

Australian Energy Market Commission

CONSULTATION PAPER

NATIONAL GAS AMENDMENT (RECOGNITION OF EXEMPT SELLERS IN RETAIL MARKET) RULE 2019

PROPONENT

Australian Energy Market Operator

7 MARCH 2019

INQUIRIES

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ABOUT THE AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 INTRODUCTION

On 12 November 2018, the Australian Energy Market Operator (AEMO) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to recognising exempt sellers under the National Energy Retail Law (NERL) within the retail gas market registration framework.

This consultation paper has been prepared to facilitate public consultation on the rule change request and to seek stakeholder submissions.

This paper:

- provides a summary of, and background to, the rule change request
- identifies a number of questions and issues to facilitate consultation on this rule change request
- outlines the process for making submissions.

1.1 Background

1.1.1 The retailer authorisation and exempt seller frameworks

Under the NERL, any person or business who sells energy to another person for use at premises needs to either obtain a retailer authorisation or an exemption from the requirement to be authorised.¹ Under the NERL, the Australian Energy Regulator (AER) is responsible for assessing and approving retailer authorisations.

Retailer authorisations are normally required for prospective energy sellers where:²

- the seller's core business is the sale of energy
- the seller's primary relationship with its customers is the sale of energy and the seller has
 no other, or an otherwise minor, relationship with the customer (for example, it does not
 also have a landlord/tenant relationship)
- the seller intends to sell to many customers and/or sell a large volume of energy.

Retailers must be able to comply with the NERL and the National Energy Retail Rules (NERR), as well as any relevant provisions of the National Electricity Law, the National Electricity Rules, the National Gas Law (NGL), the National Gas Rules (NGR), and jurisdictional energy legislation before they start selling energy.

For some sellers, the scale of the planned energy sales or the relationship between the energy seller and customer may mean that an authorisation is not necessary and an exemption is more appropriate. In addition to its responsibilities involving retailer authorisations, the AER has powers to impose exemption conditions and to issue and revoke exemptions under the exemption framework in the NERL and in accordance with the NERR.³

Section 88(1) of the NERL. Energy 'sales' do not necessarily have to be for profit - passing on energy costs to another person is considered to be a sale as well. Source: AER, AER Retailer Authorisation Guideline, version 2, December 2014, p. 4.

² ibid, p. 5

³ For the NERL, this is set out in Part 5, and it is pursuant to Part 9 of the NERR.

According to the AER, a person or business is likely to be eligible for an exemption if they are planning to sell gas:⁴

- 'incidentally' to their main business
- as a community service or at cost, or
- to a defined group of customers at one site.

While an exemption allows a person or business to sell gas, it restricts their selling activity to a defined class (or classes) of customers, usually at a specific site (or sites). These restrictions are set out in the terms of the exemption. Exempt sellers still have to follow strict conditions and meet a range of obligations to their customers, although the regulatory requirements are generally less onerous than those applied to authorised retailers.

The core conditions that an exempt seller must meet are based on customer protections under the NERL but will vary according to the particular operations of the seller. The conditions applied to exempt sellers cover areas such as an obligation to supply, provision of key information to customers, billing and payment arrangements, disconnection and reconnection, and concessions and rebates.⁵

The exemption framework under the NERL establishes three kinds of exemptions: deemed, registrable and individual.⁶

Deemed exemptions apply automatically to certain classes of gas sellers that generally have small-scale selling arrangements that need little regulatory oversight. These classes include caravan parks that sell metered gas to people in short term holiday accommodation, businesses that sell gas to a related business and persons who sell metered gas to fewer than ten small businesses or residents.

Registrable exemptions need to be registered with the AER because the scale of the selling activity is larger than for a deemed exemption and therefore warrants more regulatory oversight. The AER publishes registered exemptions on their website, but does not assess or approve them. Energy sellers that can register an exemption include:

- persons who sell metered energy to ten or more small tenants or residents within a site
- retirement villages or caravan parks who sell metered energy to permanent residents
- people or businesses selling energy to large customers.⁷

If deemed and registrable exemptions don't apply, then a person can apply for an individual exemption. Individual exemptions normally apply to the sale of energy at a particular site and/or to a particular customer (or group of customers). These exemptions are more unusual and are often used for one-off arrangements. In making an individual exemption, the AER tailors the conditions of the exemption to the specific situation.

This exemption framework is currently under review as part of the Commission's review into Updating the regulatory frameworks for embedded networks. The draft report for this review

⁴ AER, AER (Retail) Exempt Selling Guideline, version 5, March 2018, p. 5.

⁵ ibid, p. 6.

