

ACTIVE

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Submission:

**AER Determination – Ausgrid – 2024–2029 Revised
Proposal**

January 19, 2024

TABLE OF CONTENTS

Active’s Letter of Submission..... 3

Detail From 2023 Submission..... 6

 Financial Hardship.....6

 Sustainability Impacts7

 Conclusion.....9

19th January 2024

To: Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Re: Active Utilities Pty Ltd. (Active) Submission on the Ausgrid – 2024-2029 Revised Proposal.

Thank you for the opportunity to comment on the AER Issues Paper – Ausgrid – 2024-2029 Distribution Revenue Proposal.

Active provides a broad range of local energy solutions to a range of commercial, industrial, retail, and residential customers. A key original component of our business is the operations of electrical embedded networks.

Active operates nationally but the majority of our clients are located on the east coast of Australia. Our embedded network solutions are comprised of consulting with Property Developers, Strata Managers, and owners/managers of buildings, regarding the setup and ongoing operation and management of embedded networks.

As part of this service, we offer a billing agency service and act as the AEMO Accredited Embedded Network Manager (ENM) for these customers, ensuring their end customers receive a similar service offering to grid connected network conditions and meet relevant legislative requirements of operating these networks.

Active is keen to provide a submission into the issues raised with the Ausgrid proposal. Active recognises that, as explained in the body of this submission, the potential consequences of the price cap and other changes, that have not yet been considered, may include people's livelihoods, closures of small businesses, and major disruption of the Local Utility Network sector. Furthermore, this impact could extend into other associated industries, including electrical infrastructure, and the building and construction industry and once again, the end consumer will be left negatively impacted financially.

Active also proposes that the Ausgrid submission is simply a revenue-increasing opportunity that is not reflective of the reality of the impact on network operations and serious impacts on the industry and the potential to prepare for a new energy future where sustainability is key.

Active notes that many stakeholder organisations have raised objections to the Ausgrid submission highlighting issues with Ausgrid's financial methodologies, the inequity of the proposed grandfathering arrangements, potential conflicts of interest given the source of the data being Ausgrid's own, the likely inefficiency of fixed charge recovery and the difficulty of balanced charging to on-market child metering customers.

Active supports all of the concerns raised by these industry stakeholders, with every item raised being a valid concern, however, our submission is focused on the four primary areas of concern that the proposal creates.

1. Operating Failures.
2. Cost Increases to end consumers.
3. Sustainability Impacts.
4. Monopolisation.

Active notes also from the Ausgrid documents that they heard similar feedback from stakeholders in their further consultations and have determined that it was irrelevant and have rejected it out of hand.

Their only concession to the feedback from the AER and Stakeholders has been to phase the approach over the next 5 years. They have not listened to any of the concerns about cost increases and the impacts and are proceeding as if everything is all good and likely to have no real impact. Active's calculations (with and without IPART) show that the 2024/25 increases will be likely to force all of Active's networks in NSW into substantial losses. This will push the costs back onto the Owners Corporations and will result in increased costs to the building that are passed onto tenants in increased rents. Active cannot comment on other networks but we believe that this proposal will have a similar impact elsewhere.

Active believes that cost increases to small residential and commercial customers within the impacted embedded networks are an unavoidable outcome of the proposed changes. Given the high cost of electricity, the changes requested by Ausgrid will add further financial pressure to these customers. If the current IPART Review is also adopted, the combination of Ausgrid and the IPART Price Cap will likely make most embedded networks in NSW unviable.

The result of this will be to force substantial costs back onto the Owners Corporations and other Building Owners that will need to be recovered from Owners, Residents and Tenants. This will add substantially to ongoing fees and inevitably result in substantial rent increases to enable Lot Owners and commercial sites to recover their losses.

The changes will likely also place substantial pressure on new developments forcing substantial costs back into construction and increasing the cost of housing in an already overheated and unaffordable market.

A properly managed embedded network creates the potential to provide relief to these customers in their utility pricing, relief that would disappear under the proposed arrangements.

For a sustainable building future neither Ausgrid nor Endeavour, who have lodged an almost identical request, has the technical or structural capacity to provide a framework that will allow buildings to introduce sustainable elements to their buildings such as large solar

generation capacity, storage solutions, electrification of centralised hot water solutions and EV Charging capability. This will result in substantial impacts on the development of sustainable buildings in NSW.

