



EnergyAustralia

LIGHT THE WAY

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Commissioners
Essential Services Commission of Victoria
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Submitted electronically: <https://engage.vic.gov.au/review-maximum-prices-embedded-networks>

Dear Commissioners,

Maximum Prices for embedded networks and other exempt sellers

EnergyAustralia welcomes the opportunity to make a submission to the Essential Services Commission of Victoria's (the Commission's) Consultation Paper on Maximum prices for embedded networks and other exempt sellers (Consultation paper).

EnergyAustralia is one of Australia's largest energy companies with approximately 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion-dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

Overall, we recognise that applying a price cap to the sale of electricity by exempt sellers is an important protection for customers of exempt sellers, provided that any maximum price for the purposes of the price cap, is determined appropriately.

In summary, our key points are:

- The maximum price should be set at the same amount as the VDO fixed flat tariff for general usage (not including controlled load), as applicable in the relevant distribution zone. This is consistent with the Department of Environment, Land, Water and Planning's (DELWP) policy objective to constrain the maximum price to a level consistent with what a consumer with access to retailer choice would expect to pay through market offers.
- The alternative, developing a specific cost-stack to reflect the sale of electricity by exempt sellers, would involve regulatory costs that would outweigh the benefits to customers.

- Lastly, while we recognise that the Commission must determine the maximum price under the General Exemption Order¹, we ask that the Commission do so in view of the broader significant reform that is likely to occur in relation to the regulatory framework for embedded networks.

We have not responded to the Commission's specific questions in the Consultation paper but have covered the salient issues below.

Should you have any questions in relation to this submission, please contact Selena Liu (Selena.liu@energyaustralia.com.au or 03 8628 1548).

Regards,

Sarah Ogilvie
Industry Regulation Leader

¹ Consolidated version of the General Exemption Order available here:
https://www.energy.vic.gov.au/_data/assets/pdf_file/0032/425768/General-Exemption-Order-consolidated.pdf

1. Maximum Price for embedded networks

a) Maximum Price should be the same amount as the VDO

EnergyAustralia agrees with the discussion in the Consultation paper around the benefits of applying the Victorian Default Offer (VDO) framework to exempt sellers, and that the methodology and calculation of current VDO prices is relevant to the determination of the maximum price that will apply to exempt sellers (Maximum Price).

EnergyAustralia supports setting the Maximum Price as the same amount as the VDO fixed flat tariff for general usage (not including controlled load), as applicable in the relevant distribution zone. We consider there are strong policy reasons for following this approach.

Aligning the regulated Maximum Price amount to the VDO will ensure the same price protection applies to customers regardless of whether they buy electricity from a retailer or from an exempt seller. This is a simple, light-handed and fit for purpose approach for setting the Maximum Price.

Importantly, this simplicity will mean that exempt sellers can easily explain the Maximum Price to their customers in a context where customers do not understand the difference between being a customer of an exempt seller and being a customer of a retailer.

Application of the same price protection is also consistent with DELWP's policy objective to constrain the Maximum Price to a level consistent with what a consumer with access to retailer choice would expect to pay through on-market offers (DELWP's objective). We contend that this should be the overriding policy objective for two reasons.

First, electricity offers for customers directly connected to a distribution network (Standard customers) benefit from greater retail competition, compared to customers connected via an embedded network. It would be consistent to make the same price protection that applies to a competitive market also apply to customers of exempt sellers.

Second, "off market" embedded network customers buying from exempt sellers, can switch "on market" to buy electricity from a Licensed Retailer. With the metering requirements introduced in December 2016² combined with the introduction of the Embedded Network Manager role³, the barriers for customers switching "on market" have been lowered (noting there are sometimes practical barriers including arrangements for separate bills for network charges, and potentially replacement of a customer's meter for pre-December 2016 sites).

These lowered barriers mean that Licensed Retailers can, do and may increasingly, supply customers located in embedded networks that have moved "on market". The VDO would apply to those customers. Further, in those circumstances, the retailer costs of supplying those embedded network customers would be substantially the same compared to supplying Standard customers. Accordingly, given the same costs, this would support the same regulated price amount applying (i.e. the VDO) to all embedded network customers

² Changes to the Australian Energy Regulator's Electricity Network Service Provider – Registration Exemption Guideline, March 2018, which made the metering arrangements within embedded networks (e.g. meter specifications) consistent with the National Electricity Rules Chapter 7.

³ The Embedded Network Manager (ENM) was introduced by a rule change to the National Electricity Rules. Taking effect on 1 December 2017 it aims to remove barriers limiting retail competition in embedded networks. The ENM is tasked with ensuring the metering installation is correctly recorded in the Australian Energy Market Operator's market settlement system.

regardless of whether they buy from a Licensed Retailer or exempt seller, and have moved “on market” or remain “off market”.

b) Specific cost stack reflecting exempt seller costs

EnergyAustralia does not support the development of a specific cost-stack for the sale of electricity by exempt sellers.

In addition to the policy reasons above, the regulatory cost of developing a specific cost-stack to reflect the sale of electricity by exempt sellers would outweigh the benefits of a more cost reflective price, for the small number of exempt seller customers (as the Commission notes there are 122, 266 customers in registered exempt seller sites⁴).

The cost of the exercise would be material for the Commission even if the cost components of the VDO – wholesale electricity costs, network costs, environmental costs, retail operating costs (including modest costs of customer acquisition and retention), licence fee costs, and retail operating margin – and the same methodologies, were used as a starting point for any cost stack for exempt sellers.

There would also be challenges in developing a specific cost stack for exempt sellers by 1 July 2020 given the limited data on electricity consumption load and profile data of embedded network customers. This consumption load and profile data would be required to estimate wholesale, network costs and other cost categories mentioned above. Unlike on-market customers, there is no central database of metering data. There would also be difficulties in determining efficient costs across more than 1,100 embedded network sites in Victoria⁵ (each with a different scale and business model).

