



15 June 2020

Essential Service Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

## **Re: Maximum Prices for embedded networks and other exempt sellers - Draft Decision**

We welcome the opportunity to respond to the call for submissions in the draft decision of the maximum prices for embedded networks and other exempt sellers. WINconnect is a licenced retailer in Victoria and specialises in providing services to embedded networks, microgrids and community energy networks. We are a non-vertically integrated retailer and within embedded networks in Victoria we act as an energy on-seller under the general exemption order.

WINconnect is generally opposed to the reintroduction of strict pricing regulation in both retail markets and on-selling arrangements. We're of the view that a sensible combination of regulation and competitive forces will drive the best consumer outcomes. The direct regulation of retail prices is a step too far that is likely to be detrimental to competitive activity, consumer choice and innovation in new retail service offerings. In this regard we're strongly supportive of the framework currently proposed by the AEMC in their final report on updating regulatory frameworks in embedded networks.

We would like to challenge the assertion that retail competition isn't effective in embedded networks. Whilst there may still be frictions that may not make retailer transfer straightforward, since the introduction of the embedded network manager rule change, retailer transfer is increasing within embedded networks in many jurisdictions. WINconnect, as an accredited ENM has allocated hundreds of child NMs within our embedded networks alone since the role was introduced in 2018.

That being said, in the context of reregulation of retail prices in Victoria via the VDO, WINconnect supports the application of the VDO as a new price cap for embedded networks and exempt selling arrangements. We have done so since the VDO was initially introduced to the retail market.

However, we recommend the commission provide clarity as to the application of the VDO to certain customer categories in section 3 of the draft decision. We note that, in the draft decision, the commission proposes to apply the VDO as a price cap to customers consuming below 40MWh p.a. with a separate price cap for other exempt customers categories (including customers consuming above 40 MWh p.a.) being the local retailer standing tariff as at 27 May 2019. We believe the long-term introduction of the local retailer standing tariff regulation to these categorisations is problematic for several reasons.

### **Treatment of Large Customers (+160 MWh p.a)**

There is no clear description of how the price regulation is supposed to apply to a customer consuming over 160MWh. In many cases in on-selling arrangements, large market commercial and industrial customers are serviced on unbundled arrangements. In practice this is the only way they can be contracted whilst still applying the corresponding network tariff in accordance with the shadow pricing principles in the AER's network exemption guideline. Where large customers were previously billed on unbundled arrangements (perhaps with a demand-based tariff), imposing a price cap referenced to the bundled local retailer standing tariff may result in poor consumer outcomes.

Whilst we don't believe it is the intent of the ESCV to regulate large C&I customer pricing in this way, we make a call for this to be clearly addressed in the final determination. The ESCV should exclude large customers from this price regulation and reiterate the requirements for network tariff shadow pricing as presented in the AER's network exemption guideline.

## **Medium Customers on Demand Tariffs**

With the shift to cost reflective tariffing, many medium commercial customers can and should have access to a suite of new cost reflective network tariffs now and into the future. Embedded networks are obligated to provide those tariffs under the shadow pricing principles in the AER network exemption guideline. Local retailer standing tariffs as at 27 May 2019 may be a poor reference point for other potential tariffs which are to be cost reflective. This includes new demand-based tariffs.

Depending on the consumption profile, restricting a customer seeking a new demand-based tariff to a tariff that is reflective of the pre-existing local retail standing tariff may result in poor consumer outcomes.

## **Local Retailer Standing Tariff as a Reference for Future Cost**

Applying the local retailer standing tariff as frozen in 27 May 2019, is a likely to be a poor reference for future price levels. As energy costs drivers change over time, the VDO will change to reflect those costs. Should the VDO move upwards over time, there may be a case where the future VDO sits higher than the fixed local retailer standing tariff. In this case, medium sized customers will be regulated to a price point below that of small customers.

For this reason, we believe that installing a fixed price cap into perpetuity is not a suitable regulatory proposal. If there is to be an additional long-term price cap to medium customer prices, it should be set via a clear unambiguous regulatory process which allows for prevailing costs.

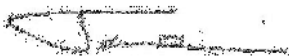
## **Customers Competitiveness in the +40 MWh Bracket**

The industry has made good strides with the implementation of the Embedded Network Manage role over the last 3 years. With this, it is our experience that customers above the 40 MWh p.a. consumption bracket have clear access to retail competition. Customers in this space are generally serviced under multi-site retail contracting arrangements, have good bargaining power and are able to coordinate metering arrangements under power of choice. In our view there is no apparent case to regulate prices in for embedded network customers in this customer category any more than the equivalent on-market customer.

For the above reasons we propose that the ESCV abandons the use of the local retailer standing tariff for customers consuming more than 40 MWh p.a. and other exempt customers listed in section 3. Prices should be unregulated for those customer sets and should remain driven by retail competition.

We reiterate our support of the adoption of the VDO as a price cap for residential and small business customers under the General Exemption Order.

Sincerely,



James Norton

Executive General Manager – Energy Markets