

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with
Joseph Arena

Listen to this podcast episode [here](#).

Intro: Welcome to Your Strata Property, the podcast for property owners looking for reliable, accurate, and bite-sized information from an experienced and authoritative source.

Amanda Farmer: Hello and welcome to this week's podcast episode. I am your host, Amanda Farmer, and this week I'm bringing you Joseph Arena of Arena Energy Consulting. This is an edited version of my live chat I had with Joseph over on the Your Strata Property Facebook page a couple of weeks ago. I invited Joseph to chat with me on Friday Live, to ask him some burning questions about embedded networks. A topic that I was particularly interested in learning more about and judging from the amount of views we've had on that video, both live and on the replay, it turns out a lot of you are interested in learning about embedded networks as well.

If you didn't catch the chat live or you haven't seen the replay yet over on the Facebook page, I have a link in the show notes here to this episode, where you can head straight over to Facebook and check that out. Friday Live is something that I do every couple of weeks over on the Facebook page. I started it off just over a year ago now when we all went into our first lockdown at the start of the pandemic here. And I thought our strata owners, strata managers, committee members might need a little something special on their Friday afternoon, a recap of the week that had been in strata, particularly challenging weeks there were at that stage. But guess what? Not much has changed. We are still experiencing lots of challenge in the world of community living, even though we are very lucky to be able to say that the peak of the pandemic seems to be behind us for now.

So, Friday Live is something I have kept up and I am over on Facebook also going out LinkedIn in now, each fortnightly Friday at about 4:00 Australian Eastern Time. If you are on my email list and you get regular emails updating you on what's happening on the podcast and in the Your Strata Property Community, then you will get a reminder each fortnight about Friday Live. If you're not on that list and not getting your Friday Live reminders, just send an email to amanda@yourstrataproperty.com.au, and we'll get that sorted for you.

Now, my chat with Joseph Arena, you'll notice that the audio from that chat is a little different to my usual. I wasn't on my usual mic in my usual location. I was sitting in a rather empty room with a busy puppy dog nosing around at my feet, you'll hear Louis make a couple of cameos there, but I'm sure that won't detract from the very important information Joseph is bringing us about embedded networks. Joseph is the managing director and owner of Arena Energy Consulting. He has over 21 years of experience in the Australian energy sector, his expertise covering advisory services, energy procurement, energy retailing, network distribution, smart metering, retail and residential embedded networks. His clients including commercial and industrial buildings, government, property and strata. He has recently been appointed as a council member of the energy charter's National Customer Code for Energy Brokers, Consultants, and Retailers.

Straight up, I asked Joseph to explain what exactly is an embedded network. Does it mean that residents can't choose their own energy suppliers? What happens if a resident feels that they're stuck with a bad deal? Can they get out of it? A question that I didn't get a chance to ask Joseph live but I have brought him back on the show to make sure we get the answer, can buildings retrofit an embedded network? And if they want to, what are the steps they need to take? Now, I didn't get to ask Joseph that question live, but you will hear it separately recorded and added onto the end of our live chat. So, if you want to know the answer to that one, hang in there as we wrap up our live chat and you'll hear that one added on.

My special thanks to Joseph for chatting with me again last week, to make sure we covered off that important topic of retrofitting. I shall take you over now to my chat with Joseph Arena.

Joseph Arena, welcome to Friday Live.

Joseph Arena: I was smiling at the lovely warm welcome, thank you for that. And thank you for the opportunity to chat with everybody today, it's great.

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with
Joseph Arena

Amanda Farmer: You're most welcome to be here, and I can tell by how many people are tuning in live how interested they are to hear more from you. We get lots and lots of visitors to our replay, so hello to those visitors who are watching the replay, but lots of people here live to learn more about embedded networks. So, Joseph, take it away. What exactly is an embedded network?

Joseph Arena: Okay, so I'll jump straight into this. The Australian Energy Regulators by definition but I don't feel like going down that path, it's a little bit more technical and complex. So, basically, it's an aggregation of all the energy that's used in a particular building, and a building like a residential apartment block or a retirement village or a shopping centre, something like that. The power's aggregated to a central point, which is known as the parent metre. The energy is on-sold to the residents, the residential building, downstream of that. So all the residential apartments all metred as well, and that is in a nutshell what an embedded network is. It's a private electricity network. It's not like the electricity distributor's network. So that's it, ok, I'm out. Thank you for that.

Amanda Farmer: See you. Now, these are networks that as I understood it are these days in new buildings often put in place by a developer, is that right?

