



Extract from Hansard

Thursday 20 October 2022

ECONOMIC AND FINANCE COMMITTEE: EMBEDDED NETWORKS IN SOUTH AUSTRALIA

The Hon. A. PICCOLO (Light)
(11:02): I move:

That the second report of the committee, on embedded networks in South Australia, be noted.

In June 2019, the Australian Energy Market Commission (AEMC) submitted a new framework to the then Council of Australian Governments containing improved protections for consumers in embedded electricity networks across most of Australia. Despite wide national support for the proposed framework and a package of legislative reforms, COAG and its successor, the Energy National Cabinet Reform Committee, has not progressed the framework.

On 31 March 2021, the Economic and Finance Committee resolved to investigate embedded networks in light of the delayed action on the framework and to identify issues that the South Australian government could address within its jurisdictional powers. The inquiry received 14 written

submissions. A total of seven public hearings were held between 26 May 2021 and 27 October 2021, with 16 witnesses appearing before the committee, from regulatory bodies, electricity companies, committee organisations, retirement villages and peak bodies.

For the benefit of the house, I will briefly provide AEMC's definition of an embedded network: 'a private electricity network that connects multiple premises to the interconnected grid via a parent connection point on a distribution or transmission network'. Put simply, these are the electricity networks commonly found in multiple occupancy spaces such as apartment buildings, shopping centres, retirement villages, caravan parks and some residential parks, like some in my own electorate.

People in an embedded network purchase electricity outside the National Electricity Market through off-market sales, mostly from a third-party retailer. A range of

witnesses and submissions demonstrated that collective negotiations on behalf of multiple tenants or property owners in an embedded network brought significant financial benefits. The committee heard that some consumer protections were enshrined in regulation that carried the weight of law. However, many of these were proven to be more theoretical than practical.

The committee heard evidence of a two-tier system that significantly disadvantaged embedded network consumers. The inquiry encompassed testimony from tenants, retirees, property owners and commercial lessees. A disproportionate number of participants in the embedded networks were vulnerable consumers experiencing, or at risk of experiencing, financial hardship, particularly in the wake of the COVID-19 pandemic, which occurred after the AEMC lodged the framework with COAG. These consumers were more likely to face disconnection, debt or lack of access to supports than the National Electricity Market consumers.

The committee also heard evidence that embedded network consumers were ineligible for some state government electricity concession programs. For example, some could not produce a required national metering identifier (NMI) because many embedded network meters did not incorporate them, while some third-party services that referred consumers to hardship concession schemes could not understand that a client might not have a direct account with an electricity retailer. The longer the proposed reform

framework remains off the national agenda while cost of living increases, the greater the financial gap may widen for these vulnerable consumers.

The inquiry encountered an existing framework that sacrificed consumer rights in favour of liberating network owners from heavy regulation. Many consumers and small businesses found the complicated rules and regulations difficult to understand, leaving them vulnerable to landlords or others in positions of power legally able to negotiate contracts on their behalf. The committee heard widespread agreement from all regulatory bodies that the current framework was no longer fit for purpose.

The inquiry found that the technical structure of embedded networks circumvented practical implementation of some consumer rights. For example, although freedom to choose a retailer was a basic principle across South Australia, it was not a reality for embedded network consumers. That is certainly my experience in some cases in my electorate. They could face significant practical barriers, such as inability to access their meter, still having to pay a network access charge to the original retailer even after leaving, or paying for expensive upgrades to infrastructure that would outweigh any savings.

The committee heard that consumers in residential embedded networks could not approach the Energy and Water Ombudsman of South Australia unless their network was registered for the scheme. Although this was a requirement of their licence, the

inquiry found that only half of all known embedded networks in South Australia were registered with the Ombudsman. This left half the state's residential embedded network consumers without an independent dispute resolution mechanism.

The lack of recourse was demonstrated by residents from two retirement villages who shared their experiences in a committee hearing. They described the village management locking them into multiyear contracts without their knowledge. Some residents who installed solar panels had to pay higher bills under the new retailer. The residents approached multiple avenues for redress, including the Ombudsman and the South Australian Civil and Administrative Tribunal, sadly without any success.

Most evidence supported the AEMC changes to the framework, although the committee heard concerns about the transition process and older legacy networks that could be forced to upgrade their infrastructure beyond manageable costs. The caravan park industry provided evidence that the burden of meeting current electricity regulations was dissuading parks from providing residential accommodation, pushing them towards providing only tourist accommodation that had fewer requirements and less cost.

During the inquiry, the AEMC highlighted to the committee that the new framework did not intend to impact smaller operators in this way and that a draft of the new framework could rectify the issues highlighted by the caravan park

industry. Given the current affordable housing concerns across the state, the committee considered improved communication between operators and regulators, and ultimately implementation of the AEMC's new framework, to be crucial.

The inquiry investigated potential South Australian solutions independent of national regulatory frameworks. The committee examined South Australian legislation pertaining to caravan park residents and owners, tenants and landlords, shop lessees and lessors, retirement village residents and owners, and property owners and strata corporations. It found no mention of embedded networks, exposing significant gaps that enabled consumers to sign contracts or leases without any knowledge of an embedded network on their premises. This prevented prospective renters and purchasers from making a fully informed decision at the time of their financial commitment, leaving them exposed to the consequences of participating in an embedded network.

The committee compared South Australian legislation with legislation from other Australian jurisdictions, finding that Victoria and New South Wales had incorporated embedded networks into their residential tenancy legislation and associated documentation. Their examples provided models for South Australia to replicate with minimal effort, to potentially great benefit.

The committee has made nine recommendations in its report to enable consumers to enjoy the economic advantages of embedded

networks while mitigating against the disadvantages. The committee supports the AEMC dismantling the two-tier system of consumer protections. The committee recommends that the South Australian government write to the Energy National Cabinet Reform Committee and the Energy Ministers' Meeting to endorse the AEMC's proposed framework and re-establish it as an agenda item.

Other recommendations include reviewing all state government electricity concession programs, strengthening eligibility provisions for embedded network consumers to lodge disputes through the Ombudsman and encouraging the Australian Energy Regulator to take on reports from any ineligible customers.

The committee recommends minor changes to the framework's transition process and better communication from the AEMC to small network operators outside the electricity sector. In addition, the creation of an easy-to-read information sheet about embedded networks will give South Australian consumers the knowledge they need to make informed decisions before committing to a lease or a property contract of some type.

The South Australian government has sufficient remit to make legislative changes outside the regulatory framework. The committee considers that embedding consumer protections in property-based relationships would be the most direct way to drive change. To that end, the committee recommends amending state legislation to ensure potential consumers are fully informed about an embedded network before

making a binding commitment to renting, leasing or buying a property.

The final recommendation is to make actual changes to the residential tenancy agreements, retail and commercial lease agreements and property contracts suggested in the report. The committee believes the recommendations represent a pragmatic, but at the same time achievable, course of action.

On behalf of the Economic and Finance Committee, I would like to extend my gratitude to the representatives of regulatory bodies and other organisations, businesses and groups that submitted evidence to the inquiry. I want to highlight the contributions of the residents from the two Lifestyle SA villages and thank them for their generosity of time and evidence provided. Finally, I would like to thank my colleagues on the current Economic and Finance Committee and the members of the previous committee in the Fifty-Fourth Parliament for their hard work on this inquiry.

The Hon. A. PICCOLO (Light)

(11:21): I concur with the comments made by the member for Colton and again reaffirm my support for the work done by the previous committee. All the work was done by the previous committee, and I think the recommendations would present some important reforms to help the most vulnerable in our community.