⁶ See Part 9, Division 2 of the NERR.

⁷ The threshold for large gas customers in all jurisdictions is 1 terajoule per annum.

was published in January 2019, and proposed significant reforms to the arrangements noted above, including reducing the scope of exemptions.⁸

1.1.2 The retail market participant framework

Under the NGL, a person or business needs to register with AEMO in order to be able to participate in a gas retail market and be able to ship gas to a distribution supply point. Alternatively, a person can be exempted by AEMO from market participant registration. AEMO can only register a party in a retail gas market or exempt them from registration if it meets the criteria of one or more of the registrable categories described, for the respective jurisdictions in rule 135AB of the NGR, that the party intends to participate in. These jurisdictional categories vary slightly, but the three registrable categories generally available for the NSW-ACT, South Australian, Queensland and Victorian retail gas markets are:

- A 'network operator' for the NSW-ACT gas market and the South Australian gas market, 'distributor' for the Queensland gas market, and 'transmission network service provider' and 'distributor' for the Victorian gas market.¹⁰
- A 'retailer' for the Queensland jurisdiction, 'user' for the NSW-ACT gas market or the South Australian gas market and 'market participant retailer' for the Victorian gas market.
- A 'self contracting user'. This is defined in the NSW-ACT, South Australian and Queensland
 retail gas markets as an end user who is party to a contract with a service provider and is
 not a retailer. The Victorian registrable capacity of 'market participant other' has some
 overlap with this category.

There are some differences in costs and obligations between being registered as a retailer and being registered as a self-contracting user. AEMO operates a full retail contestability (FRC) hub as a communication infrastructure that facilitates gas transactions between AEMO, retailers, self-contracting users and distribution pipelines in the retail gas markets of Victoria, Queensland, South Australia, NSW-ACT and Western Australia.

AEMO requires retailers and distribution pipelines to have necessary IT systems in place to interact with its FRC Hub, or to engage a third party to perform these interactions for them. Self-contracting users do not face this requirement. Any transactions with the FRC Hub required by these parties are carried out by AEMO on behalf of these users. The Commission understands that AEMO does not currently seek to recover the cost of these transactions from self-contracting users.

⁸ AEMC, Updating the regulatory frameworks for embedded networks, draft report, 31 January 2019, pp. 54-56.

⁹ Section 91 LB(1) of the NGL.

¹⁰ The South Australian gas market also has registrable categories of 'network operator (Mildura region)', 'transmission system operator', 'swing service provider' and 'shipper'.

¹¹ The Commission understands that in some jurisdictions, self-contracting users rely on a Low volume interface maintained by AEMO rather than AEMO conducting the transactions on their behalf. This interface provides self-contracting users with an alternative mechanism for conducting transactions and enables them to avoid costs associated with connecting to the FRC hub.

¹² Rule change request, p. 5.

As a result, retailers are currently the only parties who are required to pay AEMO operational fees for the FRC Hub, which are paid on a \$/customer supply point/month basis.¹³

The frameworks described in this section and section 1.1.1 are overseen by AEMO and the AER, respectively, and do not always overlap.¹⁴ For instance, a caravan park that sells metered energy to permanent residents can become an exempt seller without needing to register as a gas retail market participant with AEMO by contracting gas from an authorised retailer and then on-selling the gas to their residents. On the other hand, a large manufacturing company could currently be registered as a self-contracting user by AEMO without obtaining an authorised retailer or exempt seller status under the AER's framework because such a company does not intend to sell gas.

1.2 Issues raised in the rule change request

1.2.1 Exempt sellers not being recognised in the NGR

AEMO's rule change request seeks to amend the NGR so that it recognises the NERL's exempt seller regime.

Exempt sellers do not currently fit into any of the three registrable categories in the NGR for the NSW-ACT, South Australian and Queensland retail gas markets, which means that AEMO not only cannot register these exempt sellers as market participants, but also cannot enable them to participate in the gas retail market by exempting them from registering as a gas retail market participant.¹⁵ This means that exempt sellers are barred from entry into these markets. This in turn may prevent exempt sellers from meeting their contractual obligations to provide gas to a purchaser.

This issue was brought to AEMO's attention because one exempt seller sought to participate in the NSW-ACT retail gas market. With agreement from the AER, AEMO implemented a short term solution of registering this particular exempt seller as a self-contracting user, even though this market participant does not meet the requirements for that registrable capacity.¹⁶

In its rule change request, AEMO noted the registrable capacities for the Victorian retail gas market are capable of including some exempt sellers. The registrable capacity of 'market participant - other' under rule 135AB(4) of the NGR does not mention exempt sellers, but does include any user of the declared Victorian transmission system or any other Victorian transmission pipeline.¹⁷

¹³ These fees vary across jurisdictions. The fees currently collected for the NSW-ACT retail gas market can be found at AEMO, NSW and ACT FRC Gas 2018-19 AEMO Final Budget and Fees, June 2018.

