Embedded Networks Review

Draft Recommendations Report webinar slide content

Slide talking point content

A public information webinar on the Draft Recommendations Report was held on Thursday 22 July 2021 via Microsoft Teams. This document is intended to be read in conjunction with the slide presentation from the webinar and sets out the information provided by the Panel during the session.

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Welcome and agenda

To start the session, the Panel Chair acknowledged the Traditional Owners of the land, their history, culture and contributions to land, water and community and paid her respect to their Elders, past, present and future. The Panel Chair introduced the other Panel members.

The webinar's agenda covered:

- Brief recapping of the background and context around the review to-date;
- the Panel's vision – how the Panel envisages the overall outcomes;
- the Panel's proposed approach to giving effect to the ban and timelines;
- Key aspects of the Panel's draft recommendations
- A Q&A session
- Next steps

The webinar was designed to clarify details about the draft recommendations rather discuss solutions. The Panel is accepting submissions for further input to issues and solutions. The closing date for submissions is Friday 6 August 2021.

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Background and context

- In October 2018, the Victorian Government announced an election commitment to ban embedded networks in new residential apartment buildings, with appropriate exemptions for buildings that use renewable energy microgrids to deliver low-cost renewable energy to apartment blocks.
- This commitment was made in order to ensure that Victorian consumers who were living in embedded networks could have access the same competitive retail offers and customer protections as other Victorian consumers.

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Stakeholder consultation

- The Panel thanked stakeholders who provided their input and feedback on the Issues Paper, which was released in January 2021.

- Following the Issues Paper release, the Panel held two online stakeholder consultation sessions:
    - a webinar; and a solutions design workshop.
- Over the course of January and February 2021, we received 133 responses from stakeholders.
- Some of the key themes from the consultation process include:
    - There was a high level of support for the ban from consumers
    - Embedded network customers experiencing a lack of choice of retailer
    - Consumers experiencing problems with customer service and dispute resolution
    - Lack of transparency around information disclosure requirements
    - Level of support for the AEMC's recommendations from its 2019 Embedded Networks report
    - Customers unable to have choice of green energy for environmental protection
    - Customers experiencing barriers to competitive retail offers (e.g. cost to install a new meter)
    - Customers finding difficulties in accessing concessions
    - Need for an outcomes-focused definition of a microgrid, with a focus on passing on benefits to consumers
    - Need for stronger regulatory compliance and enforcement measures
- The Panel are really keen to hear from all stakeholders as part of the current consultation process, and have already had 5 submissions. The Panel confirmed it looked forward to receiving many more submissions over the coming weeks.

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Panel's vision – what they ultimately envisage

- The Panel gave an overview of the Panel's vision of the future state, and the intended outcomes sought from the Embedded Networks Review.
- To implement the government's commitment to ban embedded networks in new residential apartment buildings (with certain exemptions), the Panel has developed four principles guiding the Review:
    - Placing benefits to consumers at the centre
    - Equitable pricing outcomes and consumer protections
    - Future-proofing the design of the system
    - Ensuring Victoria's regulatory frameworks mirror or enhance the national standards.
- Throughout the Review process so far, stakeholders have frequently reinforced the need for ensuring equity and fairness for energy consumers.
    - As energy is an essential service, the Panel considers that customers should have equal protections, market access and treatment no matter where they live or how they get their energy services.
    - To deliver this overarching goal, the Panel is proposing to expand the current licensing framework by introducing a category called a 'Local Energy Service' (LES), for anyone who supplies and sells energy in a private network. The Panel elaborated on this proposed licensing framework in the subsequent slides.
    - Lastly, under the proposed licensing regime, the Panel envisages a future market of competitive businesses licensed as LES providers that supply and sell electricity at sites in a way that fosters renewable energy and sustainable outcomes in line with government policies with the benefits demonstrably being passed on to customers. This goes beyond the simple exemptions for microgrids to incentivise innovation and future-proof the system.

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Giving effect to the ban and transitioning to a licensing framework

- The Panel took attendees through how the ban will be given effect, the transition to the new licensing framework and the proposed timeline for the transition.

- The information on this slide is from the Draft Recommendations Report (p. 24).
- As was covered previously, the Panel has recommended a licensing model, as a longer-term measure, in order to achieve equity goals and regulatory enforcement.
    - The Local Energy Service Provider Licence will require renewable energy, sustainable or low emissions outcomes (which is consistent with the intent of Victorian government policy) and license holders must be able to demonstrate how benefits are delivered to customers.
- The Panel proposes that the licensing regime be established within 12 to 18 months of its final report being released. This will require legislative change to be effected.
- Under the proposed framework, embedded networks which are currently under development would be required to obtain a LES licence within six months, and existing (legacy) embedded networks would be given three years to obtain a LES licence once the new framework is in place.
- Given the time it is likely to take for the new licencing framework to come into effect, the Panel is recommending the GEO be strengthened as an interim measure to ensure all customers with embedded networks have access to the equal or equivalent protections as on-market customers.
- It is also recommended that the ESC's powers in relation to both legacy (existing) and new private networks be strengthened, to enable the ESC to pursue entities for breaches of the GEO or other regulatory obligations.

