to introduce an embedded network manager (ENM) service provider role into the NER to facilitate access to retailer of choice by establishing the role of the ENM. The new ENM role will need to comply with some of the Chapter 7 Procedures at the transaction level but has no requirements in relation to the operations of the embedded network relating to connection, supply and energisation. Where retail customers within the embedded network select their own retailer of choice, the ENM will need to assign a NMI and create/maintain the standing data for that NMI in CATS.

AusNet Services supports the establishment of a new fully contestable role of ENM to facilitate access to retailer of choice in eligible jurisdictions and have provided comments on the AEMC assessment framework and responses to the questions in the attachment. In summary:

- The ENM role should be open to as many market entrants as possible to drive economic efficient prices. Therefore all registered participants including distribution networks should be able to compete in providing ENM services.
- AEMO's proposed Rule changes represent an absolute minimum set of changes to facilitate access retailer of choice. However we consider some additional elements are necessary to fully support customers within embedded networks i.e. manage outages and provide safe operational arrangements.
- All non-registered embedded networks in eligible jurisdictions, other than holiday caravan parks and other small incidental supplies, should be required to appoint an ENM to greater facilitate access to retailer of choice, promote greater competition amongst ENM providers, and ensure that consumers within the embedded network are appropriately served in terms of outage notifications and life support registration
- The accreditation requirements for dispute resolution process should extend to consumers within the embedded network and registered participants, and include requirements for the full suite of services.

- In our view, it would not be reasonable to allow the proposed transitional provision in deeming Rules consultation steps to be already undertaken, impact of Procedural changes on systems and processes for registered participants.
- The implementation of the Embedded Network Rule change should be aligned with the expanding competition in metering Rule change, if this is not possible then aligning it with the Multiple Trading Relationship Rule change will also produce synergies.
- The NERR should establish obligations for de-energisations and re-energisations within an embedded network and obligations for the retail bill to include the ENO's faults and emergency number.

AusNet Services welcomes the opportunity to participate in this rule change development and looks forward to the opportunity to participate in the development of the ENM service level procedures and associated guidelines.

Should you have any comments in relation to this response please do not hesitate to contact Peter Ellis on 03 9695 6629.

