

05 November 2015



Ms Meredith Mayes
AEMC Director
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Australia

Dear Ms Mayes

Draft Rule Determination - National Electricity Amendment (Embedded Networks) Rule 2015 / ERC0179

Lendlease is one of the world's leading, fully integrated property and infrastructure solutions providers. Over its 50-year history, Lendlease has developed more than 50,000 projects worldwide.

Today, we employ approximately 12,600 people. We operate at every stage of a project, from design and funding through to development and completion – delivering state of the art buildings, infrastructure and residential communities.

Living Utilities is Lendlease's private utility business responsible for owning and managing private infrastructure such as the embedded network within the Barangaroo South Precinct. Living Utilities develops and delivers the most innovative and cost effective utility solutions, to help create the best places for people to live and work in, today and in the future.

Population growth and urbanisation pressures have led to increasing demand for natural resources. Through Living Utilities, Lend Lease is finding better ways to source, deliver and manage resource productivity and improve economic outcomes. And in doing so, make a profound and positive impact on our places. Living Utilities is a private utility business that leverages Lend Lease's people and integrated business capabilities to:

- Provide leadership in the development of the best utility solutions, and
- Manage the delivery of utility infrastructure assets and services to benefit those living and working in our places.

Living Utilities is a company solely devoted to the Lendlease business. Whether the project involves property development or urban regeneration, for master planned communities, apartments or retirement living villages, Living Utilities draws on superior expertise to deliver complete utility solutions that are smart, responsible and resilient enough to meet the needs of 21st century business and community – and beyond.

It is with this view that Living Utilities has evaluated the proposed the Draft Rule Determination – National Electricity Amendment (Embedded Networks) Rule 2015 (Draft Rule) and its likely outcomes for existing investments and projects and also to those being evaluated for future development.

Living Utilities agrees that retail competition has the potential to provide value upside for end users through:

- cost efficiency dividends,
- service improvements; and
- future proofing.

Where Lendlease seeks to deploy embedded networks, it bases its decision-making processes on a broad number of component parts:

- an evaluation of the value proposition to its customers,
- price of energy, and
- future deployment of value add services such as renewables, energy storage and demand management.

It is with this analysis of the broader value proposition that the potential for negative impacts on existing and future embedded network operations is questioned as follows:

- What impacts could the imposition have on the embedded network business case and end-user pricing outcomes?
- Given the proposed trigger of the embedded network manager role being '*a single end-user seeking a market offer*', does this impose an unrealistic obligation on the embedded network owner/operator to have its solution/contract arrangements 'shovel-ready'?
- Does this create commercial uncertainty in the determination of when and where the AER would require the embedded network manager role and the availability of participants in the market for this role?
- With the imposition of embedded network manager through a single customer request, is it reasonable and equitable that either the single customer bears the full cost or that all the embedded network customers bear the cost incurred through the single customer request?

Within the Lendlease business a number of embedded network models are deployed with differing commercial arrangements with end-user customers:

1. Open private distribution network – precinct scaled private high voltage networks providing the 'poles and wires' services the individual buildings with the precinct, enabling retail contestability.
2. Closed embedded networks including:
 - a. retirement living sites with a managed pool generally administered through lease agreements; and
 - b. apartments which are strata-titled with an owners corporation obtaining the embedded network supply contracts.
3. Hybrid closed embedded network – shopping centers with large national tenancies.

In open private distribution networks full retail competition (FRC) is achieved through all metering being NEM compliant and on-market where Lendlease does not retail or on-sell electricity. Under this scenario it is not envisaged that the Draft Rule creates any additional burden on the operation of the business as:

- Full retail competition is encouraged and customers obtain direct contracts with registered retailers, as such the Draft Rule does not impact on end-user pricing;
- Due to the size of the operation, Lendlease requires and uses the services of an embedded network manager to facilitate the functions described in the Draft Rule; and
- As all customers are on-market with FRC, the choice of one customer does not impact another within the network.

In closed private distribution networks it is Lendlease's experience that in well-managed embedded networks few customers seek NEM market offers as the embedded network owner/operator's commercial offer is better than market retail pricing through a "David Jones test". A test that effectively guarantees the lowest price available – the individual customer is free to seek alternative offers against which the embedded network owner/operator competes. In order to

retain its customer base the embedded network owner/operator has to utilise a component of its cost arbitrage – whilst this does not represent FRC in the traditional sense it results in the same cost competitive outcome.

In the hybrid model, although an embedded network is operated with the cost savings on the bulk energy contract at the parent meter being apportioned to participants, large national tenancies such as supermarkets request and obtain direct connection to the local distribution network or are provided with NEM approved metering and obtain their energy through their retailer of choice under national contracts. Under this scenario, it is almost certain that an embedded network manager requirement is triggered.

Under these two scenarios above, the Draft Rule would create:

- Uncertainty to the business case, as the cost for the services of the embedded network manager are as yet undefined and impacts to the end users who remain in the embedded network is unaccounted for,
- Uncertainty remains as to whether the AER would require the embedded network owner to obtain an embedded network manager due to a change in the conditions of its Network Exemption and the time frame in which to do so, and
- The entire customer base is impacted by the decisions of a few.

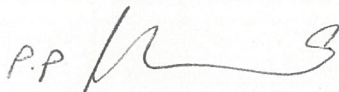
A concern held by Lendlease is that there will be a delay in the emergence of sufficient embedded network manager participants to deliver a:

- cost competitive market without an emergence of cartel behaviors,
- choice of participants with differing scales to meet the diversity of network types, and
- number of accredited providers to meet the transition timeframe.

To overcome the above issues Lendlease recommends:

- that the accreditation process is accelerated to ensure that sufficient variety of providers come to market,
- consideration is given to an interim regulated price cap on services capturing different networks types and sizes,
- that registered NEM retailer pricing is unbundled to permit FRC transparency on retail vs network/ancillary components and that there is a clear path for the network owner to recover the costs of the network management role within any obligation to shadow price from the retailer,
- that customers within the embedded network that choose an external retail offer are assigned a network tariff (payable to the embedded network owner) as though they were connected directly to the local distribution network service provider, and
- that Network Use of Service (NUoS) agreements between registered NEM retailers and embedded network owners are mandated or agreed in good faith with the AER as final point of arbitration, such that embedded network owners can re-coup the network charges directly from retailers and not have to separately bill end-users.

Living Utilities is available to discuss any of the points raised herein if required by the Commission.

A handwritten signature in black ink, appearing to read 'P.P. Taylor'.

Scott Taylor
Head of Living Utilities
Australia