

Submission to IPART Draft Report:

## **The Future of Embedded Networks in NSW**

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CPSA receives funding support from the New South Wales Government

## **Combined Pensioners and Superannuants Association of NSW**

Combined Pensioners and Superannuants Association of NSW Inc (CPSA) is a non-profit, non-party-political membership association that promotes the rights and interests of pensioners of all ages and older people on low incomes. Founded in 1931, our aim is to improve the standard of living and well-being of CPSA's constituents.

Our services are free to all members of the public, regardless of association membership or affiliation. CPSA's core work is:

- Systemic advocacy on issues that impact our constituents, as identified through engagement and consultation.
- Providing information and referrals to the public through our information line and other communication channels.
- Publishing news, commentary and informational articles on our website that are circulated through a regular e-newsletter and monthly print publication, *THE VOICE of Pensioners and Superannuants*.

CPSA's local branches provide members with the opportunity to have a say in their local community, as well as shaping the policy and advocacy work of the organisation. Many of our membership branches are in regional areas and CPSA is proud to be a voice for our constituents across NSW.

CPSA receives funding support from the NSW Government Department of Communities & Justice under the Ageing Peaks program.

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## 1. Introduction

Combined Pensioners and Superannuants Association of NSW Inc. (CPSA) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) draft report on the future of embedded networks in NSW ('the draft report').

CPSA supports the key price setting objective of ensuring that embedded network customers do not pay more than non-embedded customers. However, it is critical that final recommendations also consider the future cost to consumers in embedded networks. This includes those that may emerge due to the energy transition, such as the cost of electrification for end users<sup>1</sup>.

CPSA agrees strongly with IPART's draft finding that the default market offer (DMO) is not an appropriate mechanism for regulating pricing in embedded networks due to the lack of consumer choice within embedded networks.

CPSA believes that the final recommendations should go further in protecting embedded network customers, and that embedded network arrangements that do not have a tangible and obvious benefit to customers must be prohibited. Too often, so-called 'innovation' comes in the form of systems that avoid regulation, exploit regulatory loopholes and leave consumers worse off. Those who face the worst outcomes are often vulnerable people who are less able to take advantage of the protections that do exist.

## 2. Comments in response to IPART queries

Below, we respond to specific queries put forward in the draft report. We have only responded to those questions in the draft report that are within CPSA's purview.

*Q3: Would a complaints-based compliance system deliver the right level of consumer protection?*

It is important that consumer protections are enforced adequately, which can be achieved through a combination of proactive and responsive methods.

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<sup>1</sup> [ACOSS 2023](#), Submission to Senate Inquiry on Electrification, p. 10

Some consumers find it difficult to access complaint mechanisms for various reasons, including that they do not know where to go. The Energy and Water Ombudsman of NSW (EWON) works actively to engage with the community and build awareness of their services, but a recent survey found that just over 30% of respondents were familiar with their name and function<sup>2</sup>.

Other potential barriers to making a complaint may be fear about potential consequences or the belief that there is nothing to be gained. Some consumers may have a hard time with accessing the system due to factors such as social isolation, digital exclusion or language barriers. Consumers may also be unaware of their rights or what constitutes a reportable breach.

Even in a best-case scenario, there is likely to be a delay between incidents of non-compliance and regulatory action, which can leave consumers in a difficult and stressful position.

For these reasons, it would be beneficial for the appropriate regulator to conduct compliance spot-checks alongside investigating complaints and reporting on systemic issues. The system should not rely on self-advocacy as this may disadvantage some groups more than others, particularly in smaller embedded networks where there are less residents and therefore it is entirely possible that no complaint will be made at all.

It would also be appropriate for embedded network sellers to be required to list EWON contact details on all communications, including bills, as well as on their website and at the commencement of a tenancy.

*Q4: Should new non-centralised hot water embedded networks be banned?*

It seems unlikely that non-centralised hot water embedded networks hold any benefit for consumers, or indeed that they provide any benefit at all beyond generating profit for property developers and embedded network sellers. Unless there are tangible and significant benefits to the end user, they should not be permitted.

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<sup>2</sup> [EWON 2023](#), 2022-23 Annual Report, p.78

*Q5: Should embedded networks using gas hot water systems be prohibited in new developments to assist in addressing cost of living pressures and assist in the NSW Government meeting its net-zero policy?*

There is significant evidence that supports the benefits of all-electric homes. This includes lower costs over time<sup>3</sup>, reduced impact on the environment<sup>4</sup>, and improved health outcomes<sup>5</sup>.

