Submission to the Independent Pricing and Regulatory Tribunal

The Future of Embedded Networks in NSW

September 2023

Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

Address: Level 3, 17-21 Macquarie Street Parramatta NSW 2150

ABN: 11 244 559 772 **Email**: cpsa@cpsa.org.au **Website**: www.cpsa.org.au

Phone: (02) 8836 2100 **Country Callers & Donations**: 1800 451 488 **Facsimile**: (02) 9281 9716

CPSA receives funding support from the New South Wales and Australian Governments

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. CPSA receives funding support from the NSW Government Departments of Communities & Justice and NSW Health.

Position statement

Combined Pensioners and Superannuants Association of NSW (CPSA) appreciates the opportunity to make a submission to IPART's review of embedded networks.

CPSA has concerns about the current regulations that apply to embedded networks, which are not robust enough to ensure that consumers have fair and equitable access to essential utilities.

Everyone has a right to an adequate standard of living. This includes access to energy, water and sanitation at a reasonable cost. It is not appropriate for sellers to generate undue profit from these services, particularly where consumers do not have reasonable alternative options.

CPSA has a particular concern for pensioners and low-income retirees in embedded networks, who are largely living in residential land lease communities, retirement villages and social housing properties. These are amongst the limited range of options for many older people on a low income. Unfortunately, these living arrangements often come with higher-than-average utility costs.

No one should have to choose between keeping their home at a comfortable temperature during winter and being able to afford basic items such as groceries or medication, particularly not older people and people with compromised immunity.

The regulatory system needs to be improved, with a particular focus on the interests of members of the community who are experiencing social and economic disadvantage. The provision of basic utilities should not be an opportunity for profiteering.

Key issues

I. Affordability and access

People on a low income are already struggling with inflation, particularly rising energy prices, and should not be disadvantaged further due to where they live. Older people that are in the private rental market are at particularly high risk of experiencing housing stress and may be

unable to leave an embedded network by moving, but also may not have the means to absorb the increased cost of utilities.

CPSA was recently contacted by a pensioner living in a residential park. Their energy bill had increased by more than 90% in a short period. As a result, they were forgoing heating their manufactured home throughout winter, cooking on a common BBQ, and showering less. These are not reasonable adjustments for anyone to make to afford their bills.

Other affordability and access issues include the following:

- Consumers in embedded hot and chilled water networks are not eligible for most of the relevant NSW concessions or rebates.
- The Energy Accounts Payment Assistance Scheme (EAPA) and Water Payment Access Scheme (PAS) do not extend to embedded networks and there are no equivalent programs that provide help with paying bills in a crisis.
- Some consumers in embedded networks do not have access to the Energy and Water Ombudsman of NSW (EWON) for dispute resolution.

Finally, there is highly concerning trend of property developers offsetting the cost of new building projects by entering agreements that allow embedded network providers to install infrastructure in exchange for the right to sell utilities to its future occupants. There is clearly profit in this arrangement for both property developers and embedded network providers, but where is the benefit for consumers?

II. Consumer choice and competition

Whilst it is technically possible to change providers and ‘leave’ an embedded energy network, this process can be both difficult to navigate and prohibitively expensive for consumers. These factors are likely to be more keenly felt for consumers who are already experiencing social and financial disadvantage. For example:

- Meters in embedded electricity networks are not required to meet the same standards as those in households that purchase energy from an authorised retailer. The cost of upgrading to a compliant smart meter is estimated to be around $600, assuming there is

no need for any further electrical work. Consumers in embedded networks must pay for a new meter to be installed, whereas retail consumers can have their meter installed by a provider at no charge in most circumstances.

- Not all authorised retailers will enter into a service agreement with consumers living in embedded networks.
- There are ongoing costs associated with changing to a new provider. Consumers will still need to pay a service fee to the exempt seller.

Embedded networks that provide gas or water have even less flexibility, largely due to the nature of network infrastructure. There is no impetus to address this issue as third-party sellers that supply these types of networks are not currently required to have provisions for consumers to 'leave' the network to purchase these utilities from a different provider.

