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Regina Choi
Independent Pricing and Regulatory Tribunal
[redacted]

THE FUTURE OF EMBEDDED NETWORKS IN NSW

Dear Regina,

Energy Consumers Australia welcomes the opportunity to provide comments on the Independent Pricing and Regulatory Tribunal's (IPART) *The future of embedded networks in NSW* Draft Report.

As the national voice for residential and small business energy users, Energy Consumers Australia advocates for a future Australian energy system that works for, and benefits, the households and small businesses who use it. This includes the diverse range of consumers who find themselves living and working within embedded networks. People living in apartment blocks, retirement villages, caravans parks, social housing, and small businesses operating in shopping centres and office blocks are just some of the consumer types that receive their energy under embedded network arrangements. IPART's review is an important first step in ensuring these consumers have access to protections that are equivalent to consumers in the competitive retail energy market.

Our submission makes three key points in response to the questions raised in the consultation paper:

1. We support the proposed pricing methodology in principle.
2. Consumers living and working within embedded networks should receive protections equivalent to on-market customers.
3. Setting a maximum price, is a first step in addressing the various challenges embedded network customers experience.

We support the proposed pricing methodology in principle.

First, we are pleased to see the Default Market Offer (DMO) deemed an inappropriate price mechanism for electricity embedded networks. As mentioned in our previous submission[1] to this consultation, embedded network consumers do not have access to retail competition and embedded network service providers have fewer costs related to customer acquisition and retention. As both these factors are key elements in designing and setting the DMO, but do not necessarily apply to embedded networks, the maximum price for embedded network customers *must* be lower than the DMO.

In principle, we support the proposed methodology outlined in the draft report. We are pleased to see the proposed methodology for setting maximum prices based on the prices paid by on-market customers. Given consumers in embedded networks may be exposed to high energy prices, but do not have access to retail competition, bench marking the price cap in this way ensures a level of protection against unreasonably high prices. If embedded network customers are unable to actively participate in the market (i.e. switch to a more competitive deal) a price cap benchmarked against prices paid by on-market customers is not only logical but essential.

[1] ECA submission to IPART regarding embedded networks

Customers who are supplied by embedded networks tend to live on lower incomes, for example residents living in retirement villages, caravan parks and social housing. Consumers who are under financial pressure or on low income tend to be more active in the market as they have incentives to engage and find a lower retail offer. For instance, in NSW 1.29% of hardship customers were on a standard contract in Q1 2023-24 compared to 8.2% for all customers.[2] As consumers on lower incomes living in embedded networks are unable to easily switch to a more competitive offer, it is our view that the proposed pricing methodology should be the average of the three lowest retail offers being advertised on the Australian Energy Regulatory (AER) *Energy Made Easy* website. We recommend IPART amend the methodology accordingly.

Consumers living and working within embedded networks should receive protections equivalent to on-market customers.

In principle, all households and small businesses should be awarded the same consumer protections regardless of their energy supply arrangements. The same logic of benchmarking the price cap based on what on-market customers pay *should* be extended to consumer protections as well. However, in practice, we understand that this is not always practical or cost effective, and the risk of enforcing equal protections under the NECF could result in additional costs being passed on to consumers who are already more likely to be under financial pressure or low income. As such, a comprehensive cost benefit analysis of current consumer protection regulation for customers under embedded network arrangements seems timely. This analysis, which could be undertaken by the AER, would demonstrate in what instances the costs of implementing particular protections clearly outweigh the benefits from a consumer outcomes perspective. Reviewing current consumer protection regulation ensures that there is a clear explanation and justification around the exclusions of particular protections. It would also identify opportunities to apply protections in part, even if they may not be able to be applied in full.

In the interim, it is imperative that customers in embedded networks receive information around their right to access concessions and their right to effective external dispute resolution schemes (ombudsman). This information should be clear and concise, separate to customer energy bills and communicated to all household and small business energy consumers living or operating within embedded networks. It is our view that it should be communicated to consumers every 6 months in alignment with the proposed price cap updates. Increasing access to this information is necessary to ensure consumers are clearly informed and aware of the supports that are available to them, particularly as customers supplied by normative market or default contracts are made aware of such details regularly via retail bills, websites, and other avenues.

Setting a maximum price, is a first step in addressing the various challenges embedded network customers experience.

While we support the proposed methodology for setting the maximum prices for consumers in embedded networks, we see this as a first step in addressing the various challenges of embedded networks from a consumer outcomes perspective.

While outside the scope of this consultation, there remains a broader conversation, not just about cost, but about agency. Consumers who live and work within embedded networks are giving up their agency and control over their energy supply and are completely in the hands of the embedded network operator's intentions or interests. Often these consumers are unaware that they have entered into these types of supply arrangements until it is too late. Paradoxically, the reduction in consumer agency fails to translate into higher levels of protection. We consider it is timely to review the level of

[2] Schedule 2 - Quarter 1 2023–24 retail performance data | Australian Energy Regulator (AER)

protections consumers in embedded networks receive with clear justifications to any exclusions under the NECF based on a robust cost benefit analysis. This will help to ensure consumers are protected by a regulatory regime which is comparable, wherever possible and practical, to the one enjoyed by on-market consumers. Further, it is our view, that new embedded networks should only be established if the embedded network operator is able to provide clear, empirical evidence of direct and ongoing consumer benefit. This evidence must extend beyond hypothetical scenarios and presumption, and be based in robust data, analysis and modelling.

We are pleased to see IPART undertaking this important work in ensuring prices paid by consumers in embedded networks are benchmarked against prices paid by on-market customers. This is a fundamental first step, however there is still a long way to go in ensuring embedded networks can deliver positive outcomes for the many types of consumers living under these arrangements.

Thank you for the opportunity to provide our feedback. If you have any questions or comments about this submission, or require further detail, please contact [redacted]

Yours sincerely,

[redacted]

Jacqueline Crawshaw
Director, Energy Services and Markets