

Ms Carmel Donnelly  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop NSW 1240

Lodged via IPART's 'Have your say' portal

7 September 2023

Dear Ms Donnelly

## **Energy Prices in Embedded Networks – Industry Consultation Paper**

ActewAGL Retail (ActewAGL) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART's) Industry Consultation Paper for its review of energy prices in embedded networks.

ActewAGL is a retailer in the ACT and surrounding NSW, providing energy to the Canberra region and nearby centres in south-east NSW including Queanbeyan, Goulburn, the Snowy Mountains, Nowra and the South Coast.

ActewAGL supports the NSW Government's Embedded Network Action Plan and IPART's review of energy prices in embedded networks. Maximum prices for customers in an electricity embedded network should be set below the national Default Market Offer (DMO) in recognition of the lack of competition and customer choice.

ActewAGL considers regulations, including regulated prices should discourage the further proliferation of electricity embedded networks, and limit their use to a narrow set of circumstances where customer benefits can be clearly demonstrated. Further, government regulations should ensure all energy customers are protected by the National Energy Customer Framework (NECF), in jurisdictions where it currently applies.

### **Embedded network customers experience worse outcomes than on-market customers**

Embedded network customers can experience worse pricing outcomes and limited support due to a lack of competition. Customers benefit from having access to a range of offers and retailers, with contestability driving better outcomes for customers.

ActewAGL considers there are limited circumstances where an embedded network produces better outcomes for customers. Electricity retailers are best placed to procure energy and ensure compliance with the NECF.

The Terms of Reference for this review ask that IPART considers whether new hot and chilled water embedded networks are in the long-term interest of customers, and whether the NSW Government should ban the establishment of these by third part operators. ActewAGL considers they should be banned, and suggests IPART's recommendations should go further, and propose further limitations or a direct ban on the establishment of new electricity embedded networks in NSW.

The lowest cost option that produces the best outcome for customers is likely to be the implementation of a ban on embedded networks, consistent with the approach taken in Victoria. In the absence of a ban on embedded networks, barriers for customers to exit an existing arrangement should be lowered to introduce customer choice.

### **Electricity embedded networks' prices should be set lower than the DMO**

ActewAGL agrees with IPART that a maximum price cap that supports competition is less relevant for embedded network customers. Embedded networks unnecessarily create a situation where monopoly pricing can occur.

The maximum price for embedded network services should be set in a way that is comparable to efficient prices paid by customers on market contracts. This would result in a maximum price that is lower than the DMO.

The objective of the DMO is to provide a reference price for customers and provide sufficient headroom to incentivise competition, innovation and investment amongst retailers. As such, it may not be a suitable default offer for customers who do not have access to any competition.

The price that IPART sets as part of this review should recognise the lack of competition in the market for embedded network customers. The maximum price should provide an efficient return for a benchmark embedded network operator, and disincentivises further expansion of embedded networks in NSW.

### **All energy customers should be covered by the NECF**

The proliferation of embedded networks in NSW has not been in the long run interests of customers.

In 2019, the Australian Energy Market Commission (AEMC) recommended law and rule changes to improve the regulatory framework for embedded networks.

The AEMC found the current regulatory framework had failed to deliver an appropriate balance between innovation and customer protection and was not facilitating retail market competition. The AEMC's proposed approach would abolish network and retail exemption guidelines, and replace them with a requirement for embedded networks to be registered with AEMO and obtain a retail authorisation.

Further, in its 2022 review of consumer protections for future energy services, the Australian Energy Regulator (AER) made the following comment:

*“The existing harms from embedded networks are likely to be exacerbated in a post-2025 energy market, whereby consumers in embedded networks are unlikely to have access to or control over how they access new technologies and service models.”*

ActewAGL agrees with the AER’s view, and the reforms proposed by the AEMC. There are only limited circumstances where customers in an embedded network will receive better outcomes than customers that have access to competitive retail electricity markets.

In 2023, the ACT Government engaged Aurecon to review embedded networks in the ACT. Aurecon’s report found, consistent with ActewAGL’s view, that small customers in an electricity embedded network were not covered by the consumer protections under the NECF, ACT jurisdictional arrangements or AER exemption considerations.

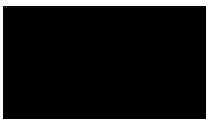
ActewAGL agrees with Aurecon’s recommendation to the ACT Government to price regulate embedded networks and extend consumer protections to all embedded network customers. ActewAGL notes a similar conclusion has been reached in NSW, with the NSW Embedded Network Action Plan including a medium-term action to extend protections under the NECF to hot and chilled water embedded networks and introduce price regulation.

ActewAGL supports a regulatory framework for embedded networks that ensures all customers are covered by the NECF, which will improve outcomes for customers.

The future design of retail exemption frameworks should recognise the limited benefits customers in embedded networks may receive and disincentivises their future use.

Should you have any questions or wish to discuss the matters raised in this submission further, please contact Cameron Shields, Group Manager Regulatory Finance & Strategy on [REDACTED].

Yours sincerely



Rachael Turner  
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