Joseph Arena: Absolutely, yes. So you mentioned all the strata laws before, how complex it is, exactly the same in the energy industry, so it's very complex and different state jurisdictions have different rules and regulations as well, not only from a strata perspective, but also from an energy perspective as well. So in Victoria, for example, embedded networks have been around 15 plus years in the current sort of style they are now. But if you even consider the most fundamental aspect of embedded network like a caravan park, when the kids are going out to caravan parks, you're putting electricity either in a metre or you might for it included or not included. Those sort of scenarios in embedded networks as well.

But just to go a little tiny bit technical for a second, in 2013, Australian Energy Regulator published some new guidelines, it's a framework, it's called a National Energy Customer Framework that basically created a bit of crystallisation about the rules and regulations about embedded networks. So from that point, especially New South Wales, it has exponentially increased the number of embedded networks that are now created. And generally found in larger buildings, 50 lots and above. When I first started in embedded networks space, we were looking at really 100 lots and above, but that's numbers come down now. Especially once now people are not starting to aggregate centralised hot water as well, which in theory is not an embedded network because that's a definition under the rules and regulations, but it's sort of an embedded network in that same sort of sense. So that is a long answer to your question, yes, its in a lot of buildings now.

Amanda Farmer: And why would a developer of a large or larger building decide to put in place an embedded network and not do it the old way, the normal way?

Joseph Arena: Yes, I know, and that's a good question. There are lots of reasons. So one of the fundamental reason is it makes the whole setup easier. So if you think you got a building with 100 lots in it, there'd be 100 electricity metres that need to be installed, there'd be one area for the common property as well. So that developer or the builder of the developer would have to have effectively 101 relationships with the local energy distributor, so Sydney Metropolitan area is Ausgrid for example. So it's 100 relationships, it's 100 metres, it's a 100 electricity accounts that need to set up. It's a 100, 100, 100 truck visits, et cetera.

So when it's an embedded network, as I mentioned, it's aggregated to the central point, that parent metre, so it's only one connection point to the grid. So that relationship that needs to be established with the electricity network is one, not 101. And of course, when you have an embedded network manager involved as well, they'll help the developer to that sort of setup. That's one of the first fundamental reasons why. I can see you're about to ask another question. There's many more reasons as well, but I'll stop at that for a second and take a breath.

Amanda Farmer: Well, that makes absolutely sense to me. It is cheaper for the developer, I suppose is the short story, to have one of these embedded networks in place. And perhaps it costs them nothing if they have somebody, a consultant, I'm not sure the word that you use, they are helping them set this up.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with
Joseph Arena

Joseph Arena: So it saves them a lot of money, but also in many cases the embedded network operator or the manager will also contribute funds towards the site. In centralised hot water, they're actually paying for the hot water plant. There's a few different models. There's a model where they'll pay for that hot water plant, the hot water metres et cetera, which would have traditionally been paid for the developer. The introduction of solar into a building or perhaps electric vehicle infrastructure charging, those assets can be funded by the embedded network operator as well.

There have been some practices in the past where money might have changed hands for the right for managing the embedded network, or at least in New South Wales, obviously, they have to have their first AGM for the formal engagement. The Australian Energy Regulator has come down on that. In 2018 they put forward some rules around payments to developers. So it's a pretty very controversial topic to start going down that rabbit hole now-

Amanda Farmer: Hey, that's what we do here Joseph.

Joseph Arena: There you go. We have people responding to that but the polarised response is from developers and embedded network operators on one end, up through the other. But it's not all bad news, I mean, I've dealt with plenty of developers in the past, so they want as many benefits as possible to go to the occupants of the building. So whether that's the owners corporation entity itself or the residents within the building. A lot of it's got to do with the mindset of the developer at the beginning.

Amanda Farmer: I do want to get into that. You've mentioned there though the first AGM, and I just want to get an idea of how it plays out. When we have, say, we're a new owner, maybe we've bought off the plan, the plans come off now and we've settled. We're the proud owners of a new apartment building. There is an embedded network in this building. We're going to the first AGM. What's happening at the first AGM in relation to the embedded network?

Joseph Arena: Sure. Okay, now that's great. I'll give you 2 different scenarios. So let's go to Victoria first. So in Victoria, the IGM, the inaugural general meeting, the developer would sign a 10-year contract with the embedded network manager, traditionally, that's been happening in the past. Then at the first AGM, that agreement is then novated across to the owners corporation. So they rock up, there's 9 and a half years or whatever, left on this 10-year agreement, and it is what it is. Full stop.

