

**Submission
No 22**

EMBEDDED NETWORKS IN NEW SOUTH WALES

Organisation: AGL Energy

Date Received: 24 June 2022



AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Legislative Assembly Committee on Law and Safety

Parliament of New South Wales

Submitted online via: www.parliament.nsw.gov.au

24 June 2022

Inquiry into embedded networks in New South Wales

AGL Energy (**AGL**) welcomes the opportunity to respond to the Legislative Assembly Committee on Law and Safety's Inquiry into embedded networks in New South Wales (NSW) (**Inquiry**).

We support the Committee's intent to address serious community concerns regarding embedded networks in NSW, as is reflected in the Inquiry's Terms of Reference.

We would like to comment on *b) changes to the legal framework proposed by the Australian Energy Market Commission (AEMC) in its 2019 review on updating the regulatory frameworks for embedded networks*.

With a focus on improving consumer protections and access to the benefits of retail energy market competition, AGL engaged closely with the AEMC 2017 Review of regulatory arrangements for embedded networks¹ and its subsequent 2019 review on Updating the regulatory frameworks for embedded networks² that culminated in its Final Report (**AEMC Reform Package**).

Strategic direction

We believe the most appropriate approach to improving consumer outcomes for embedded network customers in NSW would be for the NSW Government to proceed with implementing the AEMC Reform Package.

In implementing the AEMC Reform Package, we would also recommend the NSW Government:

- Develop a well-considered transition strategy to implement the AEMC Reform Package that includes consideration of metering and wiring arrangements in older embedded networks to support metering suitable for customer contestability.
- Undertake a detailed cost benefit analysis of differential treatment for microgrids to understand the overall efficiency equation and ensure that customers are no worse off in such an approach.
- Consider whether further financial safeguards may be justified to assist NEM retailers in managing the commercial risks associated with non-payment by off-market retailers to NEM retailers, in addition to

¹ See AEMC, Review of regulatory arrangements for embedded networks, Final Report (28 November 2017), Available at <https://www.aemc.gov.au/sites/default/files/content/1ea5e816-c74b-4840-b615-740ba61bc195/Embedded-networks-review-RPR0006-final-report-published.pdf>.

² See AEMC, Market Review, Updating the regulatory framework for embedded networks, Available at <https://www.aemc.gov.au/market-reviews-advice/updates-regulatory-frameworks-embedded-networks>.

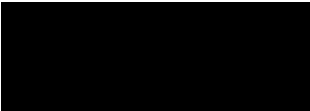


implementing the modified retailer of last resort arrangement (**RoLR**) recommended in the AEMC Reform Package.

We elaborate our feedback in the **Attachment**.

Should you have any questions in relation to this submission, please contact Con Hristodoulidis, Senior Regulatory Strategy Manager on [REDACTED]

Yours sincerely



Elizabeth Molyneux

GM Policy and Markets Regulation



ATTACHMENT

1. The AEMC Reform Package

AGL agrees with the AEMC's findings that the regulatory arrangements for embedded electricity networks are no longer fit for purpose, resulting in poor customer outcomes.

We consider that the AEMC's proposed approach of elevating embedded networks into the national regulatory regime under the National Electricity Law (**NEL**), National Energy Retail Law (**NERL**), National Electricity Rules (**NER**) and National Energy Retail Rules (**NERR**) will deliver substantial benefits to consumers in embedded networks.

As the AEMC elaborated, these benefits include:

- Improved customer protections in the areas of disconnections, billing information, payment options and notification of planned outages, and new protections in relation to new connection services, customer hardship programs and retailer of last resort arrangements;
- Enhanced abilities for the Australian Energy Regulator (**AER**) to monitor and enforce embedded network sellers' compliance with these customer protections;
- Increased access to retail competition, including by standardising network billing arrangements and extending NEM metering arrangements and AEMO's market systems to embedded networks; and
- Recommended changes to jurisdictional arrangements and regulations to improve access to concession schemes, independent dispute resolution and reliability protections.

We appreciate that elevating embedded networks into the national regulatory regime will entail a range of changes to the service delivery model for embedded networks. Nevertheless, we consider that the industry costs associated with implementing these changes is outweighed by the benefits to embedded network customers.

