



EnergyAustralia

LIGHT THE WAY

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Industry Consultation Paper
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Consultation Paper: Energy Prices in embedded networks

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EnergyAustralia owns, contracts, and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise more than 5,000 MW of generation capacity.

EnergyAustralia appreciates the opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal (IPART) consultation paper on energy prices in NSW embedded networks. We appreciate that IPART has considered our feedback on the Draft Terms of Reference and reflected some of our comments in the Final Terms of Reference. Our submission to IPART's consultation paper focuses on the importance of regulatory consistency in setting the maximum electricity price for embedded network customers. We also provide our responses to the consultation questions and information request.

An energy price below the DMO can have unintended impacts and mean worse consumer outcomes

While we support IPART reviewing the appropriateness of price protections for customers in embedded networks, overall we have strong concerns with an energy price that is lower than the Default Market Offer (DMO) as IPART is currently suggesting. Energy customers in embedded networks should be considered as part of one retail energy market, not a separate market. All our embedded network customers can access on-market offers and retail competition. We consider that setting a separate regulated price below the DMO can lead to unintended consequences that can distort the retail market and lead to worse outcomes for embedded network customers.

An energy price that is lower than the DMO can discourage embedded network customers from engaging in the retail market. This undermines the intention of existing policies and protection that aim to remove barriers to accessing on-market offers. Discouraging customers from engaging in on-market offers could also lead to poorer outcomes for them as it reduces the value and benefit of shopping around for a better deal. Price is only one factor that customers consider when looking for a better deal.

Further, setting a separate regulated price that is lower than the DMO can unnecessarily confuse embedded network customers wanting to engage in the market. The DMO benchmark has been around for several years and there is established consumer understanding. Introducing a separate benchmark for embedded network customers can confuse consumers wanting to compare on-market offers which uses the DMO benchmark with an embedded network plan as it will have a different benchmark (i.e comparing apples with oranges). This added complexity and confusion could then

lead to worse outcomes for customers wanting to engage in the market. Also, new regulatory requirements will increase compliance costs for retailers which is ultimately borne by customers.

With the above in mind, we strongly recommend regulatory consistency with the DMO. Access to competition in the same market is always preferable to price regulation to help put downward pressure on prices and deliver strong customer outcomes. Further, regulatory consistency and predictability are critical to maintaining retailers' confidence that they can recover their costs and to supporting incentives for competition and innovation which benefits consumers.

Our full submission and responses to the consultation questions are below.

1. Are these the right criteria to use for assessing the different pricing options? Are there any criteria we have missed?

Overall, we consider regulatory consistency and alignment with the DMO is important. Accordingly, the objectives of the DMO should be the starting point for establishing criteria and we encourage simplicity and paring back the proposed criteria. We make the following comments on this:

- Criteria 1 Ensure there is no interruption to energy supply. This criterion appears unnecessary, and we question the intent behind this. Setting a regulated price for embedded network services to protect consumers will not influence whether there is uninterrupted energy supply.
- Criteria 2: Ensure that an efficient embedded network provider is able to recover its efficient costs of supply. Embedded network providers (not restricted to the concept of an 'efficient' embedded network provider) should be able to recover their efficient costs of providing services, including a reasonable retail margin and costs associated with customer acquisition and retention. We consider this enables the price setting to maintain the necessary incentives for competition and aligns with the DMO.
- Criteria 4 Incentivise customers and embedded network operators to supply and use energy efficiently. This criterion appears unnecessary and we suggest paring back to the DMO objectives.

2. How should maximum prices be set?

Electricity

Given the reasons stated in this submission we consider the maximum price for electricity should be the DMO.

Hot and chilled water (hot water)

We consider it is important to be clear that chilled water service refers to the water used for cooling and not drinking water. Our understanding is that water not used for cooling must be a pass through and no margin can be earned from the end customer.

On pricing, we remain of the view that charging in electricity works well for setting a regulated price for water. Applying the DMO is a logical starting point and maintains regulatory consistency. It will then be fairly simple to expand all the consumer protections that apply to energy to hot water.

As discussed in our previous submission, we consider hot water in gas units is more challenging as there's no precedent for setting a regulated retail gas price. We caution against setting a regulated gas price in this context and consider the gas hot water price should be linked to the DMO, albeit in some indirect way (by calculating in litre units, translating to a hot water electricity price in litre units, which can be translated into an electricity price which the DMO can apply to).