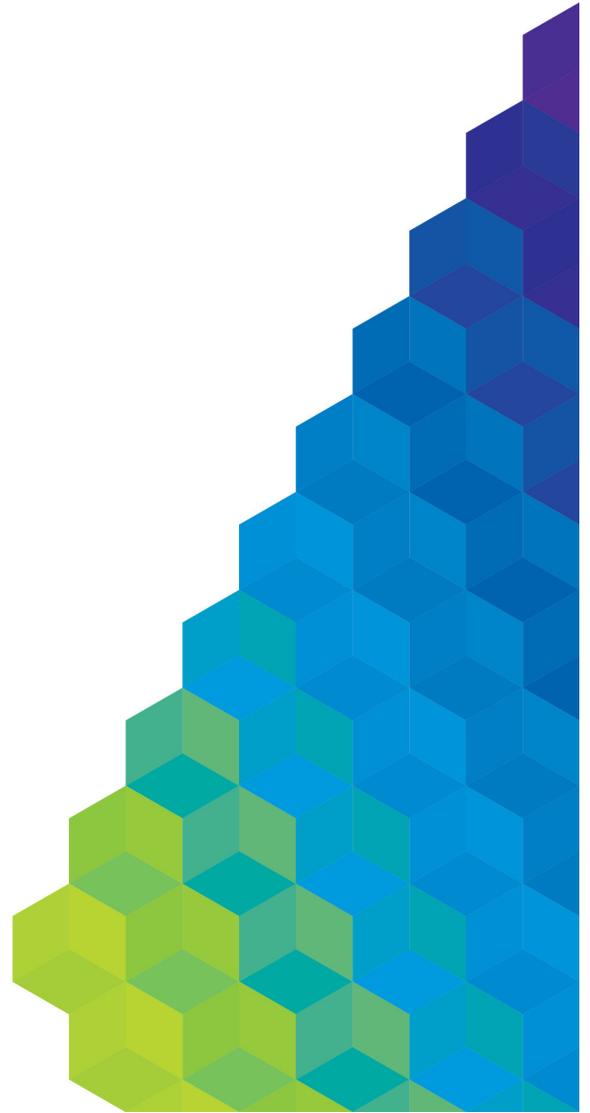
Sincerely,



Kelvin Gebert
Regulatory Frameworks Manager
AusNet Services

Embedded networks draft Rule change

Response to Consultation paper



Submission to the AEMC on embedded networks draft Rule change

Table of Contents

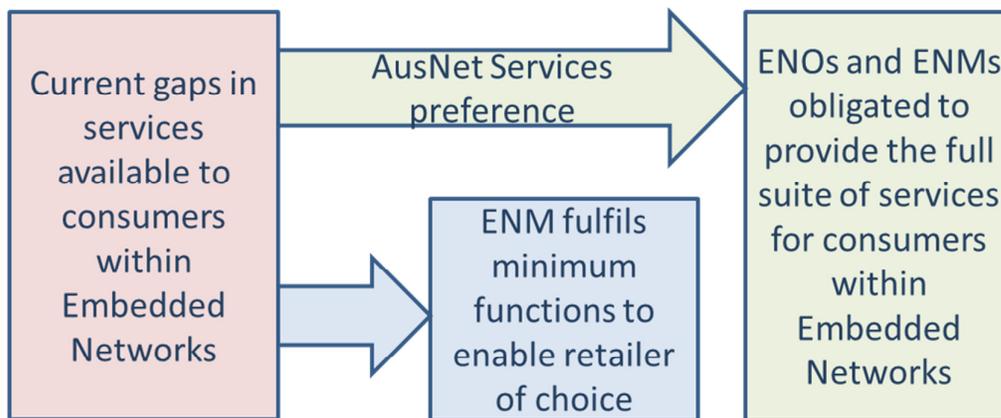
1	Facilitating a competitive framework	3
1.1	Requirements to facilitate retailer of choice within embedded networks.....	3
1.2	Who should enable retailer of choice within embedded networks?	4
1.3	When is the ENM required?	5
2	Promoting the ENM market.....	6
2.1	Not Restricting ENM Participation	6
2.2	Facilitating competition in the ENM market	7
3	Implementation, governance and transitional issues	8
3.1	Accreditation and governance.....	8
3.2	Grandfathering.....	9
3.3	Transitional provisions	11
3.4	Implementation timing.....	11
4	Consequential changes.....	12

Submission to the AEMC on embedded networks draft Rule change

1 Facilitating a competitive framework

1.1 Requirements to facilitate retailer of choice within embedded networks

In preparing this Rule change proposal AEMO established the Multiple Trading Relationship and Embedded Networks (MTREN) Reference Group to engage with customer and industry representatives. In this process the MTREN Reference Group process, AEMO was able to socialise and receive feedback from customer and industry representatives for its deliberations in establishing the Embedded Networks design documents and associated draft Rules. However, the scope was limited by AEMO to establishing a minimum set of framework changes to better enable retailer of choice within embedded networks. In limiting the scope the Reference Group was not able to consider the full suite of services for consumers within embedded networks.



There are other services that should be available to consumers within embedded networks, which are not regulated by the AER's Electricity Network Service Provider (NSP) Registration Exemption Guideline. Network businesses are often impacted by having to provide services to close these regulatory gaps. These gaps would be fulfilled with the following obligations.

