

Date 7 October 2016

Our Ref: 20161007 mcrt

Mr. Chris Pattas  
General Manager, Networks  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Pattas (sent via email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au))

TradeCoast Central Pty Ltd ("TradeCoast") welcomes the opportunity to provide feedback to the Australian Energy Regulator ("AER") in response to its Draft Network Service Provider Registration Exemption Guideline dated August 2016 (Draft Guideline) following the recent rule change made by the Australian Energy Market Commission ("the Commission") on 17 December 2015.

We wish to identify several concerns in relation to the Draft Guideline. These include:

- The requirements for when an Exempt Embedded Network Service Providers must appoint an embedded network manager; and
- Several potential ambiguities which we believe should be clarified to assist with the implementation of the Guideline.

### **Embedded network manager appointment requirements**

The Draft Guidelines appear to be a broad-brush approach for all Exempt Embedded Network Service Providers requiring appointment for an embedded network manager either by 1 December 2017 or when a subsequent trigger event occurs. Our concern is that the Draft Guideline deviates from the Commission's ruling for when an embedded network manager **must** be appointed.

Given the costs associated with the appointment of an embedded network manager, the final ruling by the Commission deems network exemptions to be subject to a new condition that an embedded network operator must appoint an embedded network manager **unless**<sup>1</sup>:

- The embedded network customers are unable to gain access to a retail market offer in a relevant jurisdiction; or
- If the AER determines the costs of appointing an embedded network manager are likely to outweigh the benefits.

It is noted the final rule change implemented varied significantly from the initial AEMO proposal. The Commission confirmed<sup>2</sup> that the final rules provides for the AER to allow embedded network managers **not** to be appointed in circumstances where the costs are likely to exceed the benefits. The Commission states that this approach has a number of advantages which includes:

---

<sup>1</sup> AEMC Rule Determination dated 17 December 2015 (Page 49)

<sup>2</sup> AEMC Rule Determination dated 17 December 2015 (Page 51)

1. Embedded network operators in jurisdictions that do not allow access to retail market offers, or with customers which are not potential market customers, will not bear the cost of appointing an embedded network manager<sup>3</sup>; and
2. Embedded network operators operating embedded networks where the likelihood of customers seeking to go on-mark is low will not be required to bear the costs unless a customer seeks to go on-market<sup>4</sup>.

The test of whether a network is providing bulk purchasing benefits to its users is not the activity class or number of customers, but whether the prices offered within the collective group are cheaper than energy prices offered to users by retailers individually. Therefore all embedded networks providing bulk purchasing benefits to users within the network should be designated as 'eligible communities'.

The adopted position within the Draft Guideline assumes that the bulk purchasing benefits within an embedded network only occurs within activity classes for caravan parks, manufactured home sites and retirement village's conflicts with the Commission's final ruling (ND2, NR2, NR3 and NR4).

The Draft Guideline is therefore not consistent with the final ruling by the commission which applied to all embedded networks. It states that unnecessary costs associated with the appointment of an embedded network manager are not to be imposed on embedded networks where access to the retail mark is not allowed or unlikely.

On this basis, it is required that the requirements for the appointment of an embedded network manager be reviewed and request that the AER consider the following:

1. The AER consider that bulk purchasing benefits for embedded customers extend across numerous other activity classes (commercial, industrial and residential). In relation to our network, alternative pricing for individual customers has been obtained from retailers which demonstrated that the bulk purchasing benefits are not limited to activity classes ND2, NR2, NR3 and NR4.
2. In line with the Commission's final ruling, where a customer seeks to go on market, prior to any costs and expenses being incurred with undertaking any poll or appointing an embedded network manager, it is suggested that the guideline provides the opportunity for embedded network operator the opportunity to provide counter offers as the initial step. This will avoid unnecessary costs whereby the prices offered within the bulk purchasing arrangement are more competitive. The customer is unlikely to then request an alternative retailer and in line with the Commission's final ruling. In this instance an embedded network manager is not required to be appointed.

The provisions within 4.7.2 are therefore recommended to cover all embedded networks.

We welcome the opportunity to assist the AER formulate a set of guidelines in relation to 4.7.2 to amend the drafting and ensure that unnecessary costs for all embedded networks do not arise and ensure to align the Draft Guideline with the Commissioners ruling.

---

<sup>3</sup> AEMC Rule Determination dated 17 December 2015 (Page 49)

<sup>4</sup> AEMC Rule Determination dated 17 December 2015 (Page 49)

### **Embedded network manager costs**

The costs in relation to implementing embedded network managers was estimated within the AEMO Submission during the rule change documentation to range between \$4,000,000 and \$15,000,000.

It is suggested that the AER closely review its position within 4.7.1 (a) which as currently drafted requires the entirety of these costs to be borne by the exempt embedded network service provider, regardless of whether the network is operating as an eligible community or not. The addition of these costs (which remain unknown) will ultimately impact on the viability of operating the private networks and many instances may result in increased prices for users within embedded networks.

Our recommendation would be to adopt the alternative embedded network manager appointment process as outlined above. This would expand the eligible community provisions across the various activity classes and in the instances that the embedded network operators provides pricing cheaper than retailers (i.e. a demonstration of bulk purchasing benefits to users identified by the Commission), and the users still require an embedded network manager to facilitate acceptance of a retail price, in this instance these costs for the embedded network manager are to be borne by the retailer / customer.

### **Confusion identified within the Draft Guidelines**

During a review of the Draft Guidelines, we have identified numerous language discrepancies within the documents which we believe would make implementation challenging. These include:

- 30 small customer network threshold;
- Network charges

#### References to 30 small customer network threshold

Throughout the document, it appears unclear whether the threshold for immediate appointment of an embedded network manager is 30 small customers or 30 customers. This confusion is confirmed within section 4.4.2.1 of the Draft Guidelines which reiterates 29 or fewer small customers however in section 4.4.2 of the Draft Guidelines, the reference to 30 or more does not include the 'small customer' reference which creates ambiguity as to the meaning.

It is requested that prior to the final Guideline being implemented that clarification of this wording be provided to ensure that application of the threshold is clear.

#### Network charges

Section 4.6 of the Draft Guideline outlines the network pricing and charges are applicable for both small and large customers within the various five different charge groups (A-E) for customers within embedded networks. These charges are summarised within section 4.6.4.2.

The Draft Guideline also incorporates an expanded pricing requirement to notify customers of changes in tariffs and to limit the recovery of any fee for late payment to reasonable costs incurred. This is incorporated within parts (b) and (c) of Section 4.6.4 of the Draft Guideline. This inclusion is supported.

The wording of Part (a) of proposed section 4.6.4 however may cause confusion in relation to Group C customers. It is requested that the AER clarify that this does not preclude the embedded network operators from recovering internal use of system charges for tis part of the line running from the Distributor to the Group C embedded.

Potential solutions would be to amend the proposed drafting in this section to include the reference to 'small customers' or alternatively to simply state that charging is to be in accordance with the guideline.

**Conclusion**

We welcome the opportunity to assist the AER with its new Exemption Guideline. We believe that as an Exempt Embedded Network Service Provider, we are able to assist the AER by provide our perspective. Should any further information in relation to our submissions be required, please contact the undersigned on (07) 3124 7405.

Yours sincerely



M.J. Collins

Civil Manager

TradeCoast Central Pty Ltd