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 lumoenergy.com.au

17 May 2023

Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted via email to: AERresets2024@aer.gov.au

Dear Arek,

Re: NSW Distribution Network Service Providers resets 2024-29

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the revised 2024-29 revenue proposals that have been submitted to the Australian Energy Regulator (AER) by the New South Wales (NSW) Distribution Network Service Providers (DNSPs).

The AER is reviewing the revised 2024-29 DNSP revenue proposals in NSW at a time when electricity prices for households have increased sharply and are likely to increase further. As a retailer, we are very cognisant of the significant impact of these price rises on many consumers who are already struggling with cost of living pressures.

This means that the AER must ensure that any expenditure it approves is both efficient and prudent. In essence, there must be no gold plating of the network at this time or approval of revenue for projects that would be delivered more efficiently by competitive service providers.

In addition, it must continue to progress network tariff reform in a way that allows consumers to reduce their bills by incentivising more efficient network usage. It can do this by approving relatively simple tariff structures that are stable for an extended period. Consumers can understand the price signals they face and then have the confidence to respond to those signals in a way that suits their needs and preferences. This could involve investment in Consumer Energy Resources (CER).

Below, we make some specific suggestions about the 2024-29 revenue proposals that we consider would be consistent with the National Electricity Objective (NEO) and in consumers' long term interests.

- Ausgrid should abolish its proposal to streamline its tariff offerings in its Tariff Structure Statement (TSS) and simplify its charging windows as this would lead to frequent tariff changes across the regulatory period. Instead, it should mandate consumers to a streamlined new seasonal peak tariff with a single set of cost reflective windows. Unfortunately, Ausgrid's current proposals are complex and in our view, inconsistent with

the consumer impact principle in the Distribution Network Pricing Arrangements Rule Determination (final rule).
- Endeavour should abolish the proposed 24 month assignment policy in its TSS. It is no longer necessary given it has replaced its demand tariff with a Time of Use (TOU) tariff. Consumers have shown that they are able to understand TOU tariffs with relative ease and respond to the price signals within these tariffs. As such, this means they can be transferred across to these tariffs directly without the need for any significant tariff education or any fear of unintended financial consequences.
- Essential should continue its mandatory assignment of consumers to a TOU tariff under its default tariff assignment policy. TOU tariffs are relatively simple for consumers to understand and consumers are able to respond to the price signals with relative ease. In addition, we consider Essential's proposal to introduce the sun soaker two way tariff on a mandated basis is appropriate. This is because it utilises a TOU component for consumption and the income that consumers will earn from exporting into the grid during peak periods will more than offset any poor financial outcomes from the mandated demand export charge.
- The AER should conduct a forensic examination of the new and emerging areas of capital and operational expenditure in the regulatory proposals across resilience, CER integration and innovation expenditure. We are particularly concerned that the proposed expenditures are excessive and may not deliver the benefits that they claim. Furthermore, competitive markets will deliver more efficient and innovative customer focused solutions than regulated monopolies. As such, our view is the AER should undertake this examination regardless of whether these expenditures have been developed jointly by consumers.
- The AER must not automatically accept any regulatory proposals codesigned with consumers under the *Better Resets Handbook*. As we have previously argued in other submissions, the AER is able to bring a broader perspective to its review of network expenditure and can bring a particular focus on how network activities align with the competitive market. It must not automatically assume expenditure that has been codesigned by a DNSP is automatically prudent and efficient. This approach is fraught with danger for consumers.

Tariff Structure Statements (TSS)

Ausgrid

Under the current TSS proposal, Ausgrid's tariffs do not currently comply with the consumer impact principle in the pricing principles of the final rule. To do this, DNSPs are required to consider the 'impact' of cost reflective tariffs on consumers when they are being developed. This means that the tariffs should be consistent and apply for a reasonable period of time. Consumers must also be reasonably capable of 'understanding' the tariffs which have been proposed so they are able to respond to them.

Ausgrid's TSS pricing reforms are in part inconsistent, complex and change frequently during the 5 year determination period. The complex and variable nature of the Ausgrid tariffs would make it confusing, unpredictable and difficult for consumers to respond to their tariffs. In general, consumers would require a high degree of education to respond to the price signals in a meaningful way.

It is our firm view that the plethora of changes in the structure of this proposal does not encourage buy-in, acceptance or trust from consumers, particularly at a time of rising prices. It is stability and simplicity rather than complexity and constant change that encourages consumers to make the necessary behavioural changes to their consumption pattern.

Under Ausgrid's tariffs, retailers would also be required to implement frequent and complex system changes to both the tariff structure and timing windows on a frequent basis. In terms of the efficiency of implementing these changes, we consider that this would be an unfeasible, unreasonable and ineffective way to implement a network tariff reform.