- 1) Obligations on the ENMs to facilitate the safe de-energisation, re-energisation and meter exchanges for sites within embedded networks, including the maintenance of connection diagrams and safety documentation for sub-mains at each site within the embedded network.
- 2) Obligations on ENMs for handling of network outages within their embedded networks regarding:
 - Responding to outages, faults or emergencies by providing a 24 hour contact number for enquiries and referrals from consumers and Local Network Service Providers (LNSPs).
 - Notifying electricity consumers within embedded networks of planned outage notifications from the LNSP in a timely manner, in particular for life support customers.
- 3) A corresponding set of Rules obligations on the Embedded Network Operator (ENO) to nominate an ENM and ensure the ENM meets all obligations in relation their embedded network.

Further, there are some issues with AEMO's proposed Rule changes that need to be resolved to enable access to retailer of choice.

- 4) An obligation on the ENO to ensure new embedded networks have an assigned ENM appears to be missing.

Submission to the AEMC on embedded networks draft Rule change

- 5) There is a gap in obligations on ENOs and ENMs to maintain confidentiality of information received through B2B and MSATS under the current NER provision 7.7.

Question 1

- a) Are there any additional changes to the NER or the AER's network guideline that are necessary to allow embedded network customers access to retail market offers?
- b) Are there any additional changes to the NER or the network guideline that are necessary to clarify the roles and responsibilities for management of embedded network customers?
- c) Are any of the proposed changes to the NER or the network guideline proposed by AEMO not appropriate?

Response to question 1

AusNet Services regards AEMO's proposed Rule changes represent an absolute minimum set of changes to facilitate access retailer of choice, and there are some additional elements to fully support customers within embedded networks. Additional changes are required to:

- a) facilitate access to retailer of choice for consumers within embedded networks and confidentiality in the NER (items 4-5 above); and
- b) establish obligations to properly manage outages and safe operational arrangements (items 1-3 above).
- c) AusNet Services notes the following provision in the AEMO proposal is not a realistic obligation on Network Service Providers (NSPs).
- (i) NER 3.6.3 (g3) expects a NSP to provide the ENM with information necessary in determining site specific Distribution Loss Factor (DLF) within 10 business days. Whilst the NSP will have assigned a DLF at the embedded network parent connection point, it will not have without detailed analysis by specialist resources the specific details required as the basis for the provision of site specific DLF assignments. Carrying out this analysis will generally not be possible in 10 business days. We recommend that this 10 business days obligation should be relaxed to a 20 business days reasonable endeavours obligation.

1.2 Who should enable retailer of choice within embedded networks?

AusNet Services largely agrees with the analysis presented in section 5.2 of the Consultation paper. LNSPs could provide these functions as regulated services, but the regulatory framework to properly

Submission to the AEMC on embedded networks draft Rule change

manage this arrangement would be too difficult to regulate. It also seems inappropriate to smear the costs of these services across the broader customer base of customers not in embedded networks.

Question 2

- a) Should a new accredited service provider role (the ENM) be created to perform all or some of these functions as proposed by AEMO?
- b) What, if any, functions should be performed by an existing party? And if so, which existing party? What would the advantages be of an existing party performing some of the functions?
- c) Alternatively, if a new ENM role is not created, who should perform the functions identified by AEMO? What would the advantages be of other parties performing the functions?

Response to question 2

- a) AusNet Services considers the creation of the ENM role represents an effective way of regulating the necessary functions of providing access to retailer of choice and establishing a reasonable minimum set of services to consumers within embedded networks.
- b) Local Network Service Provider (LNSP) could be regulated to perform ENM functions, but the LNSP does not have the necessary relationship with and leverage over the ENOs and is not incentivised by the current regulatory framework to perform any function within embedded networks.
- c) AusNet Services supports the establishment of a new fully contestable role of ENM to perform these functions.

1.3 When is the ENM required?

In establishing the contestable role of ENM, the regulatory framework should seek to promote retailer of choice for all consumers within embedded networks in eligible jurisdictions. This includes extending the availability of retailer of choice to embedded networks with fewer than 10 industrial/commercial/residential consumers. This obligation should sit with the ENO, and not be subject to a consumer request otherwise the ENO may pass the full weight of ENM costs to the consumer requesting retailer of choice. Also consumers in such arrangements should have access to supply outage information and have the ability to be registered for life support through the accredited ENM service provider. Further, this will increase the size of the ENM market and promote greater competition amongst ENM providers.

