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Committee Secretary
State Development Natural Resources and Agricultural Industry Development Committee
Parliament House
George Street
Brisbane Qld 4000
Dear Committee

Submission on *Electricity and Other Legislation (Batteries and Premium Feed-in Tariff) Amendment Bill 2018*

Re: Embedded Network Legislation Changes

TradeCoast Central Pty Ltd (**TradeCoast**) welcomes the opportunity to make a submission to the State Development, Natural Resources and Agricultural Industry Development Committee (**Committee**) on the *Electricity and Other Legislation (Batteries and Premium Feed-in Tariff) Amendment Bill 2018* (**Bill**).

Summary

Our submission relates to the component within the Bill proposing the deletion of Section 23(2) within the Electricity Act 1994 (**Act**).

Section 23(2), which is totally unrelated to the issue of batteries and feed-in tariffs, was introduced into the Act in 2006, when the Queensland Government privatised Sun Retail (formerly the retail business of Energex) and Powerdirect (formerly owned by Ergon Energy). Sun Retail was sold to Origin Energy and Powerdirect to AGL.

At the time it was identified that significant issues arose regarding retail access to embedded networks, being situations where the customer was not directly connected to the local distributor's network (i.e. Ergon or Energex).





Section 23(2) was introduced in 2006 on the basis that:

*"Queensland will delay the introduction of Free Retail Competition (FRC) to customers in an on-supply arrangement until a national **harmonised solution** is introduced. NEMMCO (now AEMO) should continue to develop a **national harmonised solution** on embedded networks, including the allocation of **responsible person to child customers**.*

*Queensland will adopt this **national solution** once the **appropriate changes** to the **National Electricity Rules** have been gazetted."*

As this Bill incorporates the removal of Section 23(2), it is necessary to assess whether the initial reasons for its introduction have been addressed, prior to its removal.

A breakdown of the requirements which were documented in 2006 to be resolved, prior to removal of Section 23(2) is provided below:

Description	Status	Comment
Item 1: Requirement for a National Harmonised Solution		The AEMC Final Determination in November 2017 confirms that access to retail market competition is not being achieved and requires inter-dependent law and rule changes to address the issues ¹ .
Item 2: Appropriate changes to the National Electricity Rules have been gazetted		The AEMC Final Determination in November 2017 confirms that further inter-dependent law and rule changes are required, a process which will only commence in 2018 and may take several years to implement.
Item 3: Allocation of a responsible person to child customers		<p>The current electricity market interface system does not have the ability to charge the retailer for network charges for customers not directly connected directly to the local distributor (i.e. Energex or Ergon).</p> <p><i>As outlined during 2006, NEMMCO (now AEMO) should continue to develop its systems to address this issue.</i></p> <p>Since 2006, subtractive billing has been introduced within embedded networks in relation to electricity consumption only and not network charges.</p> <p>If the embedded customer is not connected (i.e. child meter) to either Energex or Ergon directly, then Ergon or Energex network charges will continue to be charged to the embedded network operator (parent meter).</p> <p>This creates significant issues regarding the requirement for embedded network operators to recover network charges separately from the retailer, and remains fundamental to the ongoing requirement of Section 23(2) in 2006.</p>
Outcome	0 / 3 	Recommendation: Delay removal of Section 23(2) until items 1, 2, & 3 have been addressed

As demonstrated above and in further detail below, there remains no harmonised solution, the necessary changes once a solution has been found have not been implemented and the significant issue regarding responsible person has not been resolved. Therefore, removal of Section 23(2) at this time is premature and conflicts with the long standing position of the Queensland Government.

Section 23(2) should therefore not be removed until the reasons for Section 23(2) being initially introduced are addressed.

We note that the Bill is essentially the same as the Electricity and Other Legislation (Batteries and Premium Feed-in Tariff) Amendment Bill 2017 (**Earlier Bill**), which was introduced in June 2017 on

¹ AEMC Final Report, Embedded Networks Review, 28 November 2017 (page v)

the premise that a national harmonised solution to retail competition would occur from 1 December 2017.

As advised to the Public Works and Utilities Committee in July 2017, numerous reviews were underway and it was highly likely that the review being undertaken by the national electricity rule maker and market development adviser (AEMC) would result in further changes to the regulatory framework.

The November 2017 recent AEMC Final Report to the COAG Energy Council in relation to Embedded Networks confirms that the existing exemption framework is no longer fit for purpose and that the national framework has essentially failed and requires a complete overhaul incorporating inter-dependent law and rule changes to address the issues².

Background

Full retail contestability was introduced in Queensland with effect from 1 July 2007. However, retail contestability for customers in an on-supply arrangement is excluded by application of Section 23(2).

This section within the Act is the mechanism which has safeguarded Queenslanders from the difficulties and problems regarding retail contestability within Embedded Networks since 2006 at the time when the Queensland Government privatised Sun Retail and Powerdirect by sale to Origin Energy and AGL respectively.

Section 23(2) was required given it provides the current mechanism to delay retailers directly accessing to embedded networks users and confirms that a receiver is only a customer if the receiver's premises has an electrical installation that, is capable of receiving supply directly from a distribution entity's supply network.