In New South Wales, the dynamics are slightly different. Of course, no agreement can be entered into prior to first AGM for longevity. So, you have a scenario where the embedded network operator might attend the first AGM. They're presenting their agreements to the occupants there, obviously soon to be formal owners corporation. They have a 30 or 40 or 50 or 70 page document that they're going through with 25 different motions or 40 different motions. So it's 9:30 or 10:00 at night, they come up to motion number 28, the electricity embedded network. And then they go through the motions to vote yes, no. These are the scenarios that are occurring and it certainly raises level of anxiety for some customers if they don't understand what's going on. So we've mentioned before about seeking advice that Billen Ben or whoever that was. Someone mentioned about getting external advice. Self-servicing of course, that's what I do.

If people are concerned about it or they don't anything about it at all, it's an opportunity to actually take a breath and stop. There's been scenarios where the document gets passed, the motion gets passed, bang it happens, it's in. 5 years, 10 years, whatever it might be, a management agreement is put in place. There's been scenarios where the motion hasn't been passed and you know what? The power wasn't cut off at 9:00 AM this morning. It's not said and forget by any means, because, again, you go down a whole another rabbit hole here. There's lots of obligation in relation to Australia Energy Regulator, for the owners corporation as well, given they actually own the embedded network.

Let's talk about that topic for a second. There are many embedded network operators who will position that we own this embedded network. But who owns the electrical infrastructure in a building, apart from the metres, the owners corporation own, their electricity reticulation. They own the metre panels, they own the main distribution board. They own all the infrastructure in the building, except for the electricity metres, it's generally owned by the embedded network operator. So one of the Australian Energy Regulators' rules and guidelines and framework, whoever physically distributed electrons around the building, owns the embedded network, I, the owners corporation.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: And this is like weird scenarios where the embedded network operator might've taken a lease on the infrastructure, something like that. It gets into a very complex situation, but certainly in anomaly not the standard.

So there's requirements, the OC to register with the AR, there's requirements for the owners corporation to join the ombudsman schemes. Certainly, New South Wales and Victoria, that's the case. Queensland work in progress still even though they will get there eventually that's still work in progress. So again, different rules in different states. So there's a lot of obligations for the owners corporation and too that they're accepting by accepting the embedded network. And so then-

Amanda Farmer: Tell me this Joseph, if we go to the first AGM and I actually received an email after I announced you were coming on the show from, I believe it was a strata manager who said they had a building that went to a first AGM and said, no, we don't want to sign this contract to continue with the embedded network operator. Is that the case then that someone's got to go in and install separate electricity metres for each lot and put a whole new system in? I mean, that sounds like a huge task after the building's been completed.

Joseph Arena: Indeed. It's a task, I wouldn't call it specifically a huge task. It's certainly a lot of things to organise. So I guess in that scenario, there's multiple options that owners corporation would have either go back to the table with that embedded network operator and negotiate a better outcome, if they're not happy with what was presented. And frankly, I've seeing some agreements that are 10, 15, 20 year agreements. It's just, I'm sorry, it's a personal opinion. It's just outrageous and you can't have that scenario. So either renegotiate a better outcome, or if you can't get to that point, you don't engage that operator, you find an alternative embedded network operator. And there'll be the story where there may be some metres that will need to be replaced or perhaps the new embedded network operator might procure them and they started getting 2 or 3 probably awkward situation with a developer at this point, because there was no formal engagement at the first AGM so therefore the owners corporation doesn't really have an obligation to embedded network operator.

Their liabilities or obligations would sit between the 2 original parties, the developer and the embedded network operator. So it becomes a bit of, not even a commercial or a strata discussion, not a commercial discussion, It becomes a legal discussion as well, perhaps around strata rules to certainly going in the edge of my knowledge of the strata law so that's where you come in there for that.

Amanda Farmer: Yes. Yes, I can see why most buildings, especially when you're at motion 36 at the first AGM and it is 9:30 PM and you haven't had dinner yet, most buildings say, "Oh yes, that's fine. As long as I have electricity, as long as my lights are on, I'm happy." Tell me about that. The practicalities of having an embedded network operator, does that mean there is no choice for occupiers when they are running their electricity?

Joseph Arena: Yes. Fantastic question. Fantastic question. Because the answer it's a yes and no question at the same time and by the answers are a hundred percent right. So let me talk about the yes side of it first. So again, I often refer back to the rules and regulations because it is a rules driven environment, electricity infrastructure, and utility services so you have to refer back to that. I try not to make that too boring and too fundamental, but it is, it does live in that sort of territory. So yes you can. Yes, you can. So in shopping centres where they're embedded networks, often 20 or 30% of the tenants successfully engage their own retail of choice and they transfer out. There's no problem. So it's a happening thing, it works in the market, there's a whole backend of market administration stuff that needs to occur.

