

## The Future of Embedded Networks in NSW

### Lack of Competition in Embedded Networks in Residential Land Lease Communities and Caravan Parks

#### **Executive Summary**

This report investigates the issue of limited competition in embedded networks within residential land lease communities and caravan parks in Australia. Embedded networks, which provide electricity and utility services to residents within these communities, often lack competitive options, leading to potential disadvantages for consumers. This report explores the causes, consequences, regulatory framework, and potential solutions to address this issue.

#### **Introduction**

Embedded networks are private electricity networks that serve multiple customers within a single property or location, such as residential land lease communities (LLCs) and caravan parks. These networks are managed by a single entity and offer utilities, including electricity, gas, and water, to residents. The lack of competition in embedded networks can result in reduced consumer choice, potentially higher prices, and limited accountability.

#### **Causes of Limited Competition**

- a. **Exclusive Contracts:** Many embedded networks are established through exclusive contracts between property owners or managers and utility providers, preventing other providers from entering the market.
- b. **High Barriers to Entry:** The cost and complexity of setting up infrastructure for competing utility providers can be prohibitively high, discouraging potential competitors.
- c. **Lack of Incentive:** The absence of competition in these markets may reduce the incentive for network operators to improve services or lower prices.

#### **Consequences of Limited Competition**

- a. **Higher Prices:** Residents may pay higher utility prices due to the absence of competitive pressure.
- b. **Reduced Service Quality:** Without competition, embedded network operators may have less incentive to invest in infrastructure upgrades and service improvements.
- c. **Limited Consumer Choice:** Residents have limited options for choosing their utility providers, leading to a lack of flexibility in selecting services that best suit their needs.

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## Regulatory Framework

In Australia, the regulation of embedded networks in residential land lease communities and caravan parks is primarily governed by the National Electricity Law and National Energy Retail Law. These laws empower the Australian Energy Regulator (AER) to oversee the pricing and quality of electricity services within embedded networks. However, the regulatory framework does not always ensure competition in these networks.

## Potential Solutions

- a. **Competitive Tendering:** Encourage property owners and managers to open utility services to competitive tendering, allowing multiple providers to submit bids for supplying services.
- b. **Regulatory Oversight:** Strengthen regulatory oversight by the Australian Energy Regulator (AER) to ensure fair pricing and quality of services within embedded networks.
- c. **Consumer Education:** Educate residents of residential land lease communities and caravan parks about their rights and options to switch utility providers within embedded networks.
- d. **Industry Collaboration:** Foster collaboration between government agencies, property owners, utility providers, and consumer advocacy groups to find solutions that benefit all stakeholders.

Appropriate price protections for customers supplied electricity, gas or hot or chilled water through an embedded network in NSW.

Price protections for customers supplied electricity, gas, or hot/chilled water through an embedded network in New South Wales (NSW) are essential to ensure fair and transparent pricing and protect the interests of residents in residential land lease communities and caravan parks. Here are some appropriate price protections that could be implemented:

### Price Transparency and Disclosure:

**Itemized Billing:** Ensure that bills sent to customers include a detailed breakdown of charges for electricity, gas, or water services.

**Annual Statements:** Require operators to provide annual statements that summarize the total costs incurred by the customer over the year.

### Price Caps or Regulation:

**Regulated Maximum Prices:** Regulators like the Australian Energy Regulator (AER) can set maximum allowable prices for electricity, gas, or water services in embedded networks.

**Price Review Mechanisms:** Implement regular reviews of prices to ensure they remain fair and competitive.

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## **Consumer Choice and Competition:**

**Allow Competition:** Encourage competition by enabling multiple utility providers to enter embedded networks through competitive tendering or open access arrangements.

**Default Market Offer:** Introduce a default market offer to protect customers from excessive prices by setting a price cap based on a benchmark.

## **Tariff Structures:**

**Tiered Pricing:** Establish tiered pricing structures for electricity or water consumption to promote conservation and ensure that heavy users pay their fair share.

