

# Maximum prices for embedded networks and other exempt sellers

Consultation Paper

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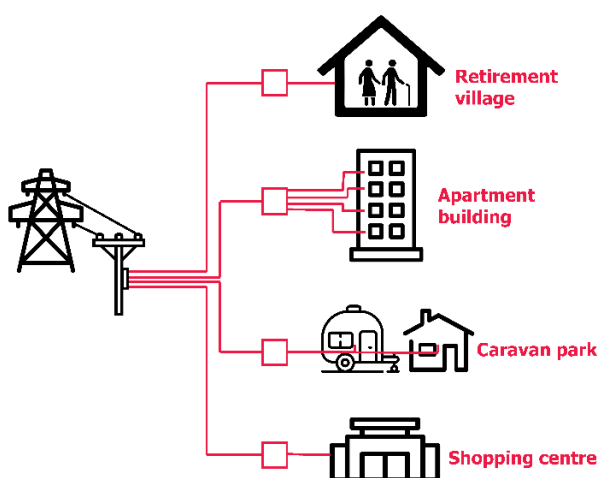
# Introduction

The purpose of this paper is to begin formal consultation on the maximum prices that embedded networks and other exempt sellers may charge customers. We have considered the feedback we received on maximum prices as part of the Victorian Default Offer (VDO). However, we encourage stakeholders who made submissions previously to contribute to this process. The commission has prepared this paper with relevant background information to assist stakeholder input.

## What is an embedded network and an exempt seller?

In Victoria, there are some electricity sellers who do not require a licence. Generally, the exempt seller buys electricity at a 'gate' meter and on-sells it to individual customers.<sup>1</sup> The majority of exempt sellers refer to people who supply electricity in an embedded network. Embedded networks may include caravan parks, retirement villages, shopping centres, apartment buildings, rooming houses and others who sell electricity to residential and small business customers through an embedded network.

Figure 1 Types of embedded networks



## Customers in embedded networks

In recent years, there has been an increase in the number and scale of embedded networks. This reflects the mix of housing shifting towards higher density living, such as apartments and

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<sup>1</sup> For clarity, throughout this consultation paper we refer to exempt persons with retail exemptions as exempt sellers.

townhouses. While there are a number of more traditional embedded networks, like caravan parks and retirement villages, there has been a move towards business models that install and operate embedded networks, particularly in apartment complexes. In return for providing this infrastructure these businesses can sometimes commit the owner's corporation to lengthy contracts and in effect become a monopoly provider of power to customers in the building or complex.<sup>2</sup>

The exempt sellers that are registered with the commission in Victoria sell electricity to:<sup>3</sup>

- 104,125 residential, caravan park and retirement village customers
- 18,141 small and large business customers.

These numbers do not include customers who are sold electricity by smaller exempt sellers who are not required to register with the commission.<sup>4</sup>

### Policy and regulatory context

Embedded network customers face barriers accessing retail market competition and protections.<sup>5</sup> This can be because the cost of metering or network re-configuration can be too expensive or because energy retailers may not choose to sell to a customer inside an embedded network. The Australian Energy Market Commission (AEMC) found many embedded network customers are not sharing in the cost savings experienced by many exempt sellers and are often paying more than they would on a competitive market offer.<sup>6</sup>

In September 2017, the Department of Environment, Land, Water and Planning (DELWP) delivered its final position paper that set out policy positions for improving the efficiency and effectiveness of the licence exemptions framework and formed the basis for updating the General Exemption Order (exemption order). The review led to the commission being given a role to formulate a maximum price for exempt sellers.<sup>7</sup> The intent of this role was that customers of

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<sup>2</sup> The Australian Energy Market Commission 2019, Final report: Updating the regulatory frameworks for embedded networks, 20 June, p. ii.

<sup>3</sup> See: <https://www.esc.vic.gov.au/electricity-and-gas/licences-and-exemptions/electricity-licensing-exemptions/embedded-electricity-network-data-and-customer-numbers>

<sup>4</sup> The General Exemption Order defines two broad categories of exempt sellers, deemed and registrable. Appendix B of this paper sets out the categories of deemed exemptions as defined in the order. Deemed exempt sellers do not need to register with the commission but are still required to meet the relevant obligations.

<sup>5</sup> Department of Environment, Land, Water and Planning 2017, Review of the Victorian electricity licence exemption framework – Final position paper, p. 25.