Given recent trends of falling wholesale energy prices driving the establishment of new embedded network, the industry needs to move to a model that efficiently handles embedded networks. The way to do this is to clearly outline roles and responsibilities of ENMs and ENOs in facilitating retailer of choice and the provision of other essential services. The cost to provide ENM functions should be relatively small and is proportional to the number of connection points within the embedded network.

Question 3

- a) Should all registrable and individual embedded networks be required to appoint an ENM? What are the advantages of such a requirement?

Submission to the AEMC on embedded networks draft Rule change

- b) Should deemed embedded networks be required to appoint an ENM?
- c) Is another threshold appropriate?
- d) Should the threshold for appointing an ENM be a matter for the AER under the network guideline? Should the NER provide factors for the AER to consider when setting the threshold?

Response to question 3

a) AusNet Services considers all embedded networks in eligible jurisdictions, other than holiday caravan parks and other small incidental supplies, should be required to appoint an ENM. This would facilitate access to retailer of choice, promote greater competition amongst ENM providers, and would allow LNSPs to clearly identify embedded networks and consumers there within. The ENM would ensure that retail customers within the embedded network are appropriately managed in terms of outage notifications and life support registration.

b) AusNet Services considers all non-registered embedded networks in eligible jurisdictions, other than holiday caravan parks and other small incidental supplies, should be required to appoint an ENM.

c) AusNet Services considers the threshold of 10 commercial/residential consumers (ND1, ND2, NR1 and NR2 in the AER NSP Exemption Guideline) is not justifiable on the basis that competition will drive price reductions and efficiencies in ENM service provision so the ENM's cost will not be a serious impost on Embedded Networks. This will also serve to grow the ENM competitive market.

d) AusNet Services recommends that if there is a threshold, this should be set in the NER on the basis the NER provides greater certainty to consumers and the industry than provided by the AER's NSP exemption guideline.

2 Promoting the ENM market

2.1 Not Restricting ENM Participation

The current market for supporting embedded networks is very small compared to the broader market for supplying energy and network services. Within our distribution area of eastern Victoria, there are less than 100 AER registered embedded networks. Competitive tensions between ENM service providers in this small market will be limited. The Rule change hence should not preclude any organisations from participating in this fragile but growing market.

Each potential ENM market entrant will have their own drivers for entering the ENM market:

- 1) Local Network Service Providers (LNSPs) do have some advantages for provision of ENM services in relation to operating scales and back office market services facilities. These will potentially help to deliver cost efficient ENM prices, but will not be of sufficient advantage over other potential ENM service providers to distort the market.

The establishment of an embedded network results in a reduction in network billing revenue, but currently the LNSP is required to facilitate a connection to the parent connection point. Further, LNSPs are subject to strict cost allocation controls administered by the AER that prevent cross subsidising non-regulated business activities. It is by no means certain that LNSP's will enter the

Submission to the AEMC on embedded networks draft Rule change

ENM market given the impact of new embedded networks have on network revenue in the short term.

- 2) Large retailers also have some advantages in terms operating scales and back office market services facilities for the provision of ENM services. They may be interested in marketing a variety of services within embedded networks, but the overhead of training contact staff on embedded networks and the complexity of subtractive billing arrangements at parent connection points and small tariff charging arrangements may limit their activities. The scale of efficiency benefits may be offset by a lack of focus.
- 3) Some niche retailers (e.g. WinEnergy) are already involved in the marketing of products and services within embedded networks and to the ENO/exempt Retailer.
- 4) Industry specific ENOs, such as shopping centre operators (e.g. Westfield) and retirement village operators (e.g. Lendlease), may be interested in providing ENM services, but not interested in extending their scope to other industry sectors.

