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**Energy Market Review Consultation  
Onsite Energy Solutions Pty Ltd (OES) submission**

To Whom It May Concern,

OES is pleased to submit the following response as part of DELWP's Energy Market Review consultation process.

***Context:***

In 2013 Energy Makeovers Pty Ltd (an owner of OES) promoted an "alternative network augmentation" concept based upon behind-the-meter (BTM) solar PV and battery storage to Victorian network companies. In 2014, United Energy, Sunverge and OES (as the electricity retailer) successfully established the Virtual Power Plant (VPP) project. The VPP project has required OES to service around 10 residential customers on a research and development / trial basis for the past four (4) years. The VPP project won the Clean Energy Council's Innovation Award in 2016.

As a third tier electricity retailer, without owned generation assets and subject to wholesale price risk, OES has been delaying market entry in anticipation of the economic point-of-inflection (PoI) of solar storage technology. We believe the technical PoI was passed in 2017 and that the economic and market points-of-inflection will be passed in the next 2 to 3 years.

OES is currently investing to validate a new and novel business model, that envisions a future grid with millions of distributed generation assets with zero fuel costs and energy service companies that effectively and efficiently manage supply chain and price risks on behalf of consumers.

*Questions for consideration (with OES responses) in italics:*

- 1. Are there any specific considerations the Government should be aware of if standing offer contracts were to be replaced with a regulated BSO?**

*Difficult to comment as would depend on the nature and structure of any regulated BSO.*

- 2. Would the services and service standards associated with a regulated BSO be the same as those existing under the standing offer terms and conditions?**

*We assume the services and service standards associated with a regulated BSO be the same as those existing under the standing offer terms and conditions, however, difficult to comment as would depend on the nature and structure of any regulated BSO.*

- 3. Would a BSO based on a 'flat tariff' apply to general usage only or should it incorporate controlled load and/or solar tariffs (as is the case for standing offers)? What are the benefits and challenges associated with different approaches?**

*In the event that a regulated BSO is implemented, retailers should be permitted the option of structuring their BSO prices to take into account the impact of the installation of any onsite solar PV and / or battery storage systems.*

*In OES' view there will be a rapidly growing uptake of solar storage solutions in the residential and small business sectors, as consumers realise that they can produce clean, reliable, onsite, BTM electricity at a lower cost than electricity imports from the grid.*

- 4. What other principles should the ESC consider in setting the BSO maximum regulated price profile? Should these principles differ between a BSO for electricity and a BSO for gas, residential and small business customers?**

*OES' business model is specifically designed to minimise grid imports, through the use of onsite BTM solar storage solutions.*

*It is not OES' intention to target/acquire customers who wish to source their electricity solely from the grid. Therefore, we request that OES not be required to offer a BSO that is based solely upon grid imports.*

*With respect to gas supply, OES does not intend to offer gas, since gas supplies are fossil fuels with carbon emissions attached. Offering fossil fuels is counter to OES' objective of working to assist in the achievement of net zero emissions by 2050 (as required by Victorian law). We believe that the Victorian government should offer incentives to consumers to switch gas appliances to efficient electric appliances as soon as practicable.*

**5. Are there alternatives for setting the BSO maximum regulated price profile? For example, should the ESC 'simply' set a BSO tariff or a specific tariff structure that must be applied by retailers?**

*We believe alternative BSO price structures should be permitted, as required, to ensure that obstacles are not inadvertently created that would hinder the emergence of new innovative retail business models.*

*Please refer to Q7 for OES' suggestions for an alternative to direct retail price regulation, as proposed by the BSO.*

**6. What are the likely effects of a regulated BSO, as described above, on the energy markets (electricity and gas wholesale, distribution and retail markets, and residential and small business customers)?**

*There may be "unintended consequences". For example, an existing low income consumer who has actively sought out the lowest possible available market tariff may need to pay more in the future as more affluent consumers pay less as a result of taking up BSO offers.*

**7. Are there any alternative design options for price regulation (to those outlined above) that would achieve the Review's intended outcomes?**

*As an alternative to retail price regulation/BSO it may be possible to improve retail competition, and remove the need for the introduction of a regulated BSO, through adoption of some or all of the following regulatory actions:*

