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FINSights: New electricity scheme to change power dynamics

On 1 December 2017, a new co-operative scheme will commence which is designed to improve 'embedded' tenants' access to electricity competition.

An embedded tenant is one who purchases electricity from the property owner (or statutory corporation) rather than from an external electricity retailer. They often have little flexibility in choosing their own energy supplier.

Changes to improve competition for electricity metering and data provision will also commence at the same time.

Together, the reforms are expected to facilitate the increased roll-out of 'smart' meters in jurisdictions outside of Victoria. Under this market led approach, smart meters will be deployed where new and replacement meters are required or where energy businesses and consumers want access to smart metering services.

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We have identified five stakeholder groups who will benefit from new opportunities, or may need to review their operations to remain competitive:

ELECTRICITY RETAILERS

Electricity retailers are already actively securing contracts with the most desirable embedded energy customers.

Instead of providing energy supply to one customer (landlord), the supplier will now have an expanded customer base (tenants in a shopping complex, office block, industrial precinct), with major/anchor tenants most highly prized.

Their offerings to clients may require enhancement to billing systems, or to related product offerings such as 'smart meters', new energy (eg on-site batteries, solar) or customer load management products.

Stand-alone metering providers and energy consulting businesses may also be looking for funding to invest in new product offerings or provide metering services to meet the expected growth in demand arising from the regulatory reforms.

LANDLORD

Some landlords derive a revenue stream by buying electricity for their property at a 'bulk' rate from an electricity retailer and on-selling it with a mark-up to embedded tenants. The reforms are likely to disrupt existing managed monopoly networks and change market dynamics with energy retailers (large tenants can make their own deals and landlords' negotiating strength may be diminished). This may erode margins and, potentially, the property owner's cash flow.

Other implications include:

- Possible increase in energy compliance costs on property owners
- The need for landlords/developers to build smart metering infrastructure into new projects
- Landlords retrofitting their premises with smart meters holistically, or, as part of fitouts prior to new tenants moving in
- Development of possible lock in strategies with the costs of solar, batteries and other local generation solutions becoming more competitive.

One way landlords can lock in margins from the sale of energy to tenants is to install local supply (e.g. rooftop solar) to secure long term revenue streams (up to 10 years for residential tenants, but longer for non-residential tenants).

TENANTS

The decentralisation of the current electricity distribution model will enable retail contestability. Tenants will be able to:

- Contract directly with energy providers
- Have an opportunity to lower costs and preferences on timing and service requirements
- Receive better data about their usage.

The associated roll out of smart meters will also bring better data. Tenants may be motivated to invest in systems to aggregate and monitor electricity usage across their portfolios to measure and manage their environmental footprint.

DEVELOPERS AND MANUFACTURERS

Developers and manufacturers will be able to provide manufacturing, installation and retrofit services to new developments with the roll out of smart metering technology and infrastructure.

An expanded customer base for servicing multiple user tenants will also present business expansion opportunities.

FINANCIERS

Financers may be able to provide asset financing for smart metering and technology platforms and securitisation of associated revenue streams.

Metering in some properties (particularly older properties) will not be sufficient to support electricity competition for embedded tenants, and will need to be replaced. Metering providers engaged by tenants (or their retailers) will want to ensure that new metering infrastructure is not subject to the property securities held by the property owner's financiers (ie if fixtures).

Conversely, if the premises does have smart metering (or metering otherwise capable of supporting competitive supply to embedded tenants), property owners may be motivated to sell/transfer that infrastructure to tenants, and have it removed from security arrangements for the property.

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