

19 January 2024

Arek Gulbenkoglul
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Submission: Ausgrid - Determination 2024-29 – Revised Proposal

Dear Mr Gulbenkoglul,

Network Energy Services (NES) is responding to the request for written submissions relating to Ausgrid's revised proposal for the 2024-29 regulatory control period.

About Network Energy Services (NES)

NES is the leading Embedded Network Manager (ENM) and utility services billing service provider for retirement villages (NR3) and over 50's land lease residential communities (NR4), assisting over 160 communities and in excess of 20,000 elderly consumers across Australia.

For the communities that our business assists, the Residents Association or community operator is the Exempt Seller. In the case of Residents Associations, they are representative resident's committees who set rates for the residents within their village, and all the benefits from the operation of the embedded network are returned to the residents either directly via discounts on resident bills or benefits to the village budget.

NES is a service provider who assists Residents Associations and community operators with the operation of their embedded networks to ensure compliance to relevant embedded network, billing and consumer regulations. The on-selling of energy is incidental to the core business of retirement villages and over 50s land lease communities (including caravan parks), however our clients maintain all control in relation to price setting and discounts to their residents as the owner and operator of their embedded network infrastructure.

The proposed introduction of embedded network tariffs

NES' interest is in responding specifically to the proposed introduction of embedded network tariffs.

Ausgrid has proposed that their embedded network tariffs will have the same structures as Ausgrid's equivalent commercial capacity tariffs, but with a higher capacity charge, introduced gradually over 5 years, citing tariff arbitrage.

Ausgrid uses tariff arbitrage as their reason for introducing new embedded network tariffs, yet at the same time fails to acknowledge in both their original and revised proposal that in developing, implementing, and operating an embedded network, it is the embedded network operators who is investing in the electrical infrastructure to create that network – everything from the point of connection to everything downstream of the parent meter.

It is not the distributor that has invested in the embedded network infrastructure, and nor is it the distributor's responsibility to maintain and service this infrastructure. In turn, distributors like Ausgrid, avoid the capital expenditure and operating expenses for this infrastructure within the embedded network. From a distributor perspective, there is only a single (or several) parent meter connection to their network.

"Australia's first accredited Embedded Network Manager"

Ausgrid (nor any other distributors) have no other network or metering responsibilities downstream of this parent meter, and so it should be effectively treated the same as any other commercial connection.

It's important to consider that in a non-embedded network retirement village (with no parent meter) where retailer meters are installed on each individual home, then distributor will be charging (via retailers) the full network tariff for every home then though the electrical infrastructure from the main switchboard (MSB) to the home will be the responsibility of the village operator. Just to clarify this point, in non-embedded networks in retirement villages, shopping centres, land lease communities and apartment building there is a private section of electrical infrastructure from the MSB to the consumer that Ausgrid (and other distributors) will utilise in the delivery of electricity to the consumer.

The injustice of this situation is that Ausgrid (and any other distributors) will charge the full network tariff to the consumers, yet there is no compensation from Ausgrid back to the operators / owners who installed the electrical infrastructure, and who maintain it. Yet, Ausgrid are not providing any arbitrage back to these owners / operators despite Ausgrid profiting 100% on the delivery of electricity to consumers in these situations.

This is the great irony of the proposed inflated embedded network tariff, because Ausgrid are seeking to have the best of both worlds. Interestingly, they are not proposing to provide compensation to non-embedded network situations whereby they have been benefiting from the free utilisation of operators private electrical infrastructure and reticulation in the delivery of electricity.

Despite the proposed embedded network tariffs by Ausgrid, the embedded network operator will still be responsible for the private electrical infrastructure within the village (e.g. cabling downstream of substation, distribution boards etc.), yet the distributor will be charging a higher tariff even though they are piggy-backing on the private network of the embedded network owner / operator.

The embedded network enables an operator to take complete responsibility for their *private network*, and in the case of retirement villages and over 50's land lease communities (including caravan parks), to pass the benefits through to consumers by structuring in this way.

In their initial proposal, Ausgrid suggests that the proposed embedded network tariffs are in response to the increasing number of consumer energy resources connected to its network; however the implementation of an embedded network has the direct opposite effect, in that it reduces the number of consumer connections to their network and avoids all related infrastructure costs.

Existing embedded networks were developed embracing operating models using the current network tariff structures in place. The extra revenue that is garnered by Ausgrid will be at the expense of consumer discounts, particularly in retirement villages where the embedded network is operated entirely for the benefit of elderly residents, and intended to reduce their cost of living.

Consumer Detriment from the proposed Ausgrid Embedded Network Tariff

NES has modelled the potential real world impact on various retirement village embedded networks (NR3) that it provides services for across the Ausgrid region, and the three proposed embedded network tariff categories.

We undertook an analysis of three network tariff bands where the embedded network tariff has been proposed to determine the impact on three community focused retirement villages. The impact of the 50% increase in the Capacity Demand, which is proposed after five year, serves to substantially erode the discounts that elderly retirement living residents would benefit from, adding substantial cost to their annual billed amounts:

Client 1 (LV 160-750 MWH): Impact of move to network tariff EA314

- Retirement Village size: 68 homes (note: this is still a developing village)
- Forecast annual financial gain by Ausgrid: \$16,500
- Forecast annual impact to consumer: Resident electricity costs to increase on average by an estimated \$180 per home per annum.