Additionally, we note that the Maximum Price will not only apply to embedded network customers, but also Multiple activity exemption categories e.g. customers buying electricity under a solar PV power purchase agreement or community energy project. The costs associated with these Multiple activity exemption categories (for example, costs from on-site solar PV generation), would be very different to the costs of supply to embedded network customers.

In view of the above issues with a specific cost stack for exempt sellers, we consider that the Maximum Price should reflect the same amount as the VDO.

However, if the Commission were to adjust the cost-stack for exempt sellers, we would suggest a simple adjustment to reflect typical embedded network customer consumption. This might be different to the VDO Annual reference customer usage values for domestic and small business customers, which are profiled off Standard customers.

⁴ <https://www.esc.vic.gov.au/electricity-and-gas/prices-tariffs-and-benchmarks/embedded-network-tariffs-including-caravan-parks/maximum-electricity-prices-embedded-networks-and-other-exempt-sellers-review-2020#tabs-container2>, pg. 2. While this does not account for customers located in deemed exempt seller sites, by definition these sites are smaller in customer numbers i.e. sites where there are less than 10 customers.

⁵ Sites registered with the Commission (<https://www.esc.vic.gov.au/electricity-and-gas/licences-and-exemptions/electricity-licensing-exemptions/embedded-electricity-network-data-and-customer-numbers>)

2. Tariff types for the Maximum Price

EnergyAustralia understands that exempt sellers generally structure their prices as a flat tariff (without controlled load). We support the determination of individual fixed flat tariffs (without controlled load) for each distribution zone. To the extent that some exempt sellers use flexible tariffs such as time of use tariffs, we would support prescribed individual tariffs instead of an annual amount like the VDO compliant annual maximum bill.

While the VDO compliant annual maximum bill would provide exempt sellers with more pricing flexibility, prescribed individual tariffs mean that the prices prescribed by the regulator will be the same for each customer on that tariff type regardless of which exempt seller they buy from. This has the benefit of being simpler and more transparent than a range of prices determined by exempt sellers, and so is more likely to be trusted by customers. It is also simpler for exempt sellers to comply with which is an important consideration given that exempt sellers will vary in terms of regulatory experience and compliance resources.

3. Exempt seller categories

EnergyAustralia understands that the Commission intends to apply the Maximum Price to all deemed and registrable exemptions under the General Exemption Order. This would include the registrable exemption that relates to the sale of metered electricity to large customers in embedded networks. This approach does not align with the application of the VDO and other consumer protections under the Energy Retail Code, which mostly do not apply to large customers.

We do not support extending the Maximum Price to large customers, being business customers with a peak demand of over 500 kVa, or consumption of 160MWh or more per annum. These customers are likely to be more sophisticated in understanding and negotiating electricity prices and are unlikely to require price protections. While the application of the Maximum Price to large customers is required by the General Exemption Order⁶, we ask that this be a matter for future consideration by DELWP.

4. Implementation timeframes

We note that exempt sellers were given sufficient notice that there would be a Maximum Price set prior to 1 July 2020.

However, we ask that exempt sellers be provided a comparable period of notice of what the specific Maximum Price will be, to the period of notice that Licensed Retailers receive in relation to the VDO. Last year the final VDO price was published on 18 November 2019, and its effective date was 1 January 2020 – this was 30 business days' notice of the VDO before it came into effect. This period of notice would also be appropriate for exempt sellers so that they have an opportunity to check their prices are compliant with the Maximum Price.

⁶ Consolidated version of the General Exemption Order available here:
https://www.energy.vic.gov.au/_data/assets/pdf_file/0032/425768/General-Exemption-Order-consolidated.pdf

In relation to the initial implementation of the Maximum Price, EnergyAustralia supports a 6-month determination which would apply from 1 July to 31 December 2020, and then for future determinations, alignment with the VDO determination timeframes.

5. Interaction between Maximum Price and broader reform

The Commission must determine the Maximum Price under the General Exemption Order.⁷ However, as the Commission is aware, there is broader significant reform that is likely to occur in relation to the regulatory framework for embedded networks, which is intended to increase access to retail competition provided by Licensed Retailers for customers located in embedded networks. This is the case for Victoria and in the states/territories that participate in the National Energy Customer Framework (NECF states/territories).

Specifically, in Victoria we understand that DELWP will commence a consultation that will consider the regulatory framework for embedded networks this year (upcoming DELWP consultation), and for the NECF states/territories, the AEMC has published a Final report on "Updating the regulatory frameworks for embedded networks" (AEMC's Final report).⁸

Overall, our view is that a Maximum Price aligned to the VDO, combined with the above reforms that will increase access to competition, will mean customers located in embedded networks should have access to electricity prices that are aligned to those offered to Standard customers.

However, to promote efficiencies in the management of embedded networks nationally, we encourage the upcoming DELWP consultation to develop any further reform for embedded networks in Victoria, in a way that is consistent with the AEMC's Final report.

We also note that the introduction of new services such as distributed energy resources and energy management systems within embedded networks is also steadily increasing, enabling further customer benefits to be derived over the medium term.

We ask that any regulatory reform consider these market developments as well. For instance, the sale of electricity to customers located in embedded networks may be of electricity generated on site, and not only electricity supplied from the electricity grid. Again, we would encourage that any regulatory reform for these new services in Victoria should be developed in a consistent way with any equivalent reform in the NECF states/territories.

⁷ As above.

⁸ Available here: <https://www.aemc.gov.au/market-reviews-advice/updating-regulatory-frameworks-embedded-networks>