In many of those scenarios, the shop owner or the who's buying their business there will have 2 energy bills, one from electricity, retailer of choice. That's the electricity, some renewable charges, which are compulsory, maybe metering those sort of charges. And the shopping center owner has the right to charge the customers for the physical distribution charges associated with their energy supply. It's roughly 50/50, 60/40, and sort of depends, in that sort of range. So it happens in the market, so there's the yes answer to the question. But the no part of that answer is it's so difficult to find an electricity retailer that's actually prepared to make an offer to this customer. So you're talking to the shops, the customers might be 20, 30, 40,000 upwards kilowatt hours per annum, even 50,000 is still a very small load in the energy market.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: So, but it's still larger than a residential customer, which might be 2, 3 or 4,000 kilowatt hours per annum. So the energy retail margin associated with a small customer is so small and all their automated market interfacing systems are all set up for mass market. Where it's all B2B transactions, business to business transactions and sort of automated. So as soon as I step sort of one degree left of centre, it just makes it very difficult for them. And frankly, when I started my own business last year and you know, working at my focus on what I was going to be doing, I thought about embedded networks, I'm an expert in that space, there's not many of us that are independent. So I rang around to the retailers and said, "Yes, would you make an offer to residential customers?" And pretty much everybody said no.

And so while in theory, yes, customers certainly can transfer out residential and it has happened, they might be the odd one here and there who's pursued it with perhaps a non-mainstream type energy retailer that was prepared to go to all that extra effort to make it all happen, it's just really difficult. Pushing water uphill as supposed to be. But the market does allow to.

Amanda Farmer: Yes. I'm just going to flick over to some of the comments here, there's a lot of them. And I think Brent Clark, from Wattblock is here, 'Hey Brent', and he's kicking off that discussion about the positives, I think is how I read Brent's comment. I'm going to show it on the screen at risk of us being disappearing behind it. And gosh, I'm on my laptop today and look at this, I'm showing my age kind of read what this says. Sometimes embedded network providers will provide the developer with hot water plants, centralised temporary valve system to make sure residents don't scald themselves from the hot water, ultraviolet system to ensure water is cleaned on a reticulation loop, no Legionnaires, solar system, EVcharging, in addition to all the electricity and hot water metres for zero cost to the developer.

Yes. Much cheaper. And I suppose positive indeed, but he's the developer passing on that saving when they're selling their apartments? Did you want to speak a little bit more Joseph about the building that's agreed we're going to continue with the embedded network, we accept it's incredibly difficult to change so we are here taking what we're given, what we're told to take. Is this a good deal? Are we getting electricity cheaper as residents when we're on an embedded network?

Joseph Arena: Yes. So that's a great one. Just to jump back to Brent for a second. I know Brent, we've known each other for many years so, "Hi Brent, how you going? Thank you for the comment". And just talk to that. Yes. If you do have a centralised hot water plan and the embedded network manager is managing that, that scenario is called service top water. That in theory is a great outcome for the residents. Without a doubt they can reduce their levies for that. It's important to know what hot water tariffs they're being charged, et cetera as well, because with hot water in particular, there's no choice at all. There's no market rules allow any customer to procure their hot water services from anybody except the embedded network operators. Yes. So yes. So we can have another debate later on Brent, about that if you want to, but yes, there's good and bad.

And I'll talk about solar and other examples too down the track, but yes, so, so that's good. So is it a good deal or not? Maybe that's a good segue into other things. So I've seen scenarios, fantastic scenarios where the owners corporation's common area, energy needs are being sold at below market. 10, 15, 20% below what they would have been able to get if they're a market customer. So tick, and that's fantastic. I've seen scenarios where the residential customers are also getting, is it the best market price at that minute? Maybe, maybe not, because there's always different offers going out every day. Energy retail will do a new offer. But I've seen them where it can be 15, 20% below whatever the full market offers is. Or in Victoria, Victorian default offer below those market prices.

So that's again, a fantastic scenario. If you've got the embedded network operator who've invested in solar or electric vehicle charging infrastructures, as Brent also mentioned as well, and that solar was paid for by the embedded network operator, that solar is being fed directly into the common area load for the building. So effectively the owners corporation are reaping 100% of the benefit of that solar. Tick, fantastic outcome as well. So of course there are those sorts of scenarios where there are fantastic outcomes for those people. But converse to that, putting aside cost of assets, because it also comes down to individual people as well, not the entity, not just the owners corporation, I've seen scenarios where people's prices, it's barely discount from market prices. It is gouging, it absolutely is. People being taken advantage of because they don't have an opportunity to really go to market.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: There are some market rule changes happening, I'm very happy to talk about that in a minute. I've seen scenarios where the owners corporation reviewed should be 70 or 80 embedded network contracts last year, and at least 50% of them the owners corporation at least between 20 to 50% overcharged what they would have been if they're a market customer. And historically in embedded networks have been seen as a bit of a black box. People go, oh, it's embedded network, I can't do anything about it. Well, my objective is to purely to educate people. I want to educate and advise people, this is how it works, then you make whatever decision you want. You want to pursue something, great. If you don't care about electricity is just electricity you don't care, great? Yes. Whatever the outcome is, it's up to each individual. But they need to understand what their options are and what their rights are.

