

10 March 2020

Maximum Price for Exempt Sellers
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000
Submission made via www.engage.vic.gov.au

Re: Submission to Maximum prices for embedded networks and other exempt sellers consultation paper

We write in response to the call for submissions to the consultation paper, Maximum prices for embedded networks and other exempt sellers, released by the Essential Services Commission (ESC) on 5 February 2020. WINconnect is a licenced retailer in Victoria and specialises in providing services to embedded networks, microgrids and community energy network. Whilst WINconnect operates nationally, the majority of our 130 staff are located at our head office in Hawthorn East, Victoria. This includes our customer service centre which is a local employer.

WINconnect, in its approach to pricing, has adopted a "best tariff" offer that is typically lower than the standing tariffs of the local default retailer. After the introduction of the Victorian Default Offer (VDO) we made the VDO tariff available to customers.

We strongly support policy designed to support retail competition as a driver for better long-term outcomes for consumers. To that end, we're of the view many of the reforms included in the AEMC's work in updating the regulatory frameworks will be very important.

In the context of increased direct regulatory intervention into retail pricing in Victoria, we believe that replicating the VDO to apply as a maximum price to exempt selling arrangements to be the best available option. In our experience, exempt customers seek to be treated the same as retail customers whilst also enjoying the benefits of convenience, renewable energy generation and localised service that microgrids and embedded networks bring. We therefore support the ESC's proposal to use the VDO framework as the basis for formulating the maximum prices for embedded networks and exempt sellers.

In the below we address the questions highlighted in the consultation paper:

1. Are there any other issues we should consider in our framework for formulating a maximum price for embedded networks?

In its considerations for formulating a maximum price for embedded networks, the ESC makes the following comment at footnote 28, page 9, regarding choice of retailer:

"It is our understanding that customers residing in a network serviced by an exempt seller are unable access market offers (due largely to the cost of metering infrastructure required to exit the network), meaning that in this setting full retail contestability is not practical or efficient."

Embedded networks established after December 2017 are required to meet the minimum metering specification (NER, Schedule 7.5), which would enable an on-market retailer to use the in-situ metering installation to provide retail services to the embedded network customer. This alleviates any additional metering cost previously associated with customer acquisition within embedded networks (excluding legacy embedded networks). Despite this, we have anecdotal evidence that customers within embedded networks have difficulty accessing an on-market retailer due to a lack of "energy-only" offers.

Customers frequently compare exempt seller pricing to market offers. The introduction of a maximum price for embedded networks that utilises the VDO framework makes this comparison easier, provided an "energy-only" offer is presented in a similar format for customers.

2. Is there any other information we should consider in having regard to commercial market data?

WINconnect generally agrees with the view that the benefit of applying the VDO frameworks outweighs the cost of an alternative regulatory approach. The practise of being no higher than the local retailers' standing offer tariff required customers to have knowledge of who the local retailers were, and exempt sellers were not always afforded a reasonable period to give customers advance notice of price changes, depending on when the local retailer published their pricing.

Regarding commercial market data, the ESC's assumption that an exempt seller has no customer acquisition or retention costs is not accurate. There is a cost to acquire and educate customers due to a higher proportion of rental accommodation in high rise apartments which results in a high customer churn rate. There is also a retention cost, predominantly in the commercial embedded network space where retailers do make energy only offers.

There are also embedded network specific costs that retailers do not share, such as the risk of retailers not paying network charges for on-market embedded network customers (if the retailer were to enter into a NUoS agreement with the exempt network operator) and costs associated with the Embedded Network Manager role.

3. We are interested in stakeholder views on the VDO tariff types outlined above and how they might be applied in the context of a maximum price for exempt sellers. What do you see as the advantages / disadvantages of each option?

Flat Tariff: This is the easiest tariff for customers to understand and to budget for.

Flat Tariff with Controlled Load: This is not common in embedded networks, but there are some legacy embedded networks with storage hot water services on the Y6 or Y8 tariff, supported by either a customer time switch or a type 5 digital meter with twin element boost capabilities. It therefore should be considered in the maximum price formulation.

