



5 February 2024

Mark Feather
General Manager, Policy
Australian Energy Regulator
GPO Box 3130
Canberra ACT 2601

Via email: AERexemptions@aer.gov.au

Dear Mr Feather,

Review of the AER exemptions framework for embedded networks

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) in response to its Issues Paper on the *Review of the AER exemptions framework for embedded networks*.

This submission is provided by Energy Queensland, on behalf of its related entities, including:

- Distribution Network Service Providers (DNSP), Energex Limited and Ergon Energy Corporation Limited;
- Retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- Affiliated contestable business, Yurika Pty Ltd and its subsidiaries, including Yurika Metering.

Energy Queensland has reviewed the Issues Paper and provides the following feedback on the key themes.

Scope of review

Energy Queensland acknowledges the focus of other embedded network reviews have primarily focused on the interests of residential users. While we consider it appropriate that the AER review the impacts of the current framework on residential consumers, there is a need to resolve a broader range of known and emerging matters impacting other key embedded network stakeholders such as energy retailers. We therefore recommend, that the scope of this review be expanded to resolve embedded network issues relating to categories other than residential customers.

Energy Queensland recommends that the AER's embedded networks review should also consider the following issues:

- Clarifying the arrangements for managing of on-market child customers**
While the administrative arrangements have been created to enable users within embedded networks to “go to market”, further work is required to ensure that these customers are not able to avoid costs which will otherwise fall on other parties, such as retailers, embedded network managers (ENMs) and remaining embedded network users. This includes providing clearer guidance on pricing arrangements within embedded networks such as fair apportionment of electricity charges including demand and capacity.
- The misuse of the embedded network framework by Small Generation Aggregators (SGAs) for the trading of embedded generation**
Energy Queensland is aware that SGAs are converting the installations of customers with existing embedded generation to embedded networks for the express purpose of enabling the generation to be used for wholesale market arbitrage, rather than the on-selling of surplus energy. In many cases the energy generated by the embedded generator is still used on-site by the customer, but they are paid the prevailing market price for the energy generated. We consider that these connection arrangements should not be considered an embedded network and accordingly, should not be eligible for exemption under the embedded network framework.

We are also concerned that these arrangements created by SGA’s, enable embedded generation to be settled with the market at times when the connection to the grid is temporarily lost (e.g., unplanned interruption to supply). To be clear, we acknowledge the right for embedded networks to develop a capability for self-supply of energy through embedded generation/energy storage, such that the embedded network is islanded from the national grid but question the appropriateness of requiring the customer’s retailer to pay the customer for this self-supply (at the market price) when they are not connected to the market.

We note all these issues were raised by the Australian Energy Market Operator (AEMO) in its submission to the draft Network Exemptions Guideline review¹ and recommend detailed consideration of these matters in recognition of future market developments.

Growth in Embedded Networks

The growth in the establishment of embedded networks is significant and is undermining the intent of the National Energy Customer Framework which was developed to regulate the connection, supply, and sale of energy and as a result, enable energy customers to access the same levels of consumer protections regardless of their location. The lack of visibility of child customers in embedded networks is an increasing problem as more embedded networks are established. Energy Queensland contends that this lack of visibility is potentially masking the true extent of growth in customer vulnerability.

Benefits and Harms of Embedded Networks

Energy Queensland acknowledges that in some instances embedded networks can offer cost savings. For example, where an ENM is able to negotiate a more favourable pricing than individual customers can, and where embedded networks may have lower fixed supply charges per user compared to multiple individual connection points. However, Energy Queensland acknowledges that, as raised in the Issues Paper, it is unclear if

¹ AEMO, 2022, Submission to AERs draft Network Exemptions Guideline, <https://www.aer.gov.au/documents/australian-energy-market-operator-aemo-submission-aer-network-draft-guideline-redacted-9-december-2022>

ENMs are passing on the savings from lower energy costs onto the embedded network users.