Amanda Farmer: And what would you say to an owner who is a resident in a building? Whether they're an owner-occupier or they're a tenant and there's an embedded network and they want to find out where they sit? Whether they're in that 50% that you think there's some gouging going on or whether they're in on the other side where it's pretty much market or it's even better? Do they go to their strata manager to start that conversation? If they're a committee member, where do they go to? How do they start getting educated?

Joseph Arena: Yes, okay. So lots of options out there. So certainly the ombudsman in each jurisdiction would be happy to talk to people. That's why I touched on very early that the owners corporation needs to be a member, they need to join the ombudsman scheme. Otherwise, if you're not a member of the ombudsman scheme in theoretically, the ombudsman has no obligation to talk to that customer. That's why there's some of the rules were changed. So that's certainly one starting point. I'll go back to the embedded network operator as well. I'm not happy with these tariffs. I've been on the energy made easy.com and government website. I can get a tariff that's 10% cheaper than what I'm on at the moment, I want you to match that. That's certainly a scenario there. Absolutely go back to the strata manager to ask them to undertake some sort of review.

Whether they think that the common area rates are reasonable or not, their strata manager may have knowledge about that. Or I guess finally, which is again self-serving, but that's what I do, I review embedded network contracts. Yes, that's part of my business. And I just finished one last week for a site up in West side of South Central Coast up there and the owners corporation we're being ripped off X number of dollars per annum. Ripped off. It's a very strong tuition but they were, and they had no idea what was going on. The strata manager may or may not have known as well. Historically, there's a bit of legacy angst about embedded network it's a black box. No one knows about it. So It's an embedded network, it is what it is. But it's not. It's not a it is what it is. People can actually do something about it.

Amanda Farmer: Yes. Then that is a very important message for people to take away. I'm heading back to the comments and we have a comment here from Patrick who is coming to us from LinkedIn. And you spoke earlier, Joseph, about these 10 year contracts that are permitted in Victoria and Patrick saying new Victorian legislation is close to being formalised if not already in play for a maximum 3 years for the initial term to provide more protections for owners from being locked into full contracts. Excellent. Good to see that happening there-

Joseph Arena: This guy. I actually know him personally. Hi Patrick.

Amanda Farmer: And Savia is asking, does it mean that only the owners corporation can change energy retailers in the embedded network? What about residents? That's a good point. You've kind of answered part of that with the residents. Yes, having the option to change, but my understanding is with an embedded network, the owners corporation as an entity, do they have any say in who the operator is?

Joseph Arena: Absolutely. So the owners corporation has 2 relationships with embedded network operator. One is for the management of the whole site as a management contract, the second one is supplying energy to the common area load, the common area energy needs, which is like an electricity supply agreement versus the management contract for the whole site. So in those scenarios, the common area load for the embedded networks is generally a large supply point, especially for larger buildings. and in the energy market would sort of classify those customers generally as what we call C&I. So commercial, industrial large market customers.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: So there would be similar analogy to the ones in the shopping centre, very easy for the common area load to transfer out to another supplier. If you don't feel that the embedded network operator is doing a good deal for you. That's sort of stuff that I can certainly get involved in as well. So it's this just basic energy tendering.

Amanda Farmer: Now that leads me to my other question, Joseph, that I flagged for today in our email this afternoon and perhaps related to embedded networks, but sometimes not. I have been contacted by a couple of people now and I always say, contacted once, noted, contacted 2 or 3 times, my ears start to prick up and I start talking about it on the podcast or here on these Friday lives. I understand that strata managers are signing up their buildings to what I'm going to call energy contracts or utility supply contracts in bulk in order to get what they say is a good deal for the building. Is that this kind of arrangement that you're talking about here, where there is some markets way because of the size of a building or a group of buildings and then buildings are going to get a bit of deal when they sign up in bulk through their strata manager?