Question 5

- a) Should any party be prevented from becoming an ENM?
- b) Should the AER be able to determine the ring-fencing arrangements for ENM services?

Response to question 5

- a) To drive economic efficient prices the ENM market needs as many market entrants as possible. Hence, given the variety of potential market entrants each with their own competitive advantages any party should be allowed to provide ENM services.
- b) Given LNSPs have some competitive advantage in providing ENM services but not sufficient advantages to distort the market, AER cost allocations controls prevent cross subsidising, we suggest that competitive advantage should not be a driver for ring fencing and that additional ring-fencing arrangements for ENM service provision are not required.

2.2 Facilitating competition in the ENM market

Six months of deeming registered participants as accredited ENM service providers would aid in the establishment of a reasonable level of competition amongst ENM services providers. Notionally, doing so may flood the ENM market with many retailers, and DNSP, who could notionally perform ENM functions, but not have the operational expertise and processes to maintain embedded networks. The problem is the market for supporting embedded network is small and in order to maintain excellence in this specialised area of market services dedicated resources and ongoing training arrangements are required. Registered participants have the capability to transact with MSATS and B2B, but ENMs need to support more complex interactions especially in relation to life support registrations, outage management and connections. The consequences of non-compliance are relatively high and could impact the reputation of the industry. Rather than deeming all interested registered participants, a streamlined accreditation process for registered participants would provide a check that businesses have the necessary operational processes.

Submission to the AEMC on embedded networks draft Rule change

Question 9

a) Will AEMO's proposed six month deeming of ENMs assist ENOs in finding an ENM or aid in the development of ENMs?

b) Are any other regulatory arrangements necessary to facilitate competition in the provision of ENM services?

c) Are retailers, NSPs, ENOs or other parties likely to seek to provide ENM services?

Response to question 9

a) & b) AusNet Services recommends facilitating a streamlined accreditation process in the first six months for registered participants to accelerate the establishment of a reasonable competition amongst ENM services providers, but does not support deeming all interested registered participants without this accreditation process.

c) We consider that niche retailers, some large retailers, sector specific ENOs and some Network Service Providers (NSPs) are likely provide ENM services.

3 Implementation, governance and transitional issues

3.1 Accreditation and governance

Treating ENMs as accredited parties and establishing an accreditation framework is an appropriate mechanism for regulating the ENM's operational activities. AusNet Services considers that whilst accreditation is a good quality control mechanism, exceptional circumstances may arise where a dispute resolution process may be required between the ENM and another party e.g. consumer or registered participant. As such, the NER should be clear that the ENM service level procedures must specify that ENMs have a dispute resolution process for disputes with other parties and not just AEMO.

AusNet Services recommended in section 2.1 the need for ENMs to provide a full suite of services to consumers within embedded networks. These services should also be specified in the ENM service level procedures and be subject to AEMO accreditation, registration and deregistration requirements.

Question 4

a) Are the proposed requirements appropriate?

b) Are any other requirements needed for the accreditation and governance of ENMs?

c) Are any of the requirements proposed by AEMO not necessary for the accreditation and governance of ENMs?

d) Should the requirement to have ENM services provided by an accredited ENM be classified as a civil penalty provision?

Response to question 4

Submission to the AEMC on embedded networks draft Rule change

a) & b) AusNet Services agrees the proposed requirements represent an absolute minimum set of changes to facilitate access retailer of choice, and there are some additional elements to fully support customers within embedded networks. The accreditation requirements for dispute resolution process should extend to consumers and registered participants, and include requirements for the full suite of services suggested in section 2.1.

c) AusNet Services considers the requirements proposed by AEMO are already minimal. Removing any would substantially weaken access to retailer of choice for consumers within embedded networks.

d) AusNet Services supports steps to strengthen the proposed enforcement framework by classifying the requirement for ENM accreditation as a civil penalty provision. This should also apply to the ENO appointing an ENM.