To meet our net-zero target we need to be proactive in seeking opportunities to facilitate electrification<sup>6</sup>. It is exceedingly difficult to retrofit existing networks to enable electrification. For example, as identified in the draft report<sup>7</sup>, centralised electric hot water systems are configured very differently and require more floor space. It is also likely that other complexities that are specific to embedded networks will emerge over time.

The key question is, who benefits from new embedded gas hot water systems? It seems likely that developers will benefit from the reduced cost of installation, sellers will generate profit, but ultimately the end user will bear most of the consequences. As well as higher bills that are likely to increase as the use of natural gas declines, gas appliances have been shown to be harmful to health and the inevitable cost of electrification is likely to fall to owners and occupants. It would be irresponsible to allow this to continue.

IPART<sup>8</sup> states in the draft report that “introducing a ban on gas embedded networks may be ineffective as developers could continue to use centralised gas boiler hot water systems provided by Jemena”. This is not a sound reason to rule out the prohibition of gas hot water systems in new embedded networks. An ideal solution to this concern would be to ban new gas hot water systems across the board. Unfortunately, that is beyond the scope of this review – however, it is very much within IPART’s purview to recommend that new gas hot water systems in embedded networks be prohibited. This is an essential step towards facilitating all-electric

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<sup>3</sup> [DEECA 2023](#), Save Money and the Environment, pp. 1-2

<sup>4</sup> [Climate Council 2021](#), Kicking the Gas Habit: How Gas is Harming Our Health, pp. 3-9

<sup>5</sup> [DEA 2020](#), Fact Sheet: Home Gas Appliances and Your Health, pp.1-2

<sup>6</sup> [Grattan Institute 2023](#), Getting Off Gas: Why, How and Who Should Pay?, p.3

<sup>7</sup> IPART 2023, Embedded Networks Draft Report, p.92

<sup>8</sup> IPART 2023, Embedded Networks Draft Report, p.92

homes and protecting homeowners and renters from bearing the cost of electrification down the road.

### 3. Comments on draft recommendations

*Recommendation 1: Maximum gas and electricity pricing methodology for embedded networks comprise:*

- A consumption charge set equal to the median consumption charge of each active retailers' lowest consumption charge (inclusive of discounts and GST) for their generally available offers*
- A fixed rate set equal to the median supply charge of each active retailers' lowest fixed charges (inclusive of discounts and GST) for their generally available offers.*

*A separate price should be set for each distribution district, and for small business and residential customers separately.*

*An active retailer is defined as any retailer with at least 1000 customers in NSW that has an active offer available at the time the benchmark is calculated.*

CPSA disagrees with the stipulation that the median lowest offer calculation only includes retailers with more than 1000 customers. IPART's own data<sup>9</sup> appears to show that this raises the median lowest offer when compared to the median lowest offer from all retailers. There are other options that safeguard against retailers setting up subsidiary retail operations to influence the price cap, including excluding outlying prices.

*Recommendation 7: Embedded network sellers of chilled water embedded networks be permitted to bill customers using either a consumption charge or a fixed daily rate. Sellers must use the same charging approach for all customers at a given site.*

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<sup>9</sup> IPART 2023, Embedded Networks Draft Report, Table 4.1

CPSA has concerns that the use of a fixed daily rate would prevent customers from being able to save money by reducing their use of air-conditioning. This could also have environmental implications as some customers may maximise their usage to get the best value for money or disregard their usage altogether, thereby also contributing to greenhouse gas emissions.

Further, whilst the draft report stated that IPART has heard of instances where embedded network customers were able to opt out of embedded air-conditioning<sup>10</sup>, it is unclear whether this is applicable across all networks, and it is possible new issues could emerge if this remains unregulated. It should be a requirement for sellers to provide opportunities for residential customers to opt out of centralised air-conditioning, and for this to be a simple process that is communicated clearly.

#### **4. Further comments**

Whilst IPART's review into the future of embedded networks in NSW has addressed a range of current issues, it is likely that more will emerge over time. It would be beneficial to regularly evaluate the final pricing methodologies, consumer protections and regulatory mechanisms and adjust these as needed.

CPSA appreciates the opportunity to comment on this draft report, with thanks to IPART. Further questions are welcome.

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<sup>10</sup> IPART 2023, Embedded Networks Draft Report, p.14