Below we outline the various changes proposed by Ausgrid and what they mean for consumers and retailers.

Tariff streamlining

Ausgrid proposes to withdraw two tariffs for residential consumers and the equivalent tariffs for small business consumers. These include the transitional TOU tariffs (EA011 and EA051) and residential and small business TOU Demand tariffs (EA115 and EA255).

This seems to be a mechanism to further transition consumers to more cost reflective tariffs. However in practice, it means a very large quantum of consumers will experience yet another change to their tariff structure within a relatively short timeframe. That is, 170,000 residential consumers and 3,700 small business consumers will be removed from transitional TOU (EA011 and EA051) to standard TOUs tariff.

In addition, there are 51 residential and 23 small businesses consumers who will be moved from TOU Demand (EA115 and EA255) to a standard TOU tariff (EA025 or EA225). All in all, Ausgrid will be moving these consumers from 4 different tariffs down to two tariffs. Such an approach just adds unnecessary complexity for consumers and will undermine confidence and trust in the stability of prices. In our view, this outcome is inconsistent with the consumer impact principle in the final rule of having consistent pricing signals that are applied for a reasonable period of time.

We recommend that Ausgrid simplify the experience for consumers by closing these tariffs to new consumers and mandatorily reassigning existing consumers in an orderly manner over the regulatory period to a streamlined new seasonal peak tariff.

Simplifying and updating the charging windows for our demand, capacity and TOU tariffs

Making the new seasonal peak charging windows more cost reflective will ensure that the price signals for the use of the network are more accurate. However, consumers expect simplicity and consistency before they are willing to make meaningful changes to their consumption profile. As such, we see no benefit in changing the timing windows twice within the 5 year period. Furthermore, retailers who chose to implement the revised changes will need to:

- change their billing systems twice to accommodate the revised windows.
- develop new pricing streams on two occasions to accommodate the revised windows.
- change the collateral associated with the new windows, twice for new consumers. This

includes quotes, offers, contracts, scripting, and the associated training of all the staff. Further, retailers will also need to account for changes in how the revised structure compares to the Default Market Offer in price related communications and advertising.

- manage two tariff change notices for existing consumers. This will include IT changes and revised collateral, scripting, FAQs for both consumers and staff, and the associated staff training.

Our preference is for Ausgrid to design one set of cost reflective windows to apply for the entire 2024-29 period. Introducing this change in a more consistent way over a reasonable period of time will be easier for retailers to work with and ultimately more consistent with the consumer impact principle in the final rule.

Updating our controlled load tariffs for residential and small business consumers

Ausgrid intends to amend the current, set switching times for controlled load devices to make them more attractive to consumers. In theory, this should deliver benefits to retailers and their customers. However, it is unclear to us how this change can be easily explained. At the time of sign up, retailers are required to quote rates and explain to consumers how their retail products will operate. It will be very challenging to explain the applicable 6 hour window for their hot water system under the proposed structure.

Retailers will also need to communicate the impact of this change to current consumers whose hot water may now be scalding at 6pm at night but tepid at 6am without drawing additional power charged at a higher rate. Further, we question whether Ausgrid will revert the timing of the controlled load to accomodate any circumstances in which consumers have adverse impacts to their hot water systems.

Export tariff

Ausgrid proposes to introduce an opt in, export tariff for residential consumers on 1 July 2024 and follow it up with an opt out mandated export tariff on 1 July 2025. This will require consumers to be mandatorily reassigned to this tariff in 2025. Further, Ausgrid has proposed a TOU tariff for both export charges and export rebates. The proposal is for a $0 charge for the first 3kW, and then 1.85c/kWh between 10am and 3pm and a export reward of 2.19c/kWh between 4pm and 9pm.

We have carefully assessed this proposal and are now able to support it. This is mainly because Ausgrid has proposed a volumetric export charge which we are comfortable with. Based on our experience, even if it is an export charge it is a volumetric charge and is easily understood by consumers given they are accustomed to it. As a result of this, we consider that it will be easy for consumers to respond to the price signals in these volumetric export charges.

Endeavour

Endeavour's TSS proposal complies with the pricing objective and principles in the final rule. Its cost reflective tariffs have been designed in a manner that considers the impact on consumers. While its 24 month tariff assignment policy appears orderly, we do not consider this gradual transition to be necessary since consumers will default to TOU tariffs that they appear to be able to comprehend and respond to with relative ease.

Below we outline the various changes proposed by Endeavour and what they mean for consumers and retailers

Two way tariff

Endeavour is proposing to enable existing consumers to opt-in to their two way tariff from 1 July 2024. From 1 July 2025, new and upgrading consumers who export energy back to the grid would be moved onto the two way tariff but would be able to opt-out. Existing consumers would have the choice to opt in to the two way tariff over the 2024-29 regulatory period.

