



Victorian Government response to the Embedded Networks Review

July 2022



Environment,
Land, Water
and Planning

OFFICIAL

Author

This document has been prepared by the Department of Environment, Land, Water and Planning.

Photo credit

Main cover image from DELWP Image Library.

Acknowledgment

We acknowledge and respect Victorian Traditional Owners as the original custodians of Victoria's land and waters, their unique ability to care for Country and deep spiritual connection to it. We honour Elders past and present whose knowledge and wisdom has ensured the continuation of culture and traditional practices.

We are committed to genuinely partner, and meaningfully engage, with Victoria's Traditional Owners and Aboriginal communities to support the protection of Country, the maintenance of spiritual and cultural practices and their broader aspirations in the 21st century and beyond.



© The State of Victoria Department of Environment, Land, Water and Planning 2022



This work is licensed under a Creative Commons Attribution 4.0 International licence. You are free to re-use the work under that licence, on the condition that you credit the State of Victoria as author. The licence does not apply to any images, photographs or branding, including the Victorian Coat of Arms, the Victorian Government logo and the

Department of Environment, Land, Water and Planning (DELWP) logo. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>

Disclaimer

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

Accessibility

If you would like to receive this publication in an alternative format, please telephone the DELWP Customer Service Centre on 136186, email customer.service@delwp.vic.gov.au, or via the National Relay Service on 133 677 www.relayservice.com.au. This document is also available on the internet at www.delwp.vic.gov.au.

Victorian Government response to the Embedded Networks Review

July 2022

Contents

Foreword	ii
1. Introduction	1
2. Victorian Government response to the Embedded Networks Review	2
Recommendation 1 - Banning new embedded networks	2
Recommendation 2 - Additional conditions for existing (legacy) local energy networks	3
Recommendation 3 - Introducing a licensing framework for new local energy networks	4
Recommendation 4 - Applying the new LES licensing framework to legacy (existing) local energy networks	5
Recommendation 5 - Reviewing the broader licensing and exemptions framework	5
Recommendation 6 - Enhancing consumer protections	6
Recommendations 7.1 and 7.2 - Enhancing the ESC's enforcement powers and information about local energy networks	6
Recommendations 8 and 9 - Access to competitive retail offers	7
Recommendation 10 - Improved information disclosure	8
Recommendations 11 and 12 - Planning and building requirements	8
Recommendation 13 - Bundled services and other fees and charges	9
Recommendation 14 - Mitigating disruption of supply due to failure of a local energy network	9
Recommendation 15 - Giving voice to energy consumers in local energy networks	10
Recommendation 16 - Transitional arrangements	10

Foreword

The Victorian Government thanks the Embedded Networks Review Expert Panel for completing a comprehensive review into how to best implement our commitment to ban electricity embedded networks in new residential apartment buildings, with limited exemptions. The Expert Panel, consisting of Jo Benvenuti (Chair), Gerard Brody, Neil Gibbs, and Andrea Steele, conducted an 18-month inquiry into the many issues faced by customers living in premises served by embedded networks. The Expert Panel's extensive stakeholder engagement, including cross-sector forums and meetings with individual stakeholders, culminated in a detailed final report with a comprehensive package of recommendations to the Victorian Government.

The Victorian Government supports all of the Expert Panel's recommendations. This formal response to the Embedded Network Review outlines how we intend to implement those recommendations. Some recommendations will be implemented slightly differently from how the Expert Panel envisaged, to take account of recent stakeholder feedback and to ensure practicality. However, the Expert Panel's intent and reform direction has been maintained.

An initial implementation phase will give effect to the ban on new embedded networks, with limited exemptions for networks that offer 100% renewable energy to their customers, through amendments to the *General Exemption Order 2017*. A second, more fulsome implementation phase will address the bulk of the Expert Panel's recommendations through legislative amendments that will be progressed in the next term of government.

In supporting the Expert Panel's recommendations, the Victorian Government reiterates its commitment to improve outcomes for Victorians living in buildings served by embedded networks.