Maximum Annual Bill (flexi, TOU, demand): Cost reflective tariffs give customers the best opportunity to proactively minimise their energy costs and in an embedded network/microgrid context, by which an operator can incentivise for the community energy network to reduce demand and therefore site costs.

4. What types of tariffs are currently offered by exempt sellers? On what basis do exempt sellers currently determine tariff structures?

The current regulatory context requires exempt sellers to offer the standing offer tariffs which are primarily either a flat or a time of use tariff as it is defined by the local retailer's standing offer. Where an embedded network customer is a large customer or a customer of an on-market retailer, we charge for network charges based on the shadow network tariff methodology referred to in the AER's Electricity Network Service Provider Registration Exemption Guideline. The default network tariffs for new connections are generally flat tariffs or time-of-use tariffs and so exempt sellers would be required to support those tariff types.

Where a customer requests a price or tariff comparison we evaluate the customer's consumption history to see whether they would be better off on a flat or time-of-use tariff.

5. Are there any other issues in relation to tariff structures we should consider?

Any new pricing regulation framework needs to be flexible to allow exempt sellers to incentivise usage behaviour and deliver innovative products that may work with technology and innovation, such as in-home displays, EV charging, solar PV, and demand response.

6. We are interested in stakeholder views about any implementation issues. Please provide evidence to support your views.

Exempt customers have already been requesting VDO pricing. Applying the same VDO framework to both retail and exempt customers alleviates some of the current confusion around pricing within embedded networks.

One issue that requires clarification is the inconsistency between customer tranches and the applicability of small customer protections. The VDO applies to small customers, defined as residential or small business customers consuming less than 40MWh per annum. The maximum pricing rule, as it applies under the General Exemption Order 2017, applies to all exempt customers regardless of deemed or registrable exemption class. Furthermore, the definitions for small commercial and large customers, for the purposes of exempt class categorisation, is <160MWh and >160MWh per annum respectively. We seek clarification from the commission as to whether exempt sellers will be obligated to offer the VDO to small commercial exempt customers who consume between 40-160MWhs per annum under the registrable class VR1.

We strongly advise the ESC to consider closely the implementation of the VDO as a price cap as it may apply to large commercial customers on unbundled billing arrangements. Many large customers in embedded networks enjoy the benefits unbundled billing with shadow priced network tariffs and very competitive contestable charges (i.e. energy and renewables charges). In many cases the higher bargaining power of the embedded network can drive down those costs at an advantage to those customers. Application of a direct price cap in the form of the VDO would be a significant commercial disadvantage to many large customers.

WINconnect would also be interested in learning what compliance and enforcement regime may be utilised to ensure compliance with the maximum pricing for embedded networks.

7. Is there any other information we should consider?

WINconnect services a national customer base. As such, we are commonly reminded of the nature of jurisdictional variation in energy policy and regulation across the different states. We're firmly of the view that this variation has had implications and acts as a significant draw back in establishing a common, codified regime for regulation of exempt network and exempt selling arrangements. There are profound consumer benefits to be gained from the proliferation of community energy networks and microgrid technologies and the demographic trends towards high density living will only continue to drive more of these arrangements in the future. In maximising those benefits to consumers there are technical challenges with respect to metrology and the functioning of MSATS which requires national coordination and consistency. The Australian Energy Market Operator requires a clear and unambiguous regulatory framework which can support system development work as well as ongoing compliance and enforcement regime for those systems moving forward.

We're conscious to the reality that the ESCV are tasked with regulating the current General Exemption Order framework in place in Victoria. In that respect, we support the implementation of the VDO as the maximum price cap as mandated in the GEO. This is the simplest way to harmonise the experience of off market customers with those in the broader retailer market.

We need to stress that there is significant confusion that exists amongst consumers within embedded networks as to what regulatory frameworks apply. Only via a consistent national framework will we be able to make the reforms necessary to deliver the best outcomes for consumers in this space. As such, we strongly advise that any further regulatory reforms in embedded networks in Victoria should be closely harmonised with the exemption regime put in place by the Australian Energy Regulator. Whilst we acknowledge the right of the states to have their own regulations, there are real technical barriers here that can only be managed at a national level in harmony with AEMO.

Sincerely,



Shannon McAllister
Regulatory and Compliance Manager
WINconnect Pty Ltd