

Embedded network action plan to improve outcomes for embedded network customers



The NSW Government has committed to new reforms to benefit embedded network customers

What this will mean for you

We know it can be hard for embedded network customers to shop around and switch energy retailers, unlike on-market customers who are able to access competitive offers from a retailer of their choice. Our reforms will ensure that as an embedded network customer you get a fair energy deal.

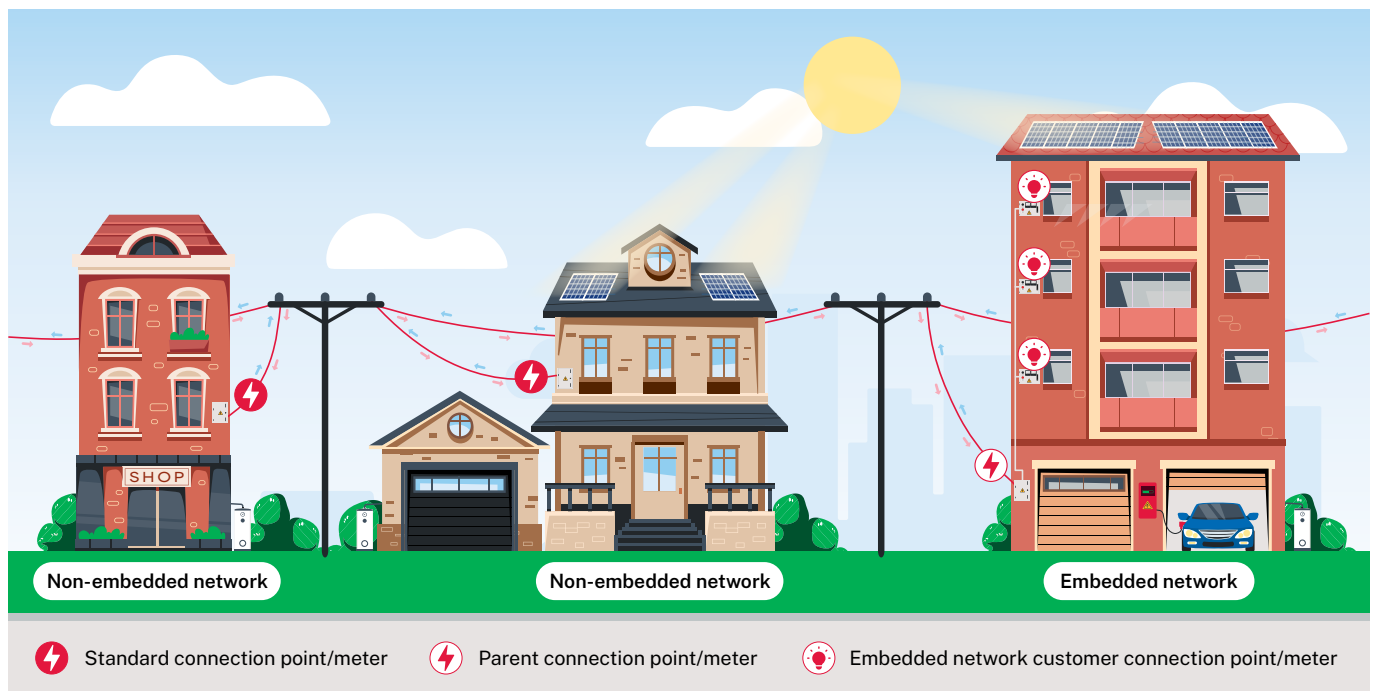
As an embedded network customer you will:

- pay prices broadly equivalent to those available to on-market customers accessing competitive offers
- have similar consumer protections to on-market energy customers
- have access to free and independent dispute resolution through the NSW Energy and Water Ombudsman
- have access to national and NSW energy rebates and payment support programs for customers struggling to pay their energy bills
- be provided with information about embedded network arrangements before purchasing or leasing a property that is in an embedded network
- not be locked into lengthy energy supply contracts.

What is an embedded network?