**Time-of-Use Pricing:** Offer time-of-use pricing options for electricity to encourage consumption during off-peak hours.

## **Protection for Vulnerable Customers:**

**Concession Programs:** Ensure that vulnerable or low-income customers have access to concession programs or subsidies to mitigate the impact of high utility costs.

**Hardship Programs:** Implement hardship programs to assist customers who are struggling to pay their utility bills.

## **Contract Transparency:**

**Standardised Contracts:** Mandate standardized contracts with clear terms and conditions, including pricing details, termination procedures, and dispute resolution information.

**Cooling-Off Period:** Provide customers with a cooling-off period during which they can cancel their contracts without penalties.

## **Billing and Payment Transparency:**

**Billing Frequency:** Specify billing frequency (e.g., monthly) and ensure customers receive bills in a timely manner.

**Payment Options:** Offer multiple payment methods and ensure that fees for payment processing are reasonable and disclosed.

## **Notification of Price Changes:**

**Advance Notice:** Require operators to provide customers with advance notice of any proposed price changes, allowing customers time to make informed decisions.

## **Consumer Education:**

**Mandatory Information:** Mandate that operators provide clear and concise information to customers about their rights, pricing structures, and available options.

Online Resources: Establish online resources or helplines to educate customers about embedded networks and pricing.

These price protections should be implemented alongside strong regulatory oversight and enforcement to ensure compliance by embedded network operators in NSW. Regular reviews and updates to these protections may also be necessary to adapt to changing market conditions and evolving consumer needs. Ultimately, the goal is to create a fair and competitive market that benefits both residents and utility providers while ensuring the provision of essential services.

## How maximum prices should be set.

Setting maximum prices for electricity, gas, or hot/chilled water services in embedded networks in New South Wales (NSW) requires careful consideration of cost-setting methodologies and the unique circumstances of embedded network customers. While the Default Market Offer (DMO) sets price caps for electricity customers outside embedded networks, these caps may not always be appropriate for embedded network customers who have limited options for shopping around. Here's how maximum prices should be set, along with criteria for assessing cost-setting methodologies:

### **Setting Maximum Prices:**

**Cost-Reflective Pricing:** Maximum prices should reflect the reasonable and efficient costs of providing electricity, gas, or water services within the embedded network. Cost elements may include network maintenance, administration, metering, and wholesale energy costs.

**Transparency:** The pricing methodology should be transparent and clearly defined, allowing customers and regulatory authorities to understand how prices are determined.

**Regular Reviews:** Prices should be reviewed periodically to ensure they remain fair and competitive. These reviews can consider changes in market conditions, technology advancements, and efficiency gains.

**Consumer Impact:** The impact of pricing on consumers, especially vulnerable or low-income customers, should be considered. Pricing should not result in undue financial hardship for residents within embedded networks.

**Competition Encouragement:** The pricing structure should encourage competition where possible, either through open access arrangements or competitive tendering processes.

## **Criteria for Assessing Cost-Setting Methodologies:**

**Cost Allocation:** The methodology should allocate costs accurately and fairly between different services (e.g., electricity, gas, water) and different customer segments within the embedded network.

**Efficiency:** The methodology should promote cost-efficiency, incentivizing operators to minimize operational and maintenance costs while delivering reliable services.

**Benchmarking:** Comparing the embedded network's costs to industry benchmarks and best practices can help ensure that prices are not artificially inflated.

**Independent Review:** An independent assessment of the cost-setting methodology by a regulatory authority or expert panel can help verify its fairness and accuracy.

**Consumer Impact Assessment:** Assess how pricing impacts consumers, particularly those who may be more vulnerable or have limited capacity to switch providers.

**Risk and Uncertainty:** Account for risks and uncertainties in the cost-setting methodology, such as fluctuations in energy prices or unexpected infrastructure maintenance.

Regarding the Default Market Offer (DMO), it's important to acknowledge that it is designed for customers outside embedded networks who have access to a broader retail electricity market. While DMOs aim to protect these customers from excessively high prices, they may not be directly applicable to embedded network customers who have limited competition and shopping options.