Client 2 (LV >750 MWH): Impact of move to network tariff EA315

- Retirement Village size: 294 homes
- Forecast annual financial gain by Ausgrid: \$26,000
- Forecast detriment to consumer: Resident electricity costs to increase on average by an estimated \$120 per home per annum.

Client 3 (HV Connection): Impact of move to network tariff EA365

- Retirement Village size: 163 homes (note: this is still a developing village)
- Forecast annual financial gain by Ausgrid: \$12,500
- Forecast detriment to consumer: Resident electricity costs to increase on average by an estimated \$50 per home per annum.

In the examples outlined above, Ausgrid's new embedded network tariffs (for the NR3 exemption class) will increase the cost of living for elderly consumers, the majority who are pensioners, in every situation. The impact will also be experienced by low socioeconomic consumers residing in over 50s land lease communities and caravan parks (NR4). The disparity will be exacerbated further into the future since new villages are increasing their demand capacity to accommodate greater electrical load to accommodate electric vehicles (EVs) and charging solutions.

The AER's Draft Decision in relation to Ausgrid's proposed embedded network tariffs

The AER initially did not accept Ausgrid's proposed embedded network tariffs as outlined in the Draft Decision of September 2023, explaining that not all elements complied with the NER pricing principles.

Ausgrid were requested to consult further on its proposed embedded network tariffs to ensure a wider range of stakeholder views were obtained, with the AER citing the large number of submissions that directly related. Specifically, the AER requested that Ausgrid was required to do the following to achieve compliance with the NER pricing:

- Detail its engagement in developing its embedded network tariffs, including a timeline and the different stakeholders it consulted in developing its embedded network tariffs
- Detail how it calculated the 50% additional demand charge and whether it considered alternative tariff structures for embedded networks
- Detail the assumptions underpinning its calculations and proposal (for instance, whether it considered different tariffs for residential compared to commercial embedded networks)
- Explain the cost on the network of not introducing an embedded network tariff.

Ausgrid's revised proposal

While on face value Ausgrid has provided a table of stakeholders that it advises it engaged with between 17 December 2021 and 30 September 2022 (attachment 8.15), we would like to note that there is no summary of the feedback provided by these stakeholders, and nor is there any clarity provided as to whether any of these stakeholders were in support of the proposed introduction of embedded network tariffs or not. Rather, Ausgrid makes reference to how the unpublished feedback was considered. We note that we have not been able to identify any evidence of any subsequent stakeholder engagement that Ausgrid may have facilitated.

We note that in their revised proposal, Endeavour Energy considered feedback received from the Caravan and Camping Industry Association of NSW (CCIA NSW) in that, in the case of holiday parks, proposed to limit the application of the embedded network tariffs to sites greater than 160 MWh per annum. However, we suggest going a step further and not applying the new proposed embedded network tariff to exemption classes NR3 and NR4 entirely. It is embedded network operators in these classes who largely serve elderly, retired pensioners and low socioeconomic consumers, where the benefits are being passed onto consumers.

Housing affordability is currently at crisis point in Australia, with retirement living and over 50 land lease communities enabling the older demographic to downsize, freeing up much needed housing. Any further increase in utility costs for this demographic would be devastating.

We note that there are two other reviews running concurrently that focus on embedded networks;

- IPART is reviewing the future of embedded networks in NSW
- The AER's review of the AER exemptions framework for embedded networks

IPART has been tasked to recommend the appropriate price protections for customers supplied electricity (and gas or hot or chilled water) through an embedded network. IPART's draft report recommends that the existing Default Market Offer (DMO) price caps are not appropriate for embedded networks, and is considering the introduction of a lower pricing cap using the average median price of the best market offers. This outcome would result in lower consumer prices, but at the expense of higher exempt seller costs.

As a result of the growth of embedded networks, the AER's review of the exemptions framework for embedded networks seeks to better understand and balance the harms and benefits for embedded network customers, and identify the best way forward to strengthen existing consumer protections, with a great focus on residential apartments (NR2). Any additional requirements passed through to embedded network operators as part of this review (such as regulatory reporting), will only add further administrative burden and cost to the operation of embedded networks.

The financial viability of many embedded networks have been further compounded by the recent volatility in the energy market which has been problematic for embedded network operators (and many retailers), particularly those who have fallen out of contract for electricity. In many cases the costs for embedded network operators have increased by 300% to 400% for those who re-contracted during the height of the energy market volatility.

Consideration must be given to embedded network operators who are already incurring excessive electricity costs at the parent meter, to ensure that they are not forced into a negative position to the detriment of everyone involved – consumers and operators alike – and particularly vulnerable low-income consumers such as those living in retirement village and over 50s land lease communities (and caravan parks).

Embedded network parent meter connections should be treated in the same way as other commercial metering connections, and be charged at the relevant network tariff. To approve Ausgrid's proposed Embedded Network tariff structure would be to change the fundamental cost base that underpins embedded network operations.

Network Energy Services has been assisting community Exempt Sellers for over 20 years, and we welcome any queries relating to this submission.

Yours sincerely,

Damian Arsenis
General Manager
Network Energy Services