¹⁴ Separately the Essential Services Commission oversees an exempt selling regime in Victoria, in accordance with the Gas Industry Act 2001 (Vic)

While AEMO can grant a person exemption from gas retail market participation unconditionally or on specified conditions under rule 135AG of the NGR, s. 91 LA(2) of the NGL requires, in effect, that if this person did not fit into one or more of the registrable capacities in rule 135AB of the NGR, they would not be able to participate in the respective regulated retail gas markets.

¹⁶ Rule change request, p. 3.

¹⁷ ibid.

1.2.2 Naming discrepancy for registrable categories

AEMO's rule change request also noted jurisdictional naming discrepancies for equivalent registrable capacities in rule 135AB of the NGR, with the term 'retailer' being used in the Queensland retail gas market and the term 'user' being used for equivalent market participants in the NSW-ACT gas retail market and in the South Australian gas retail market.

1.3 Proposed solutions

AEMO has proposed solutions in its rule change request to address exempt sellers not fitting into any registrable capacities for the NSW-ACT, Queensland and South Australian gas markets. AEMO also proposed solutions to address the issue it raised that not all exempt sellers currently fit into a registrable capacity for the Victorian gas market.

Additionally, AEMO proposed a solution to resolve the naming discrepancies for registrable gas retail market participant categories. Each of these solutions are discussed in turn below.

1.3.1 Recognising exempt sellers selling gas to related parties in the NGR

The solution proposed by AEMO in its rule change request for exempt sellers not fitting into any registrable capacities for the NSW-ACT, Queensland and South Australian gas markets is to amend rule 135AB of the NGR to include exempt sellers within the registrable capacities available for retail market participants for these jurisdictions.

AEMO considered that this change would allow exempt sellers to interact with both AEMO and the retail gas markets where necessary, while providing regulatory certainty to the market. AEMO proposed to enable exempt sellers to register as gas retail market participants in one of two possible ways:¹⁸

- Where the exempt seller is selling gas only to end users that are related bodies corporate
 of that exempt seller, the exempt seller will be considered a self-contracting user (or
 equivalent).
- Where the exempt seller is selling gas to third parties, the exempt seller will be considered a retailer.

In suggesting these different options for registering exempt sellers, AEMO stated that exempt sellers who are only selling gas to their related bodies corporate are effectively end users in the way that they interact with the market and AEMO anticipates that the number of transactions they can be expected to conduct using the FRC hub are minimal, as with self-contracting users generally. Exempt sellers who are selling gas to their related party would be likely to prioritise obtaining the lowest possible gas price for the benefit of their related body, similarly to the way that a customer would prioritise obtaining the lowest possible gas price for themselves.

¹⁸ Rule change request, p. 4.

Due to the similarity in market participation behaviour between end users and exempt sellers who only sell gas to related bodies corporate, AEMO has recommended such parties being able to register as 'self contracting users' in the same way as end users. ¹⁹ Such an assignment would benefit this type of exempt seller by enabling them to contract for gas on behalf of a related company. Otherwise, that related body would need to register as a self-contracting user themselves or would need to contract gas from an authorised retailer. In AEMO's view, both of these alternatives potentially impose additional costs and regulatory burdens that may be more difficult to manage.

AEMO considered other options for exempt sellers selling gas to related parties, but found them to be unsatisfactory:

- One of the alternative options which AEMO explored involves this type of exempt seller being registered as a retailer. AEMO considered that this option would burden exempt sellers seeking only to transport gas for their own group operations with unnecessary costs associated with developing retail systems to interact with the FRC hub.²⁰
- Another alternative option that AEMO considered but did not recommend is for this type of exempt seller to be registered as part of a new separate registrable capacity under the NGR in addition to retailers and self-contracting users. AEMO did not consider that there are any obligations under its Retail Market Procedures that should be applied uniquely to this category of exempt seller. AEMO also considered that creating a new registrable category for exempt sellers would likely require more substantial changes to the Retail Market Procedures and the retail gas market and registration systems. Such changes would impose more major costs on AEMO for no apparent benefit.