<sup>6</sup> The Australian Energy Market Commission 2019, Final report: Updating the regulatory frameworks for embedded networks, 20 June, p. iv.

<sup>7</sup> Order in Council under s 17 EI Act made 15 November 2017 in Government Gazette S 390.

## Introduction

exempt sellers should be given a comparable level of protection as customers of licensed retailers, having regard to the nature of the exempt selling activity.<sup>8</sup>

Under clause 10 of the exemption order<sup>9</sup> it is a condition of a retail licence exemption that the prices or range of prices at which electricity may be sold under the exemption must not exceed the relevant maximum price formulated by the commission. Similarly, clause 18 provides for a maximum price for multiple activity exemptions (e.g. solar lease arrangements or community energy projects). Prior to the commission formulating maximum prices under these clauses, the exemption order created a transitional arrangement where maximum prices were set by the standing offer price of the local area retailer.<sup>10</sup>

In our final advice to the Victorian Government on Victorian Default Offer (VDO) prices to apply from 1 July 2019, we noted that the VDO would likely apply to exempt sellers through the transitional provisions in clause 27 of the exemption order.<sup>11</sup> The VDO replaced pricing arrangements for standing offers and represents a fair price for electricity.<sup>12</sup>

In amending the exemption order on 30 May 2019, the Victorian Government froze the maximum price exempt sellers could charge to the local area retailer's standing offer tariffs that were in effect prior to 27 May 2019, with those maximum prices applying until we formulate a maximum price for exempt sellers that meets the requirements of the exemption order.<sup>13</sup>

## Our decision

Our decision will formulate maximum prices that exempt sellers<sup>14</sup> may charge embedded network customers (or categories of embedded network customers) for electricity and services related to the provision of electricity.

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<sup>8</sup> Department of Environment, Land, Water and Planning 2017, Review of the Victorian electricity licence exemption framework – Final position paper, p.11.

<sup>9</sup> Made in accordance with section 17(2)(j) of the Electricity Industry Act.

<sup>10</sup> Order In Council under s 17 of the EI Act made 30 May 2019 in Government Gazette S 208 (which amended the General Exemption Order).

<sup>11</sup> Essential Services Commission 2019, Victorian Default Offer to apply from 1 July 2019: Advice to Victorian Government, 3 May.

<sup>12</sup> See appendix A for current VDO tariffs. The AER 2018 State of the Energy Market report, the AEMC's 2017 Retail Energy Competition Review, and the ESC 2017-18 Victorian energy market report (before the introduction of the VDO in 2019 which replaced standing offer pricing arrangements for on-market customers) note that for electricity standing offer prices are higher than prices offered under market retail contracts.

<sup>13</sup> Department of Environment, Land, Water and Planning 2019, Victorian Default Offer – Final Orders Explanatory Statement, 31 May, p.7.

<sup>14</sup> Customers in embedded networks who are provided electricity through a licensed retailer should be able to access other prices, including the VDO.

## Introduction

## Our consultation

We seek stakeholder views on our proposed framework for formulating maximum prices.

We have set out a series of questions within the paper to guide stakeholder feedback:

- Our proposed framework for formulating maximum prices – page 9.
- The tariff structure of maximum prices – page 12.
- Implementing maximum prices for exempt sellers – page 16.

The key timelines are:

- 10 March 2020 – submissions on the consultation paper close.
- Mid-April 2020 – the commission will publish a draft decision on maximum prices for exempt sellers.
- Early June 2020 – the commission will publish its final decision on maximum prices for exempt sellers.

The commission is committed to providing opportunities for stakeholders to engage with us and provide views on our proposals – consistent with the requirements of our stakeholder engagement framework.<sup>15</sup> The nature of our engagement will also be informed by feedback to this paper.

## How stakeholders can get involved

We invite stakeholders to make submissions in response to this consultation paper.

Submissions should be made by **5 pm 10 March 2020**. We may place lower weight on, or may not be able to consider, submissions received after this deadline.

To make a submission on this paper please go to Engage Victoria's website:

<https://engage.vic.gov.au/>

or by mail to:

Maximum Price for Exempt Sellers  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne, Victoria 3000

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<sup>15</sup> The commission's Charter of Consultation and Regulatory Practice is available at our website <https://www.esc.vic.gov.au/about-us/how-we-regulate/stakeholder-engagement-framework>.