In addition to the direct savings associated with access to retail market competition, embedded network customers would also benefit from a range of competitive services that they would otherwise not have access to. For example, AGL offers a range of non-price benefits to customers including value-add services that assist customers in managing their energy usage and access to a range of new energy products and services.³

We consider that embedded network customers would be afforded the pricing protection of the Default Market Offer (**DMO**). We would encourage the NSW Government to consider whether this provides adequate protection, given the additional efficiency gains associated with embedded networks and whether these are being equitable shared with embedded network customers.

2. Transition strategy

We would encourage the NSW Government to develop a well-considered transition strategy to implement the AEMC Reform Package. We would recommend consideration of the requirement for all embedded

³ See for example, AGL Insights, Available at <https://www.agl.com.au/help-support/energy/manage-your-account/home-energy-insights/energy-insights>.



network meters to be upgraded to market compliant meters, as well as the need for developers to establish appropriate wiring arrangements to support implementation of the AEMC Reform Package.

3. Treatment of microgrids

We note that implementing the AEMC Reform Package could impact the development of microgrids unless they are treated differently through an exemption framework. This could lead to situations where an embedded network is required to support a microgrid development. Further, many larger buildings may be suitable for installation of a microgrid, but it may be difficult to retrofit an environment for embedded microgrids.

In circumstances where some embedded network customers choose to stay with the microgrid embedded network provider while other embedded network customers choose an alternative on-market retail provider, a microgrid developer may face greater commercial complexity in terms of:

- Recovering the full value of its investments in microgrid generation, unless it can also trade services into the broader wholesale market; and
- Delivering the full benefit of any micro-generation to its' connected customers in terms of avoided wholesale costs, as this efficiency accrues when all customers are subscribed to a microgrid.

We would recommend careful consideration of the costs and benefits of differential treatment for microgrids vis-à-vis embedded networks to understand the overall efficiency equation and ensure that customers are no worse off in such an approach. This cost benefit analysis would need to balance the efficiency gains customers might receive from a microgrid against any benefits and costs associated with providing these customers access to retail market competition.

We also consider that scale may be a determinative factor in whether customers benefit from an efficiency gain in microgrids. Accordingly, we would encourage the NSW Government to consider whether an exemptions framework should establish scaling thresholds based on number of connected customers with larger microgrids potentially required to provide access to retail market competition in accordance with the AEMC Reform Package. We note that a tiered framework with scaling regulatory requirements was recommended by the AEMC to support the transition of grid-connected customers to stand-alone power systems and a similar approach may be appropriate in relation to microgrids.

4. Retailer of Last Resort arrangements and financial risk

We believe the most effective solution to ensure customers in embedded networks continue to receive electricity, even if their embedded network operator is no longer able to supply electricity is for NSW to implement the AEMC Reform Package, under which a modified set of RoLR arrangements would be established for embedded networks, where the retailer at the parent connection point would become the RoLR in the event of the failure of an off-market retailer.

We would also encourage the NSW Government to consider whether further financial safeguards may be justified to assist NEM retailers in managing the commercial risks associated with non-payment by off-market retailers to NEM retailers. As a provider of off-market retailers, the on-market retailer has very limited tools to recoup outstanding debt from off-market retailers.

While extending the RoLR scheme will assist in managing future payments in circumstances involving failed off-market retailers, NEM retailers may still be required to pursue court action for the recovery of payments owed by off-market retailers. Civil proceedings for the recovery of payments from off-market retailers could



be further complicated by circumstances where an off-market retailer goes into liquidation. As an unsecured creditor, there is a substantial risk that the NEM retailer may be unable to recoup the payments owed by the liquidated off-market retailer.

Accordingly, we would recommend the following additional safeguards:

- Owner corporations of embedded networks be required to guarantee payments due and payable by off-market retailers to NEM retailers (by counter-signing agreements).
- Off-market retailers be required to underwrite some form of prudential fund or insurance against the failure of off-market retailers.
- Off-market retailers be required to provide up front credit support or pre-payment to the NEM retailer.

In our experience, lack of information on end customers, as well as privacy rights also restrict a NEM retailer's ability to contact the end customer directly in circumstances where there is a risk of non-supply. In our view, the end customer and owner corporation would benefit from advance notification from the NEM retailer where there has been a sustained period of non-payment. We recommend that after a period exceeding 3 months of non-payment by the off-market retailer, NEM retailers be authorised to contact the owner corporation in relation to the non-payment and supply risk.