



Endeavour
Energy



11 September 2023

Jessica Robinson
Director Pricing
Independent Pricing and Regulatory Tribunal (**IPART**) NSW
By online portal

Dear Ms Robinson

NSW DNSPs response re: Energy prices in embedded networks (ENs)

The NSW Distribution Network Service Providers (**DNSPs**) are pleased to provide this submission to IPART in response to IPART's *Industry Consultation Paper on Energy prices in embedded networks (Consultation Paper)*.

The NSW DNSPs are economic enablers for metropolitan, regional, rural and remote NSW communities:

- Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter;
- Endeavour Energy manages the electricity distribution network servicing 2.7 million people in homes and businesses across an area spanning Sydney's Greater West, the Blue Mountains, the Southern Highlands, the Illawarra and the South Coast of NSW; and
- Essential Energy operates and maintains one of Australia's largest electricity networks covering 95% of NSW and parts of Southern Queensland, which services over 880,000 customers.

The number of ENs connected in NSW has grown significantly over the past 10 years. There are now approximately:

- 1,000 ENs in Ausgrid's network with an additional 5-6 connecting each month;
- 400 ENs in Endeavour Energy's network with an additional 7-8 new applications received each month on average; and
- 83 ENs in Essential Energy's network with an additional 1-2 new applications each month.

The existing regulatory framework for embedded networks was established at a time when there were relatively few embedded networks in NSW. However, as demonstrated above, embedded networks are now proliferating in number and size, and are dominated by strata residential buildings, shopping centres and other large 'mixed use' developments.

Several recent reviews¹ of ENs and compliance actions taken² by regulators, have identified numerous gaps in the regulatory framework for embedded networks ranging widely from technical, billing and safety issues. For these reasons, our businesses welcome IPART's focus on this important issue for EN customers who are also commonly more vulnerable customers.

At present, NSW DNSPs do not offer any network tariffs specifically designed for EN customers. As a result, existing tariffs are not as fair or efficient as they could be.

Currently, the contribution to the cost of the existing network made by EN customers is materially different, based on whether they connect as an EN or as an individual small customer connection. This can create tariff arbitrage and creates a distortion in our network prices that encourages developments to connect as ENs, to avoid the contribution that would otherwise be made if small customers connected individually.

The ability to arbitrage existing network tariff structures does not represent an efficient or equitable pricing signal and should not be a key deciding factor in whether customers choose to connect to our network as an EN or as individual connections. Under a revenue cap form of regulation, non-EN customers bear the burden of the network revenue avoided by EN customers. We anticipate that this problem will increase over time given the current trends and expected growth of ENs within our networks.

As part of our respective 2024-29 Regulatory Proposals and Tariff Structure Statements, Ausgrid³ and Endeavour Energy⁴ are proposing to address the tariff arbitrage problem by introducing a separate set of EN tariffs for customers using above 160 MWh annual consumption. Limiting EN tariffs to this threshold ensures that connections where the sale of electricity is an incidental activity, and temporary in the case of caravan and holiday parks, is not unfairly captured.

Importantly, the new EN tariffs would not result in Ausgrid and Endeavour Energy earning more overall revenue because we are subject to a revenue cap. This ensures that any equitable addition of revenue earned from ENs is offset by lower charges for other customers, effectively unwinding the subsidy paid to EN customers by non-EN customers resulting from tariff arbitrage. In response to our stakeholder consultation, and to minimise impacts on existing EN customers, Ausgrid and Endeavour Energy are proposing to introduce the new tariffs over a five-year and two-year transition period respectively.

NSW DNSPs have responded to IPART's consultation only in the context of electricity prices for ENs (and not prices for hot and chilled water services). Responses to selected consultation questions are as follows:

¹ Our businesses recently jointly produced a submission in response to the Legislative Assembly Committee on Law and Safety Inquiry into Embedded Networks for NSW. See: <https://www.parliament.nsw.gov.au/ladocs/submissions/79083/Submission%2018.pdf/>.

² The AER has recently accepted a court enforceable undertaking by Trinity Place Investments Pty Ltd (Trinity) after it admitted to overcharging consumers for electricity by approximately \$34,000 between December 2019 and January 2023. The undertaking requires Trinity to refund affected customers, commit to no further overcharging, and improve its compliance systems and processes regarding energy pricing. See: <https://www.aer.gov.au/retail-markets/compliance-reporting/trinity-place-investments-pty-ltd-overcharging-of-embedded-network-electricity-consumers/>.

³ Ausgrid (2023). 2024-29 Tariff Structure Statement Explanatory Statement. P 21. <https://www.aer.gov.au/system/files/Ausgrid%20-%20Att.%208.2%20-%20Our%20TSS%20Explanatory%20Statement%20for%202024-29%20-%2031%20Jan%202023%20-%20Public.pdf/>.

⁴ Endeavour Energy (2023). 2024-29 Tariff Structure Explanatory Statement. P 57. <https://www.aer.gov.au/system/files/Endeavour%20Energy%20-%2015%20Tariff%20Structure%20Explanatory%20Statement%20-%20January%202023%20-%20Public.pdf/>.

Methodology for setting maximum prices. Are these the right criteria to use for assessing the different pricing options? Are there any criteria we have missed?

We agree with the criteria proposed in the consultation paper. Cost reflective pricing approaches should be applied for setting maximum prices, and these approaches should be flexible enough to accommodate changes to circumstances. We also agree that an efficient EN provider should be able to recover its efficient costs of supply.

How should maximum prices be set? Is the Commonwealth Government's Default Market Offer the appropriate maximum price for electricity embedded networks? If so, why?

We consider that a new Default Market Offer (**DMO**) is required to set the maximum price for ENs. The existing DMO prices are designed for small customers and are published separately for residential and small business customers. However, ENs contain a mixture of customer types (residential, small and large businesses) and use significantly more energy overall compared to individual small customers. If the existing DMO was used, the retail margin (or "headroom") available to ENs would exceed that available to the retailers of small customers, which could be considered an inefficient outcome.

As part of our respective 2024-29 Tariff Structure Statements, both Ausgrid and Endeavour Energy propose to introduce network tariffs for EN connections using more than 160 MWh per annum. These EN tariffs as currently proposed do not recover the full extent of the tariff arbitrage received by EN connections.

Ausgrid and Endeavour Energy's proposed EN distribution tariffs provide a suitable basis for calculation of a DMO price specific to ENs. Maximum prices for ENs could be set with reference to the underlying network tariff applicable to the connection. Retail, wholesale and jurisdictional scheme costs can then be added to the underlying network tariff using a similar approach to the existing DMO for residential and small customers. This approach will ensure that a retail margin headroom is preserved for EN operators, in either scenario with or without approved EN distribution tariffs for the 2024-29 regulatory period.

We would be happy to discuss our submission with you. For further information please contact:

- Ausgrid: Bill Nixey [REDACTED]
- Endeavour Energy: Daniel Bubb [REDACTED]; and
- Essential Energy: Anders Sangkuhl [REDACTED]


Yours sincerely,



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