Gas

We remain of the view that the need for price regulation of gas has not been substantiated and it is not clear that the cost of regulation would outweigh the benefit. Our views on this remain as follows:

- We understand gas in embedded networks is often for ancillary use and is commonly not metered. [REDACTED] It is very difficult to envisage how a regulated price for gas could be set if it is not metered, as there is no obvious unit to attach the regulated price to. I.e. metered supply is required to regulate the price.
- The anecdotal evidence received by the NSW parliamentary committee showed excessively high prices for hot water, not gas services like stovetop gas. There does not seem to be sufficient evidence to demonstrate that there is a “price gouging” issue for gas services in embedded networks, to substantiate the need for a regulated retail gas price.
- The same difficulties in setting a regulated price for hot water heated by gas, apply to regulating gas. Unlike electricity, there is negligible precedent for a regulated gas retail tariff which means extra regulatory cost for IPART to develop. Setting a retail price cap for gas would be complex and costly – due to a lack of transparency over wholesale gas supply contracts (unlike electricity where wholesale costs can be pegged to public ASX contract data) and non-transparent network/pipeline costs. This cost/complexity should be weighed against any benefit which seems to be small given the scale of embedded networks in terms of low customer numbers (potentially even lower numbers with metered supply), and the actual amount of gas the regulated price would apply to e.g. only used for stove top gas not heating.

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

Yes, we consider the DMO is the appropriate maximum electricity price for embedded networks.

Electricity customers in embedded networks should be considered as part of one retail electricity market, not a separate market. All our embedded network customers can access on-market offers and retail competition. An electricity retail price cap below the DMO can lead to unintended consequences that distort the market and result in worse outcomes for embedded network customers.

Demand side

- **Setting a price cap lower than the DMO can discourage embedded network customers from engaging in on-market offers.** This could mean poorer outcomes for them because it reduces the value and benefit of shopping around for a better deal. Price is only one factor that customers consider when looking for a better deal.
- There is existing regulation in place to encourage embedded network customers to go on market and remove barriers to this process. For example, there are requirements for network managers to help customers to get on market. **Setting an electricity price that is below the DMO would unnecessarily introduce new regulation and undermine the intent of existing policies and protections.** Further, we question the benefit of doing so, particularly given there is recent evidence that existing policies and protections are effective at protecting consumers (see [AER accepts court enforceable undertaking from Trinity Place to refund electricity consumers | Australian Energy Regulator](#))
- **Setting a price cap lower than the DMO can confuse embedded network customers and add unnecessary complexity for customers who want to engage in the market.** This is because it makes comparing offers more difficult (i.e comparing apples and oranges as there will be two separate benchmarks). The added complexity and confusion could then lead to poorer outcomes for embedded network customers wanting to engage in the market. This would also undermine the intent of existing regulation to make comparing offers across retailers easier for consumers.

- **As stated above, new regulatory requirements will increase compliance costs for retailers which is ultimately borne by customers.**

Supply side

- **A price cap below the DMO can discourage providers from operating in embedded networks as it reduces the allowable margin that providers can make.** While on-market retailers can price above the DMO, exempt sellers and authorised retailers in embedded networks cannot/will not be able to under new DMO changes. Maintaining incentives for competition is key to delivering strong customer outcomes.

- **Setting a lower price than the DMO can lead to embedded network providers not being able to recover their efficient cost.**

Many Tier 3 retailers can be larger and have more customers than embedded network providers so the DMO may be challenging for some to continue to compete. A price lower than the DMO would be even more challenging and problematic for providers if it is below their efficient cost. This could mean providers exit unprofitable embedded network sites or leave the embedded networks market altogether. This would deter new entry and mean less competition in embedded network providers competing to supply owner corporations. [REDACTED]

- **additional pricing regulation increases regulatory complexity for retailers and embedded network providers which can further deter entry and lower competition.**

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?

For hot water (which is mostly separately metered), our embedded network businesses always measure in litres. We expect only a few embedded network operations will measure in energy units and bill in energy units.

For gas (which is mostly unmetered stove tops), [REDACTED]

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?

All our embedded network customers which include residential and small business customers have access to competition and on-market offers. We are unclear whether this is the case for land lease communities such as caravan parks. More targeted protection may be required for these customer segments should they not have the capability to access retail competition. IPART can explore this issue further and recommend more targeted assistance if this is where the problem lies.

To this end, we do not recommend imposing price regulation on all embedded network customers where the concern lies on a segment of customers. As for electricity, setting a price cap lower than the DMO for embedded network customers who have access to retail competition can have unintended consequences and lead to worse consumer outcomes.

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

The common factor is a simple and convenient way to calculate the units of energy for heating and chilling water. One key constraint relates to the efficiency of the heating and chilling systems. Older equipment can be materially less efficient than new equipment and the common factor does not