1.3.2 Recognising exempt sellers selling gas to third parties in the NGR

AEMO proposed for exempt sellers selling gas to third parties that are not related bodies corporate of the exempt seller to be registered in the NSW-ACT and South Australian jurisdictions under the 'retailer' registrable capacity. AEMO considered exempt sellers who wish to sell gas to unrelated third parties as effectively being retailers in the way that they interact with the market. Such exempt sellers are distinct from the final end user and as such are likely to have incentives that are different to their customers. For this reason, AEMO has proposed that such parties be able to register as retailers in the same way as authorised retailers.²¹

Placing exempt sellers who wish to sell to third parties into the retailer category would, in AEMO's view, appropriately prevent the exempt seller obtaining a financial and regulatory advantage in terms of reduced costs associated with accessing the FRC hub at the expense of authorised sellers when competing to sell gas to third parties.

AEMO considered the following alternative classifications of exempt sellers retailing gas to third parties, but found them to be unsatisfactory:

¹⁹ ibid.

²⁰ ibid.

²¹ ibid.

- One of the options which AEMO explored but did not propose involves this type of exempt seller being classified as a self-contracting user. AEMO considered that this approach would confer a potentially unfair advantage on certain exempt sellers over retailers wishing to compete for the same customers. AEMO considered that this approach could lead to distortion of the retail gas market.²²
- Another alternative was for this type of exempt seller to be assigned a new separate registrable capacity under the NGR in addition to retailers and self-contracting users. AEMO considered that there aren't any obligations under its Retail Market Procedures that should be applied uniquely to this category of exempt seller. AEMO also considered that creating a new registrable category for exempt sellers would likely require more substantial changes to the Retail Market Procedures and the retail gas market and registration systems, imposing more major costs on AEMO for no apparent benefit.²³

1.3.3 Recognising the exempt seller regime in the NGR in Victoria

AEMO has also proposed a solution that notionally would enable all exempt sellers under the NERL to be able to register as retail gas market participants in Victoria. ²⁴ Because exempt sellers selling gas to related parties could already be registered under the 'market participant - other' capacity in Victoria as long as they are also users of the declared transmission system, AEMO's proposal for this jurisdiction was to change the registrable category of 'market participant - retailer' to incorporate exempt sellers under the NERL that intend to sell gas to third parties.

AEMO has suggested that this proposal would establish a similar distinction between exempt sellers selling gas to related parties and exempt sellers selling gas to third parties to that proposed by AEMO for the NSW-ACT, Queensland and South Australian gas markets.²⁵

This proposed change (if made) would not have any immediate effect in Victoria because Victoria has not adopted the NERL, which is part of the National Energy Customer Framework (NECF). Only specific parts of the NECF apply in Victoria for electricity, while other NECF components such as the NERR and associated amendments to the NGR do not currently apply at all.²⁶ Instead, the relevant energy laws in Victoria for this rule change request include the *Gas Industry Act 2001* (Vic) and the Energy Retail Code. The Victorian jurisdictional legislation includes an exempt seller regime for gas, under the *Gas Industry Act 2001* (Vic).

1.3.4 Naming discrepancy for registrable categories

As part of this rule change, AEMO also proposed changing the 'user' category for the South Australian gas market and the NSW-ACT gas market to 'retailer'. AEMO is of the view that this

²² ibid.

²³ ibid.

²⁴ Subject to the NERL being adopted in that jurisdiction. The Commission is aware that Victoria has a separate exempt seller regime for gas, pursuant to the Gas Industry Act 2001 (Vic).

²⁵ Rule change request, p. 3.

²⁶ In Victoria, the NECF associated amendments to the National Electricity Rules relating to retail connections (Chapter 5A) have applied since 2016. The NECF currently applies, with jurisdictional specific amendments, in Queensland, New South Wales, South Australia, Tasmania and the Australian Capital Territory.

change would align the name of that registrable category of these jurisdictions with that of Queensland and AEMO's Retail Market Procedures and systems.

AEMO has not proposed similar changes to align equivalent registrable capacities for network operators. AEMO also has not proposed changes to the names of any registrable capacities for the Victorian gas market to align them with the NSW-ACT, Queensland and South Australian retail gas market equivalents or with AEMO's Retail Market Procedures and systems.

AEMO has indicated that the proposed rule, if made, will necessitate minor consequential amendments to the Retail Market Procedures.²⁷

AEMO has therefore proposed a delayed implementation of the rule (if made) of at least three months to allow AEMO a suitable amount of time to consult on and make the required changes to the Retail Market Procedures.²⁸

The rule change request does include a proposed rule.

Copies of the rule change request may be found on the AEMC website, www.aemc.gov.au.

OUESTION 1: THE PROPOSED SOLUTIONS

- 1. Do you agree with AEMO's assessment of the costs and benefits of making the rule in regards to:
- Recognising exempt sellers selling gas to related parties in the NGR in NSW-ACT, South Australia and Queensland?
- Recognising the exempt seller regime in the NGR in Victoria?
- Addressing the naming discrepancy for registrable categories?
- 2. Do you think there is a different solution that may better meet the NGO?

1.4 Assessment framework

1.4.1 Achieving the NGO

The Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national gas objective (NGO).²⁹

The NGO is:30

to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

²⁷ Rule change request, p. 4.

²⁸ ibid.

²⁹ Section 291(1) of the NGL.

³⁰ Section 23 of the NGL.

The Commission considers that the aspects of the NGO relevant to this rule change are the promotion of efficient investment in and operation of natural gas services with respect to price.

1.4.2 Proposed assessment framework

To determine whether the proposed rule would be likely to promote the NGO, the Commission will assess the rule change request against an assessment framework. The proposed framework relates to the following:

- Do these issues create an inefficient barrier to entry in the retail gas market?
 As described in section 1.2.1, AEMO considers that the existing arrangements create a barrier to entry into the retail gas market for exempt sellers. If made, the proposed rule would enable exempt sellers to retail natural gas as an alternative to authorised retailers under certain circumstances.
- What is the proposed rule's impact on competition and choice in the retail gas market? The Commission notes that some parties would become eligible to register as self-contracting users if the proposed rule was made, while other consumers would be able to purchase natural gas from market participants that are exempt sellers, in addition to market participants that are authorised retailers.

The proposed solution has potential costs and benefits for market participants. The Commission is interested in stakeholder's views on AEMO's assessment of the costs and benefits of the proposed rule.

The Commission considers that the issues raised in the rule change request focus on whether the NGR should recognise the exempt seller framework in the NERL. It does not raise any issues regarding the merits of that exempt seller framework itself or the details of how that framework currently operates. These matters are part of the Commission's current review into the arrangements regarding embedded networks in the electricity and gas sectors in Updating the regulatory frameworks for embedded networks.³¹

³¹ See: https://www.aemc.gov.au/market-reviews-advice/updating-regulatory-frameworks-embedded-networks

2 PROCESS FOR THIS RULE CHANGE

2.1 Treatment as a non-controversial rule change

The Commission considers that the rule change request is a request for a non-controversial rule because it is unlikely to have a significant impact on a market for gas or the regulation of pipeline services.³²

The proposed rule is not expected to impose a significant cost burden on any market participants. The rule would impact AEMO as it would be required to make minor consequential amendments to the Retail Market Procedures. If made, the proposed rule may impact the one exempt seller that had been permitted to participate in the NSW-ACT gas market as a self-contracting user if that exempt seller still needs to participate in the NSW-ACT retail market. The proposed rule, if made, could affect other parties in a similar situation to this exempt seller in the future, although the Commission does not expect there to be many such parties. If made, the rule change is also not expected to have any significant effects on the state of the retail gas markets where the rule would apply.

The Commission has decided to use an expedited process to consider this rule change request provided that it does not receive any valid requests not to use the expedited process by 21 March 2019. To be valid, an objection should set out the reasons why the rule change request will have a significant impact on a market for gas or the regulation of pipeline services.

2.2 Key dates

Given the tightly defined nature of the issue, and the background information provided in the rule change request, this consultation paper is brief. Nevertheless, submissions are invited in relation to the matters identified above, and any other relevant issue.

The key dates for stakeholders in this expedited process are as follows:

- commencement of this rule change process: 7 March 2019
- objections to an expedited process to be received by: 21 March 2019
- submissions to the request to be received by: 4 April 2019
- final rule determination to be published: 2 May 2019

³² Section 290 of the NGL.

3 LODGING A SUBMISSION

The Commission invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to Orrie Johan on (02) 8296 0631 or orrie.johan@aemc.gov.au.

3.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s. 304 of the NGL must include reasons for the request, and must be lodged with the Commission by 21 March 2019 online in accordance with the process specified below.

3.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with the Commission by 4 April 2019 online in accordance with the process specified below.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.³³ The Commission publishes all submissions on its website, subject to a claim of confidentiality.

3.3 Lodging online

Submissions, or requests not to make a rule under the expedited process, must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code GRC0053.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

³³ This guideline is available on the Commission's website www.aemc.gov.au.

ABBREVIATIONS

AEMC Australian Energy Market Commission
AEMO Australian Energy Market Operator

AER Australian Energy Regulator

Commission See AEMC

FRC Full retail contestability

NECF National Energy Customer Framework

NERL National Energy Retail Law
NERR National Energy Retail Rules

NGL National Gas Law
NGO National gas objective
NGR National Gas Rules