

6 February 2024

Our Ref: 2024/021186
File No: X009228.057

Mr Mark Feather
General Manager, Policy
Australian Energy Regulator (AER)
By e-mail: AERexemptions@aer.gov.au

Dear Mr Feather,

City of Sydney Submission - AER Exemptions Framework for Embedded Networks

The City of Sydney (the City) welcomes the opportunity to provide this submission to the AER review of its Exemptions Framework for Embedded Networks. The Issues Paper is timely and well articulates the potential harms and benefits of embedded networks.

About the City of Sydney

The City has endorsed targets for net zero emissions across its local area by 2035, to reduce emissions by 70 per cent based on 2006 levels by 2030, and for at least half of the electricity to be from renewable sources by 2030. Affordable, fair, and inclusive energy options are needed if we are to achieve our targets.

More than 80 per cent of our residents live in apartment buildings, many are renters, and we have a high share of social housing. We have gathered significant insights into the challenges and opportunities faced by residents and owners corporations through our Smart Green Apartments¹ program.

Well-managed embedded networks have the potential to generate a range of benefits for customers. These include bulk purchasing of renewable energy, access to lower cost commercial network tariffs, and enabling on-site solar, electric vehicle charging, and batteries. Embedded networks can be operated in a way that provides real cost savings and other benefits to their customers.

Embedded networks can also support the electrification and grid-interactivity of buildings and precincts - i.e. shifting loads to times when the grid is most renewable - supporting the transition by reducing curtailment of renewable energy and costly network infrastructure, whilst reducing emissions and lowering costs to consumers.

However, there are a range of consumer concerns well outlined by the Issues Paper than need to be addressed. Owners corporations need to have agency to choose the

¹ <https://www.cityofsydney.nsw.gov.au/environmental-support-funding/smart-green-apartments>

kinds of utilities infrastructure and contracts they engage in upfront; cost savings need to be shared equitably; and customers must not be locked into higher energy bills or carbon emitting energy sources.

In considering these changes, the AER should also be mindful that owners corporations need to have ready access to data in order to conduct NABERS ratings, to operate their buildings efficiently, and in readiness for voluntary or mandatory disclosure of energy performance.

The City makes the following recommendations.

1. Do stakeholders consider one factor or principle should take precedence over another? If so, what weighting should we give the various principles or factors provided by the Retail Law and set out above, to support any case for change to the exemptions framework?

Benefits and harms to consumers should be the main focus of this review. As outlined by the Issues Paper, costs for exempt entities need to be considered as it could impact their ability to operate, or costs may be passed onto customers (which could be considered a harm). The administrative cost for AER and its ability to monitor and enforce proposed changes seem to be lower tier issues that could be addressed through resourcing.

Recommendation 1. The review should give greatest weighting to consumer benefits and harms in supporting the case for change.

2. Is the AER's proposed approach to the exemption framework review the preferred approach? If no, what other factors or criteria should the AER consider?

There have been multiple reviews to date which highlight that changes will be required by regulators and jurisdictional bodies. The scope of the AER review to change what is within its remit is appropriate, however the AER also have an important role to inform and align with jurisdictional changes.

3. Is our proposed review scope reasonable? If not, what other supply arrangements should be considered and why?

The City supports the focus on higher-density residential embedded networks given that more than 80 per cent of our residents live in apartment buildings.

4. What factors are driving the increase in residential exemptions?

The issues paper provides a comprehensive list of drivers, including a shift toward higher density living.

5. Which factors are having the biggest influence?

Profit motive is likely the major cause for the increase in embedded networks.

Developers of new buildings benefit because they avoid paying for infrastructure and are not impacted by the embedded network monopoly once apartments are sold.

Some embedded network operators may also be making significant profits, especially when cost savings such as lower energy tariffs and avoided grid connection charges are not being shared with their customers.

Recommendation 2. The AER should ensure that cost savings are shared equitably between stakeholders including developers, embedded network operators, owners corporations, and customers.

6. How common is it for new residential developments to be built as embedded networks?

The City of Sydney is not currently gathering data on the scale of the issue for our local government area. The company Wattblock² has identified 52 embedded networks in the City of Sydney area which is around 2.5 per cent of all strata schemes. However, the City cannot vouch whether or not this information is accurate.

Recommendation 3. The AER or appropriate body should introduce a public registry for all new and existing embedded networks to increase visibility and properly monitor the issue.

7. How do embedded networks result in lower energy prices for residential customers? Please provide supporting information.

There are clear opportunities to lower energy prices for residential customers by passing through avoided network and metering costs, access to wholesale energy tariffs, the ability for embedded network operators to enter into cost-effective renewable energy power purchase agreements, and enabling onsite solar, electric vehicle charging, and energy storage.

8. How do infrastructure costs for new developments built as embedded networks compare to non-embedded networks?

Developers of new buildings benefit because they avoid paying for infrastructure and are not impacted by the embedded network monopoly once apartments are sold.

Some embedded network operators may also be making significant profits, especially when cost savings such as lower energy tariffs and avoided grid connection charges are not being shared with their customers.

9. How do higher-density complexes configured as embedded networks benefit residential buyers? Please provide supporting information.

Done well with cost savings passed through to customers, embedded networks can reduce costs and enable apartment dwellers to use renewable energy and other services as outlined in question 7.

10. What kind of innovative and emissions reduction arrangements can embedded networks offer residential customers?

Buildings will play an increasingly important role in supporting the renewable energy transition by shifting demands to use energy at times when the grid is most renewable, for example by pre-cooling on hot days when more solar power is being generated. By consolidating demands and having a single operator, embedded networks are well suited to be grid interactive and participate in the provision of market services to support the grid.