Energy is an essential service that is necessary for health, wellbeing and full participation in our economy and society. By implementing the Embedded Network Review's recommendations, we will afford Victorians living in buildings served by embedded networks the same legal protections and choice of energy retailer as Victorians who live outside of these networks. Embedded network operators must also play their part in delivering affordable energy, and looking after their customers, as Victoria makes the transition to a clean and modern energy future.



A handwritten signature in blue ink, appearing to read 'Lily D'Ambrosio'.

Hon Lily D'Ambrosio MP
Minister for Energy

1. Introduction

The Victorian Government is pleased to set out its formal response to the Embedded Networks Review.

In October 2018, our government announced an election commitment to ban embedded networks in new residential apartment buildings, with limited exemptions for buildings that use renewable energy microgrids to deliver low-cost renewable energy. This commitment was made in response to ongoing concerns that consumers living in embedded networks pay higher electricity prices and do not have access to the same competitive retail offers and consumer protections as other Victorians.

An Expert Panel (Panel) was appointed to lead the Embedded Networks Review (Review) to advise the Victorian Government on how to best implement the ban. The Panel members were Jo Benvenuti (Chair), Gerard Brody, Neil Gibbs and Andrea Steele.

The Panel consulted extensively and developed a comprehensive package of recommendations, delivering its final report in January 2022. The Panel found that the residential electricity embedded network market in Victoria is not delivering outcomes in the best interests of consumers. These consumers are either experiencing, or are vulnerable to experiencing, significantly higher than average electricity prices compared to other Victorian consumers due to limited access to retail choice. Further, unlike other Victorians, customers in embedded networks have lower consumer protections and limited access to renewable energy.

The Review concluded that intervention is required to ensure better outcomes for these consumers while supporting renewable energy uptake. The package of recommendations is designed to ensure that, to the fullest extent practicable, Victorian consumers in embedded networks can access the same competitive retail offers and consumer protections as other Victorian energy consumers. The recommendations also seek to ensure that any Victorians in existing (legacy) residential embedded networks (including apartment buildings and other types of residential embedded networks) will, to the fullest extent practicable, have access to the same competitive retail offers and consumer protections as other Victorian consumers.

The government has heard loud and clear that the electricity embedded network market for residential customers is not working effectively. The government supports all of the Review's recommendations, with the implementation of some recommendations to be modified slightly to take account of recent stakeholder feedback and to ensure practicality. The government will maintain the Panel's intent and reform direction. This includes transitioning embedded networks into Victoria's electricity licensing framework ensuring that, as far as possible, consumers in both new and existing (legacy) residential embedded networks will have the same retail market access, legal protections and regulatory oversight as other Victorian consumers.

The government had already started reforming the embedded network market by expanding access to the dispute resolution services of the Energy and Water Ombudsman (Victoria) (EWOV) and ensuring fairer prices by setting the Victorian Default Offer (VDO) as the maximum price for embedded network customers in September 2020. Further, in 2021 the government legislated the Energy Fairness Plan, banning harmful sales practices by energy retailers and strengthening the power, oversight, monitoring and enforcement role of the Essential Services Commission (ESC).

Building on these earlier reforms, the government's implementation of the Review's recommendations will make the residential electricity embedded network market fairer, improving consumer protections and access to affordable and renewable energy for all Victorians.

2. Victorian Government response to the Embedded Networks Review

Recommendation 1 - Banning new embedded networks

Recommendation 1	<p>Initially, the Victorian Government's commitment to ban embedded networks in new apartment buildings (allowing limited exemptions) should be implemented via amendments to the General Exemption Order (GEO).</p> <p>Changes to the GEO should include a new renewable energy condition requiring at least 50% of electricity at the site to be met from on-site renewable sources. In addition, the new GEO obligations should also ensure expanded customer protections and should facilitate retail market access.</p>
-------------------------	--

Government supports this recommendation in part.

The government supports implementing its commitment to ban embedded networks in new apartment buildings (allowing limited exemptions) through an initial implementation phase of amendments to the General Exemption Order (GEO). A second implementation phase, involving a comprehensive legislative package, will address the remainder of the Panel's recommendations.