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Implementing the ban

- The Panel considers that the ban on embedded networks in new residential apartment buildings (with appropriate exemptions) can be implemented in a staged approach:
    - Initially through amendments to the GEO, requiring existing exempt persons and new private networks who rely on the GEO to sell and/or supply electricity to apply to the ESC for exemption approval (mid-2022 to late-2023)
    - Giving longer-term effect to the ban by expanding the licensing framework under the Victorian Electricity Industry Act 2000 with a new licensing category for LES providers (from late-2023).
- The Panel recommends that the GEO amendments should require all new sites with a residential private network (including apartment buildings, social housing, retirement villages and residential parks) to meet certain criteria. This means that embedded networks as previously established or known will no longer be permitted in new sites.
- The nature of an LES business means the new licence category will cover both the sale and supply functions the providers would perform within an LES site and the proposed licensing regime would ensure that consumers living in new private networks are provided equal or equivalent benefits and protections as on-market customers.
- This staged approach includes lead times to allow industry, including embedded network operators and developers, the opportunity to amend their business models and prepare for the new licensing regime before it comes into effect. It also takes embedded network customers' needs into consideration, allowing them to receive the same protections as on-market consumers as soon as practicable.

Renewable energy and/or other clean energy technologies

- To give effect to the renewable energy aspect of the government's election commitment, private networks should have to demonstrate that the site has renewable or other clean energy technologies that drive carbon emission reduction in line with Victorian Government policy.
- This might include renewable energy generation, energy storage, demand management and energy efficiency technologies.
- They should also be able to demonstrate how benefits are passed on to consumers within that site.

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Legacy and transitional

- First of all, the Panel envisages a phased transition to ensure legacy customers are not forever stranded without protections and retail choice.
- All residential embedded network customers should have access to consumer protections from a specific date. However, due to practical issues of rolling out NEM-compliant meters in existing embedded networks, access to the retail electricity market will not be available for all legacy sites simultaneously.

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Access to competitive retail offers

- Stakeholder submissions to the Issues Paper highlighted that access to the retail energy market is a key issue.
    - For consumers, retail choice means being able to change providers not only when they want a better price, but also when they have experienced bad customer service, or when they wish to choose renewable options.
- As mentioned earlier, the Panel's vision is that all consumers, regardless of where they live or how they get their electricity, will be able to participate in the retail market.
- However, the question of "when" and "how" this can be achieved remains.
- To solve this question, system changes will be required to ensure customers have ease of transfer, single billing and compliance with metering standards.
- The Panel's view is to require metering and/or internal infrastructure upgrades within legacy (existing) embedded networks to meet current standards at some point in time – e.g. meters to be replaced at their end-of-life (such as within 10 or 15 years) or within a specified timeframe (for example, within 5 years).
- Through the consultation process, the Panel is particularly keen to hear from stakeholders about:
    - suggestions for appropriate and reasonable approach to facilitating upgrade or change of metering and/or internal infrastructure
    - Information about the type of metering and/or internal infrastructure change or upgrade required to enable easy transfer.

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Consumer protections

- There was overwhelming support from all stakeholders who made submissions to the Issues Paper that everyone should have access to equal or equivalent consumer protections, regardless of whether they are on-market customers or they live in an embedded network.
- Currently, embedded network customers do not have all the same consumer protections as on-market customers, such as:
    - access to rebates and concessions as on-market customers
    - Access to EWOV for independent dispute resolution services
    - Reliability standards and guaranteed service-level (GSL) payment for outages
    - Obligations regarding assistance for consumers affected by family violence
- The Panel proposes that all private network customers, including those living in social housing, retirement villages and residential parks, should have access to the same or equivalent consumer protections as on-market customers.
- This will go some way to ensuring all electricity consumers have equal or equivalent protections and treatment, no matter where they live or how they get their energy.

Regulation of bundled services / fees and charges

- There are some services that are common in apartment buildings, such as bulk hot-water, bulk heating/cooling, unmetered gas cooktops and solar PV, which are often "bundled" together with electricity embedded networks and are provided by the same third-party service provider.
- Imposing a ban on embedded networks through the implementation of a licensing regime may therefore have flow-on consequences for the price of these bundled services.
- Although the VDO price cap on the sale of electricity in an embedded network is now in place, some third-party service providers and exempt persons may seek to recover costs (or lost profits) through these other bundled services.
- Pricing related to bundled services should be clearer and transparent, and customers should be provided with bills which clearly specify how each component of the bill is calculated.
- As such, the Panel believes that bundled services should be appropriately regulated and monitored to ensure there is no longer secondary, separate treatment for consumers of essential services.

Information disclosure

- Commercial agreements and decisions around the ownership of an embedded network's infrastructure and assets are made long before new lot-owners and tenants take possession or occupy that site. This means, prospective customers have very little (if any) influence over the design and operations of the embedded network.
- To rectify concerns around the transparency and disclosure of the existence of an embedded network, the Panel proposes that prospective purchasers and owners be provided with information disclosing the existence and details related to an embedded network.
- Information transparency and disclosure requirements should also extend to pricing and bundling of services, which we talked about earlier.