11. What other benefits are there for residential embedded network customers?

² <https://www.wattblock.com/electrifystrata.html>

Many residents in apartment buildings are concerned by climate change and want to do something to reduce their carbon footprint. Switching to renewable energy is one of the most significant ways to reduce emissions. Embedded networks powered by renewable energy can enable agency and action on climate change by residents who otherwise may have limited opportunities to support the renewable energy transition.

12. How should we consider any consequential benefits such as improved access to affordable housing in this review?

The City is highly supportive of the approach to consider affordable housing within the scope of this review even if it is beyond the AER remit.

13. What is the evidence that supports the view that embedded network customers are paying higher energy prices compared to on-market retail customers?

No response.

14. What evidence is available to understand the scale, extent or risk of harms?

The City of Sydney has not gathered evidence, however a public register as per Recommendation 3 above would assist to understand the potential scale and risks. It would also increase transparency which may motivate some embedded network operators to improve services.

15. What other harms do embedded network customers face?

No response.

16. How can we maximise the extent to which any changes to our Guidelines complements jurisdictional actions and minimise the risk of misalignment or duplication?

The Issues Paper notes that many interventions are not within the AER remit and require changes at the jurisdictional level which the AER advocates for.

Conversely, jurisdictional reviews also identify that reforms are required to the National Energy Law and Regulation, which requires agreement of federal and state energy ministers.

For NSW, the AER changes need to align with the NSW Embedded Network Action Plan and the IPART Future of Embedded Networks in NSW review underway.

Recommendation 4. The AER needs to coordinate or advocate for regular two-way exchanges with jurisdictions to ensure that changes are aligned to maximise the benefits and minimise the harms of new and existing embedded networks across jurisdictions.

17. What are the risks and implications for embedded network service providers, prospective exempt sellers, customers and other relevant third parties if we require current deemed exemptions to be registered? How could any risks be mitigated?

No response.

18. How should we measure the benefits to consumers of registration?

No response.

19. What are the risks and implications for embedded network service providers, prospective exempt sellers, customers and other relevant third parties if we revised the NR2 registrable network class exemption activity criteria to include prescribed customer benefits that must be met by NR2 registrable network class exemption holders? How could the risks be mitigated?

The City supports the AER intent to confirm benefits and limit harms to customers by placing firmer obligations on embedded network service providers.

20. If we were to prescribe a list of specific embedded network customer benefits, what could be included?

The Issues Paper cites the Victorian Government requirement for 100 per cent of energy in embedded networks to be from renewable sources as a clear benefit. This approach is strongly supported on the proviso that it does not increase costs to customers.

The NSW Government does not have any such a provision. Further, local governments are prevented by NSW planning law from introducing mandatory planning controls that reduce greenhouse gas emissions in new residential developments beyond state government requirements.

The AER should therefore be aware that planning controls requiring embedded networks to be supplied by renewable energy or other benefits like electrification, electric vehicle charging, or batteries, would therefore have no effect.

The NSW Government would need to update its planning controls to enable mandates for renewable energy for embedded networks, which the City of Sydney would support.

Recommendation 5. The AER should mandate that 100 per cent of energy in new embedded networks to be from renewable sources for all jurisdictions with a proviso that it does not increase costs.

21. What other regulatory approaches would enable the AER to ensure future embedded networks are beneficial to customers?

No response.

22. What are the risks to embedded network service providers, prospective exempt sellers, customers and other relevant third parties if we introduced a requirement to apply to the AER to register an NR2 network class exemption?

The City supports the AER approach to permit residential embedded networks only where there are tangible benefits to customers such as through the supply of green power, solar generation, or shared electric vehicle charging facilities and the ability to deny registrations that are not in the long-term interests of customers.

23. What are the implications of requiring embedded network service providers to demonstrate customer benefits before being permitted to register an NR2 network class exemption?

No response.

24. What support is there to stop the expansion of residential embedded networks by closing the NR2 registrable network exemption class?

No response.

25. What would be the impacts on customers, embedded network service providers, exempt sellers, embedded network managers, and other parties if we ceased granting exemptions for embedded networks with more than 10 residential customers? Please provide information to support your views.

No response.

26. What compliance breaches should exempt sellers be required to submit to the AER, if they on-sell to residential customers?

The City supports the AER goal to increase visibility and compliance to mitigate potential customer harm, while keeping the conditions simple and manageable for exempt sellers so they can comply.

Recommendation 6. In addition to the options proposed, the AER may consider a spot audit approach to periodically check compliance.

27. What performance reporting indicators would best support the AER to identify consumer trends and inform regulatory reform for embedded networks.

No response.

28. What would be the benefits, costs and risks to exempt sellers, and other stakeholders, if the AER were to impose compliance and/or performance reporting obligations on exempt sellers, who on-sell to residential customers?

No response.

29. Should we extend any compliance reporting obligations to exempt embedded network service providers, via the Network Guideline?

No response.

30. Should family violence obligations be extended to exempt sellers who on-sell to residential and small business customers?

The City supports the AER intent for embedded network customers to have the same family violence protections as energy customers directly connected to the grid.

31. What obligations would, and would not be feasible, to implement?

No response.

32. Could some obligations be tailored to the specific circumstances of an exempt selling scenario? How, and what support might enable sellers to meet their obligations effectively? What additional obligations should the core exemption conditions include?

No response.

Should you wish to speak with a Council officer about this submission, please contact Nik Midlam, Manager Carbon Strategy on [REDACTED] or at [REDACTED]

Yours sincerely

A handwritten signature in black ink that reads "P. M. Barone". The letters are cursive and slightly slanted to the right.

Monica Barone PSM
Chief Executive Officer