*a. Proposed new generation measures:*

*i. In 2003, AGL (a retailer) proposed to buy the Loy Yang generation business. The ACCC rejected the undertakings offered by AGL's consortium, publicly stating that it believed that the acquisition would lead to a less competitive and less efficient market structure, resulting in higher prices and increased barriers to entry. The ACCC said this would lead to other industry participants vertically integrating (the so-called 'bandwagon' effect), which would in turn result in a decrease in the availability of hedge contracts and increase barriers to entry at both the generation and retail levels of the market.*

*ii. OES considers that the ACCC "got it right" in 2003 and that large scale grid generation assets should now be "ring fenced" from Tier 1 and (potentially) Tier 2 "gentailers" to create a more level playing field for Tier 3 retailers seeking competitive wholesale price contracts (to enable effective financial management of spot price volatility).*

*b. Network measures:*

*i. In order to provide price certainty to retailers, networks should be required to offer a five (5) year, fixed (\$/month) network tariff option to retailers in all parts of their networks; this will provide an opportunity for innovative retailers to offer a new generation of retail tariffs.*

*ii. The AER should reassess the opportunity to write down the value of network assets to reflect their real economic value (if lower than book value) prior to calculation of fixed tariff option (sought above); this would benefit consumers through provision of lower network prices.*

**8. How should the potential benefits and effects of a regulated BSO be assessed following implementation?**

*Quantitative assessment: Victorian government should use its legislative powers to gather historical price data from retailers to determine retail price trends to confirm that the introduction of any regulatory reforms is having the desired effect of reducing consumer prices and (increasingly) grid consumption where economic to do so.*

*Qualitative assessment: Commission customer surveys to determine whether customers perceive that they have benefited from the introduction of any new price regulation (for example, it is expected that Energy Consumers Australia would be competent for this purpose).*

**9. How should a regulated BSO be incorporated into Victoria's energy sector regulatory framework?**

*No comment.*

**10. Are there alternatives to introducing a regulated BSO and revoking standing offers?**

*A preferred alternative to introducing a regulated BSO would be to implement additional generation, transmission and distribution regulatory measures to facilitate greater retail market competition (refer Q7 response, above, for details).*

*In particular, OES believes that any regulatory action taken to improve access to competitive wholesale price hedging contracts for Tier 3 retailers would help to enable a wave of latent Tier 3 retailer innovation that would benefit consumers.*

**a. How would these alternatives achieve the objective and principles set by the Review?**

*OES believes that increased market competition will lead to lower prices and new innovative offers potentially removing the need for BSO offers to be introduced.*

**b. How would these alternatives affect other Review recommendations?**

*OES believes that increased market competition would facilitate many of the Review recommendations.*

**c. What would be the likely effect of these alternatives on Victoria's energy sector and energy consumers?**

*OES believes that increased market competition will lead to lower prices and new innovative offers potentially removing the need for BSO offers to be introduced.*

- d. **Would these alternative approaches cause any distortions or inequities between different groups of customers?**

*OES believes that increased market competition would have the effect of reducing distortions or inequities between different groups of customers.*

11. **Are there any specific considerations of which the Government should be aware of if the reserve power to regulate prices was strengthened? What should be the trigger for regulation and when or under what circumstances should the regulated price requirement end?**

*No comment.*

12. **What is the most appropriate approach to implementing Recommendations 4A to 4E?**

- a. **Recommendation 4A: Require retailers to commit to fix any prices they are offering for a minimum of 12 months. During this period, the market contract prices cannot change. Retailers may request an exemption from the ESC to address unforeseen changes in the network costs.**

*OES believes that fixing prices for a minimum of 12 months should be achievable in a properly functioning competitive retail market that encourages innovation and eliminates barriers to entry for Tier 3 retailers.*

- b. **Recommendation 4B: Require retailers to clearly disclose to customers the length of time any offered prices will be available without change.**

*OES believes that this should be achievable in a properly functioning competitive retail market.*

- c. **Recommendation 4C: Require retailers to roll customers onto the nearest matching, generally available offer at the end of a contract or benefit period, unless the customer opts for another offer.**

*OES believes that this should be achievable in a properly functioning competitive retail market.*

- d. **Recommendation 4D: Any conditional discount or other benefit offered for paying on-time or on-line billing should be evergreen. Customers should not lose the discount or other benefit when the contract ends.**

