

5 February 2024

Mark Feather
General Manager, Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
Canberra ACT 2601
By online submission

Dear Mr Feather,

Review of the AER exemptions framework for embedded networks

AEMO welcomes the opportunity to provide a submission to the AER's Review of the AER exemptions framework for embedded networks (the Review). We endorse the assessment approach and believe the review into these matters is well-timed, especially considering the heightened pace of changes within the market frameworks supporting residential customers.

Among the criteria suggested to steer the evaluation of the National Electricity Objective (NEO) in the review, AEMO believes that the principles associated with consumer benefits, consumer harms, and the ability to monitor and enforce compliance should carry the highest weight. As highlighted in evaluations of embedded network arrangements¹, there are notable discrepancies in consumer protections, access to rebates and concessions, and availability of dispute resolution services for customers compared to on-market counterparts. These are not trivial differences.

While acknowledging the importance of evaluation of the costs to exempt entities and to the AER within the NEO assessment, AEMO contends that these considerations should be weighed only in relation to the aforementioned criteria.

Disparity in treatment between consumers based on the method of connection to the system

AEMO notes that the absence of clear visibility and a compliance framework for off-market customers in embedded networks inevitably contradicts both the present state and the trajectory of protections, rules, and requirements pertaining to customers connected to the standard distribution network. It is reasonable to contend that residential customers in NEM jurisdictions should receive equal treatment regarding the provision of electricity supply, regardless of how their premises are physically connected to the electricity system. However, it is common for residential customers in embedded networks to be excluded from market changes aimed at enhancing overall market outcomes.

Recent developments for residential customers linked to the distribution network encompass expedited retailer switching, advancements in the precision and promptness of metering data delivered through smart metering deployment (potentially expanding NEM-wide by 2030), implementation of the Consumer Data Right, and safeguards addressing family violence and life support concerns. Despite the demonstrated alignment of these changes and others with relevant market objectives, they are explicitly excluded from application to customers in embedded networks.

¹ AEMC, 2017. Review of regulatory arrangements for embedded networks. Available at <https://www.aemc.gov.au/markets-reviews-advice/review-of-regulatory-arrangements-for-embedded-net>.

Victorian Government DELWP, 2021. Victoria's Embedded Networks Review. Available at <https://engage.vic.gov.au/embedded-networks-review>



The existing arrangements for embedded networks, have the consequence of establishing a sub-class of customer connections. Only the operator and the customers within the embedded network are aware of their existence, resulting in these customers being unable to enjoy the same benefits on an equal footing as other NEM-connected customers.

Access to competition

As noted in the Review, a key consumer protection – the ability for the customer to change electricity retailer – is not available in practice for most residential customers within embedded networks. Whilst this matter sought to be addressed within the AEMC's review² of the regulatory framework for embedded networks, unfortunately that review has not progressed. As such, key barriers preventing retailer switching remain (e.g. visibility of an embedded network customer's NMI in market systems, management of network charging arrangements and compliance of the associated metering installation) meaning that as embedded networks expand, so does the volume of customers who will be excluded from standard market frameworks and protections.

The limited visibility of embedded networks to market participants and regulatory bodies stands in stark contrast to the significant levels of transparency and accountability afforded to residential customers outside of embedded networks. This lack of visibility may reasonably imply a limited or non-existent opportunity to proactively address risks within market frameworks. Consequently, if there is no tangible evidence presented to the AER in the course of the Review regarding consumer protection harms, the market framework does not seem to prevent potential issues from emerging unchecked in the future. It is also possible that significant issues may be present but remain undetected.

AEMO expresses support for actions that the AER might be able to undertake within the scope of its processes and guidelines to mitigate issues affecting residential customers due to their limited visibility in the market.

In the broader context, AEMO believes that there is a necessity to precisely define what constitutes an embedded network within market rules, procedures, and guidelines. The arrangement for the physical connection of embedded network should also be explicitly outlined within this framework. This clarity is essential to offer certainty to participants and to maintain accuracy of market settlement. AEMO has addressed this concern as a component of a rule change request, under consideration by the AEMC³ and emphasises the importance of market bodies applying consistency and rigour in this domain. Precise, consistent definitions and clarity on what constitutes an embedded network is also likely to be beneficial to the AER in further development and application of its respective guidelines.

As the Review progresses, and when it is appropriate to do so, AEMO is keen to revisit the matters raised in response to consultation on the AER's Network Exemption Guideline Review⁴.

AEMO appreciates the opportunity to input to this Review and looks forward to future engagement in the AER's processes. Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, Group Manager – Reform Development & Insights on [REDACTED].

Yours sincerely,



Violette Mouchaileh
Executive General Manager, Reform Delivery

² <https://www.aemc.gov.au/market-reviews-advice/updates-regulatory-frameworks-embedded-networks>

³ <https://www.aemc.gov.au/rule-changes/unlocking-CER-benefits-through-flexible-trading>

⁴ <https://www.aer.gov.au/industry/registers/resources/guidelines/network-service-provider-registration-exemption-guideline-review-2021-22/draft-decision>