Submissions will be made available on the commission's website, except for any information that is commercially sensitive or confidential. Submissions should clearly identify which information is sensitive or confidential. Anonymous submissions will generally not be accepted.



# Framework for formulating maximum prices

Under the General Exemption Order 2017<sup>16</sup> (the exemption order) the commission has the function to formulate maximum prices for the sale and supply of electricity by exempt sellers. In developing our framework for formulating maximum prices the exemption order requires we have regard to:

- commercial market data, and
- any other matter the commission considers relevant.

## Stakeholder feedback gathered during the development of VDO 2020

In estimating Victorian Default Offer tariffs to apply from 1 January 2020 we used a cost-based approach, which clearly sets out the main costs faced by electricity retailers, including wholesale, network, retail and other costs. We sought (and were required) to base VDO prices on the efficient costs of the sale of electricity by a retailer.<sup>17</sup>

We have previously sought feedback from stakeholders about how we might formulate a maximum price for embedded networks, noting that the VDO may provide a starting point. In response to our issues paper<sup>18</sup> several stakeholders commented on our approach to formulating maximum prices:

- Both AGL and EnergyAustralia suggested that the costs to serve customers in an embedded network are unlikely to be materially different from other mass market retail customers and questioned the merit of not covering customers of exempt sellers under the VDO.<sup>19</sup>
- The Brotherhood of St Laurence and the Consumer Action Law Centre (CALC) suggested that customers in an embedded network should pay no more than the VDO.<sup>20</sup>

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<sup>16</sup> Order In Council under s 17 of the EI Act made 30 May 2019 in Government Gazette S 208 (which amended the General Exemption Order).

<sup>17</sup> Essential Services Commission 2019, Victorian Default Offer to apply from 1 January 2020: Final decision, 18 November.

<sup>18</sup> Essential Services Commission 2019, Victorian Default Offer to apply from 1 January 2020: Issues Paper, 23 July.

<sup>19</sup> AGL, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.6.

EnergyAustralia, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.7.

<sup>20</sup> Brotherhood of St Laurence, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.2.

Consumer Action Law Centre, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.10.

- Active Utilities, Energy Intelligence and the Shopping Centre Council of Australia told us that exempt sellers face costs that differ to licensed retailers, including accreditation and regulatory costs.<sup>21</sup>

Some exempt sellers told us they face costs that are unique to supplying their network. In most instances these costs have been provided for in our allowance for the VDO, as they are also faced by stand-alone retailers. From the feedback we received, it would appear that where costs are unique to a particular embedded network (such as brokerage or advisory services), that these unique costs are designed to reduce an exempt seller's overall expenditure. Based on the information currently available to us, there is limited evidence to suggest that the efficient costs of selling electricity into an embedded network are materially different to that of an on-market customer.

Further, we note there are efficiencies an exempt seller can access which could mean the prices of electricity for embedded network customers may be lower than for on-market customers. This includes splitting network cost between multiple parties, ability to access bulk pricing deals, and no customer acquisition or retention costs. In addition, retailers usually manage the wholesale risk exposure for the exempt seller.

## **Our considerations**

Our initial view is that the VDO sets an appropriate benchmark for the cost of selling retail electricity in Victoria by an exempt seller. The VDO is transparent and reflects the efficient costs of the sale of electricity. The approach we took in developing the methodology and calculating the VDO is consistent with the requirement in the exempt order, as it is based on commercial market data.

The maximum prices for exempt sellers will form a hard cap on the price exempt sellers can offer their customers. This is different to the VDO which applies to standing offers and does not restrict retailers from making market offers that differ from the VDO.

In our view the benefits of applying the VDO framework to exempt sellers outweigh the cost associated with alternative approaches (such as assessing a cost-stack specifically for exempt

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<sup>21</sup> Active Utilities, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, pp.7-12.

Energy Intelligence, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.2.

Shopping Centre Council of Australia, submission to the Essential Services Commission, ESC Draft Advice: Victorian Default Offer, April 2019, p. 2.

sellers). The evidence we have received so far does not indicate a material difference in the cost of exempt sellers providing retail electricity services. The variation in scale and diversity of embedded network business models and contract arrangements with end customers makes it hard to contend that assessing a cost-stack specifically for exempt sellers would outweigh the costs of the exercise.

