20 January 2024

The Tribunal Commissioners
Embedded Networks Review
Independent Pricing and Regulatory Tribunal
PO Box K35 Haymarket Post Shop,
Sydney NSW 1240

Submitted online:

Dear Commissioners,

Australian Energy Council - Response to IPART Embedded Networks Review – Final Draft

The Australian Energy Council (AEC) welcomes the opportunity to respond to the IPART Embedded Networks Review – Final Draft.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

Overview

IPART do not consider that the Australian Energy Regulator's "default market offer" or DMO is an appropriate price cap for embedded network electricity customers. It does not meet their key objective to ensure that embedded network customers are not paying more than non-embedded network customers, because it is typically higher than most offers available in the market.

The Default Market Offer is intentionally set marginally higher than the AER calculations as to the efficient costs of supplying electricity. And this has two practical effects;

1. Because any regulator is unable to replicate perfectly efficient outcomes, the DMO setting ensures a confidence level is maintained, and
2. To maintain incentives for competition, innovation and investment by retailers, as a regulator cannot replicate perfectly competitive outcomes either.

This approach to setting also incentivises consumers to engage in the market, whereby excessive margins will be eroded by competition.

IPART contend that a price cap that is set to achieve competition outcomes is not suitable where customers cannot easily shop around, as they believe is the case in embedded networks. However, the efficient costs of supplying electricity to an embedded network, were they to exclude any allowance for competition and innovation, creates an internal inconsistency in IPARTs reasoning. This is because there would be no available allowance to incentivize the IPART objectives to:

1. Incentivise customers and embedded network sellers to supply and use energy efficiently and enable the efficient use of energy, and.

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2. Encourage sustainable energy solutions and accommodate innovation and investment in the energy sector.

And this is because renewable generators and innovative automation are cheap to run but they are costly to build. In turn there must be sufficient allowance to recover the cost of capital if sustainable energy solutions are to attract investment. Sustainable energy solutions are broadly recognised under the banner of electrification, and IPART acknowledges the benefits of electric hot water systems for example. But the proposed approach to the objective of sustainable energy solutions and accommodating innovation and investment in this example seemingly ignores that the cost of electric hot water systems over gas is significantly higher, and that the cost of energy efficient heat pumps is higher still; more than triple that for the same capacity when compared to gas.

There are tangible benefits to a sufficient allowance. The technical and governance complexity of multi occupancy embedded networks means that installing renewable generators and innovative automation as an individual occupant is an unlikely option. And this is clearly a major barrier for the occupants of these properties to accessing renewable energy and innovation. But if correctly incentivised by sufficient allowance, embedded networks can facilitate the occupants access to renewable energy and innovation, to onsite renewable generation, and to other technologies shared throughout an entire building.

In practice this will mean centralising and standardising renewable (or other) energy generation infrastructure within buildings, along with energy storage such as batteries, and even electric vehicle chargers. It is then possible to make more efficient use of such assets. The greater loads present at the point of connection in these larger and often multi occupant buildings mean that the scope for centralised infrastructure is greater and the business case for investing more apparent. Ultimately this leads to better outcomes for consumers through access to a secure and more sustainable electricity supply that would otherwise be unachievable, greater tradeability of the sites energy resources, and potentially less impact on the distribution system whereby the value of this is returned to consumers over time.

The AEMC Chair, Anna Collyer recently added their thoughts on the topic of automation technologies: “Smart home automation adds value to any residential development by delivering real-world energy savings for homeowners. They provide the tools consumers need to monitor and optimize.” These value adds should also be available to customers in embedded networks in NSW.

The AEC agrees that the regulation of embedded networks needs to be proactive and sufficiently flexible to avoid inhibiting both technology innovation and the accelerated uptake of renewable energy. NSW also has ambitious renewable energy and emission reduction goals, within which embedded networks can make a significant contribution if appropriately set pricing attracts investment for sustainable energy solutions powered by both onsite and offsite renewable energy. Or even offsite renewable Power Purchase Agreements.

The price method proposed by IPART applies directly to metered energy, as opposed to the to the *functions of any Embedded Network project*, which is where the innovation lies. For example, price prohibitions on a daily service charge ignores the need to match the recovery of fixed costs such as upgrades to or future installations of electric hot water systems to the revenue stream. Any insecurity in cost recovery is likely to lead to lower upfront capital solutions being installed instead, such as gas heating, cooktops and hot water systems. In practice this undermines the objective of encouraging lower carbon energy solutions and appliance innovation that IPART and the NSW government have made policy priorities. This retrogression to gas is inconsistent with NSW policy objectives to reduce carbon emissions.

Exemption processes create a regulatory and administrative burden for developers of EN projects that present additional barriers to development and innovation. We urge IPART to reconsider its

approach with regard to maintaining allowances for competition, innovation and investment in this important sector.

Please contact the undersigned at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

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