Joseph Arena: Yes, absolutely, yes. So yes, the strata management firms would certainly aggregate their total portfolio of common area loads. So this is not for the parent middle I spoke about for embedded networks, it's for the common area, like a property. Whether it's an embedded network or a non embedded network, that would be that the same thing can occur. So yes. So again, a little bit market definitions or technical data, so smaller buildings like I call walk-ups, I think that's the expression in strata lego buildings with 2 or 3 stories. Might be 10 or 15 or 20 lots in there. Their electricity load would be pretty basic. Most likely no lift, no air conditioning, not a lot of common power being drawn. So their energy load is relatively small. So in the market they're called SME, SME sites, small medium enterprise. Yes.

And then the larger ones would be CNI. So you aggregate those 2 lots of sites within, the strata managers portfolio, which might be hundreds and hundreds of sites, depending on how big the firm is, and yes, they would go to market in bulk to get a bulk deal from an energy retailer. Absolutely.

Amanda Farmer: Now the question that was put to me recently by an owner who reached out on email, there's an acknowledgement there that the bulk deal may be a better deal, we're getting a discount. It's not the discounts so much that is the concern of course, it's the process being used by the strata management company to enter their client into what is effectively a contract and maybe a contract for a period of time. And the question was put to me as what are the legal obligations, responsibilities of the strata manager? Can they do this without us, the strata building, the owners corporation, the committee telling them to do it or consenting to them doing it?

And the example that was put to me was the strata manager simply said, this is an opt-out process. I sent you an email letting you know this was happening, you didn't opt out, and so now you're signed up to this 3 year contract. And as a committee saying, well hang on, of course I didn't look at it, I didn't look like some garbage about energy, electricity went over my head, wasn't paying attention. Can a strata manager sign us up to that contract? Do they have that authority? Now I don't expect you to answer that question, Joseph, that is a legal question and my very generalised answer is well, have a look at the terms of your agency agreement and what your strata manager is and isn't authorised to do. I'm seeing some comments here, If you don't mind, Joseph, I'll just quickly flip over to the comments on this exact point because we have some helpful insights here from strata managers and owners.

Gary is saying bulk buying via the strata management company has been commercially beneficial in our experience. That's good to know. Sean, who I know is a strata manager. We provide this service with full transparency to the strata committee to advise with an opt-out if they wish. There you go. Thank you, Sean. You might've posted that before I mentioned it. I'd be very interested to know how you say that sits with your agency agreement. You're not getting expressed instructions there to do something. I'm not saying right or wrong, I haven't looked into it, but I am getting some contact from concerned owners who were saying we didn't even realise that this was happening. Gary's making a comment there. "Of course the committee needs to explicitly agree?" Question Mark. Joseph, have you any thoughts on this process with bulk buying? Yes.

Joseph Arena: It's very interesting. And I think it comes down to what you said before in relation to the management agreement that that particular strata firm has with that owners corporation.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: Because certainly from it energy market perspective for a contract to be entered into and particular also, if it facilitates the transfer from one electricity retailer to another, explicit informed consent with capital letters, EIC is a market terminology, which it's obvious what it means, but it's a market terminology thing as well is required to be executed in order to facilitate that the contract itself and then any transfers needed. So I would assume then that the electricity details of how that's being managed by the strata firm would be expressed in that strata manager agreement. And they perhaps, the owners corporation had given them authority to act on their behalf to execute an agreement, a multisite agreement.

So yes, I would assume so. I guess as long as that box is ticked, somewhere along the line and governance has covered whether that owners corporation committee member read the email or not, it's honestly a question is overlooked. I'm been in the sector for over 20 years and I live in a residential building and I know our strata management firm facilitates that but I don't even know who the energy supplier is to our building.

Amanda Farmer: You're like a lawyer who never reads the contract when put in front of him and signs it.

Joseph Arena: Yes indeed, yes. But my building's tiny and I'm sure my power bills are nothing. So I haven't spent time on it.

Amanda Farmer: Yes. Now I do want to make sure Joseph that our viewers and those who are watching on the replay know about a webinar that you are a special guest on. The webinar is being run by the Owners Corporation Network, the OCN. And we will pop a link here in our comments section for people to go and register for that free webinar. Also supported by the City of Sydney, which is how you came to my intention Joseph chatting to Megan Chatterton at the City of Sydney. I think it's excellent that you're doing this education for owners. Will you be covering some of this stuff in the webinar and maybe some other things we haven't had a chance to get to?

Joseph Arena: Absolutely. And in a bit more details especially about some of the rules and regulations that are being addressed to create more transparency within embedded networks. The regulators have acknowledged, they realised it's a bit clunky and cumbersome at the moment. So there's new rules and regulations that have been proposed. I'll touch on our lows in there in the webinar.