Energy Queensland believes there is also a risk of potential harm for residential embedded network customers exploring the installation of renewable energy systems. Issues can arise when parties in the embedded network do not understand the legislative framework governing embedded networks or the obligations involved. This can result in embedded network customers initiating work without the consent of the ENM or alternatively, the ENM not applying for a connection alteration to the DNSP when changes have occurred behind a child meter (i.e., installing generation). For example, Energy Queensland is aware of embedded network customers installing Consumer Energy Resources (CER) without understanding the obligations at the parent connection.

Potential options under the Network Exemptions Guideline

Energy Queensland recommends that proposed Option 1 should be subject to further review. Requiring the registration of embedded network service providers, who are currently exempt, could lead to unintended consequences for embedded network customers including higher costs. To mitigate potential risks, Energy Queensland recommends that the obligation for ENMs to register, and the associated costs, be clearly articulated, allowing potential embedded network service providers to assess whether to establish an embedded network or to remain individually connected to the distribution network.

It is important to note that embedded networks have the potential to cause harm to the distribution network, even within the ND2 category (fewer than 10 residential customers). The DNSPs do not have visibility of the embedded network and issues arise when the DNSP is not aware that customers within the embedded network have installed CER. We reiterate the importance of all parties understanding the connection obligations within an embedded network, and it should not be considered simply as a method to potentially reduce costs.

Currently the DNSP only assesses connections based on the main connection point for an embedded network. However, with more visibility there may be a need to specify additional requirements to ensure customers within the embedded network do not cause the main connection point to become non-compliant. It will be difficult to pick up these potential non-compliances without regular audits and ensuring that the ENM is fulfilling its obligations. Energy Queensland considers that to mitigate this risk there will need to be transparency in the costs and ongoing requirements for setting up and operating an embedded network. Embedded network proponents can then weigh the costs and benefits to determine if entering an embedded network is in their best interest.

A benefit to requiring registration under proposed Option 2 is that it will encourage embedded network proponents to consider all the obligations and requirements before applying for an embedded network and not simply expect lower costs for the site. However, Energy Queensland considers that further assessment of industry readiness should be undertaken prior to considering renewable energy targets and other customer benefits for embedded network. It will be important to gauge the potential impact on customers' capacity to connect CER.

When contemplating the provision of an alternative option, wherein embedded network service providers self-assess benefits, a key concern arises regarding the ENM's accuracy in self-assessment. To mitigate these risks, establishing an effective auditing

framework becomes imperative to guarantee compliance. An in-depth assessment is necessary to weigh the costs associated with maintaining compliance against the benefits derived from this proposed alternative option.

Potential options under the Retail Exemption Guideline

Energy Queensland supports the introduction of compliance and performance reporting for embedded networks (Option 5) to create an even playing field for all registered participants. However, we suggest that exemptions be considered in limited circumstances, such as where there are less than five users within the embedded network.

Importantly, Energy Queensland considers ENMs should be subject to the same customer and reporting obligations as retailers. The ENM has a direct relationship with the embedded network customer for the sale of electricity and it is appropriate that they be held to the same level of accountability.

We agree with the AER's acknowledgement that consumers in embedded networks may be in hardship or vulnerable circumstances. However, without detailed reporting, governments and regulatory agencies are not seeing an accurate reflection of vulnerability in each jurisdiction. It is entirely appropriate for embedded networks to be subject to a mandatory reporting regime to support development of policy to assist these groups, including hardship policy, family violence and debt metrics.

In addition, we consider that ENMs should be required to publish their prices and the core conditions which apply to the embedded network so consumers can confirm what they will be charged, and their rights and protections prior to moving into a premises served by an embedded network.

Finally, Energy Queensland advocates for the implementation of arrangements for the payment of rebates directly to the ENM, rather than using retailers as intermediaries. At present, the costs of processing rebates are incurred by Retailers, adding to Retailers' cost to serve.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact either myself, or Tammara Scott on [REDACTED].

Yours sincerely



Alena Christmas
Manager Regulatory Affairs

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