Villa 111, 1 McClintock Drive,
MURRUMBA DOWNS QLD 4503
30th September 2016

Mr. Chris Pattas,
General Manager, Networks,
Australian Energy Regulator,
PO Box 520.
MELBOURNE VIC 3001

Dear Sir SUBMISSION – NETWORK EXEMPTION GUIDELINE REVIEW

I make the following submission relating to the Embedded networks Final Rule Determination in the light of the full financial effect that it has had on one retirement village – prematurely!

Comments are made assuming the restriction, currently in place by Queensland legislation preventing outside retailers selling within an embedded network, is removed by the Queensland Government.

BACKGROUND

My wife and I chose to move into a newly established retirement village in September 2009. Development of the village continued from the original 45 villas constructed, to the fully developed stage of 187 villas in June 2015.

We hold a leasehold accommodation tenure for 49 years. Consequently, absolutely everything in the Village is owned by the Scheme Operator including meters.wires and cables. Leaseholders own only their own furniture and personal effects.

Some villages are set up with freehold title with each of the unit holders owning their unit.

Construction of this Village was set up as an Embedded Network with a direct supply of electricity to the Village Operator who sells as an Exempt Retailer to the individual villas.

The Village Operator owns or managers over 60 retirement villages throughout Australia. As a result they have been able to negotiate over the intervening years a very competitive price for the Village's electricity. The current rate is 13.64 cents plus GST per kWh (15 cents incl. GST). **On this rate, one must ask, who in the village would want to seek a more competitive price from an outside retailer.**

Each villa in the village is separately metered. Since commencement of the Village, various arrangements have been made to read the meters, either by staff or casual arrangements. Staff members have always calculated the electricity cost for each villa from the meter reading information and added the cost to our General Services Charges account, each meter reading interval.

Meters have been read and billing conducted by staff prior to 1st May 2016.

Residents have been happy with the pricing and billing arrangement and no problems have been encountered.

PRESENT SITUATION

Our village scheme operator became aware of the proposed rule change and belatedly registered as an Exempt Retailer on 16th February 2016. Obviously our Scheme Operator saw this as an opportunity to shed the responsibility of having to abide by some of the conditions of an Exempt Retailer, particularly the requirement to produce detailed electricity accounts, citing that they were unable to do this.

On 31st March our village was informed, without any consultation that, as from the 1stMay 2016, an embedded network manager, would be reading the meters and issuing accounts on a two monthly cycle. The business appointed has never called themselves an ‘embedded network manager’.

The residents were denied the opportunity to discuss this arrangement or to exercise any of the remedies available under the Queensland Retirement Villages Act of 1999 until the 11th May by which time the arrangement was in place.

In a retirement village, the entire village’s costs of operating are borne by the residents which in our case, is in excess of $1,100,000 per annum met by 187 villa occupiers. Containment of operating costs and seeking the most cost effective alternative is a constant part of retirement village life.

The cost of reading the electricity meters, issuing and collecting accounts is $8.40 per month plus GST per villa (ie $20,735 incl. GST, per annum added to the operating costs of the village.) These costs, which could rise at any time in the future, are almost equal to one third of the total costs of electricity for the village for the current financial year – just to read the meters and issue accounts!

So, at the present time we have a business reading our meters and issuing and collecting accounts, some fifteen months prior to the appointment of an ‘embedded network manager’, <u>maybe</u>, becoming obligatory.

RETIREMENT VILLAGES

Recognition needs to be made of the different methods of operating Retirement Villages in that freehold and leasehold titles may be involved. With freehold, the resident obviously has title over that portion of land in which their villa is situated (which could include garden surrounds) while residents in a leasehold village have a registered lease solely over that part of the ground floor of a villa situated on the Village land.

Queensland Legislation requires that prospective residents are issued with a ‘Public Information Document’ prior to entering a village. The PID forms part of the resident’s contract. One of the requirements of the PID is to set out the resident’s rights and obligations regarding the resale process which includes the obligation to meet the costs of re-instating the unit, on being vacated, to the condition applying at the time of entry.