Ausgrid operates a monopoly in its specified distribution area in NSW. The existence of embedded networks entitles buildings to add opportunity to that monopoly and to do things that they otherwise could not do. Further to that, the Exempt Embedded Network Service Provider (EENSP) then also has options in who they choose to assist them in the network operations and billing services etc. The providers in the area are a mix of Exempt Retailers and Authorised Retailers. A single Tier 1 Authorised Retailer holds the majority of the 96,000 registered electrical embedded networks in NSW.

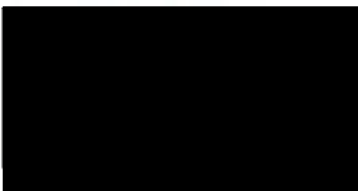
Should the proposed changes proceed, as stated above, most Embedded Network Operators (ENO) in NSW, both Exempt and Authorised will struggle to continue operating. The first implication of this is that hundreds of buildings across NSW will be forced to invest hundreds of thousands of dollars to dismantle their embedded network infrastructure forcing costs onto owners and tenants. The best outcome would be that the ENO continues to provide the service, but the electricity losses incurred through this usurious proposal will be the ongoing burden of the Lot Owners. As discussed above this will result in increased costs for rent and other building expenses placing untoward pressure on the affordability of housing.

The worst case scenario is that the single Tier 1 Authorised Retailer will absorb the remaining networks and customers creating an embedded network retail monopoly on top of the distribution monopoly. Given the retail nature of this operator, this will remove all benefit from the building, and stifle competition in the sector on top of all of the other problems identified above.

We urgently request the AER to reject the embedded network element of the revised proposal to prevent the unintended consequences of this revenue grab.

If you require any further information concerning this submission, please do not hesitate to contact me.

Kind Regards,



Andrew McMeekin
General Manager
Active Utilities Pty Ltd

DETAIL FROM 2023 SUBMISSION

FINANCIAL HARDSHIP

Active notes that in their Executive Summary, Ausgrid states that **“1.1 Pricing reform is a significant opportunity”**. They then go on to say that they “want to maximise the opportunities for retailers and other partners, such as aggregators, to reward customers for their flexible use of the grid”.

Using their data and making a range of assumptions about all embedded networks based on an unknown site of unidentified size or make up they have determined that this aggregated flexible use of the grid is not one that they wish to reward.

The argument is that whilst they wish to reward aggregators and that there are many good reasons why a development might choose to connect as an embedded network, they appear to be ignoring all of the benefits offered by an Embedded Network as an aggregator in a desire to increase revenue.

Their argument that other network customers bear the burden of the supposed reduced revenue to Ausgrid because of possible variations in load profile is unsupported by any of their data. The Distributor’s work requirements for an embedded network are much reduced when compared with the requirements of a grid-connected building of a similar size. Larger sites that require High Voltage (HV) solutions are also simplified in cost and complexity with an embedded network.

They express concerns about load profile and ignore the potential for embedded networks to load manage efficiently, assisting the network in peak demand situations that require load shedding. The proposal seeks to increase fixed capacity charges that are often much higher than the actual demand of the building which already creates a higher revenue return than the usage would actually require.

But, most importantly of all, they pay little attention to the financial impact of their proposal on the end consumer of the electricity. Any costs that Ausgrid adds to the network operations of an embedded network will flow through to the use resulting in higher costs.

It should be noted that the majority of the impacted networks are owned and operated by residential Strata Plan Owners Corporations and will include several sites that serve to provide affordable housing, student housing, or aged care/retirement housing as well as traditional residential owners and tenants.

The full impact of the proposed changes will be borne by the Lot Owners of the Owners Corporation in substantially increased Common Property power costs and residential rates to those owner occupiers and tenants already struggling with a dramatically increased cost of living driven in large part by the increased costs of essential services such as electricity and gas on top of their mortgages, rents and food and grocery requirements.

SUSTAINABILITY IMPACTS

In their executive summary Ausgrid notes that they “are building on reforms we have already introduced, such as trialling new incentives for customers to realise the shared value of rooftop solar, home batteries and electric vehicles”.