3.2 Grandfathering

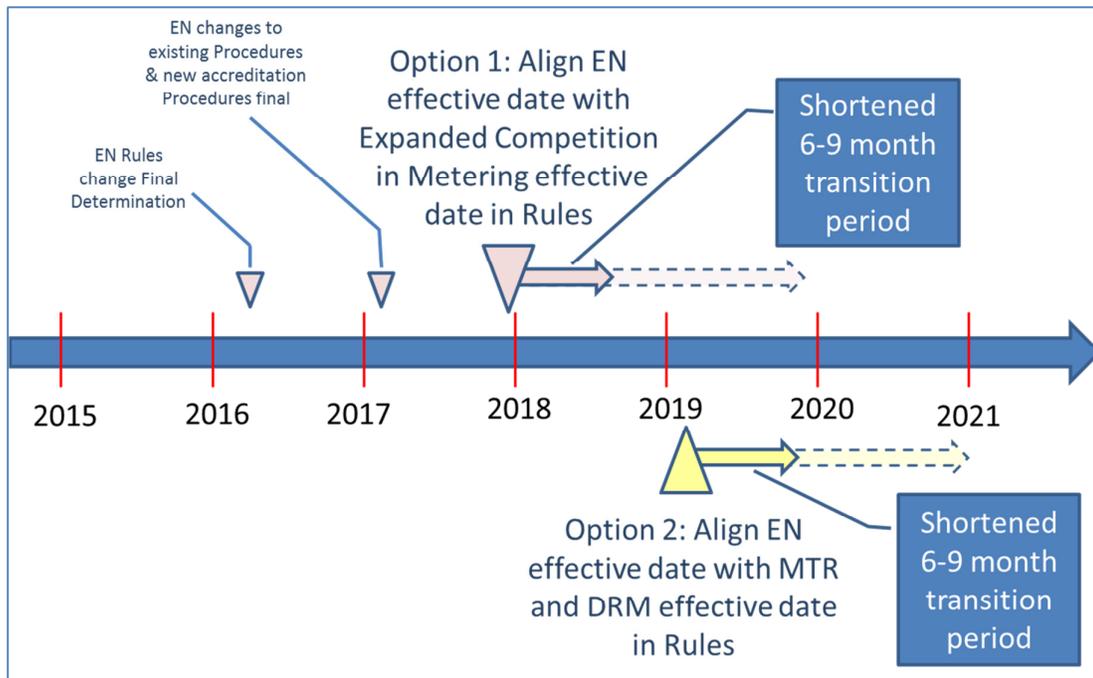
AusNet Services considers there are four activities which are relevant to the consideration of when the obligation for ENOs to have an ENM in place will commence.

- 1) Development of Rules, processes and finalisation of procedures which provide the basis for ENM
- 2) ENM and industry system builds in preparing for ENM accreditation and registration
- 3) Effective date of Rules, procedures and market system changes
- 4) ENO negotiations and contracting of ENMs

From the date procedure development final represents the start point for when ENO negotiations with ENMs can occur. Based on our assessment of the timing represented in the below diagram ENOs would have about 10 months to appoint a ENO after Procedures are finalised and before the Rule change comes into effect. The grandfather period proposed would extend this by two more years whilst registered participants (retailers and LNSPs) would have to implement system changes on the Rules and procedure effective date, and the two year grandfathering period would delay retail customer benefits of having access to retailer of choice. Even if this has no basis, it is difficult to see how an ENO could be pressured into enabling retailer of choice to its energy consumers until the end of the transition period.

The impact of the proposal to allow two years “grandfathering period” for the ENO to appoint an ENM over this period creates the following issues for AusNet Services. It will increase costs to for the business of operating two parallel processes and from additional training costs.

Submission to the AEMC on embedded networks draft Rule change



On this basis, AusNet Services considers the proposed grandfathering period of 2 years is too long and should be decreased to 6-9 months from the effective date.