‘Ownership’ of the unit obviously differs between the two systems as does the individual resident’s rights and obligations. With Leasehold, the residents own nothing excepting their furniture and personal effects within the unit (this is the situation applying to this Village).

These differing situations give rise to questions as to how the need to upgrade a meter would be treated. With a freehold title, it is thought that the resident could upgrade as required but the resident (or Executors) may still be required to re-instate the ‘old’ meter on vacating. With Leasehold, permission would be required prior to any meter upgrade and re-instatement by the resident or Executors of the ‘old’ meter on vacating. All costs would be for the resident to pay.

The first stage of this Village was completed in August 2009 with a DDS 666 Single phase Electronic kWh meters installed and other stages followed progressively prior to 1st January 2012. It is thought that these meters would now, undoubtedly, be unsuitable for use by a market retailer and would need replacing at the customers cost. It is thought that approximately a half of the villas in the village were completed prior to 1/1/2012.

The final stage was completed in the first half of 2015. A Matelec FKW 14110 meter was installed in these villas. We are unaware of the suitability of these meters to an outside retailer. We assume if NER non-compliant, that replacement would be at the embedded network operator’s cost; if NER compliant, replacement would be at the customers expense.

Should the proposed rule change be accepted, it appears that the costs to residents in this village could be the total of:-

- The annual cost for having the meters read and accounts issued. This is included in the annual village general service charge budget and charged in conjunction with the monthly or weekly General Services Charge accounts.
- Following permission to do so, the cost of purchase of a meter and electrician’s installation of an upgraded meter.
- Possible rental/lease charge by the Village Operator for use of the operator’s meter/cables/wires etc.
- Cost of re-instating the original meter on vacating the unit if required.
- Network charges?

- Cost of any other condition imposed by the Village Operator.

(We do not have the technical knowledge to comment on the need for possible changes to the "parent" installation.)

SPECIFIC QUESTIONS

Question No 1
Responsibility should rest with the retailer.

Question No 2
Would certainly prefer no meter reading charge at all.
The situation existing in this Village could allow future meter reading and billing costs to increase by the Village Operator and ENM, with residents having to resort to some outdated remedies under the current Queensland Retirement Villages Act 1999, if considered excessive.
Costs should be capped with any increase being less than CPI.

Questions No 3&4

Up to 1/5/16, the only cost other than the cost of electricity incurred in this village was the cost of staff time.

It is thought that most Villages with an embedded network, would have arranged an advantageous energy price and as such would be unlikely to seek a more competitive price outside.

Questions No5&6
Bearing in mind that the appointment of an ENM, increases the cost of energy supplied to the Village by at least 5cents per kWh and the cost of a meter upgrade, no other charges should apply.
Residents should be allowed to use the existing lines at no cost. (It has been suggested at one Village that an underground cable connection to the outside supply would be a condition of approval by the Village Operator.)

Question Nos 7/8/9
Over recent years the shift from Church owned retirement villages to Corporate owned villages and operated for profit, has accelerated. While Village operators derive their profits from the initial villa sales and re-sales, no effort is spared in pursuit of increased profits by any other means.

It is difficult to support a situation, where a resident of a retirement village in seeking a more competitive energy price then that organized by the Village Operator, and where replacement of the Village Operator's out dated meter is involved, that the meter replacement will be at the resident's (customer's) cost.

The question of ownership arises in a leasehold village, should the market retailer be required to meet the cost of a replacement meter in the Village Operator owned village.

Question No 10

No Opinion

Question Nos 11&12

Insufficient knowledge to comment.

Question No 13

The cost of an ENM appointed to a retirement village is shared of a per villa basis so putting a limit on the number of units is irrelevant. The cost per Villa in a 29 unit village or a 350 villa village would be much the same. (Based on known costs for two Villages of 187 villas and 380 villas)

The number of Villages under 30 units is very likely to be in the minority. However if it is to be, some limit, is supported.