- Through the consultation process, the Panel is particularly interested in hearing about:
  - How bundled services could be appropriately regulated; and
  - How to strengthen the information disclosure requirements at the beginning, but also on an ongoing basis for consumers

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Compliance and enforcement

- When giving effect to the ban, it is important to ensure that the regulator (ESC) has adequate compliance and enforcement powers and functions to monitor, investigate and provide oversight of the industry.
- The current embedded networks framework, as set out in the GEO, provides the ESC with limited ability to enforce an exempt person's compliance with their exemption conditions.
- For example, as noted in the Draft Report, if an exempt person charges their customers more than the regulated maximum price (set at the VDO) for electricity or refuses to join EWOV, the ESC cannot currently impose any penalties for non-compliance. The only available ESC's enforcement measure is to deregister the embedded network and pursue them for a breach of the *Electricity Industry Act*.
- As mentioned previously, the Panel recommends that self-assessed 'automatic' exemptions under the GEO to be replaced with an approval process overseen by the ESC as a transitional measure to enable improved monitoring and oversight of the sector, as well as licensing approval when the LES licensing regime is in place.
- So, it is important that a more appropriate and robust compliance and enforcement regime is considered, which is robust and proportionate and aligned with the ESC's framework and approach for existing licensed energy providers.

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Other recommendations

There were a number of inter-related issues the Panel has identified and heard from stakeholder feedback. These are captured as three 'other recommendations'.

Mitigating disruption of supply due to failure of an embedded network

- As an essential service, disruption to electricity and other bundled services supply should be mitigated to the fullest extent possible, regardless of where people live.
- The Retailer of Last Resort (RoLR) scheme under the *Electricity Industry Act*, which guarantee continuity of electricity supply in the event of failure of an on-market retailer, does not extend to consumers living in embedded networks.
- There was strong stakeholder support for RoLR-type arrangements to be extended to cover embedded network customers.
- The Panel recommends that private network customers should be adequately protected in the event that a private network (or an LES provider once the licensing regime is in place) fails or the entity operating or responsible for the private network becomes insolvent.
- In doing so, the Panel considers that the Government should confer on the ESC power to appoint an alternative provider to operate the private network in this situation to ensure continuity of electricity and other bundled services supply for consumers living in the private network.

Planning and building requirements

- The Panel received stakeholder feedback that they are very concerned about the way in which embedded networks are often established in new residential sites with very little regard for the impact it is likely to have on consumers.
- While the Panel's Terms of Reference limit us to considering the interactions of our Recommendations with the relevant building and planning legislation, the Panel considers this to be a very important issue and recommends that it become part of the Building Systems Review, which is in progress.
- The Panel recommends that planning, building and strata requirements should be amended to oblige anyone proposing to supply or sell electricity within a residential building via a private electricity network to design, construct, establish and operate the private network in the best interests of prospective owners and occupants.
- The ownership and buy-out arrangements for any infrastructure assets (e.g. electricity, hot-water meters) should be disclosed to the prospective purchaser upfront at the time of sale.
- The Panel believes these changes will promote greater transparency and disclosure of the relevant information to consumers.

Giving voice to energy consumers in private networks

- The Panel recognises that many people living in apartment building, retirement villages, social housing and residential parks may be experiencing vulnerability, indeed it was the recognition of the barriers experienced by consumers living in these settings that was a key trigger for the establishment of this Review.
- As noted in recommendation 15, of the Draft Report the ESC too in its draft vulnerability strategy '*Getting to Fair: Breaking Down Barriers to Essential Services*' stated that the purpose of its strategy is to ensure they are supporting consumers who are at risk or experiencing vulnerability to access essential services.
- The Panel recognises that for the voices of customers in private networks to be considered effectively in policy and regulatory decision-making, they need to be appropriately coordinated and resourced.
- It is for this reason the Panel recommended that a mechanism or mechanisms be established to ensure consumer voices within private networks are heard in policy and regulatory development.

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Q&A session and next steps

Prior to the Q&A session it was confirmed that a document would be uploaded onto the EngageVictoria website covering queries asked during the session. Although the Panel was not able to respond to all the comments and questions raised during the session, a response to all the issues and themes raised will be uploaded to the EngageVictoria website.

To close, the Panel Chair noted:

- The success of the review ultimately depends on stakeholder input to the Panel's next steps.
- Stakeholders were encouraged to read the Draft Recommendations Report and make submissions by Friday 6 August 2021 either by completing a questionnaire or sending a submission to the review.
- The Panel noted the submissions and feedback would all feed into the Panel's deliberations and final recommendations report to the Minister. The Panel's Final Recommendations Report is expected to be released in December 2021.
- It is anticipated that the ban will be implemented from June 2022.
- Stakeholders were advised to refer to the website address for submissions, and to contact the DELWP secretariat with any questions.
- On behalf of the Panel and Secretariat the Panel Chair thanked stakeholders for their participation in the webinar and advised that the Panel looked forward to receiving submissions from stakeholders.