Question 6

- Taking into account potential implementation timing, how long should ENOs with current registrable or individual network exemptions be provided to appoint an ENM?
- Should the transition period be set in the AER's network guideline or within the NER?

Response to question 6

- AusNet Services considers the proposed two year implementation timing disadvantageous in terms of increased costs, eroded benefits and diminished competition. Rather AusNet Services recommends decreasing the transition time to 6-9 months, and if ENOs/ENMs need more time delaying the Rules effective date.
- AusNet Services considers the NER have a greater capacity to provide certainty to consumers and the industry than the AER's NSP registration exemption guideline. As such, even though AEMO has not proposed to do so in the Rules change proposal it would be beneficial for the NER to contain clear obligations on ENOs, which the ENOs would satisfy through appointing a compliant ENM. It is here in the NER where the transition period should be set.

Submission to the AEMC on embedded networks draft Rule change

3.3 Transitional provisions

The work done by AEMO, with the assistance of the MTREN Reference Group, in developing design documents and draft Rule changes has produced a Rule change proposal and outlined what type of changes are required. The early stakeholder involvement was a great improvement on other AEMO initiatives. However, this stakeholder involvement is no substitute for a Rules Consultation process on subsequent Procedure changes. In preparing these deliverables the Reference Group was not engaged to provide feedback on all aspects of the design and Rule proposal, rather the engagement was limited to only answering AEMO's questions, and also only organisations with representatives at the table were represented.

Further, the Rules change process may introduce new issues and considerations not previously incorporated into the market design by AEMO. For example, the issues associated with the responsibility for energising sites within an embedded network were not considered by the Reference Group.

Question 7

- a) Are the proposed transitional provisions appropriate?
- b) Are any other transitional arrangements necessary to facilitate the implementation of the proposed rule?

Response to question 7

- a) We consider it would not be advisable to allow the proposed transitional provision in deeming Rules consultation steps to be already undertaken, based on the expected impact of Procedural changes on systems and processes for registered participants, the limited industry consideration of the design and issues, and the prospect of further changes to the Rules.
- b) It is difficult to understand what other transitional arrangements would be reasonable and necessary to facilitate this Rule change.

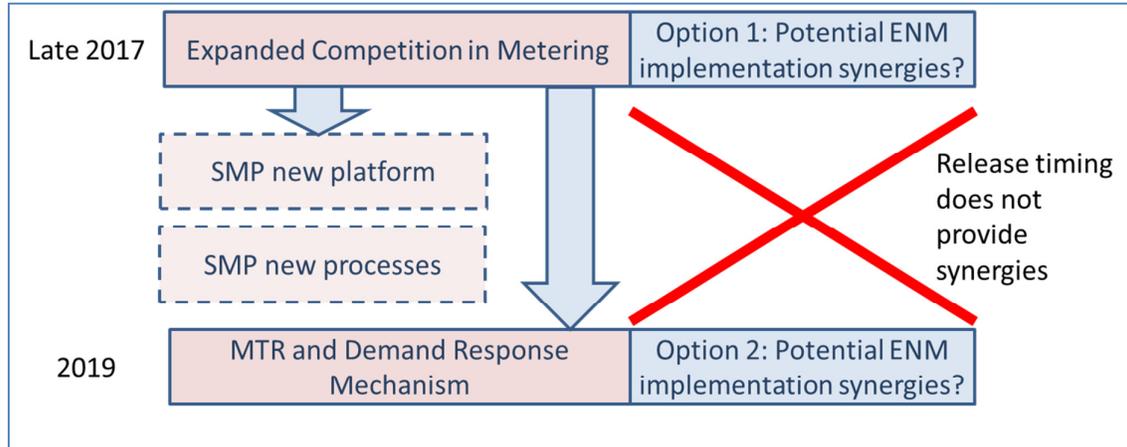
3.4 Implementation timing

The Embedded Network Rules change will introduce a new participant identifier in MSATS and introduce process changes to B2B Procedures. This is similar to MSATS and B2B changes required to introduce expanded competition in metering Rule change, although the breadth of changes for expanding competition in metering is much greater. When registered participants introduce the Metering Coordinator (MC) in their systems, they can also introduce a participant identifier field for the ENM. Similarly when new connection and re-energisation/de-energisation processes are modified to include the MC, registered participants can also introduce the necessary changes to these processes to incorporate the ENM.