Active notes from our research that these reforms are predominantly restricted to free-standing dwellings and have failed to fully understand both the potential and the needs of multi-tenant residential buildings, whether embedded networks or not, to participate heavily in sustainable initiatives designed to not only be better for the planet but to deliver efficiencies, cost reductions, load management and access for all residents to the advances in technology the absence of which impacts on the capital growth of their asset.

SOLAR

Residents in multi-tenant residential have limited access to solar installations. Whilst some products are increasing access for individual lot owners, generally common property roof access and technical constraints make access to solar difficult if not impossible.

For common property solar solutions, designed to reduce costs to lot owners, smaller consumption means generally only very small arrays are installed to limit export of overgeneration as the lower to no Feed In Tariffs available make export uneconomical.

In an embedded network, the capacity to install much larger arrays that share the value with the entire building is greatly improved. The larger the array, the lower the dependence on the grid supply and the greater the benefit to the LNSP in managing demand. These are all items that are excluded from the review. To quantify the impact looking at our last 12 months of installations of Solar within Embedded Networks, due to the revenue impact of the proposed change, we would have had over 80% reduction of solar installed. In turn, this applies more pressure to the grid however also increases the impact on the environment of the building.

By recommending raising tariffs for embedded networks and making them potentially unviable, the proposal removes the capacity to increase the volume of on-site renewable generation, denying the building and its residents the opportunity to make an environmental and financial impact on their building footprint.

BATTERIES / STORAGE

Batteries and other storage solutions are increasingly being investigated and considered by multi-tenant residential and commercial buildings to ease financial pressures from dramatically increasing supply costs and to assist in accommodating sustainable initiatives such as on-site generation and EV Charging. They have ignored the benefits these initiatives/solutions will deliver not only to the Environment but also to the grid. They have also not advised how they would alter their current delivery method to accommodate these

multi-dwelling properties that will require higher power availability as we reduce our reliance on fossil fuels.

Where these solutions are limited only to common property requirements the return-on-investment analyses become less viable. Once again, in an embedded network the solutions become much more viable as they allow storage and distribution across the total building. Deliberately making embedded networks unviable through tariff increases serves only to remove access to solutions that ultimately benefit the grid.

ELECTRIFICATION & SMART BUILDINGS

Nationally, the rapidly increasing cost of gas and the increasing desire from Governments and residents to move away from fossil fuel supplies, is leading to substantial interest in electrification through the replacement of gas-driven services such as centralised hot water and cooktops.

Heat Pump solutions for hot water are evolving technically at a rapid pace and becoming cheaper and more efficient. As new buildings emerge without fossil fuel sources to align with the Green Building Council of Australia (GBCA) requirements for GreenStar ratings and the desire for certification from Climate Active and NABERS, newer buildings will require larger load volumes than comparably sized buildings with fossil fuel services.

As more and more existing buildings look to retrofit these solutions, demand from the grid will also increase.

Limiting access to embedded networks by making them deliberately financially unviable will limit the capacity for new buildings to better manage demand through on-site renewables, batteries, and storage. The proposal seems to be self-defeating as Ausgrid expresses an interest in pursuing incentives for sustainable solutions in free-standing dwellings and then actively ensuring that the larger volume environments where demand could be managed to a much higher level of impact have no incentive to do so.

EV CHARGING

The National Construction Code (NCC) will require all new buildings from October of 2023 to be “EV Ready” to the extent that all will have distribution boards in the car parks, supplies from the Main Switchboard (MSB), cable trays and Load Management Systems (LMS) designed to accommodate each car space running a 7kW single phase charger.

Embedded networks provide greater capacity to manage the requirements of the NCC, providing greater control over the electrical load, including adding solar and battery storage support, delivering a total building focus instead of just a common property one.

This helps to reduce demand from the grid as well as providing Owners Corporations with cost recovery and financing solutions to limit the impact on fees.

CONCLUSION

As buildings grow increasingly smarter, for both new builds and existing ones, the energy management and efficiency options available in an Embedded Network are the path to sustainability and load management. There should be consideration for the reduced reliance on the grid, helping to protect from the longer-term pressures resulting from electrification. Increasing network pricing to make embedded networks unviable plays against all the markets' initiatives and discussions to achieve a greener, more sustainable, future.