Embedded network customers often face unique challenges due to their restricted choice of utility providers. Therefore, setting maximum prices for embedded network customers should take into account their specific circumstances and vulnerabilities. This may involve separate price caps or regulatory mechanisms tailored to the embedded network context.

In summary, while the DMO serves a valuable purpose in the broader electricity market, it may not address the pricing challenges faced by individual embedded network customers. Regulators should carefully consider the distinct needs of embedded network residents when setting maximum prices to ensure fair and reasonable utility costs while promoting competition and efficiency within these networks.

## Would smart meters provide cost benefits to residents in residential land lease communities and caravan parks?

Smart meters can provide several cost benefits to residents in residential land lease communities and caravan parks, leading to increased transparency, control over utility consumption, and potentially lower utility bills. Here are some ways in which smart meters can benefit residents:

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**Accurate Billing:** Smart meters record utility consumption in real-time, eliminating estimated bills. This ensures that residents are billed based on their actual usage, reducing the risk of overcharging or undercharging.

**Real-Time Monitoring:** Smart meters provide residents with access to real-time data on their electricity, gas, or water usage. This empowers residents to track their consumption patterns and make informed decisions to reduce usage during peak periods, ultimately lowering costs.

**Peak Load Management:** With access to real-time data, residents can better manage their energy and water consumption during peak demand times. This can result in lower bills, as some utilities charge higher rates during peak periods.

**Prepayment Options:** Smart meters can support prepayment systems, allowing residents to pay for utilities in advance. This can help residents budget more effectively and avoid unexpected high bills.

**Remote Disconnect and Reconnect:** Smart meters enable remote disconnection and reconnection of utilities, which can streamline the process for residents moving in or out of the community. This reduces the need for costly manual interventions.

**Improved Efficiency:** By identifying inefficiencies or leaks in utility systems quickly, smart meters can help reduce waste and associated costs, benefiting both residents and property owners.

**Tariff Optimisation:** Smart meters can support the implementation of time-of-use tariffs, enabling residents to take advantage of lower rates during off-peak hours, further reducing costs.

**Reduced Operational Costs:** Property owners and managers can benefit from smart meters by more efficiently managing utility operations, detecting issues promptly, and reducing the need for on-site meter readings.

**Environmental Benefits:** By encouraging residents to be more mindful of their energy and water consumption, smart meters can promote sustainability and reduce the community's environmental footprint.

It's important to note that the cost benefits of smart meters in residential land lease communities and caravan parks may vary depending on factors such as the pricing structure, the extent to which residents can access and utilize the data, and the efficiency of utility systems. Additionally, the upfront cost of installing smart meters should be weighed against the long-term benefits they can provide.

To maximize the cost benefits of smart meters, it is essential to combine their deployment with resident education and engagement initiatives, ensuring that residents are aware of the available tools and incentives to reduce their utility consumption. Properly managed and

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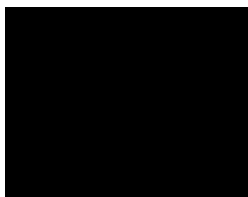
implemented, smart meters can contribute to more efficient and cost-effective utility services within these communities.

## Conclusion

The lack of competition in embedded networks within residential land lease communities and caravan parks presents significant challenges for consumers, including higher prices and limited choice. While regulatory frameworks exist to oversee these networks, they do not always promote competition. To address this issue, a combination of competitive tendering, regulatory oversight, consumer education, and industry collaboration is needed to ensure that residents have access to competitive utility services, better prices, and improved service quality.

It is imperative for policymakers, regulatory authorities, property owners, and utility providers to work together to create a more competitive and consumer-friendly environment within embedded networks in these communities. This will not only benefit residents but also promote a fair and efficient utility market in Australia.

ARPRA Ltd thanks IPART for the opportunity to have our say on behalf of residents in land lease communities.



**Gary Martin**

**Chief Executive Officer**

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