

6 July 2015

Paul Smith
Chief Executive Officer
Australian Energy Market Commission
Sydney



Submitted online via: www.aemc.gov.au/Contact-Us/Lodge-a-submission?nodeid=24839

Your ref: ERC0179

Dear Mr Smith

Submission to the National Electricity Amendment (Embedded Generation) Rule 2015

The Public Interest Advocacy Centre (PIAC) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comment on its consultation paper, *National Electricity Amendment (Embedded Networks) 2015* (the consultation paper). The consultation paper sets out the AEMC's preliminary thinking in relation to a rule change proposal submitted by the Australian Energy Market Operator (AEMO).

The most significant aspect of the proposed rule change is to 'reduce the barriers to embedded network customers accessing retail market offers'¹ (as an alternative to receiving their retail energy services from their embedded network operator). Under such a scenario, embedded network customers would continue to pay the embedded network for distribution services, but would be free to seek a retail offer in the competitive market.

Currently, a number of customers of embedded networks face a number of difficulties entering the competitive retail market. These include those related to subtractive metering (having a meter that supports individual consumption being subtracted from the overall consumption entering the embedded network); the need for customers to be allocated a unique connection point identification number (NMI); and, the necessary steps within both businesses to transfer customers (known as the B2B procedures).

To overcome these hurdles, AEMO proposes that embedded network operators be required to appoint an embedded network operator (ENO) to manage embedded network customers within the National Energy Market (NEM).² The ENO would then perform the functions needed to allow a customer to access the competitive retail market.

In broad terms, PIAC supports the intent of the rule change and considers that AEMO's proposed solution will provide the customers of most networks with the option to access the competitive retail market. However, PIAC has some concern about the costs imposed by the creation of the ENO position; and, recommends that the changes be clearly communicated to customers of embedded networks as part of this rule change.

The cost of ENOs

Under the AEMO proposal, all but the smallest embedded networks (those with a deemed exemption from the requirement to be licenced network service providers) would be required to appoint an ENO. Inevitably, creating the position of ENO will impose costs on network operators, which will be passed on to consumers.

¹ AEMC, 2015, *National Electricity Amendment (embedded Networks) Rule 2015*, 1.
² Ibid, 11.

PIAC notes that AEMO's cost benefit analysis of its proposal suggests that not only are there long-term benefits from the ENO arrangement, but that these benefits 'may be understated' due to conservative assumptions.³ PIAC also understands that under the proposed rule change, final retail prices for customers of embedded networks will still be capped at the standing offer in that area. Nonetheless, PIAC has concerns about the potential cost of the proposal, especially as customers of many embedded networks, such as retirement villages and residential parks, may have low incomes. They may also struggle to navigate the competitive retail market in order to benefit from the new costs they are being charged as, in some cases, such consumers would never have had the option to choose their electricity retailer.

Accordingly, PIAC recommends that the AEMC consider carefully the cost impact of the proposed rule change and seek ways in which it can be minimised.

Recommendation 1

PIAC recommends that the AEMC carefully examines the potential cost impact of the proposed rule change for embedded network customers and consider ways in which the costs can be minimised.

Informing customers of embedded networks about the rule change

As previously noted, PIAC believes that many customers of certain embedded networks will have no experience of accessing the competitive retail market. In addition, an engaged electricity consumer within an embedded network would know that they are unable to access retail energy markets. PIAC, therefore, submits that the rule change should include a requirement for embedded network operators to let customers know about the rule change and its implications once it comes into effect. Without a requirement for embedded network operators to inform their customers of the change, PIAC believes there is a risk that customers will not realise that they can now access the competitive market. This is particularly true as, without a requirement that they do so, embedded network operators have a clear incentive not to inform their customers of the changes (because they will potentially lose retail customers).

Recommendation 2

PIAC recommends that once the rule change comes into effect, the AEMC require embedded network operators to inform their customers that they are now able to access the competitive retail market.

Once again, PIAC thanks the AEMC for the opportunity to provide comment on the Consultation Paper. If you would like any further information, please do not hesitate to contact me, or Oliver Derum, Senior Policy Officer in PIAC's Energy and Water Consumers' Advocacy program, on 02 8898 6518, or oderum@piac.asn.au.

Yours sincerely



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³ Ibid.