At this stage we believe the following other matters are relevant to the commission's task of formulating maximum prices for exempt sellers:

- Our legislative framework, including:
  - The Essential Services Commission Act 2001 (ESC Act) – in realising our objective of promoting the long-term interests of Victorian consumers with respect to price quality and reliability of electricity services, we will amongst other matters, consider the benefits and costs of regulation (to both consumers and exempt sellers).
  - The Electricity Industry Act 2000 (EI Act).<sup>22</sup>
- The outcomes of DELWP's review into the electricity licence exemptions framework.<sup>23</sup>
- The national framework – including responses to the Australian Energy Market Commission's recommended updates to the regulatory framework for embedded networks.<sup>24</sup>
- Stakeholder feedback – we have previously consulted with stakeholders on our intention to use the VDO as a basis for a maximum price for exempt sellers (in making a recommendation to government and determining the VDO), we have considered these comments in our proposed framework. We will also consider stakeholder commentary in response to this consultation paper and our draft decision.
- The VDO – the methodology and calculation of current VDO prices.<sup>25</sup>
- Pricing protections under the Residential Tenancies Act 1997<sup>26</sup>

In developing this consultation paper, we have thought about these matters, and consider that the consistent protection offered by a maximum price promotes the long-term interests of customers of exempt sellers and aligns protections for embedded network customers with other Victorian households and small businesses that are currently protected under the VDO. A consistent

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<sup>22</sup> Section 17(2)(j) provides the ability for an Order in Council to confer powers and functions on, and leave any matter to be decided by, the commission.

<sup>23</sup> Department of Environment, Land, Water and Planning 2017, Review of the Victorian electricity licence exemption framework – Final position paper.

<sup>24</sup> The Australian Energy Market Commission 2019, Final report: Updating the regulatory frameworks for embedded networks, 20 June 2019.

<sup>25</sup> Essential Services Commission 2019, Victorian Default Offer to apply from 1 January 2020: Issues Paper, 23 July.

<sup>26</sup> Residential Tenancy Act 1997, cl.56(1) and cl.166(1)

methodological approach is also likely to support stability and trust in the regulatory environment, and the retail electricity sector.<sup>27</sup> As detailed above, this approach was broadly supported by retailers and consumer groups.

In arriving at a position that the commission should formulate the maximum prices an exempt seller may charge customers, DELWP's stated policy objective was to constrain the maximum price to a level consistent with what a consumer with access to retailer choice would expect to pay through market offers.<sup>28</sup> Consumers with retailer choice are currently able to access the VDO on request. The VDO is intended to be a reasonably priced electricity option, providing a safeguard for customers unable (or unwilling) to engage in the electricity retail market. It seems reasonable that customers of exempt sellers who have difficulty accessing the retail electricity market should have access to a comparable price.

### Questions for stakeholders

1. Are there any other issues we should consider in our framework for formulating a maximum price for embedded networks?
2. Is there any other information we should consider in having regard to commercial market data?

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<sup>27</sup> Section 8A of the ESC Act requires we have regard to a number of matters, including the benefits and costs of regulation for consumers and users of products or services (including low income and vulnerable consumers), as well as the regulated entities.

<sup>28</sup> It is our understanding that customers residing in a network serviced by an exempt seller are unable access market offers (due largely to the cost of metering infrastructure required to exit the network), meaning that in this setting full retail contestability is not practical or efficient.

## Tariff structure of maximum prices

In formulating a maximum price or prices, we need to consider the structure (or possible types) of tariffs available to embedded network customers. The approach we take will be guided by the exemption order<sup>29</sup> and will consider the long-term interests of consumers as required under the ESC Act.<sup>30</sup>

While we understand that most customers of exempt sellers are charged a flat tariff it is not clear how this might differ across different providers. It is possible that a small number of exempt sellers may offer their customers other tariff types, such as time of use or flexible tariffs. Assuming they do not exceed the prices set by local area retailers for those tariff types. However, unlike licensed retailers, exempt sellers generally do not publish their tariff types or rates publicly, which makes it difficult for customers to understand their tariff options or rates.

The local area retailer for an exempt seller is based on which distribution zone it is located in. These are listed in Table 1 below.

Table 1 Distribution zone and applicable local area retailer

Distribution zone	Local area retailer
AusNet Services	EnergyAustralia
CitiPower	Origin Energy
Jemena	AGL
Powercor	Origin Energy
United Energy	AGL

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<sup>29</sup> Order In Council under s 17 EI Act made 30 May 2019 in Government Gazette S 208 (which amended the General Exemption Order).

