

15 May 2017

Response to AEMC Review of regulatory arrangements for Embedded Networks.

Reference: RPR0006

Owen Pascoe
AEMC Director

Dear Sir,

This paper is a timely reminder of the maturing of the embedded network sector of the electricity market and is an excellent review of many aspects relating to the role of embedded networks in the electricity market.

From our perspective as an intending Embedded Network Manager the paper would appear premature having regard to our inability at this time to assess how our new role will perform in practice and the extent to which it will assist off-market customers to access retail offers.

One reason for us responding to the paper is to reinforce the view that is expressed in sections of the paper that embedded networks can be very good for consumers. Notation 30 on page 25 points out that some embedded networks pass on all savings to the consumers. We can confirm that to be the case in many retirement villages where even though the ENO is the village owner the embedded network has been established with the main purpose of feeding benefits to residents, either (usually as well as) in the form of cheaper electricity or as a source of revenue to reduce the residents village service fees.

Many thousands of retirement village residents enjoy a reduced cost of living by virtue of the electricity on-selling (or community electricity system as it is often called) and whilst the village owner does not seek a share of the financial benefits they do benefit from a village culture where residents appreciate the electricity on-selling and also the marketing value that the embedded network brings to sales.

In the above situation residents generally enjoy electricity prices that are cheaper than the best market rates plus flexibility in terms of pricing models that are most suited to retirement living and also changes in village electricity prices generally lag Standing Offer benchmark price increases by several months. It is in the interests of villages to make the embedded network electricity so attractive to residents that they have no need to go on-market.

Notwithstanding the above and the really good story that we ask not be overlooked, we have been a pioneer in electricity on-selling and fully support efforts to protect embedded network customers in situations where the ENO may not have the customers best interests at heart. This paper is therefore important to those of us in the industry that work hard to ensure that embedded networks and electricity on-selling are well perceived, fair and reputable.

Responses to questions:

- Q1 Only a few years ago the concept of anything other than a two tiered framework for selling electricity was unimaginable however as the structures have evolved we may have reached the stage where a different structure can perhaps work. Consumers certainly find electricity confusing enough without them having a “different type” of electricity thrown into the mix. There would seem to be many challenges in the pathway to change however the concept is worthy of consideration. Having said that, from our perspective of specialising in retirement villages, the concept of having a different “village electricity system” is often valued by residents and whether that community pride can still exist in another framework would be interesting.
- Q2 We are open minded to possibilities other than the two tiered system however our experience is that the current arrangement is certainly fit for purpose. As mentioned it does support the concept of a “Community Electricity Scheme” whereby a retirement village can as an Exempt Seller operate in the interests of its residents and tailor products and services that best suit the culture and circumstances of residents and the village. As a result most major retirement village and land-lease operators invest in embedded networks with the intent of primarily providing benefits for residents but also being conscious of the resultant benefits to the owner/operator from having a more desirable and marketable product. Risks mainly lie with the owner/operator (Exempt Seller and Exempt network) in physical, regulatory and commercial areas. It is difficult to see how the risks can be allocated to customers and generally there is no expectation or attempt to do so on the part of the owner/operator. There are some models where in fact a resident’s representative committee is the exempt seller because they have with the consent of the village owner/operator established the embedded network. In such a case the physical risk and some regulatory risk will be with the owner/operator whilst the commercial and some regulatory risk will lie with the residents via their representatives. Our response to the queries raised in (b), (c) and (d) are that the current exemption categories and frameworks are appropriate and whilst we may like to see better enforcement provisions we consider that it is too soon to pass judgement at this time in the evolution of the sector.
- Q3 The different jurisdictional situations are curious but can be worked around and we can see benefits in aspects of the various jurisdictional requirements. Most of the frameworks (national and jurisdictional) are still evolving and our business has to keep across all frameworks and change processes. This sub-optimises our productivity and is sometimes a source of frustration (particularly at national level) due to the extent of work involved and time delays.
- Q4 As mentioned earlier this paper is too early in the sense that the ENM role and associated information to embedded network (on and off market) customers has not yet been implemented. The ENM role can resolve most of the issues raised in Q4 however until the role is in effect and tested then empirical experience is not available. We can mention however that we consider that a degree of restraint of trade seems to apply where ENOs are subject to requirements that licensed retailers are not, often at the expense of embedded network strategies that are designed to provide customised benefits and fairness to off-market customers. In particular I can cite price-match requirements that can force an ENO to allow a special price match for one resident in an EN where that EN may be providing almost lowest prices (compared to the marketplace) for all residents but with a guarantee that the discount (to the Host retailer standing offer) for customers in the EN will never reduce. If the ENO is forced to price match for one customer in the EN who has seized upon a short-term better offer then that departure from a uniform price for all EN customers can undermine a situation for the entire EN that is much more beneficial for all consumers in the community. The intent of

the price-match requirement may be good however there should be provision so that it does not undermine a much more beneficial arrangement for the entire EN community. Such a situation (and there are others) can be considered a restraint as it can inhibit arrangements for EN customers to enjoy benefits that are not available to them from licensed retailers.

- Q5 Again as mentioned earlier this paper is too early in the sense that the ENM role and associated information to embedded network (on and off market) customers has not yet been implemented. It is pertinent to this question to comment that most problems relating to transferring off-market customers to on-market are caused by the absence of an intermediary party that can facilitate the change from off-market to on-market within the market operating system. The ENM role will address that deficiency and in due course we shall see how effective that new measure will be.
- Q6 Current protections for off-market embedded network customers are only effective if non-complying ENO are brought to account. That lack of accountability by ENO is a vulnerability and imposing further requirements may simply muddy the water and in fact diminish benefits for consumers when what is really required is a system that can bring unsuitable ENO to account. It may well be that there are ENO who do not act in the best interests of the customers and we are very keen that such ENO are brought to account so that embedded network customers (on-market and off-market) can be confident that they are being treated fairly. A point to consider in relation to consumer protection is also the benefit to consumers that can be achieved via embedded networks. As mentioned in our response to Q4 many embedded networks provide superior benefits to licensed retailers in the form of customised community focussed products and there should be flexibility to accommodate those differing benefits. In Q4 we mentioned that ENO may offer quite high discounts off the benchmark prices (Host retailer standing offer) that result in prices that are close to market best but are sustainable so that the discounts are intended to never reduce. This is quite different to prices that may be offered to consumers by licensed retailers but which can be changed at any time. So an embedded network community electricity scheme can provide strong discounts to all residents in the community and the discounts are very unlikely to reduce because they are based on prudent management of the electricity on-selling but this strategy is compromised by a requirement to price-match for an individual within the community that wants to accept a “honeymoon price” from a retailer that may end within months. The inequity of this situation is compounded when any surplus funds from the operation of the embedded network is returned to residents in the form of reduced village service charges (this is common practice). In such a case the on-market customer will get cheaper electricity than the rest of the community and then also get the same benefit as all other residents from the cheaper village service fees. That is not fair and not necessary and there should be provision to take such a situation into account when determining whether price-matching is applicable to an EN. Another benefit in a community EN scheme is that increases in residents prices may lag increases in benchmark prices by many months thereby providing off-market customers with long periods of “bonus” low prices. These are considerations that should influence requirements imposed on embedded networks. Certainly there may be ENO that are not fair to their consumers however there should be recognition that the objective of most ENO is to provide exceptional benefits and fairness to consumers and the flexibility to provide such benefits should be available to embedded networks.

Questions relating to this submission can be directed to Dennis Etchells, Network Energy Services
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