*OES believes that this should be achievable in a properly functioning competitive retail market.*

- e. **Recommendation 4E: Costs incurred by customers for failing to meet offer conditions are to be capped and not be higher than the reasonable cost to the retailer.**

*OES believes that this should be achievable in a properly functioning competitive retail market.*

**13. How can these recommendations for Recommendations 4A to 4E be implemented in a timely manner?**

*OES believes that the best strategy would be to expedite regulatory measures to remove barriers to entry for Tier 3 electricity retailers. OES believes this would facilitate a new wave of innovation that would deliver solutions for Recommendations 4A to 4E.*

**14. What are the barriers to consumers and authorised third parties' ability to easily access smart meter data?**

*OES supports the consumer data rights initiative as described and outlined in the following document links:*

<https://static.treasury.gov.au/uploads/sites/1/2018/02/180208-CDR-Fact-Sheet-1.pdf>

<http://energyconsumersaustralia.com.au/wp-content/uploads/Consumer-Access-to-Energy-Data-Response-to-Government-Consultation.pdf>

*There is a demonstrated urgent need to improve and "make easy" consumers' ability to assign their data rights to third parties.*

*From OES' perspective, as a retailer, we believe the "Energy Data Hub" project scope should include the requirement that AEMO provide individual weekly consumer settlement data (by NMI) to electricity retailers. Currently AEMO provides only an aggregate debit or credit for all NMIs for weekly market settlement.*

**15. What further assistance and support programs should government consider in responding to the recommendations?**

*Further consultation is needed.*

**16. Are there specific recommendations or initiatives that should be prioritised due to the benefits they could elicit for low-income and vulnerable consumers?**

*The Victorian government should consider purchasing solar storage (where appropriate) for all government owned low income housing. The solar storage assets would become an integral part of the government's housing asset. These dwellings because of their ability to generate and store their own power would have very low energy bills compared to homes without solar storage attached. This would lessen the "hardship problem". The cost of the solar storage systems would be offset by reductions in social services budget charges (eg. health and law and order).*

**17. Are there specific groups of consumers that should be considered in addition to low-income, vulnerable and concession card consumers?**

*No comment.*

**18. Are there specific single buyer or group purchasing models that would provide beneficial outcomes for vulnerable customers or concession cardholders?**

*No comment.*

**19. Are there any specific issues or concerns with particular group purchasing or single buyer models for vulnerable customers or concession cardholders?**

*No comment.*

**20. Are there any retail market regulation issues arising from the ACCC preliminary report that the Victorian Government should consider as part of its response?**

*OES agrees fully with the ACCC's preliminary observations regarding lack of market competition and the potential for the unintended consequences of regulation, especially the following points:*

- a. *"We have found that there is insufficient competition in the generation and retail markets, which both raises prices and increases barriers to entry. We have also found that retail price deregulation has benefited some and hurt others. The market is exceptionally complex, and consumers have no ability to exit the market."*
- b. *"At the same time, the demand-supply balance for electricity has significantly tightened, making it difficult for standalone retailers to compete with vertically integrated 'gentailers' in most NEM regions."*
- c. *"While most retail markets across the NEM have more than 19 retailers operating, the 'big three' vertically integrated gentailers, AGL, Origin and EnergyAustralia, hold large retail market shares in most regions and control in excess of 60 per cent of generation capacity in NSW, South Australia and Victoria. In the case of generation, this share has been relatively stable over recent years. This market dominance has led to non-vertically integrated retailers having limited access to risk management products, and outcomes for consumers and businesses are being driven by pricing practices that are not consistent with vigorous competition."*
- d. *"The ACCC has also identified examples of retailers operating in ways that appear to be designed to circumvent existing regulation and examples of unintended consequences of regulation. For example, retailers' use of 'pay on time' discounting appears to have increased significantly after prohibitions or caps were placed on late payment fees."*

*In summary, OES recommends that regulatory controls be enhanced to improve market competition and encourage innovation, rather than the application of retail price controls which may hinder innovation and result in negative unintended consequences.*

Yours faithfully,



Ronald (Bryn) Dellar  
Chief Executive Officer  
Onsite Energy Solutions Pty Ltd