Embedded networks are private energy networks that provide energy to multiple premises via one parent connection point that is connected to the National Energy Market. Embedded networks often provide energy in apartments, residential complexes, strata schemes, retirement villages and shopping centres. Embedded networks may provide customers with electricity, gas, hot water, chilled water, or air conditioning.

In recent years, there has been a significant increase in the number of embedded networks in NSW and Australia. It is estimated there are more than 95,000 households in NSW currently living in an electricity embedded network. The remaining energy customers are what's known as on-market customers and are free to choose their energy provider.



Embedded networks are increasingly established within new developments because of the cost-effective solutions they can provide to developers. Developers can avoid the full costs of establishing internal networks and metering, and sustainable energy solutions like solar panels, by contracting a third party or embedded network business to install this infrastructure. This third party then provides power or energy services to the building through the embedded network, with the agreement of the owners corporation.

Embedded networks can have operating and cost benefits. Embedded network operators can bulk purchase energy, and avoid multiple network connection charges, which can reduce some of the costs of providing energy through individual connections.

The challenges

Due to the nature of embedded networks, it can be challenging for embedded network customers to access retail competition or make a choice about which retailer or energy provider they buy their energy from.

The prices embedded network operators can charge are unregulated, and it is difficult for embedded network customers to access energy offers from other retailers or providers. The energy choices of embedded network customers are more limited than those of an on-market customer. While some embedded network customers can purchase their energy from outside of their embedded network, it is often a very complex process to receive an on-market 'energy-only' retail offer. These customers will still have to pay network costs to the embedded network operator who owns the energy infrastructure for the site.

Common hot water and air conditioning

Customers receiving their hot water or air conditioning via an embedded network may not have access to the same consumer and price protections as customers within traditional common hot water or air conditioning systems. Here's an overview of the difference between traditional common hot water systems and embedded networks for hot water and air conditioning, and how you are billed.

Figure 1. The difference between traditional common hot water systems and embedded networks for hot water and air conditioning

Traditional common hot water or air conditioning systems	Embedded networks for hot water and air conditioning
Owned and maintained by a Distribution Network Service Provider (DNSP).	Owned and maintained by a third party embedded network provider.
Customers are billed via a retail energy bill.	Customers are billed by the Embedded Network Operator.
Customers must be billed in gas or electricity energy units, and are covered under consumer protections in the NECF.	Customers may be billed in energy units or litres and thermal cooling units, and may not be covered under consumer protections in the NECF.
Customers have access to retail competition.	Customers do not have access to retail competition.
Customers have access to EWON.	Customers may not have access to EWON.

Traditional common hot water systems

Many traditional common hot water systems in apartment or building complexes are owned and operated by a distribution network service provider, or DNSP (e.g. Jemena). A DNSP is the owner and operator of the physical pipelines (for hot water and gas), and poles and wires (for electricity), through which these services are transported to customers for on-market supply. When a DNSP owns and operates a common hot water system, including metering, in an apartment or building complex, it is not considered an embedded network.

How customers are billed

Customers receiving hot water services via traditional common hot water systems in NSW are typically charged for their hot water usage through their retail gas or electricity bill, in units of gas or electricity (based on the energy source used to heat the water). These customers can access consumer protections in the National Energy Customer Framework (NECF), which regulates the sale and supply of electricity and gas to retail customers. This is because DNSPs are required to convert the hot water usage into the underlying energy units used to heat the hot water, and the National Energy Retail Law, which establishes the NECF, provides protections for the 'sale of energy'.



Embedded networks for hot water and air conditioning

When a common hot water system in a building is owned, maintained and metered by a third party, it is known as a hot water embedded network.

This is the case for many apartment buildings across NSW, where customers are supplied with hot water through a common hot water system, rather than each apartment having their own hot water heater.

It has been estimated there are more than 64,000 households in NSW living in a hot water embedded network.

Similarly, air conditioning may also be supplied to customers via an air conditioning embedded network that is owned, maintained and metered by a third party.