<sup>30</sup> Section 8 of the ESC Act.

## Stakeholder feedback gathered during the development of VDO 2020

To set the VDO tariffs, the commission determined tariff structures outlined in Table 2 for each of the five distribution zones in Victoria. Under this approach, we aligned the VDO tariff structure with the most common underlying network tariff in each distribution zone.

Table 2 Tariff types

Tariff type	Explanation
Flat tariff (also referred to as 'single' rate or 'peak only' tariffs)	This includes a daily supply charge and a flat anytime usage charge calculated on a per kilowatt hour (kWh) basis.
Flat tariff with a controlled load <sup>31</sup>	This includes a daily supply charge and a flat anytime usage charge with the addition of a separate controlled load tariff. Controlled load tariffs are separately metered and apply when a customer has, for example, a pool or underfloor heating.
Maximum annual bill (non-flat tariffs)	This is a cap on the amount a retailer can charge a customer for a specified level of usage. This applies when a customer is on a non-flat tariff (e.g. a flexible, time-of-use or demand tariff).

Alinta<sup>32</sup> and Network Energy Services considered the VDO compliant maximum annual bill to be the most appropriate method when formulating a maximum price at which an exempt seller may

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<sup>31</sup> We do not have information on the number of controlled load tariffs offered to customers in embedded networks.

<sup>32</sup> Alinta, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.7.

sell electricity. Network Energy Services advocated for exempt sellers to have sufficient flexibility in order to provide customised offerings.<sup>33</sup>

In support of this view Network Energy Services uses the example of an electricity tariff which allows for a daily rate that is higher than the VDO, but an electricity usage rate that is sufficiently below the equivalent VDO rate that an electricity user is no worse off. Network Energy Services submit this type of discounted usage rate is especially beneficial for elderly and ill customers who use large amounts of energy during daytime hours to maintain comfortable living conditions through colder and hotter times of the year.

Active Utilities did not support a maximum price cap as it considered it impedes customers of exempt sellers accessing benefits of market offers.<sup>34</sup> We are unclear on what basis Active Utilities makes this claim. Regardless the application of a maximum price cap is a matter for government and is outside our decision-making powers.

## **Our considerations**

In reviewing tariff structures, we are interested in the barriers customers of exempt sellers may face in accessing better electricity offers, and the regulatory burden of various approaches. We consider a simple and clear comparison point is in the long-term interests of customers, particularly for customers who are often unable to engage in the market.<sup>35</sup>

Depending on our decision regarding tariff types we will need to consider our approach to assessing compliance. We note our intention is to include a schedule of prices, such as listing maximum flat tariffs based on distribution zones, in our decision.

### **Questions for stakeholders**

3. We are interested in stakeholder views on the VDO tariff types outlined above and how they might be applied in the context of a maximum price for exempt sellers. What do you see as the advantages / disadvantages of each option?
4. What types of tariffs are currently offered by exempt sellers? On what basis do exempt sellers currently determine tariff structures?

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<sup>33</sup> Network Energy Services, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, pp.6-7.

<sup>34</sup> Active Utilities, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.7.

<sup>35</sup> Section 8A of the ESC Act.

5. Are there any other issues in relation to tariff structures we should consider?

Tariff structure of maximum prices

Essential Services Commission **Maximum prices for embedded networks and other exempt sellers**



## Implementing maximum prices for exempt sellers

In implementing a maximum price for embedded networks, we will consider the balance between ensuring appropriate levels of consumer protections and not imposing excessive or inappropriate regulatory burdens. In its Review of the Victorian Electricity Licence Exemptions Framework the Department of Environment, Land, Water and Planning (DELWP) recognised that:<sup>36</sup>

‘...the exemptions framework should be designed to give customers of exempt sellers a comparable level of consumer protections and services as those afforded to customers of licensed providers, noting that customers of exempt sellers can be some of the most vulnerable in society. However, the Department also acknowledges exempt sellers generally differ from licensed retailers in that they may lack the economies of scale, may not sell electricity as their core business and that, in relation to some categories of exempt sale (such as sale of electricity to short-term holiday residents), a ‘full suite’ of protections may not be warranted’.