Question Nos 14/15

As mentioned in the introduction, our Village Operator appointed a manager from the 1st May 2016. The cost to this Village for the current financial year is - $9.24 per villa per month (incl GST) ie $20.734 to read and issue accounts to 187 villa customers (estimated total villa electricity usage per annum $40,000) plus seven meters in the common area. (Estimated common area usage cost, $30,000).

In effect, residents of this Village are paying $20,734 to collect $40,000 from their fellow residents plus the common area $30,000. This cost is allowed for and paid in our general service charge budget. All costs of operating a retirement village are met by the residents.

If the rule change applies from 1/12/17, we can only hope that market forces will decrease the current cost of an ENM. A competitive process is thought to be the best method of appointing an ENM.

Question No 16

The additional costs will have no affect on the liability of the network as there is no cost to the network owner. It is just another cost of operating the Village to be borne by the residents.

Question No 17

The curtailment of operation costs in a retirement village, is a constant battle. Residents of any village could never be ‘happy’ with a sudden increased cost of this magnitude.

Question Nos 18&19

Retirement Village operating costs are shared on a per villa basis by all residents. In this respect no other specific measures are warranted.

Question No 20&21

The Embedded Network Customers' involvement in the appointment of an ENM is supported wholeheartedly, to ensure any appointment is at arm's length. This also sits comfortably with the Queensland Retirement Villages Act which contains provisions for dealing with increases in costs of some services. Where this occurs the Act provides for the Operator to search out a more cost effective alternative. Appointment by a competitive process gives the residents of a village some control over the choice and costs of an ENM.

Yes, twelve months is ample time. In this Village, the appointment was in place within two and a half months from when our Village Operator registered as an Exempt Retailer.

Questions No 22/23

No Opinion.

Question Nos 24/25/26

Proposed mechanism seems to provide suitable solutions.(excepting this village).

Question No 27

Access to the Ombudsman is welcomed.

Question No28

Agree with the amendments.

Question No 29

Agree with the amendments which seem to cover all possible restrictions by the service provider or the ENM.

Questions N0 30

Agree with amendments. Maybe a percentage acceptance could be considered.

CONCLUSION

Many retirement villages receive power direct from the major retailers; not all retirement villages have embedded networks. The number of villages that do is unknown but is thought to be very much in the minority. In fact seeking information through the Association of Residents of Queensland Retirement Villages, only four responded positively from the 350 villages in Queensland with membership in the ARQRV.

Unfortunately residents in those which do and who are unaware of this proposed rule change, will be made aware when it is too late. Some may be aware now but unfortunately apathy rules in retirement villages, with many residents resigned to their retirement lifestyle and consequently don't wish to be involved. Perhaps the

AER is better placed to answer the question of numbers, through the registration of exempt retailers.

Should the discussion process result in retirement villages being exempt from the requirement to appoint an ENM, this Retirement Village will still be locked in with the current arrangement with the resultant increased costs and without any means of cancelling the arrangement hereafter and with residents subject to possible annual increases in line with CPI at least.

As a result, it is of little consequence to the residents of this village, whether or not in the long term, an embedded network manager is required by AER regulations. However should retirement villages in general be subjected to the proposed rule changes, then this village may enjoy some protection, depending to the conditions and penalties imposed on Exempt Retailers by the AER for breaches of the regulations.

However, we hold the view that it is difficult to contemplate any real cost benefit to any resident of a retirement village in seeking a more competitive energy price. Bearing in mind all the additional costs, it is considered that the appointment of an ENM, an unwarranted and unwanted “middle man” financial intrusion, whereas the desired results may have been possible, simply through additional regulations placed on the exempt retailer.

Question – If residents could successfully access competitive prices when home owners in suburbia before moving to a retirement village, why do they now need an ENM to achieve the same result? They can still be as successful now if there are no restrictions.

We remain of the opinion that the cost of appointing an ENM, for retirement villages at least, outweighs the benefit of any appointment.

John Scouller
Retirement Village Resident