The government also supports the recommendation to amend the GEO to include a new renewable energy condition, consistent with government policy to encourage uptake of renewable energy. The renewable energy condition will give effect to the ban, as embedded network operators who are not willing or able to meet the condition will not be able to legally operate new embedded networks in Victoria.

While the government supports an ambitious target for the proposed renewable energy condition as a mechanism to implement the ban, stakeholders from across industry, local government and consumer sectors have advised that achieving the Panel's proposed 50% on-site target is not feasible. This is primarily due to roof space limitations on mid- and high-rise apartment buildings. Stakeholders have indicated an on-site only requirement may disincentivise renewable energy uptake in new apartment buildings, ultimately reducing access to renewable energy for customers in multi-dwelling sites.

In response to this feedback, the government supports a renewable energy condition requiring 100% of electricity supplied to domestic customers within a new residential embedded network to be met from a mix of on- and off-site renewable sources. A minimum of 5% of the electricity supplied to these customers must be met from on-site renewable energy generation. This condition provides the flexibility stakeholders called for in allowing on- and off-site renewable generation, while helping to ensure new embedded networks are contributing towards the government's renewable energy policy objectives.

Facilitating embedded network customers' access to retail market offers cannot be achieved through amendments to the GEO, and will instead be addressed through legislative reforms in phase two. Similarly, legislative reforms are required to extend the full suite of equal consumer protections to embedded network customers. However, the government has already expanded protections for these customers, including imposing the VDO as the maximum price that can be charged within residential embedded networks and strengthening the ESC's monitoring, investigatory and enforcement powers with respect to embedded networks.

Recommendation 2 - Additional conditions for existing (legacy) local energy networks¹

Recommendation 2

All legacy (existing) and new residential exemptions under the revised GEO should be subject to additional conditions, such as appropriate registration and declaration requirements. Compliance with these additional conditions should be subject to ongoing strengthened oversight, monitoring and enforcement by the ESC.

Government supports this recommendation.

The government supports strengthened regulatory oversight of embedded networks. In addressing the Panel's recommendations in this regard, the government acknowledges the increased scope of the ESC's role and the additional resources it will require to effectively regulate embedded networks under the new framework.

The government also notes that recent reforms have equipped the ESC with the strengthened oversight, monitoring and enforcement powers it needs to implement this recommendation.

¹ In their final report, the Panel used the terms 'local energy networks' and 'local energy service' (or 'LES') to describe embedded networks after the recommendations have been implemented. The original wording used by the Panel in their recommendations has been retained in this report. However, the government response refers only to 'embedded networks' for clarity of expression and ease of reference. The government will consider the Panel's suggestions regarding different terminology when implementing the reforms.

Recommendation 3 - Introducing a licensing framework for new local energy networks

Recommendation 3

To give ongoing effect to the ban and to ensure equity and fairness for customers, the licensing framework under the EIA should be amended to enable licensing of 'Local Energy Service' (LES) providers for local energy networks. LES providers will only be able to operate if they satisfy conditions that require them to ensure customers have equal consumer protections, the benefits of renewable or clean energy and retail choice.

Once the new licensing framework is in place, anyone who supplies and sells electricity in new residential sites containing a local energy network (including apartment buildings, social housing, retirement villages and residential parks) must obtain a specific LES licence from the ESC.

Government supports this recommendation.

The government supports transitioning the current regulatory framework for embedded networks from an exemptions regime to Victoria's licensing framework under the *Electricity Industry Act 2000* (EIA).

Over recent years, the embedded network market has expanded and matured, developing into a well-established industry whose primary business is to supply electricity and other services into embedded networks. However, the Panel found that the residential embedded network energy sector in Victoria is not delivering outcomes in the best interests of consumers.

Under the proposed licensing framework, the industry will need to meet similar legal obligations to other energy retailers and distributors and will be subject to increased regulatory oversight. Industry providers, rather than owners corporations, will be responsible for meeting legal obligations. This reflects that parties operating embedded networks should be responsible for compliance with relevant laws.

