Compliance Quarter Pty Ltd
ABN 91 618 201 004
www.compliancequarter.com.au

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Dear Mr [redacted]

SUBMISSION ON AUSGRID'S DRAFT PLAN 2024-2029

Thank you for the opportunity to lodge a submission to Ausgrid on its Draft Plan 2024-2029. We consent to the publication of this document as part of the consultation process.

1. Our submission looks at Ausgrid's proposal to introduce three new Embedded Network Tariffs (**EN Tariffs**) in the Ausgrid distribution area.
2. The introduction of EN Tariffs will have the effect of:
   a. increasing costs to some of the most vulnerable consumer groups; and
   b. stifling future innovation and the uptake of on-site renewable energy generation.
3. Below we address these impacts in turn.

Impact on consumers

4. The proposed EN Tariffs will increase costs to certain vulnerable consumer groups, including renters within apartment blocks and homeowners within land lease communities.
5. During the previous six months, wholesale electricity prices have surged to record highs. We have seen retail electricity prices increase as they catch up to wholesale prices. The AER notes (in the 2022 State of the Energy Market Report): '*...many consumers' energy bills will likely show the impact around October 2022.*'
6. When comparing the electricity market today to the electricity market in April or May 2022, we see that there are fewer market offers available for consumers, higher prices on most market offers, and fewer retailers (with 8 retailers entering the Retailer of Last Resort scheme since 1 May 2022).
7. Against this background, a proposal to introduce EN Tariffs that would result in a ~30% increase in network charges (Ausgrid's Pricing Directions Paper for 2024-2029 para 4.4.3), needs to be closely examined.

Limiting the EN Tariffs to larger embedded networks

8. Ausgrid is proposing to apply the new EN Tariffs to larger embedded networks (that consume more than 160 MWh per annum). Ausgrid states that '*This would allow small ENs such as caravan parks and small retirement villages to be exempt from the proposed changes*.'
9. The problem with Ausgrid's proposed carve out (of embedded networks consuming less than 160MWh per annum) is that the total size of an embedded network is not correlated to the 'level of' vulnerability of consumers within that embedded network (or the risk that those consumers will be more significantly impacted).
10. For example, a large land lease residential park may consume more than 160 MWh, and yet the consumer impact of increased costs (which are likely to be directly passed on to residents pursuant to s 77(3) of the Residential Land Lease Communities Act) will be equally significant to that on a small land lease community park.
11. We note that there may be an assumption that embedded network consumers are being charged the DMO and, therefore, any increase in the gate meter supply charges will simply reduce the margin of the embedded network operator.
12. That assumption is not correct where embedded network operators are charging less than the DMO (in our experience in the majority of instances) or in certain types of embedded networks such as those governed by the Residential Land Lease Communities Act.
13. The margin of an embedded network operator (other than in certain types of embedded networks) depends on the gate meter supply rate. With default large market offers of on-market retailers now typically much higher than the DMO, many embedded networks are not profitable based on arbitrage. The only lever left for embedded network operators is to install on-site generation to reduce gate meter supply costs.
14. There are three outcomes that will result from the implementation of the proposed EN Tariffs:
    a. embedded network operators will pass on these costs to consumers within embedded networks;
    b. some Embedded network operators will seek to exit the embedded network and connect all child meters to the wider distribution system; and
    c. where a or b is not possible, some Embedded network operators will no longer be solvent and will appoint administrators.

Fairness to network users

15. The reasons that Ausgrid advance for the proposed EN Tariffs centre around the (with respect) nebulous concept of equity and fairness to other network users.

16. For a proper assessment to be conducted in relation to this central proposition, we submit that:
    a. There is, at least, the risk of a perception of conflict of interest in Ausgrid putting forward this proposal and therefore modelling needs to be undertaken by independent experts engaged by the AER;
    b. Such independent modelling needs to examine load profiles across all Ausgrid embedded networks, not just those of a single customer in a single season; and
    c. Such independent modelling needs to examine and quantify:
        i. avoided costs (for Ausgrid) resulting from the private embedded network operators having responsibility for the internal infrastructure, wiring, private poles, tree trimming, etc;
        ii. the costs (for Consumers) of 'reverse retrofitting.' Reverse retrofitting is a term we use to refer to the process of abolishing an embedded network and reconnecting all child meters to the wider distribution system. Substantial costs may be incurred by consumers, and Ausgrid, in such a process as each embedded network child connection point is converted into a NMI/ market-connected meter, including re-wiring of the MSB. The likelihood of reverse retrofitting is very high as embedded network operators will not be able to absorb a 30% increase in their costs at the gate meter; and
        iii. the likelihood of embedded network operator failure from these increased costs and consequences for consumers i.e. where smaller embedded network operators are placed into administration. This should be considered noting that there is no established RoLR scheme for exempt embedded network operators.

Impact on innovation

17. Finally, we wish to express a concern that the introduction of the proposed EN Tariffs will result in stifled innovation and the potential benefits of embedded networks in terms of the uptake of on-site generation, EV charging, and storage and 'services' that embedded networks can offer to consumers and to the wider distribution system.
18. As Ausgrid understands, some of the most innovative on-site generation and storage arrangements are found within embedded networks. Embedded networks have the potential to operate independently of the wider distribution system and to reduce the exposure of pressures on the wider distribution system.
19. Again, an appropriate analysis of the benefits (both now and into the future) needs to be undertaken by independent experts engaged by the AER in terms of contribution of

embedded networks to innovation and the uptake of renewable technologies.

This is a law reform issue

20. The question that follows from the points we raise above is 'where can the line be drawn' between embedded networks where operators are achieving 'too much profit' vs embedded networks where the EN Tariffs would have a negative impact on consumers. The answer is that a line cannot be drawn and that this is fundamentally a law reform and not a pricing issue.
21. Clearly law reform (for the reasons specified by the Australian Energy Market Commission in 2019 and currently under consideration by both the NSW Government and the AER in its review of the Authorisation and Exemption Framework) is needed.
22. Law reform is needed to ensure that embedded network consumers have fewer practical barriers to exercising a power of choice and to address gaps in the existing regulatory framework so that consumers within embedded networks are appropriately protected.
23. It is the role of the regulatory bodies and legislature to design, manage and implement law reform, not distribution businesses.

Concluding comments

24. Law reform is needed to ensure that consumers within embedded networks have appropriate protections and the capacity to exercise the power of choice. That being so, the actual costs and potential benefits of embedded networks have not been adequately quantified, considered and analysed.
25. We ask that Ausgrid consider this submission and ask itself whether the issues it is seeking to address should be more appropriately dealt with as part of wider law reform. Driving reform by increasing pricing has and always will hurt those who can least afford it.

Yours faithfully,

Connor James
Principal
Compliance Quarter
Email: connor@compliancequarter.com.au