The reality is that most people living in embedded networks have limited or no alternatives, meaning that there is little to motivate sellers to provide lower prices or improve their offerings over time. Competition in the market typically provides consumers with a degree of bargaining power. It seems logical that there should be increased protections that apply to embedded networks that would serve to compensate for the lack of substantive choice and flexibility. That is not the case at this juncture.

Recommendations

1. Are these the right criteria to use for assessing the different pricing options?

CPSA supports the recommendations made by the Tenants' Union of NSW in their submission and has nil further comment.

2. How should maximum prices be set?

Whilst CPSA does not have specific recommendations, the pricing methodology should ensure that consumers in embedded networks are receiving bills that are comparable to those received by retail consumers. Suppliers that benefit from economies of scale should be required to pass some of these savings on to customers.

To the degree possible, bills should follow the same requirements that apply to authorised retailers, and consumers should have access to some means of monitoring both usage and projected cost. New embedded networks should be required to have the infrastructure and systems to meet these standards. Existing providers should be required to upgrade their networks within a suitable timeframe.

If there are infrastructure or maintenance costs this should be a separate fee to the standard usage fee. All fees and charges should be clearly communicated with consumers both prior to their entry to the network and on an ongoing basis.

In relation to embedded hot and chilled water, there must be a pricing structure that is consistent across networks. This should be subject to regular review as it is for all other water businesses in NSW.

3. **Is the Commonwealth Default Market Offer the appropriate maximum price for electricity embedded networks? If so, why?**

To put it succinctly, no. Most retail customers are not paying this price. The maximum price for electricity in embedded networks should be set based on the average retail electricity price with consideration to the bulk cost paid by the provider.

If this is not affordable for providers, perhaps there is an issue with their business model and they should consider restructuring.

4. **How should different metering arrangements be taken into account? For example, how should prices be set where services are unmetered, or where water is metered rather than energy?**

All utilities should be separately metered, and all new and replacement meters should meet the same regulatory requirements as in the mainstream market. This cost should be borne by providers.

Sellers should not be permitted to charge for unmetered usage as there is no way to ensure that this is fair for consumers.

5. **Should prices be set differently for different types of customers, and different types of embedded networks? For example, residential customers, land lease communities, small businesses.**

CPSA has nil comment.

6. **Are there any issues of systems constraints on using the common factor to calculate the units of energy for heating and chilling water?**

CPSA has nil comment.

7. **How can the maximum price for hot and chilled water be set to provide incentives for energy efficiency?**

CPSA has nil comment.

8. **How can the maximum prices provide incentives for low emissions energy generation?**

CPSA has nil comment.

9. **How should maximum prices be enforced?**

CPSA has nil comment.

10. **Should new hot and chilled water embedded networks be banned? What are the benefits and costs of supplying these services through an embedded network?**

New embedded networks should require approval, which should not be granted unless they comply with suitable standards and have a purpose beyond generating profit. There should be a genuine and measurable benefit to consumers, as well as to the broader community. Some examples may be:

- Centralised hot water will increase floor space in high-density developments that will provide the community with affordable or social housing.
- The system will use renewable energy sources and have high standards for sustainability.
- Ongoing costs for users will be lower than if each household had their own hot water system, or if water was purchased separately rather than in bulk.

If new embedded networks for hot and chilled water are subject to approval, applicants must be required to meet well-defined criteria. This process should be purposeful rather than adding a layer of bureaucracy that has no value.

Access to water and sanitation is a basic human right. It is not appropriate for sellers to generate undue profit from these services, particularly where consumers do not have reasonable alternative options.

Future directions

CPSA's position is that embedded networks should be required to provide consumers with benefits that justify their existence. Currently, there is scope for opportunistic parties to create private utility networks that are exploitative and provide limited value to consumers. To reiterate an earlier point, it is not appropriate to generate undue profit from basic utilities.

CPSA is committed to advocating for improved protections for consumers in embedded networks and looks forward to engaging further with IPART's review.