Reforms to the licensing framework will mark the second phase of delivering the government's election commitment and will build on the initial amendments to the GEO to implement the ban. Through licensing, customers of embedded networks which meet the renewable energy condition will have enhanced consumer protections and be empowered to access retail market offers to manage their electricity bills. This phased transition will also encourage the uptake of renewable energy, as well as innovative technologies and business models which deliver access to renewable energy options, consistent with Victorian Government policy.

Rights and protections under these licensing reforms will be extended to all types of new residential energy embedded networks, including apartment buildings, social housing, retirement villages and residential/caravan parks ensuring these consumers have equivalent protections to other Victorian consumers.

In addition, the government agrees that amendments are needed to help transition existing embedded networks into the new licensing regime, enabling customers living within these older embedded networks to also benefit from the reforms. This transition is critical as many customers living within older, existing embedded networks experience vulnerability and have endured poor outcomes over many years. This includes concession card holders, seniors and householders struggling to pay their bills.

Recommendation 4 - Applying the new LES licensing framework to legacy (existing) local energy networks

Recommendation 4	Entities which supply and sell metered electricity to legacy (existing) local energy networks under the revised GEO should transition into the LES licensing framework.
-------------------------	---

Government supports this recommendation.

It makes sense that all embedded network customers will eventually be serviced by a licensed provider, in the same way as other Victorian customers. The government considers the move to licensing for all embedded networks will improve standards as well as visibility and transparency in the sector, ultimately benefitting customers.

The government considers that all customers living in embedded networks should have similar treatment and outcomes to other Victorian customers. Therefore, the government supports a phased transition for the reforms, including a period for existing embedded networks to comply with modified requirements.

Recommendation 5 - Reviewing the broader licensing and exemptions framework

Recommendation 5	<p>The Victorian Government should consider whether the recommendations relating to residential local energy networks should be extended to small business customers.</p> <p>Further, in the future, if the Victorian Government undertakes a broader licensing framework review, it should consider the intersection of these recommendations with that review, and whether the exemptions framework remains fit for purpose.</p>
-------------------------	--

Government supports this recommendation in principle.

Generally, small business customers are provided with similar energy market protections to residential customers, although there are some exceptions (for example, different payment difficulty support). This recognises that small business customers are frequently small energy users with a limited understanding of the energy market.

Accordingly, the government supports this recommendation in principle. However, small business customers were beyond the scope of the Panel's review. The government considers that further assessment of potential impacts and appropriate timing is needed before implementing the recommendations with respect to small business customers. As a result, this will be considered as part of the next stage of work to implement the reforms.

Recommendation 6 - Enhancing consumer protections

Recommendation 6	Once the GEO amendments are given effect as specified in recommendations 1 and 2, consumers living in all types of residential local energy networks (including those living in social housing, retirement villages and residential parks) should have access to customer protections which are equal or equivalent to those provided to on-market customers.
-------------------------	---

Government supports this recommendation.

Energy is an essential service, and the government is committed to ensuring that customers have access to equal or equivalent consumer protections no matter where they live or how they get their energy.

Over the past five years, the government has introduced reforms to improve consumer protections for customers in embedded networks, including extending access to EWOV and establishing the VDO as a maximum price.

The government will legislate during phase two of implementing the Panel's recommendations to further enhance protections for embedded network customers and align these as far as practicable with the protections enjoyed by other Victorian customers.

Recommendations 7.1 and 7.2 - Enhancing the ESC's enforcement powers and information about local energy networks

Recommendation 7.1	<p>The monitoring, compliance and enforcement framework for local energy networks should be robust and proportionate and aligned with the ESC's framework and approach for current licensed energy providers.</p> <p>The ESC should be provided with appropriate resourcing to enable it to implement the strengthened exemption and licensing regimes, so it can effectively and adequately monitor compliance and/or engage in enforcement activities relating to local energy networks.</p>
---------------------------	--

Recommendation 7.2	<p>To support strengthened oversight, monitoring and enforcement of the local energy network market, the ESC should be able to collect appropriate data and information. Local energy networks should also be required to proactively provide, and periodically update, relevant data and information to the ESC. Data and information collected by the ESC could be used for market monitoring purposes as well as informing potential future reviews (including improvements to the policy and regulatory framework for local energy networks).</p>
---------------------------	---

Government supports these recommendations.

