

Submission

Billing requirements and maximum prices for residential embedded network customers

IPART Consultation Paper, 29 June 2026

1. About this submission

Microgrid Power Pty Limited is an authorised electricity retailer, an embedded network operator and an Embedded Network Manager. We hold retailer authorisation in New South Wales, Queensland and South Australia, and we are an exempt seller in Victoria. In New South Wales we bill residential customers for electricity supplied through embedded networks and for centralised hot water.

We have limited this submission to five matters. Where we have not commented, we do not object.

- We cannot lawfully bill for gas (question 3).
- We cannot measure hot water before tempering (question 4).
- IPART's maximum price for electricity should be set by reference to the Default Market Offer rather than separately derived (questions 9 and 10).
- If IPART derives its own figure, the benchmark should be built from unconditional offers only (question 6).
- The capital recovery route the methodology relies on does not exist (questions 9 and 10).

2. We cannot lawfully bill for gas (question 3)

Clause 5.2 of the draft standard requires us to bill an embedded network customer for the energy input used to heat water rather than for hot water, and to use cents per megajoule where gas is the energy input. The bill would show megajoules of gas, a price per megajoule, and a total charge for gas.

This is not only a matter of presentation. The note to clause 5.2 records that under section 16(1A) of the National Energy Retail Law (NSW), hot water is taken to be the energy used to heat the water. In New South Wales the supply is therefore already deemed to be a supply of energy. Where the water is heated by gas, we are deemed to be selling gas.

Section 88 of the same Law says a person must not engage in the activity of selling energy to a person for premises unless they hold a current retailer authorisation or are an exempt seller.

We cannot obtain either for this supply. The AER's position has been that supplying centralised hot water is not selling gas. It is selling hot water, which sits outside the national framework. That

is why the AER has never regulated hot water embedded networks, and why there is no authorisation and no exemption class for us to apply for.

So section 16(1A) has created the deeming without creating the pathway. Both provisions sit in the same statute, and the billing standard is made under section 116F of it. On its face we would be deemed to be selling gas, required by the billing standard to bill as a seller of gas, and unable to obtain the authorisation or exemption that section 88 requires.

The gap between the AER's position and section 16(1A) is a concern.

There is a second problem if the deeming is intended to have its full effect. The customer would become a gas customer, with a right to a gas retail contract and, in principle, a right to switch gas retailer. There is no gas connection point at the dwelling and no way to transfer them to another gas retailer. So that would create rights nobody can honour.

What we ask. Confirm that section 16(1A) operates for the purposes of pricing and billing under Division 6A only, and does not engage the prohibition in section 88. This can be stated in the billing standard and confirmed by the Minister. This approach would be simple and leaves the AER's position intact.

If section 16(1A) is intended to have its full effect, an authorisation or exemption pathway needs to exist before the hot water requirements commence.

3. We cannot measure hot water before tempering (question 4)

Clause 5.4 requires the bill to state the total hot water the customer used in the billing period, in litres, measured before any tempering. Clause 5.1 applies this to all hot water billing, whatever the energy input.

We note that tempering is not optional. Hot water has to be stored above 60 degrees to control legionella and delivered below 50 degrees to prevent scalding, so a mixing valve sits between the storage and the dwelling. Where that valve is central (which is the common design), every dwelling meter is downstream of it.

That is the position at our sites. The water is tempered before it is metered, so what our meters record is tempered volume. Measuring before tempering would mean re-piping the hot water service so that untempered water reaches each dwelling and tempering happens there. That is a rebuild of the hydraulic system in an occupied building, not a change to a meter. It is not something we can deliver.

The Consultation Paper does not appear to require it either. Footnote f on page 7 says that where energy consumption is measured by metering litres of hot water consumed, the measurements must be taken or adjusted to reflect usage before cold water is added for tempering. The draft standard allows only measurement. We ask that the standard follow the paper.

The Consultation Paper also says sellers should not have to install additional metering infrastructure on the centralised hot water system to work out the actual common factor,

because the maximum common factor can be applied instead. Moving metering upstream of the mixing valve is additional metering infrastructure.

What we ask. Amend clause 5.4 so that the volume may be adjusted as well as measured, consistent with footnote f of the Consultation Paper. Where the meter sits downstream of the mixing valve, the seller should be able to derive the untempered volume from the metered volume using the system's design temperatures, and disclose that on the bill.

4. IPART's maximum price for electricity should be the Default Market Offer (questions 9 and 10)

We hold a retailer authorisation, so we are in the group the Commonwealth intends to bring under the Default Market Offer from DMO 9. Our submission is that IPART's maximum price for electricity should be the DMO.

4.1 Two differently derived numbers for the same supply

From 1 July 2027 our New South Wales residential embedded network customers would be under two caps at once:

- the DMO, built from the efficient cost of supplying these customers — the AER being directed to consider the cost structures of small customers of authorised retailers in embedded networks — resetting on 1 July; and
- IPART's maximum prices, built from the middle of the cheapest offers made to customers who face residential network tariffs and can switch, resetting on 1 September.

Two caps built on different bases and resetting on different dates give the customer no more protection than the lower of the two at any moment. Which one is lower will not be a decision anyone made. It will be a byproduct of two processes with different terms of reference, one directed at the cost of supplying these customers and one not.

Of the two, the DMO is the better instrument for these customers, because it is derived from what it actually costs to supply them by a regulator directed to examine that question.

4.2 The cost difference that justifies a separate price is disappearing

A separately derived embedded network price makes sense if supplying an embedded network customer has a distinct cost structure. What has made it distinct is the gap between the network tariff paid at the parent connection and the sum of the residential network tariffs the same customers would otherwise pay.