Although it has not been confirmed, but there have been some considerations that the Shared Market Protocol (SMP) changes may be effective sometime after the expanded competition in metering Rule change effective date. AusNet Services opposes this conceptual timing on the basis it would leave Victorian Distribution Network Service Providers (DNSPs) without smart meter services until the time when SMP process changes occur. The scope of SMPs changes is likely to be IT centric and unlikely to change MSATS; hence the SMP implementation if separate to the expanding competition in metering implementation is highly unlikely to present potential synergies for implementing co-incident with the embedded network rule change.

Submission to the AEMC on embedded networks draft Rule change

The later Power of Choice initiatives of Multiple Trading Relationships and Demand Response Mechanism Rule changes represent a further opportunity to gain. Implementing the embedded network Rule change co-incident with this change will involve a substantial delay, but may be welcomed if ENOs/ENMs need more time to develop systems, operational processes and achieve the necessary accreditation instead of introducing the proposed two year implementation timing.



Question 8

a) Are there potential synergies available from implementing the proposed rule in co-ordination with the Expanding Competition in Metering and Related Services rule change, the Meter Replacement Processes rule change and/or the advice on the Shared Market Protocol? If so, to what extent?

Response to question 8

a) AusNet Services agrees that there are synergies available in implementing the Embedded Network Rules changes co-incident with the expanding competition in metering Rules change. Both Rule changes effect the role assignment in MSATS and B2B Procedures and have similarities in system and process changes. This allows the alignment of the procedure development, consultation, build packs, IT development, and test phases in the most cost effective implementation. Aligning the changes will likely save millions of dollars across the industry.

There is little value in aligning the Embedded Network Rules change with a misaligned Shared Market Protocol implementation. Rather if the opportunity of aligning with the expanding competition in metering Rules change is not achievable, it would be much better to wait to align with the Multiple Trading Relationships Rules change in late 2018 or 2019 to achieve similar synergies to aligning with the earlier release in 2017.

4 Consequential changes

The principle that should apply when considering consequential or corresponding changes to the NERR is that consumers within embedded networks should have the same fundamental protections

Submission to the AEMC on embedded networks draft Rule change

as consumers outside of the embedded network. Clearly it is not appropriate for the DNSPs to be responsible for de-energisations and re-energisations within an embedded network. Similarly the NERR should include requirements for the provision of the ENO's faults and emergency number on the retail bill, as the LSNP will not be able to assist a consumer within an embedded network in relation to supply issues created by the ENO.

Applying these principles puts AEMO's model of the Retailer not charging the network charges into question. If the child NMI's retailers bill is not paid but the embedded network bill is paid. It creates a conflict of interest for the ENO and ENM, who may be asked to de-energise this site for non-payment. The NERR should provide the necessary obligations and clarity to prevent any such conflicts.

Question 10

- a) How should the potential corresponding issues in the NERR be addressed?
- b) Are there are other necessary, consequential or corresponding changes to the NERR that may be relevant to the making of the proposed rule?

Response to question 10

- a) The corresponding issues identified should be resolved by modifying the NERR to apply, where necessary, the same obligations on the ENOs or ENMs as that apply to DNSPs. In particular, the NERR should establish obligations for de-energisations and re-energisations within an embedded network and obligations for the retail bill to include the ENO's faults and emergency number.
- b) At this stage no other necessary changes have been identified.