



PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenery.com.au



30 April 2021

Mr Sebastian Roberts
General Manager - Transmission and Gas Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically AERInquiry@aer.gov.au

Dear Mr Roberts,

Re: Consultation Paper: Draft Guidance Note on insurance coverage pass through events

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Regulator (AER) on their publication of their draft Guidance Note on insurance coverage pass through events.

Red and Lumo support the draft Guidance Note as it assists stakeholders understanding of the guiding principles that will determine the manner in which the AER assesses insurance coverage event applications in the future. The draft Guidance Note is more relevant to network service providers (NSPs), it does raise some important matters that have the potential to impact retailers and their customers. We have focused our submission on these matters only.

Insurance coverage events should not recover NSP losses where they fail to obtain a prudent level of insurance

Red and Lumo consider the draft Guidance Note addresses the risk that an NSP will under insure itself and seek to recover its losses through an insurance coverage application. Under CPI-X regulation, NSPs are incentivised to underspend their operational expenditure allowances provided by the AER in their revenue caps to manage the network. This could result in the NSP to save some of its insurance allowance and be underinsured to profit in the short term and should an event occur, recover their losses through an insurance coverage application. The AER's draft Guidance Note addresses this risk by requiring an NSP to obtain independent certification that their insurance coverage is appropriate when lodging an application for insurance coverage.

NSPs to demonstrate how they intend to pass through their costs for an insurance coverage event

Red and Lumo support the requirement for NSPs to demonstrate how they will pass through their costs for an insurance coverage event through to consumers. However, within the current regulatory framework, it is more preferable that an insurance coverage event is recovered as part of a DNSPs annual pricing proposal at the time value of money. This will avoid consumers being subject to intra-period adjustments and allows retailers to communicate any price changes to consumers, improving the overall customer experience.

Ongoing focus on engagement with consumers

Red and Lumo consider customer engagement is critical in the AER's assessment of an insurance coverage event application and support this inclusion in the draft Guidance Note. It is important for consumers to understand the financial impact that a cost pass through will have.

Some stakeholders noted that the complexity of the matters raised in an insurance coverage application is potentially beyond consumers. We do not agree with this position. On many occasions we have witnessed both consumers, consumer representatives and retailers on behalf of their customers successfully contribute to a range of complex matters that the AER has consulted upon in the past. Complexity should not be a factor in whether or not a matter is transparent and consulted on.

Regulated retail pricing must include the costs of all insurance coverage events

Red and Lumo consider retail pricing must include the costs of all network pricing components, including insurance coverage events when the AER sets the Default Market Offer (DMO). Misalignment of dates and timeframes in the DMO Code and the National Electricity Rules mean that the AER is not always able to include all network costs or the most recent forecasts into the final DMO which can create financial exposure for retailers. The AER must ensure new network charges as a result of the insurance coverage event are included in the DMO, and commence at the same time as the annual pricing proposals (i.e. 1 July).

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in New South Wales, Victoria, South Australia, Queensland, and the ACT to over 1 million customers.

Should the AER wish to discuss or have any enquiries regarding this submission, please contact

[REDACTED]

Yours sincerely

[REDACTED]

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd