



A division of Marden Energy Pty Ltd  
ABN: 99 076 010 583

PO Box 2296  
Mount Waverley, Victoria, 3149  
Tel: 03 9807 5286  
Fax: 03 9888 3096  
[www.networkenergy.com.au](http://www.networkenergy.com.au)

14<sup>th</sup> March, 2019

Updating the Regulatory Frameworks for Embedded Networks  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY NSW 1235

**Reference: EMO0036**

Dear Project Leader,

The comments provided in this submission reflect the view of Network Energy Services and the interests of our Exempt Selling clients and their internal customers.

Network Energy Services is an Embedded Network Manager (ENM) working with approximately 150 Retirement Villages, Land Lease villages and 'Over 55s' resorts structured as embedded networks. In addition to our role as ENM, we provide data management, billing and customer service for about 20,000 customers in these embedded networks.

Our chosen market segment is embedded network sites occupied by retirees, and we represent clients who seek to use embedded networks and electricity on-selling to provide benefits for residents and in turn enhance the image and reputation of the Embedded Network Operator (ENO). These clients include high profile entities that are very fair to their residents and extremely conscious of their responsibilities to residents, the industry and the community.

Our operating model is such that the benefits that can be achieved from electricity on-selling/embedded networks are returned to the consumers usually as a combination of cheaper electricity and to reduce the cost of living (i.e. reduce rent and/or service fees).

On behalf of our clients and their end-user customers, we consider it important that the AEMC team is made aware that embedded networks provide significant benefits to consumers in certain instances. In particular we refer to the hundreds of electricity on-selling 'communities' that are established for the benefit of the residents, particularly retirement villages and over-55 resorts that are embedded networks. There are tens of thousands of residents that receive low priced electricity plus reduced accommodation costs while receiving specialised services in these embedded networks which are often run by residents themselves or by caring operators who view the benefits for residents as a selling point for their village.

Our clients and their customers recognise that there are some exempt sellers who do not place their interests of their customer as a priority. We however urge that the positive aspects of embedded networks and what they can provide consumers should not be overlooked

when reforms to protect consumers and provide the greatly needed means to achieve right of choice are developed. We request that care be taken to not unnecessarily impose additional costs for embedded networks to the detriment of those consumers benefiting within these communities.

This submission has a focus on achieving effective right of choice and also promoting fairness in the handling of legacy embedded networks. It provides input that may assist in having workable right of choice mechanisms, but also raises considerations designed to maintain benefits for consumers by not imposing extra and unnecessary costs on their embedded networks - particularly those legacy embedded networks that have in many cases been implemented by residents at their cost so that they can have control over their community electricity on-selling and are sharing in the ensuing benefits.

It may be food for thought to remember that the thousands of very satisfied embedded network consumers in retirement villages are perhaps invisible to the AEMC because those residents are satisfied with their service and feel no need to complain to authorities.

### **Facilitate right of choice by enabling NEM retailers to offer bundled prices**

Effective right of choice is very important for fairness to consumers but also to the embedded network industry as it will help to provide fair comparison between ENO pricing and retailer pricing. Ethical pricing comparison and the subsequent ability to move away from unfair ENO pricing can eliminate poor treatment of consumers. Hence those ENO and Exempt Sellers who are operating ethically and morally can benefit from enhanced reputation and customer loyalty.

A major barrier to right of choice is the current lack of opportunity for consumers wanting to churn to find a retailer willing to supply them. Retailers seem unwilling to supply consumers on an 'energy only' basis. There may be many reasons behind this, however an important consideration is that consumers are used to comparing bundled offers. Currently there is no standard basis for ENO to provide a retailer with the network component of a bundled price, and there is no standard process between retailers and ENO for the charging and payment process for those network charges. The AEMC proposal addresses this matter and if that is achieved then consumers will have access to the practical ability to compare bundled prices and be charged bundled tariffs by a retailer.

The proposal mandates payment of the shadow network tariff by NEM retailers to ENSPs or ENO, an action that is necessary for the latter parties to have confidence in the process.

The shadow network charging procedures recommendations will provide a standardised approach that can be acceptable to NEM retailers and ENSPs/ENO in respect to AEMO identifying the shadow network charge, standardized inclusions in statement of charges and standardized format for the statement of charges.

Concerns remain in relation to failed retailers defaulting on payment of the shadow charges; however if a retailer becomes insolvent then there should be a minimum period of exposure to defaulting before another retailer assumes responsibility. The extent of the exposure then becomes limited by the terms of payment for shadow pricing (30 days perhaps?). What rights will ENSP/ENO have to challenge a NEM retailer's solvency if payments are not made by due dates?

In legacy embedded networks the proposal for the ENM to receive metering data and generate on-market child network bills has merit. The actual shadow network charge applied

can be as determined by AEMO. NEM retailers will not be restricted in making bundled offers to off-market consumers because they will know the shadow network charge component that will be included.

Provision may be needed for the ENM to receive metered data from the NEM retailers MDP so that the ENM can prepare the invoice for the network charges.

We see the proposed standardised arrangements for shadow pricing as being essential to NEM retailers offering bundled pricing, and that will facilitate greater choice for consumers.

### **Legacy embedded networks**

This AEMC paper has been outstanding in so many ways in addressing ways to provide a fairer deal for electricity consumers in new embedded networks.

It is somewhat disappointing for us to then perceive a sentiment that may be to the detriment of many thousands of consumers when the paper deals with legacy embedded networks.

The paper states that the next stage of the review, and leading up to the report's final publication, will consider which, if any, legacy embedded networks to transition to the new framework. The paper seems perhaps too emphatic as it discusses that there may be benefits in requiring certain grandfathered exempt network service providers and exempt sellers to transition to the updated framework.

In the paper's efforts to reform the embedded network sector, there may not be adequate recognition, or understanding, of the benefits for consumers from legacy embedded networks and the extent that some of the reforms will be detrimental to consumers.

Of course there may be embedded networks that do not have the consumer's interests as a major priority and we totally support enabling consumers to access a fair deal in such situations.

For the AEMC paper to prorogue the handling of legacy embedded networks may indicate the dilemma of how some legacy embedded networks that do not provide fairness for consumers should transition to the new framework so that consumers can access fair treatment, while other legacy embedded networks that have fairness and benefits for consumers as their primary concern should not have to transition to the new framework because to do so would be to the considerable detriment of the very consumers that the AEMC paper is seeking to help.

This submission very strongly requests that consideration and appreciation be shown for the many thousands of consumers that currently enjoy benefits from embedded networks to a much greater extent than they would if they were customers of NEM retailers.

One consumer group that can be used as an example are retirement villages, many of which have themselves implemented their embedded networks, and many others who have owners that have endorsed and supported the same principle of using the embedded network to provide greatest benefit for the consumer.

By way of background, retirement villages residents pay the costs of operating and maintaining their village via a monthly service fee. Typically the village embedded network (usually regarded as the community electricity service) provides residents with not just cheaper electricity, but also with customer service and tariffs customised for retirement living, reduced

cost for the village common facilities electricity (which is paid for by residents), and then use of any cash surplus from the electricity on-selling to reduce the residents' village service fees. It means that village residents benefit in many ways, directly and indirectly.

For most of these villages, residents and the village budget benefit greatly from the embedded network, and indeed some villages specifically seek to use the embedded network to lower resident's overall cost of living. A NEM retailer has no interest in providing such benefits to residents and their village and preservation of this type of opportunity for retirees and low social-economic groups (such as caravan parks), should be a priority of the AEMC reform.

Residents living in villages that use their embedded network to benefit the residents are most unlikely to churn as they will be overall worse off by changing to a NEM retailer.

Of course any resident in legacy embedded networks that do want to churn and become on-market customers should be able to do so. The mechanism to facilitate such churn in a legacy embedded network already exists, but has been impractical to date because NEM retailers did not want to provide offers.

It would seem to counter to the objectives of the AEMC paper to deny retirees the benefits that they achieve in their embedded networks simply because NEM retailers would not provide offers. It will be far better to enable NEM retailers to make offers to residents so that they can consider becoming on-market customers, and the AEMC paper does provide the solution for those offers to be provided.

When NEM offers can be made to embedded network consumers then the two situations can live in harmony. Legacy embedded networks can remain as exempt networks and residents within those networks can have their right of choice. The situation can provide the best of both worlds.

The existing process involving the ENM providing a NMI, plus the proposed AEMO determination of the shadow network prices should enable NEM retailers to provide bundled pricing offers and to sign up customers. The challenge for NEM retailers to attract customers away from good community electricity schemes may be difficult, but if the objective of AEMC is for consumers to have the most beneficial situation, then provision for right of choice should be able to work in harmony with good legacy embedded.

The above process does not require all off-market child meters to have NMI's allocated because NMI's can be created by the ENM on an as required basis for consumers investigating churn. It is likely that there will be low appetite for churn among consumers in good embedded networks hence requiring all child meters to have an NMI would be an unnecessary use of resources and only add unnecessary cost to the detriment of village residents.

The problem for legacy embedded networks transitioning to the new framework relates to the extra, and unnecessary, costs for retirement villages that are likely to accrue. Many of the legacy sites were established in accordance with regulations and requirements that were valid at the time of implementation and which may have since changed. This is particularly relevant for electrical infrastructure whereby older embedded networks such as caravan parks and retirement villages would have installed compliant metering at the time of their development however this older infrastructure may not be readily convert to NEM metering and Service Installation Rules (SIRs) that different distributors may apply in 2021.

Grandfathering the exemption regime will be essential so that the oldest embedded networks do not incur significant costs to meet the infrastructure requirements to meet the SIRs and NEM metering requirements. The financial impact to a small operator to modify their electrical infrastructure to meet 2021 standards would be detrimental and in some instances could jeopardise their solvency.

The extra costs for some legacy embedded networks to transition to the new framework is expected to include meter replacement, structural changes, remote meter reading systems, MPs, MDPs, MCs,, additional overheads, operating costs, and costs of external industry participants and authorities. There are also auditing, compliance and licensing costs to obtain licensing as an Off Market Retailer and ENSP or to appoint a company to provide all of these additional services.

The question of what cost to satisfy the new regulatory requirements is a significant one. The extent of this cost will influence whether developers and operators decide to structure as embedded networks into the future, or whether they decide not to.

For older embedded networks they do not have this luxury of choice. They are already structured as embedded networks. In the case of retirement villages and caravan parks costs related to running their embedded network impact the levy or rent that is charged to their residents to live in their relevant village or park. Imposing substantial costs to meet the new reforms will increase the cost of living for these older and vulnerable consumers. In the most severe cases the additional costs would make it impossible for the village or park to offer competitive rates to their consumers which could result in mass churn of consumers going on market. This would result in consumers receiving worse offers from the Exempt Seller and severe financial detriment to the operator.

This would be a situation where the regulatory burden would be a cost too great for certain community based embedded networks to accommodate.

It has been suggested that when determining what changes are to be made for legacy embedded networks that a "no worse off" test be considered. Such a test for retirement villages would need to take into account benefits to consumers that extend beyond the bill.

It may be that when determining which "certain grandfathered exempt network service providers and exempt sellers to transition to the updated framework" that consideration be given to the community structure and transparency of the customer base.

In community electricity networks, for example retirement villages, the pricing structures are uniform and transparent for all residents, firstly because that is fair and in keeping with ENO objectives, and secondly because it is a "village" environment where residents in the course of their social interaction share information (such as electricity bill prices), and as a community they monitor the service and benefits that they receive. In such environments, electricity pricing and benefits must satisfy the consumers otherwise consumers will express their dissatisfaction and they have the people power to effect change.

The above community situation contrasts with, for example, apartment style accommodation where tenants do not interact and individual tenants can be treated differently and even disadvantaged.

## **Follow up**

Network Energy Services has been supporting and providing ethical services within the embedded network sector and specifically in the retirement village space for more than 20 years. We would welcome the opportunity to follow up our submission by meeting with AEMO representatives to ensure a comprehensive understanding of legacy embedded networks and to assist in ensuring regulatory change delivers on the stated objectives in this area for the benefit of all consumers.

Dennis Etchells