How customers are billed

Hot water and air conditioning embedded network operators can currently choose how they bill customers for the supply of hot water and air conditioning. Hot water and air conditioning embedded network operators can choose whether to bill for the direct supply of the service, in litres or thermal cooling units, or for the energy used to either heat the hot water or provide the air conditioning service.

When an embedded network operator bills customers in litres or thermal cooling units, customers do not have access to consumer protections in national energy laws. This is because the National Energy Retail Law defines energy as 'electricity or gas or both' and does not consider hot or chilled water as 'energy'.



Katherine Griffiths / DCCCEW

NSW Government embedded network action plan

The NSW Government wants to ensure embedded network customers have access to similar consumer and price protections as on-market energy customers. We have committed to a suite of new reforms designed to benefit embedded network customers in-line with on market energy supply arrangements.

This action plan outlines solutions for more equitable consumer and price protections for embedded network customers.

What we have done

Initiated a review by the Independent Pricing and Regulatory Tribunal (IPART) NSW to:

- determine the best method for setting the maximum prices for hot and chilled water services, and gas services, in embedded networks
- consider whether new hot and chilled water embedded networks are in the long-term interest of customers, and whether the NSW Government should ban them
- consider whether a maximum price below the Default Market Offer (DMO) price for electricity embedded networks is required, and a preferred methodology for determining a maximum price.

Ensured better pricing protections for homeowners and tenants in residential land lease communities who receive their electricity through an embedded network. This was done by implementing recommendations 20-22 and 24-25 of the *Residential (Land Lease) Communities Act 2013* Statutory Review.

Consulted with renters, landlords and industry on how to improve disclosure of embedded network arrangements that may be in place for residential tenants.

Supported eligibility of embedded network customers for national energy bill relief.

Implemented recommendation 120 of the Statutory Review of the *Strata Schemes Development Act 2015* and *Strata Schemes Management Act 2015*, to protect electricity embedded network customers in strata schemes from being locked into long-term contracts.

What we will do immediately

Commit to introducing a maximum price as recommended by IPART for energy sold to residential and small business customers of electricity, gas, hot water and air conditioning embedded networks, to protect customers from unreasonably high prices.

Release a Ministerial Statement of Expectations that outlines the NSW Government's expectations for operators that:

- hot water and centralised air conditioning embedded network customers should have access to equivalent consumer protections to on-market customers under the National Energy Customer Framework
- all electricity embedded network operators should abide by national DMO maximum prices prior to the introduction of a NSW maximum price protection for embedded networks, protecting customers from unreasonably high prices.

What we will do in the medium term

Implement regulatory and legislative changes to provide enforceable consumer protections for customers of hot water and centralised air conditioning embedded networks, in support of the Ministerial Statement of Expectations.

Require all embedded networks operators to be members of the Energy & Water Ombudsman NSW (EWON), to ensure all embedded network customers have access to dispute resolution.

Implement maximum price protections as recommended by IPART for electricity, gas, hot water and air conditioning embedded networks.

Expand the Energy Accounts Payment Assistance scheme to ensure customers in embedded networks have equal access to emergency financial support in times of crisis.

Improve disclosure, and consumer awareness by ensuring prospective purchasers or tenants of a strata property are aware of the existence of embedded network arrangements.

Strengthen the information that is given to owners corporations before entering into agreements with embedded network operators.

Continue national advocacy with the view to:

- amend the Australian Energy Regulator's *Retail Exempt Selling Guideline* to improve consumer protections for embedded network customers
- recognise the sale of hot water and centralised air conditioning as being the sale of energy within the National Energy Retail Law
- improve embedded network customer access to retail competition, including through changes to the process for accessing energy-only offers
- enhance the national approval process for new retailer and network exemptions to ensure any new embedded networks are in the long-term interests of consumers.

Further information about the Action Plan

Further information on the NSW Embedded Network Action Plan can be found at www.energy.nsw.gov.au/nsw-plans-and-progress/regulation-and-policy/nsw-embedded-network-action-plan