Amanda Farmer: Perfect. Very good to know. And I know you and I have discussed a podcast episode as well to dig a little deeper on these issues. I think for me, the key takeaway is simply being aware that you have an embedded network, what it means, and then what your options are to find out more. I think where to go to find out more, it's not necessarily a cause for concern or a bad thing. That can be lots of positives that have come from having this in place in your building, and a lot of other resources that have been set up earlier on in the development that the developer has been able to put in place that have helped you because they have these arrangements.

Joseph Arena: Sort of advocating people must churn automatically just because it is what it is. Understand first, just review it and do a health check on the rights, agreements. And make sure you're comfortable and happy with it. You might be on the best deal, best thing since sliced bread. Bang, great, happy. Let's just sit here and enjoy the benefits we're getting rather than not knowing about it. So yes. Sorry to jump in.

Amanda Farmer: No, no. Go for it. I do want to make sure Joseph you let our listeners know where they can get in touch with you. We need to know who the go-to's are when we have these questions. A website, email address?

Joseph Arena: Yes. So just jump into my website, it's www.arenaenergyconsulting.com.au. So I've got all my contact details in there. So just jump onto my website, Arena Energy Consulting.

Amanda Farmer: Perfect. We will pop that in the comments here as well. Excellent. Now, so many people here watching live and watching the replay back, if you believe this information is going to be helpful to your neighbours, to your committee, to your strata manager, please do hit that share button and share it with them. Give us a thumbs up, give us a little love heart. I think I've got a couple of love hearts here today.

Publication Date: 23 March 2021

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Amanda Farmer: If you've liked what we've had to say, and that helps Facebook send this out to all those important places, the more people who understand this crazy world that is strata or at least know where to go to gain more of an understanding helps everybody. Thank you everyone for your comments here today, I am seeing a few more coming. Greg is saying, looking forward to seeing Joseph's webinar too, great work by you both.

Thank you very much. And thank you so much, Joseph. I'm going to let you go out to your Friday evening and your weekend. And I am going to wrangle this little puppy who is wondering around wondering what he's getting in his next treat.

Joseph Arena: Well, thank you again, Amanda Thank you everybody for the questions, they're great. Thank you very much.

Amanda Farmer: Thanks everyone. Have a good weekend.

Joseph, I have you back here with me today because we had such a fabulous chat on Friday Live over on the Your Strata Property Facebook page a couple of weeks ago. And we are bringing that chat to our loyal listeners here on the podcast. But there's one question that I forgot to ask you when we were chatting live and that was about retrofitting embedded networks into our existing strata buildings. Have you got some thoughts on that? Is that possible? What should buildings be thinking about looking out for if they do want to retrofit an embedded network.

Joseph Arena: Great. No, Very happy to answer and thank you for having me back as well again, thank you for that. Great. So retrofitting is a thing, before we get stuck into the residential side of it, on the shopping center space and even some commercial buildings it's been happening for decades. So it's absolutely a thing, but obviously today we'll focus on residential buildings. So to make it happen, I guess the first answer is yes, it can, but there's a number of steps that need to be gone through to make that happen. So the most important thing I think is actually having a very engaged owners corporation committee and understanding the reason why they might want to do that. So before we get into some of the sort of regulatory steps that are involved, the committee has to say why, what's the objective?

And certainly having a mindset of creating a bit of a sustainable building through establishing a micro grid, your introduction of solar, or some sort of sustainable measures as part of that whole retrofitting conversion process, that's certainly a great objective and a driver. Future-proofing the building for new infrastructure needs such as electric vehicle charging that cannot be done in conjunction with this whole conversion process. And of course it comes down to money as well. Better energy rates for the occupants in the building and also better energy rates certainly for the owners corporation or the body corporate themselves for their own energy needs within the building. So there would be some of the drivers as to why they would want to do it. So there's certainly some regulatory requirements that need to go through and they're divided up into 2 different sections.

So you have the rules and regulations in the energy side of things. So whether it's the Australian Energy Regulator at the federal level or Victoria has some different rules just for Victoria. So that's the central services commission. There was a requirement that explicit informed consent to do this conversion is required from the occupants to the building. So the occupants are the people living in the building, not necessarily the owners or owner-occupiers, is that the tenants as well as whoever's living in the building. Because it's their relationship with their current energy provider that is going to be disrupted in some manner. So you need 85% of the occupants in your building to confirm that they would be okay to do that through this explicit informed consent process. So no opt-out, it's an opt-in process.

Amanda Farmer: That is fascinating because it wouldn't be something that our buildings would be used to doing, our committees are strata managers getting consent from tenants. That's a really important component of the process.