Ausgrid and Endeavour Energy are introducing network tariffs specific to embedded networks, phased in over four years, which are designed to close that gap. As they take effect, the cost of supplying an embedded network customer converges with the cost of supplying an on-market customer, and the reason for deriving a separate price for them goes with it.

In the meantime the gap works against us a second way. IPART's cap is benchmarked to offers from retailers who do not pay a parent connection tariff, so it will not reflect the increase as the new tariffs phase in. Across the transition our cost of supply rises while the benchmark does not.

4.3 The timing does not work

IPART's prices are to start in April 2027 and reset each September. The DMO resets each July. And under the National Energy Retail Rules we may now only increase prices for most market contract customers once, during July. So if IPART's maximum price falls we must reduce straight away, but if it rises we cannot move until the following July. We would be bound by a September cap while unable to price to it for ten months.

We note IPART has published a position on the overlap. Its guidance for embedded network customers says the Commonwealth review recommended extending the DMO to small customers supplied by authorised retailers in embedded networks from 2027/28, and that the AER intends to consult on DMO guidelines and on developing a DMO for embedded networks.

That is not a resolution, and waiting for the AER does not work on the current timetable. IPART's prices are to commence in April 2027 and the DMO extension in July 2027, while the AER's consultation has not started. We have to configure pricing and billing well before either date, and we cannot build for two caps whose relationship is undecided.

What we ask. Set IPART's maximum price for electricity by reference to the Default Market Offer for the relevant distribution area, rather than deriving a separate figure. Once the AER determines a DMO for embedded network customers under DMO 9, that figure.

This keeps one instrument and one number. IPART would continue to determine and publish maximum prices, to monitor compliance and to enforce, and its determination would continue to bind exempt sellers, whom the DMO does not itself reach. For authorised retailers there would be no duplication, because the two caps would be the same figure. Nor would it be a novel step for IPART: clause 3.1(b) of the draft billing standard already requires the average consumption charge for a time-of-use tariff to be weighted by the AER's relevant Default Market Offer usage profile. A methodology expressed by reference to the DMO is still a methodology, so we do not think this is beyond what IPART can recommend to the Minister.

We note our comments are confined to electricity as the DMO does not cover gas, hot water or centralised air-conditioning, so IPART would still need to derive maximum prices for those.

It also resolves the timing problem. A maximum price that references the DMO moves when the DMO moves, on 1 July, which is inside the window in which we may change prices. We would suggest commencing the electricity maximum price on 1 July 2027 to align with the DMO extension, rather than in April 2027, which would otherwise mean a separately derived figure applying for three months and then being replaced.

If IPART prefers to derive its own figure, then at a minimum we recommend that the reset date is aligned with 1 July, so that both caps move together and both sit inside the July price change window.

5. If IPART derives its own figure, the benchmark should use unconditional offers only (question 6)

This matters if IPART derives its own figure rather than referencing the DMO, and it matters for gas in any event. Under recommendation 6 the maximum supply charge is the median of each active retailer's lowest supply charge for their generally available offers, and the maximum consumption charge is set the same way.

"Generally available" is too wide for this purpose. Offers that are generally available include offers a customer cannot practically obtain, or cannot hold for a year:

- offers conditional on membership of an organisation, or on buying another product such as a telecommunications, insurance or motoring bundle;
- offers open only for a short period, or promotional offers withdrawn after a limited window; and
- offers whose headline rate depends on the customer meeting some other condition.

Including these pulls the median below the price a customer could actually obtain and keep. The cap is then set by reference to prices that are not really available to anyone for the period the cap runs.

The point is sharper for embedded network customers, who cannot take up any of these offers at all. If their cap is to be set by reference to what other customers pay, it should at least be set by reference to offers those customers could accept and hold.

We note recommendation 6 is not formally open for consultation. We raise it because IPART is settling how the benchmarking will be done, and this goes to the same exercise.

What we ask. Build the benchmark from unconditional offers only. Exclude offers with eligibility conditions, offers that require the purchase of another product, and offers available only for a limited period. Unconditional pricing is already distinguished on Energy Made Easy, so the data to do this exists.

6. The capital recovery route the methodology relies on does not exist (questions 9 and 10)

The methodology does not allow capital costs to be recovered through energy prices. Its architecture is that we recover the delivered cost of energy through the price, and anything above that from the site owner by negotiation, where legislation permits.

That is not how we fund capital. We pay to install solar, batteries and hot water plant ourselves, and we recover the cost from the reduction in our own cost of supply, because on-site generation displaces energy we would otherwise buy at the parent connection. The customer pays the same rate whether or not the asset is there. Nothing is charged to the customer for it, and nothing is sought from the site owner.

So the concern behind the rule does not arise for us. Our customers are not paying for site infrastructure through their energy prices. But the effect of the rule, together with a cap benchmarked to grid-only retail offers, is to remove the margin that repays the asset.

The route the methodology points to is not available in any event. IPART recommended, in recommendation 3 of the Final Report, that the regulatory arrangements let sellers renegotiate supply contracts before maximum prices apply, so that the caps do not threaten the financial viability of embedded network sellers. The NSW Government supported that in principle and said it would consider appropriate arrangements. Those arrangements have not been made. IPART's own consultant identified the contractual position as the one risk it could not treat as resolved.

What we ask. Advise the Minister that maximum prices should not take effect until the cost recovery arrangements contemplated by recommendation 3 are in place. In doing so, identify each category of cost the methodology assumes is recoverable outside the regulated price, and confirm that a lawful mechanism exists for each, including capital funded by the seller for on-site generation, storage and hot water plant.

7. Conclusion

We are broadly supportive of the reforms and greater customer protections. However, we seek to avoid duplicative and overlapping regulation, which creates complexity for both suppliers and customers.

We would be happy to meet to discuss any matters raised in our submission.

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