The government supports proactive, robust and proportionate regulation and oversight of the embedded network sector to foster both industry compliance and better customer outcomes. Consistent with the Panel's recommendations, legislation enacted late last year as part of the reforms giving effect to the Victorian Government's Energy Fairness Plan has strengthened the ESC's monitoring and enforcement powers in respect of embedded networks.

The government also supports increased and improved data collection from industry to improve transparency in the sector. As noted at recommendation 2 above, the government acknowledges the increased scope of the ESC's role and the additional resources it will require to effectively regulate embedded networks under the new framework.

Recommendations 8 and 9 - Access to competitive retail offers

Recommendation 8	All local energy network customers should have unencumbered access to the energy retail market and it should be easy for them to transfer to an on-market energy retailer without the need for a meter exchange. Customers within a local energy network should not face a greater financial or administrative burden to change retailers than other Victorian customers.
Recommendation 9	Customers within legacy (existing) local energy networks should have ready access to alternative on-market retail providers. Over time, metering and/or other internal infrastructure in legacy (existing) local energy networks should be upgraded and/or changed to enable these customers to access the retail market without imposing a direct cost burden on customers to do so.

Government supports these recommendations.

The government is committed to providing all Victorian customers with access to competitive retail market offers as far as is practicable.

Since the *Independent Review of the Electricity and Gas Retail Markets in Victoria*, the government has introduced numerous reforms to improve the operation of the retail market and protections for consumers. There have also been incentives introduced to support customers, such as Victorian Energy Compare and the Power Saving Bonus, both of which help Victorians to compare available offers and switch to an alternative retailer to reduce their bills.

However, customers in embedded networks continue to face real challenges in switching to an alternative retailer if they would like to do so, and have not been able to benefit from these improvements to the market in the same way as other Victorian customers.

The government is committed to making the ability to change retailers a reality for embedded network customers. This requires multifaceted action, including legislative reform, further consultation with relevant stakeholders, working with the Australian Energy Market Operator on systems issues, and ensuring required metering technology is in place within embedded networks.

Recommendation 10 - Improved information disclosure

Recommendation 10	<p>Owners and occupants in residential local energy networks must be provided with adequate information about their rights and obligations as a customer within a local energy network and about commercial agreements relating to the local energy network infrastructure and ownership and management of these assets.</p> <p>Adequate information disclosure should be required under both the GEO and as part of the LES licensing regime.</p>
--------------------------	--

Government supports this recommendation in principle.

The government is committed to transparency in the information provided to customers, enabling them to make decisions appropriate for their circumstances. This includes information about the existence of an embedded network, details about critical infrastructure or assets within the network and pricing for bundled services.

The government has already made changes to the *Owners Corporation Act 2006* that took effect in December 2021, and which implemented new disclosure obligations for owners corporations and developers relating to financial transactions or other beneficial supply relationships. The government will consider further ways to improve information disclosure and transparency for customers in embedded networks.

Recommendations 11 and 12 - Planning and building requirements

Recommendation 11	<p>Planning, building and strata requirements should be amended to oblige anyone proposing to install relevant infrastructure associated with the supply and sale of electricity within a residential building via a local energy network to design, build and operate the local energy network to incorporate renewable or other clean energy which enable benefits to be passed on to consumers.</p> <p>Information, especially relating to infrastructure assets, must also be disclosed to prospective purchasers in an easy-to-understand format.</p>
--------------------------	--

Recommendation 12	<p>Planning, building and strata requirements should also be amended to oblige anyone proposing to supply other bundled services within a residential building/site (including bulk hot-water, bulk heating/cooling or unmetered gas for cooktops) to meet similar standards to design, construct, establish and operate those services in the best interests of prospective owners and occupants, and to disclose appropriate information.</p>
--------------------------	---

Government supports these recommendations in principle.