Recent reforms have increased protections for customers located in embedded networks.<sup>37</sup> However, in practice, embedded network customers may find it difficult to exercise choice and access pricing protections available to customers who are able to access market offers. This may be due to network configuration, access to individual meters (meaning that the customer has its own meter that can be read by a retailer rather than the exempt seller), and the type of meters in place at a customer’s premises. The cost of market compliant metering can be prohibitive, especially for vulnerable customers or those facing hardship.<sup>38</sup>

While no specific timeframes have been outlined in the order, we note our intention is to implement a maximum price by 1 July 2020.<sup>39</sup>

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<sup>36</sup> Department of Environment, Land, Water and Planning 2017, Review of the Victorian electricity licence exemption framework – Final position paper, p.9.

<sup>37</sup> The commission has recently extended many protections to embedded network customers via changes to the Energy Retail Code. These reforms give consumers in embedded networks more protections around the supply and sale of electricity.

<sup>38</sup> The Australian Energy Market Commission 2019, Final report: Updating the regulatory frameworks for embedded networks, 20 June, p. 27.

<sup>39</sup> We will seek to clarify with the department expectations on implementation date.

## Stakeholder feedback gathered during the development of VDO 2020

We did not request stakeholder feedback on implementation issues in the VDO 2020 process for embedded networks. Stakeholder feedback therefore was limited in its commentary on embedded network specific implementation of a maximum price. A number of stakeholders commented on the need for customers within an embedded network to be able to access reasonably priced electricity offers. On specific implementation issues Network Energy Services requested the ability for embedded networks to apply to the commission for special consideration where there is a particular issue prevailing in that embedded network.<sup>40</sup>

Consumer Action Law Centre (CALC) stated that the flow on consequences of unfair pricing in embedded networks can be more severe than the consequences of unfair pricing for households with access to the competitive market. CALC considers this is because exempt sellers are subject to less oversight and compliance requirements compared to licenced retailers. CALC also noted exempt sellers are often in another position of power relative to a household (like being a landlord) which means customers are less likely to dispute an unfair practice.<sup>41</sup>

### Our considerations

Exempt sellers are generally regarded to be selling electricity as incidental to their main business.<sup>42</sup> While this is the case, there are a diversity of approaches and capabilities across different categories of exemption.

Categories of exempt sellers may include:

- Caravan and holiday parks<sup>43</sup>
- Apartment buildings, including those served by third party agents
- Retirement and lifestyle villages<sup>44</sup>
- Shopping centres

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<sup>40</sup> Network Energy Services, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, p.2.

<sup>41</sup> Consumer Action Law Centre, submission to the Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Issues Paper, August 2019, pp. 10-11.

<sup>42</sup> Essential Services Commission 2018, Registration Guideline for Exempt Persons: Information requirements for persons exempt from having a Victorian licence for the sale or supply of electricity, 17 May.

<sup>43</sup> Considered to be an area of land on which movable dwellings are situated for occupation on payment, whether immovable dwellings are also situated there.

<sup>44</sup> The majority of which are for the purpose of retired persons who are provided with accommodation and services other than services that are provided in a residential care facility; and at least one of whom, before or upon becoming a member of the community, pays or is required to pay an in-going contribution.

Implementing maximum prices for exempt sellers

We note that the transitional maximum price arrangements apply to all categories of exemption.<sup>45</sup> We note there are also provisions under the Residential Tenancies Act which prevent landlords, and owners of caravan parks, from seeking payment for utility charges that is more than the amount that the relevant supply authority would have charged the resident.<sup>46</sup> We are interested in stakeholder feedback about any implementation issues we should consider when replacing the current transitional arrangements.

### **Multiple activity exemptions (e.g. solar power purchase agreements, community energy projects)**

In addition to the pricing arrangements for exempt sellers, clause 18 of the exemption order provides for a maximum price for multiple activity exemptions (e.g. solar lease arrangements or community energy projects). We note that the transitional maximum price arrangements also apply to multiple activity exemption categories.

We are mindful that the mix of generation in the Victorian energy market is changing with generation becoming more localised. Customers are changing how they participate in the market with growth in new and innovative business models (e.g. community-owned renewable energy projects). The commission is interested in stakeholder views about whether these exemption categories face any specific implementation issues.

#### **Questions for stakeholders**

6. We are interested in stakeholder views about any implementation issues. Please provide evidence to support your views.
7. Is there any other information we should consider?

