

FEBRUARY 2021



VCOSS response to the Issues Paper for the Victorian Government's Embedded Networks Review

Introduction

VCOSS welcomes the opportunity to provide feedback on the Embedded Networks Review Issues Paper that has been prepared by the Victorian Department of Environment, Land, Water and Planning (DELWP).

As the peak body for the social services and community sector in Victoria, VCOSS focuses on affordable and equitable access to energy for low-income Victorians.

The Victorian Government's commitment to an appropriately structured ban on embedded networks in new apartment buildings will help protect Victorian households in potentially vulnerable circumstances from overpaying for energy and provide them with greater choice and control over their energy bills.

Most Victorian households can potentially choose the retailer and plan that best suits their needs. They are protected by a growing suite of consumer protections and energy fairness laws.

But for over 100,000 people living in caravan parks, rooming houses, retirement villages and apartment buildings electricity is supplied to their home as part of an "embedded network".

Customers in embedded networks are not covered by the same consumer protections and entitlements to assistance as other households.

This is because embedded networks are different to other residential electricity arrangements in two key respects:

- their regulatory treatment, and
- their physical infrastructure.

Embedded networks are primarily regulated (from a retail perspective) in Victoria through the General Exemption Order (GEO) to the core electricity licensing regime.

This two-tier approach may once have made sense when embedded networks were genuine exceptions to the main grid. However, it creates significant complexity

and inconsistency for consumers, and is ill-suited to the accelerating rate of change in the energy market.

As VCROSS argued when the GEO was reviewed in 2015, replacing this complicated, “licensed or conditionally exempt” approach with a more modern, flexible, and scalable licensing system would significantly streamline this regulatory context. More importantly, it would genuinely ensure that consumer rights and interests are at the centre of the regulatory regime.

This regulatory arrangement arose alongside the legacy physical infrastructure of embedded networks, in which a “parent” meter stands between the grid and individual dwellings’ “child” meters.

Depending on the technology and physical accessibility of the infrastructure, for some households in embedded networks it can be nearly impossible, or at least very expensive, to physically exit the embedded network and directly access the mainstream market.

As noted in the Issue Paper, the cost of installing a new meter in legacy settings, which would enable an embedded network consumer to move on-market, is in-excess of \$200.

For a low-come household in an existing embedded network, even this relatively small amount (in the context of energy system infrastructure) is a significant additional barrier.

Improve consumer protections

Embedded network consumers do not have the same access to concessions as other energy consumers. To access the “non-mains energy concession” they need to pay their bill in full each year, and then apply for a rebate. This can cause significant hardship for low-income households who live paycheck to paycheck.

The rebate system also puts the onus on consumers to apply for a rebate. Consumers with lower levels of literacy, or where English is a second language, may not know of their eligibility, meaning they miss out on a payment they are entitled to.

An up-front, on-bill concession should be introduced immediately for embedded network consumers. We understand other states have such a system in place.

A broad review of the concession system would be an opportunity to identify other gaps for embedded network consumers, including for people not currently eligible for concessions, like asylum seekers.

Make complaints processes simpler

For consumers, knowing where to make a complaint about an embedded network operator can be confusing. The jurisdiction of complaints bodies over embedded networks operators is patchy, as it depends on current licensing exemptions.

For example, as the Issues Paper notes the independent Energy and Water Ombudsman (EWOV) can only investigate complaints if the embedded network is a member of EWOV.

Consumers should not be expected to navigate this complexity. Nor should they be disadvantaged because their embedded network is not an EWOV member for relatively obscure technical reasons.

For many embedded network consumers living in apartment buildings or residential parks, their exempt seller is also their landlord. They are at an inherent power disadvantage as a result. Many will be reluctant to complain or ask questions, for fear of retribution in the form of rent increases or eviction.

A clear and supported pathway for complaints, not reliant on research and self-advocacy by consumers is required.

Provide clearer information about pricing and options

Embedded network consumers report that their bills can be unclear, and do not always itemise or explain all charges. The risk of this is heightened where the network operator “bundles” electricity with other utilities (like hot water and gas cooking) or common area services.

It is not always clear whether there are better offers available to consumers, leaving embedded network consumers

disadvantaged compared to other people. They may not be aware they are paying more than other consumers for their energy, and potentially facing financial hardship as a result.

Clearer requirements, and appropriate monitoring and enforcement, are needed for exempt sellers about information that should be provided to consumers both prior to moving in and on bills.

Principles-based and holistic perspective the right approach to the task

Given the messiness of this regulatory and operational landscape, VCOSS supports the Expert Panel’s principles-based and holistic approach to developing advice on implementing an appropriately structured ban on embedded networks in new apartment buildings.

As outlined in section 2.2 of the Issues Paper, these principles include:

- **Place benefits to consumers at the centre**, so that the Review is driven by the needs of customers, particularly consumers experiencing vulnerability or disadvantage, and not the business model of suppliers and other interested parties.
- **Prioritise equitable pricing outcomes and consumer protections**, where residential embedded network customers can

access the same competitive retail offers and consumer protections as other Victorian electricity consumers.

- **Future-proof the design of the system** to ensure access to the energy options of today and tomorrow (such as solar photovoltaics (PV), renewable microgrids, energy storage, electric vehicles, demand response and other markets).
- **Ensure that Victoria’s regulatory framework will mirror or enhance the national standards** for embedded networks.

These principles provide a robust basis for both the fact-seeking and option-generating dimensions of his review. VCOSS also notes that some similar principles are emerging through the national [New Energy Compact](#) initiative.

Importantly, the core emphasis on residential consumers’ interests and protections suggests an implementation pathway that is focused on preventing the technological (metering) barriers, sunk-costs and other physical infrastructure and accessibility issues that can be problematic in existing legacy embedded networks.

Crafted in this way, such a ban would give households the ability to choose “the best of either world”. On one hand, they could benefit from a well-run embedded network that truly leverages collective purchasing arrangements (or renewable generation and storage) behind a (nominal) parent meter. Alternatively, they could, without

additional investment, directly access the open retail market.

Broaden consultation processes

VCOSS welcomes the Expert Panel’s efforts to engage with past or current residents of embedded networks to share their experiences and relevant billing history.

We recognise, however, that there are substantial barriers to people engaging in this process.

There is a level of technical or assumed knowledge necessary to understand the questions asked about the system and options. People may not recognise they are embedded network consumers, or be aware of the different rules that apply to them. As noted earlier, they may also fear perceived consequences for their tenancy from raising concerns.

Low-income households are particularly unlikely to engage through formal consultation mechanisms, and may need additional outreach to meet people where they are and ask direct questions about their experiences.

Establish a robust compliance regime

It is also important that the Review draws on relevant submissions to the previous inquiries noted in the Issues Paper.

As VCOSS noted in [our submission](#) to the Essential Services Commission (ESC) on applying the Victorian Default Offer as a maximum price cap in embedded networks, it is critical that there are robust monitoring and enforcement arrangements to ensure compliance in this part of the market.

VCOSS is still concerned that current arrangements are largely reactive. Given the potential for households living in embedded networks to be particularly disengaged and/or disempowered regarding their rights and protections in the energy retail system, it is important that ESC, EWOV and DELWP now make progress on establishing a robust compliance and enforcement regime.

Such a regime was previously foreshadowed in the Department's [2017 Final Position Paper](#) on the Review of the Victorian Electricity Licence Exemptions Framework.

To discuss this submission further, please contact Jarrod Lenne, Energy Policy Advisor on jarrod.lenne@vcoss.org.au

