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Maximum Price for Exempt Sellers
Essential Services Commission
Level 37, 2 Lonsdale St
Melbourne, Vic, 3000
Upload: <https://engage.vic.gov.au/>

Submission re: Maximum prices for embedded networks and other exempt sellers – Draft Decision – 29 April 2020

Dear ESC,

The comments provided in this submission reflect the view of Network Energy Services and the interests of our Exempt Selling clients and their internal small customers.

This submission is in response to the ESC request for information and views on the draft decision for maximum electricity prices for embedded networks; as set out in the Essential Services Commission paper titled 'Maximum prices for embedded networks and other exempt sellers, Draft Decision, 29 April 2020'.

In this submission we refer to On-Selling Communities. On-Selling Communities comprise embedded network operators and exempt sellers that provide significant benefits to consumers in a community setting.

Under the draft decision embedded networks will be prevented from applying the 'VDO compliant maximum annual bill mechanism' to small customers with flat rate tariffs. This will detrimentally affect vulnerable small customers.

For embedded networks that currently provide flat tariff electricity pricing, where the daily rate is above the VDO, and where overall electricity tariff pricing is below the VDO compliant maximum annual bill, the effects of the ESC proposed draft decision are:

- (i) daily rate tariffs will need to decrease to match the applicable VDO daily rate;
- (ii) electricity usage rates will need to increase ... at least to offset the loss in daily rate revenue and usually for any cost increases that have occurred at the parent meter; and
- (iii) vulnerable customers who cannot reduce their electricity usage will receive higher bills.

Network Energy Services estimates that approximately 7,000 residents of our On-Selling Communities will receive higher electricity bills if the draft decision is implemented.

A number of these small customers would be considered vulnerable and unable to change their electricity usage due to their personal circumstances.

This is the most important reason why the 'VDO compliant maximum annual bill mechanism' should be extended to embedded networks with flat rate tariffs and flat rate tariffs with controlled load.

Vulnerable electricity consumers should have the opportunity to receive cheaper electricity than would otherwise be allowed under the draft decision. Daily rates should not exceed the standing offer.

An example of how the draft decision will change resident electricity tariffs can be seen in one of the many On-Selling Communities we work with. The proposed rule will see a retirement village resident with annual usage of 1,825 kwh (5 kwh per day) receive a cheaper annual bill by \$13.11 per year, while another resident with annual usage of 4,307 kwh (11.8 kwh per day) will receive an annual bill increase of \$79.01 per year. The net effect of the on-selling has not changed; however, the higher electricity user will be disadvantaged.

It can be argued that low electricity users (which would generally include residents with solar, residents that are absent, or residents who can reduce their electricity usage) should also be able to achieve electricity savings. The problem is that the vulnerable electricity users will suffer disproportionately because they are less able to adjust their electricity usage and therefore will receive higher electricity bills.

If the draft rules are extended so that the VDO compliant maximum annual bill mechanism is extended to flat tariffs and flat tariffs with controlled load, then this On-Selling Community would not need to change its electricity prices.

The ESC's proposed timeline for maximum prices for embedded networks, together with the electricity price change requirements contained in the Retail Energy Code, has meant many On-Selling Communities have had to make decisions now so that prices can be appropriately implemented for small customers. Some small customers will receive the VDO for flat tariffs during winter electricity usage.

On-selling Community price preparation has also necessitated scenarios around a possibly lower VDO flat daily rate from 1 January 2021. This will be subject to the ESC 2021 VDO consultation later this year.

With the draft decision being silent on the application, timing and determination of maximum prices in future years, On-Selling Communities need to consider the Retail Energy Code requirements for changing electricity prices and how small customers will interpret potentially two quick electricity price changes - being potentially prior to 1 September 2020 (to comply with the draft decision) and potentially prior to 1 January 2021 (to comply with the VDO 2021).

If the ESC is considering a change to the implementation timeline or extending the VDO compliant maximum annual bill mechanism to flat tariffs, kindly advise the industry so we can discuss this with On-Selling Communities. In particular, since the VDO pricing may decrease on 1st January 2021, please consider the upheaval for small customers under this scenario.

The ESC should consider developing (or assisting with the development of) a mechanism where embedded networks that are experiencing unexpected and/or material situational issues (which for example could emanate from a once in 100year event) to assist overcoming those situational issues through embedded network prices that are below the Standing Offer. Such a mechanism should in no way imply that the impacted embedded network should not be an embedded network.

Finally, the ESC should conduct a review of maximum prices for embedded networks and other exempt suppliers before any major regulatory or structural change is implemented.

It is essential that embedded network exempt sellers be able to provide customised offerings under the VDO compliant maximum annual bill mechanisms so that vulnerable small customers on flat tariffs can have similar opportunities to other retail customers, but more importantly be encouraged to maintain healthy living environments.

For further explanation please refer to Network Energy Services' submission to the ESC dated 10 March 2020 for 'Maximum prices for embedded networks and other exempt sellers, Consultation Paper, 5 February 2020' as many observations remain relevant.

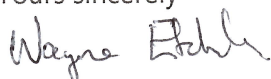
Network Energy Services supports the ESC's objective that embedded network customers 'should be able to access price protections that are as consistent as possible with those applying to customers more readily able to access market offers'¹.

Furthermore, appropriate embedded network price controls can achieve consumer results, in lieu of or in conjunction with, right of choice mechanisms.

Network Energy Services has been supporting and providing ethical services within the embedded network sector and specifically in the retirement village space for more than 20 years. We would welcome the opportunity to present additional information to the ESC if that assists.

Protecting community minded electricity on-selling will benefit vulnerable consumers both now and into the future.

Yours sincerely



Wayne Etchells
Network Energy Services

¹ Page ii of the ESC draft decision dated 29 April 2020