Joseph Arena: No, absolutely. That's one of the very first points I made was an engaged committee. You need an engaged committee, who's prepared to do this. Because if you consider someone coming, "We're doing conversion." Knocking on people's doors at 7 o'clock at night, getting them to sign this electricity thing, yes, it's not going to happen. So you actually need the committee to be engaged to explain to the occupants of the building, why this is going to occur.

YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with
Joseph Arena

Joseph Arena: So then once you go through that process to get the approvals in order to proceed from the physical conversion perspective, from the energy markets side of things, you have of course all the strata rules that need to be adhered to as well. And then for example a resolution would need to be passed at a general meeting or at the AGM of the actual owners of the building. So this is now not the occupants of course, or the tenants it's the owners. And from memory, the New South Wales laws would be 75%, I think, for New South Wales might vary from state to state.

Amanda Farmer: Yes. So you're talking about the special resolution, not more than 25% to vote against the proposal and that's because we're essentially upgrading the common property.

Joseph Arena: Correct, yes. Exactly. So there's 2 sort of regulatory steps that are required. Again, in both scenarios you need to have the engaged owners corporation committee to be driving it from that side of the fence. I guess from a commercial perspective, there's a couple options, whether the owners corporation or the body corporate wanted to manage it themselves and say outsource all the various components of the physical conversion, metering, billing services, all that sort of stuff can be managed by the owners corporation or body corporate themselves. Or you would outsource that to an independent operator and they basically manage all those steps in between and you negotiate a good deal. So you make sure that much of the benefits of going back to the owners corporation directly and or to the occupants. The minimum numbers would probably be looking around 50 or so lots within an apartment block, maybe a little bit less. You wouldn't really go much smaller than that because then-

Amanda Farmer: To make it worthwhile.

Joseph Arena: Correct? Yes, yes.

Amanda Farmer: Yes. And is it the case Joseph, that these embedded network operators similar to their relationships with developers, which we talked about in our earlier chat, they are prepared to cover the upfront costs of this kind of installation in return for the long-term contract?

Joseph Arena: Absolutely. That they absolutely will. On the upfront cost but also annual benefits could go back to the owners corporation as well in the form of your energy rebates or perhaps introduction of solar that they would fund and that energy would be fed into the common property so they're getting all the benefits there. But yes, you need a longish term management agreement and the term would be associated with how much investments going in upfront.

Amanda Farmer: Yes. Do you have clients Joseph or buildings that you're aware of that have successfully retrofitted and are happy with that, have never looked back. And then on the other hand buildings that have perhaps embarked upon the process or looked at it and then either not proceeded for a reason or regretted their decision?

Joseph Arena: Yes. So in the residential space it's not a very common thing because of all those steps that I touched on before and shopping centres, they love it. Yes. The shopping centre owners, of course. But on the resi side I can't think of any case studies to tell you. I know it's happened and certainly in Victoria, they weren't my clients but I know there's been some conversions there. I've had discussions here. And frankly, when I spoke with the City of Sydney and some other councils and city based councils in relation to this and embedded network conversions was a hot discussion topic. They're sustainability people so it was all about the renewables, et cetera, that could be brought into the building. And again are reiterated, you just need to have an engaged committee that's prepared to do it.

And I suspect in a building that's highly owner occupied versus tenanted, but that would be the target. Yes.

Amanda Farmer: Yes, for sure. I've certainly seen some of these proposals at the front end where committees have been approached perhaps by an embedded network operator, they get excited about the idea. They get some preliminary advice from somebody like me and they say it's all too hard. This is not something that we can really see the benefit of when we think about all the upfront effort that we're going to have to put in personally and they don't really get off the ground. So interesting that you, I think you see that from your side too.

Publication Date: 23 March 2021
YSP Podcast Transcript: Episode 257. Demystifying embedded networks - with Joseph Arena

Joseph Arena: Yes. No, absolutely. Again, absolutely need an engaged committee whose prepared to put that effort in and if they are prepared to do that then it would be just a process to go through all the steps.

Amanda Farmer: Yes. Excellent. Well, thank you so much, Joseph, for coming back and filling in that gap for us. I'm glad we got to cover that one off and thank you again for sharing all of your expertise about embedded networks.

Joseph Arena: You're very welcome. And thank you for your time too.

Outro: Thank you for listening to Your Strata Property, the podcast, which consistently delivers to property owners, reliable and accurate information about their strata property. You can access all the information below this episode by the show notes at www.yourstrataproperty.com.au. You can also ask questions in the comments section, which Amanda will answer in her upcoming episodes. How can Amanda help you today?