The Queensland Government's historical policy position adopted since 2006³:

*"Queensland will delay the introduction of Free Retail Competition (FRC) to customers in an on-supply arrangement until a national **harmonised solution** is introduced. NEMMCO (now AEMO) should continue to develop a **national harmonised solution** on embedded networks, including the allocation of **responsible person to child customers**.*

*Queensland will adopt this **national solution** once the **appropriate changes** to the **National Electricity Rules** have been gazetted."*

Therefore as identified during 2006, the removal of Section 23(2), requires:

1. a national harmonised solution;
2. the appropriate changes to the National Electricity Rules have been gazetted; and
3. the allocation of a responsible person to child customers.

Each individual component is addressed separately below demonstrating that removal of Section 23(2) must be delayed until each of the identified items is addressed.

Requirement for a National Harmonised Solution

In June 2017, the Department claimed within the Explanatory Note to the Earlier Bill that the 2015 Embedded Network Rule change would provide a national harmonised framework for facilitating access to retail competition for customers in embedded networks, commencing 1 December 2017

² AEMC Final Report, Embedded Networks Review, 28 November 2017 (page v)

³ Energy Competition Committee Policy Decisions Paper No. 2: Electricity Full Retail Competition Final Policy Decisions. 26 July 2006

The passage of time between when the Earlier Bill was introduced demonstrates this is simply incorrect⁴.

The AEMC Final Determination in November 2017 confirms that access to retail market competition is still not being achieved and requires further inter-dependent law and rule changes to address the issue⁵.

The recent AEMC publication confirms that a national solution has not been implemented and further rule changes are required.

Removal of Section 23(2) prior to the national solution being implemented is contrary to the long standing position of the Queensland Government and will introduce significant detrimental issues for Queensland electricity embedded network stakeholders including customers and owners.

Furthermore, in addition to Queensland, neither the Northern Territory, Western Australia nor Tasmania currently enable retail competition within embedded networks. Victoria was early adopter of FRC but encountered significant difficulties and is currently undertaking a major review in an attempt to fix the problems encountered.

*Status of a National Harmonised Solution: **Outstanding***

Requirement for appropriate changes to the National Electricity Rules have been gazetted

The AEMC Final Determination in November 2017 confirms that further inter-dependent law and rule changes are required, a process which will only commence in 2018 and may take several years to implement.

It is required that the appropriate changes to the rules be implemented to avoid unnecessary compliance and regulatory burden, given further rule changes have been identified as required.

*Status of appropriate changes to Rules being gazetted: **Outstanding***

Allocation of a responsible person to child customers

The issue of allocation of a responsible person to child customers is complex but for a typical customer could be described as follows:

- the distribution entity (Energex or Ergon) provides the poles and wires to the customer;
- the customer's premises has a market meter;
- to purchase electricity from the market, the customer contracts with a retailer, the retailer becomes the market participant responsible for all electricity and network costs (i.e the retailer is responsible for payment of network costs and recovery from the customer)

The key issue which arises within embedded networks is as follows:

- the distribution entity (Energex or Ergon) does not provide the poles and wires to the customer – they only service up to the connection point with the embedded network;
- removal of Section 23(2) would enable the embedded customer to install a market meter, however as this customer is not serviced by any agreement with the distributor (i.e. Energex or Ergon) the monthly network charges will be charged to the network owner which is serviced by an agreement with the distributor

⁴ Refer Summary Timeline attached and AEMC Final Report, Embedded Networks Review, 28 November 2017

⁵ AEMC Final Report, Embedded Networks Review, 28 November 2017 (page v)

- This, as demonstrated by the early adopter states, creates significant complexity with the issue of double billing, defaults, and significant commercial risk which will likely impact embedded network customers and operators.

In 2006 this issue was foreseen and Section 23(2) was incorporated in to the Act to apply until such time as the responsible person for child customers issue was resolved. As confirmed by the AEMC in November 2017, changes to the rules are required to establish a standard network charging arrangement within MSATS being the Market Settlement and Transfer Solutions⁶.

*Status of a responsible person to child customers: **Outstanding***

Conclusion

The removal of Section 23(2) by inclusion in this Bill is therefore premature and inconsistent with the long standing position of the Queensland Government since 2006, that being to delay the introduction of Retail Competition to customers in an on-supply arrangement (i.e. not directly connected to either Ergon or Energy) until a national harmonised solution addressing embedded networks is introduced.

Not only have the foreseen issues in 2006 not been addressed, in 2017, the AEMC has determined that the current framework is not fit for purpose and further law changes are required to be implemented.

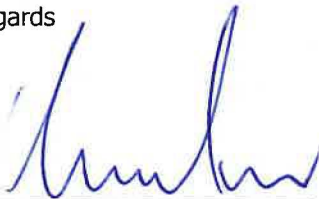
A summary of recent events is provided below which demonstrates that a harmonised solution remains to be implemented and confirms any contrary view is simply incorrect and unsustainable.

The Queensland Government should maintain its policy position adopted since 2006 to delay the introduction of Free Retail Competition (FRC) to customers in an on-supply arrangement until the AEMC has implemented its identified rule changes to enable a national harmonised solution to be introduced.

Once the appropriate changes to the National Electricity Rules have been gazetted, only then should Queensland remove Section 23(2) and enable a national solution to be introduced.

Furthermore, we welcome the opportunity to assist the Committee in working through the above issues to reach an appropriate implementation in the future.

Regards



Bob Tucker
Director
TradeCoast Central Pty Ltd

⁶ AEMC Final Report, Embedded Networks Review, 28 November 2017 (page v)