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<sup>45</sup> Order In Council under s 17 EI Act made 30 May 2019 in Government Gazette S 208 (which amended the General Exemption Order) inserted clause 27(1), providing that the price or range of prices at which an exempt person (embedded networks) may sell or supply electricity (and services related to the provision of electricity) must not be more than the tariff that would have applied if the customers who purchased electricity (and related services) on or immediately prior to 27 May 2019 from the relevant local retailer at its standing offer price.

<sup>46</sup> Residential Tenancy Act 1997, 56(1) and 166(1)

## Appendix A – Current VDO prices

Tables A1 and A2 below set out the flat VDO rates for each category of customer (domestic and small business) for the period 1 January 2020 to 31 December 2020 (expressed in GST inclusive terms).

Table A1 Flat VDO tariffs for domestic customers

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (\$ per kWh)	Controlled load (\$ per kWh)
AusNet Services	\$1.1408	Block 1 (up to 1020kWh used in a quarterly period) Block 2 (balance of usage in a quarterly period)	\$0.3072 \$0.3272	\$0.2230
CitiPower	\$1.1309	Anytime	\$0.2517	\$0.1954
Jemena	\$1.0431	Anytime	\$0.2787	\$0.2086
Powercor	\$1.2619	Anytime	\$0.2640	\$0.2008
United Energy	\$0.9236	Anytime	\$0.2927	\$0.2080

Table A2 Flat VDO tariffs for small business customers

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (\$ per kWh)	Controlled load (\$ per kWh)
AusNet Services	\$1.1408	Block 1 (up to 1020kWh used in a quarterly period) Block 2 (balance of usage in a quarterly period)	\$0.3407 \$0.3795	Not applicable
CitiPower	\$1.3386	Anytime	\$0.2667	Not applicable
Jemena	\$1.1816	Anytime	\$0.2904	Not applicable
Powercor	\$1.3898	Anytime	\$0.2619	Not applicable
United Energy	\$0.9863	Anytime	\$0.3004	Not applicable

## Appendix B – Exemption categories

The General Exemption Order sets out the two broad categories of retail exemptions: registerable and deemed. Customers in embedded networks usually get their electricity from exempt sellers who are exempt from holding a retail licence under the Electricity Industry Act. Registerable exempt sellers are required to register their exemption with the commission, and have their details published on a public register. Deemed exempt sellers do not need to register with the commission but are still required to meet the relevant obligations.

Table B1 Retail activity registration exemption

Exemption code	Retail activity registration exemptions
VR1	Persons selling metered electricity to 10 or more small commercial/retail customers within the limits of a site that they own, occupy or operate.
VR2	Persons selling metered electricity to 10 or more residential customers within the limits of a site that they own, occupy or operate, excluding sales to residents of retirement villages, caravan parks, holiday parks, residential land lease parks and manufactured home estates.
VR3	Retirement villages selling metered electricity to residential customers within the limits of a site that they own, occupy or operate.
VR4	Persons selling metered electricity in all caravan parks, holiday parks, residential land lease parks and manufactured home estates.
VR5	Persons selling metered electricity to large customers.

Table B2 Retail activity deemed exemption

Exemption code	Retail activity deemed exemptions
VD1	Persons selling metered electricity to fewer than 10 small commercial/retail customers within the limits of a site that they own, occupy or operate.
VD2	Persons selling metered electricity to fewer than 10 residential customers within the limits of a site that they own, occupy or operate (excluding retirement villages, caravan parks, holiday parks, residential land lease parks and manufactured home estates).
VD3	Persons selling metered electricity to occupants of holiday accommodation on a short-term basis (excluding caravan parks, holiday parks, residential land lease parks and manufactured home estates).
VD4	Persons temporarily selling electricity on construction sites, where the sale is an incidental supply to facilitate bona fide construction and commissioning of new facilities on the same or an adjoining site.
VD5	Persons selling electricity to a related company.
VD6	Persons selling electricity on or within the person's premises to customers in conjunction with, or ancillary to, the provision of telecommunications services. Includes internet, telephone, mobile phone, fibre optic, hybrid fibre cable, television, radio, Wi-Fi or other communications technology.
VD7	Government agencies selling metered electricity to non-residential customers for purposes that are ancillary to their primary functions or objectives under the laws under which they are established.

