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27 October 2016

Mr Chris Pattas  
General Manager Network Investment and Pricing  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted via email: [NSWtss2016@aer.gov.au](mailto:NSWtss2016@aer.gov.au)

Dear Mr Pattas,

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the revised Tariff Structure Statement Proposals for Ausgrid, Endeavour Energy and Essential Energy (collectively, the NSW DBs).

Generally speaking, we support the revised proposals that have been submitted to the Australian Energy Regulator (AER) by the NSW DBs.

We consider the proposals comply with the requirements of the Distribution Network Pricing Arrangements (DNPA) rule change. As such, they are consistent with the National Electricity Objective (NEO) and will provide long term benefits to consumers.

Nevertheless, there are some specific parts of the revised TSS proposals that we have some concerns with. Below, we comment on the specific parts of the NSW DB TSS proposals.

### **Replacing declining block tariffs with flat tariffs**

Red and Lumo support the NSW DBs' proposal to submit flat tariffs.

Under the DNPA rule change DBs are permitted to transition to cost reflective tariffs over a couple of regulatory periods. In fact, the DNPA rule change was never intended to accommodate an immediate transition to cost reflective tariffs. As such, we consider that NSW DBs proposal to implement flat tariffs is entirely consistent with the Distribution Network Pricing Arrangement (DNPA) rule change.

Overall, we support a longer term approach to transitioning to cost reflective tariffs. A longer term approach will facilitate the smoother transition to cost reflective tariffs and reduce the probability of tariff shock.

### **Aligning charging windows**

The NSW DBs should align the charging windows to the extent possible without compromising their cost reflectivity while ensuring network constraints are managed.

Essential and Endeavour have not made changes to their TOU charging windows submitted in their original proposals other than to restrict shoulder and peak windows to weekdays. However, we note that Ausgrid has proposed some key changes to sharpen their pricing signals by:

- introducing seasonal peak periods that will apply only in the summer months from 1 November to 31 March; and in the winter months from 1 June to 31 August;
- refining the winter peak period from based on analysis that indicated that a 5PM to a 9pm peak period for residential customers in the winter months will better target the residential peak demand in the winter months

We understand that it is difficult for the NSW DBs to align their charging windows given they all have different and varied physical characteristics on their network. The decision to align charging windows might not be consistent with sending the right pricing signals on different networks that have varied constraints that occur at different times.

Nevertheless, this should not deter the NSW DBs from trying to align their charging windows to the extent that they can without compromising the cost reflectivity of the tariffs. Hence, we would encourage the NSW DBs to work together and try and achieve this goal to the extent possible.

### **Time of Use (TOU) tariffs**

Red and Lumo do not support the NSW DBs revised proposal for transitioning residential customers to Time of Use (TOU) tariffs.

Consistent with the AER's guidance, the NSW DBs have proposed keeping residential customers on flat tariffs until 1 July 2018. After this, customers will be transitioned to TOU tariffs on mandatory basis – but only where their meter can support TOU charging.

We do not support the mandatory assignment to cost reflective tariffs for residential and small business customers, even where they have a new meter installed. In the end, mandating TOU tariffs on a few customers in the middle of the current regulatory period will not change the impact on network cost drivers.

A mandated approach to tariff reform that fails to give consumers adequate time to understand and manage tariff changes would not result in the benefits expected. If consumers are incapable of responding to cost reflective tariffs due to the lack of knowledge then the simple fact is that a price signal exists will not result in a fundamental shift in the way that we use energy.

We thank the AER for the opportunity to respond to the Draft Decision. We request that the AER carefully considers the points raised in this submission.

For further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 03 9976 5701.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou".

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
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