As noted by the Panel, embedded networks can be established in new residential sites with little regard for the likely impact on consumers. Although the Panel's review focused on the energy regulatory framework, the government acknowledges the work of the Panel in identifying the potential for improved consumer outcomes in other policy areas, as well as the Panel's consultation with the Victorian Building Systems Review Expert Panel.

The Building Systems Review (BSR) commenced in early 2021. Its Expert Panel is aware of and considering some of these issues within the BSR's broader objectives to support improved compliance, enforcement and outcomes in the building sector, including information disclosure to customers.

Recommendation 13 - Bundled services and other fees and charges

Recommendation 13

There should be appropriate regulation, monitoring and enforcement relating to currently unregulated bundled services (including bulk hot-water, bulk heating/cooling and unmetered gas cooktops) to ensure there is no longer secondary, separate treatment for consumers of these essential services.

While these bundled services are not intended to be captured within the LES licensing framework, the Victorian Government should consider how to regulate these monopoly essential services to ensure appropriate customer protections, access to dispute resolution and reasonable prices for customers as well as suitable monitoring, compliance and enforcement.

Government supports this recommendation in principle.

The Panel has identified that Victorians using essential bundled services may face challenges including unfair pricing, a lack of adequate consumer protections and poor customer service due to the current monopoly for provision of these centralised services.

The government supports protecting Victorians in these arrangements but recognises that further work is required given these issues were beyond the scope of the Panel's review.

Recommendation 14 - Mitigating disruption of supply due to failure of a local energy network

Recommendation 14

Customers in a local energy network should be adequately protected in the event that the local energy network fails or the entity operating or responsible for the local energy network becomes insolvent.

The Victorian Government should give the ESC power to appoint an alternative provider to operate the local energy network in this situation to ensure continuity of supply for customers within that local energy network.

Government supports this recommendation.

No Victorian should face disruptions to their energy supply because their energy provider loses its commercial or legal capacity to supply energy, including customers in embedded networks.

The government supports the Panel's recommendation of empowering the ESC to appoint an alternative provider if an embedded network operator can no longer sell or supply electricity to an embedded network site. This will be addressed as part of the legislative package for phase two of implementation.

Recommendation 15 - Giving voice to energy consumers in local energy networks

Recommendation 15	A mechanism (or mechanisms) should be established to ensure that the voices of consumers living in apartment buildings, retirement villages, social housing and residential parks are heard in policy and regulatory development.
--------------------------	---

Government supports this recommendation.

The voices of consumers should be heard throughout policy and regulatory development to strengthen outcomes and ensure all Victorians can access reliable, sustainable and affordable energy services. The government is committed to continuing to put the consumer at the centre by funding and continuing to engage with consumer advocacy organisations.

The government recognises that not all Victorians use energy in the same way and will work to develop mechanisms for ensuring the perspectives of Victorians in all energy supply settings are heard.

Recommendation 16 - Transitional arrangements

Recommendation 16	<p>The changes to the GEO and the new LES licensing regime will need to be phased in over time.</p> <p>All local energy networks will need to comply with expanded customer protection obligations. In addition, new and some legacy local energy networks will need to meet the renewable energy conditions straight away and will need to become licensed within six months once the new framework is introduced. Other legacy networks will need to meet the renewable energy requirements within three years of the LES licensing regime being implemented.</p>
--------------------------	---

Government supports this recommendation.

Reforms implemented in response to the Review will be significant and require industry to transition. Some changes will be complex and require further analysis and consultation to deliver.

The government notes the Panel's advice on desired timing of reforms and will work to implement reforms within reasonable timeframes that balance the need for strengthened consumer protections with time required for industry transition.

Consistent with the Panel's recommendations, the government's intention is to make changes to the GEO to implement the ban by mid-2022, with the new obligations to take effect in early 2023. Legislative changes are then intended to follow in the next term of government.