After careful consideration, we have decided to support a proposal to mandate all export consumers to the two way tariff from 1 July 2025. This is because Endeavour has proposed a relatively simple volumetric export charge. To progress tariff reform, we consider that it would make sense for all of the remaining export consumers to be transferred to the two way tariff from 1 July 2025.

Tariff assignment policy

Endeavour proposes to replace its seasonal demand tariff with a seasonal TOU structure as the default cost reflective tariff. In general, we consider this to be a positive development as they are most easily understood by consumers and will therefore make it easier for them to respond to the price signals in them.

However in addition to this Endeavour also aims to transition consumers with smart meters to cost reflective tariffs in a customer friendly manner over a 24 month period. As such, consumers that move onto cost reflective tariffs get a 12 month sampling trial period on a flat tariff to allow them to better understand their demand profile before moving to a cost reflective tariff. Following this time period, consumers will be subsequently moved onto a transitional TOU tariff for a 12 month period before being moved to a fully cost reflective tariff.

Given that consumers are able to understand TOU tariffs with relative ease, it is our preferred view that they can be transferred across to these tariffs in a more direct way that minimises the transitional steps. As such, we do not consider that the 24 month period that has been proposed by Endeavour to transition consumers to cost reflective tariffs is necessary with TOU tariffs. Our position would be different if Endeavour were proposing demand tariffs.

Essential

Essential's TSS appears more consistent with the pricing objective and principles. In short, their tariff assignment policy includes TOU tariffs that are easy and simple for consumers to understand. Below, we explore these matters further.

Sun soaker two way tariff

Essential proposes to introduce the sun soaker two way tariff for residential consumers in the following way:

- An 'opt in' basis for existing consumers with smart meters from 1 July 2024
- A mandatory basis from 1 July 2025 for consumers with new connections, meter changes or those making an alteration to their existing meter or connection.
- A mandatory basis for existing smart meter consumers from 1 July 2028.

Following further deliberations, we consider that all existing export consumers should move to the two way tariff from 1 July 2028. We do not expect the introduction of this tariff to have any unintended financial consequences as we anticipate that any losses incurred from the demand component of the export charge would be more than off-set by the gains consumers earn when they export into the grid during peak periods.

Tariff assignment policy

Essential's tariff assignment policy defaults consumers to a TOU tariff when their meter is upgraded through solar installation, or where a consumer or retailer requests the reassignment. In the past, because of the complex nature of tariff reform we did not support a mandated approach to tariff reform.

It has become clear that TOU tariffs are relatively simple for consumers to understand. As such, our view is there is no real reason for Essential to adopt a 24 month transitional tariff assignment policy like the one adopted by Endeavour. We therefore consider that it would be reasonable and compliant with the consumer impact principle for Essential to introduce TOU tariffs on a mandated basis.

Efficiency of new and emerging areas of expenditure on grid

We have some concerns regarding the prudency and efficiency of some of the expenditures that have been proposed by the NSW DNSPs over the 2024-29 regulatory period. This is particularly important during a time of rising energy prices.

More specifically, we are concerned at some of the new and emerging areas of expenditure that have been proposed by the DNSPs for the 2024-29 regulatory period. Our concerns relate to three specific categories of expenditure that have been proposed by the DNSPs, namely, resilience capex in light of climate change, CER integration, and innovation.

It is important that the AER review these expenditures carefully given their consequences for energy consumers. The DNSPs are proposing to spend tens of millions of dollars to integrate DER into the grid that they will roll into their Regulated Asset Base (RAB). As such, we would support a forensic examination of these proposals across all of the three DNSPs. For the AER's consideration, we have specifically listed the expenditures that we have concerns with in the grid below.

Request for AER to review the efficiency and prudency of the following 2024-29 regulatory proposal expenditure forecasts

	Expenditure	Description	Concern

Ausgrid	CER Integration	• $47M capex for its CER integration program ($37M is for augmentations/ $10M community batteries	• AER must review Ausgrid's proposal having regard to the DER Integration Expenditure Guidance note and the Customer export curtailment value (CECV) methodology
	Operational Technology & Innovation	• $49M for innovation capex to test different technologies through research, trials and pilots, to develop projects	• Allowance appears to be more consistent with Research & Development (R&D) that explores ways to support the energy transition and as such consumers should not be required to fund it
Endeavour	CER integration	• $45M capex for investing in smart-meter data monitoring to develop a common analytics platform, enhancing DER hosting capacity, and trialling and then potentially implementing technologies for energy transition.	• Allowance appears to be excessive so the AER should review it to ensure it is both prudent and efficient.
	Resilience capex	• $28M capex for targeted investments to address climate change risks including replacement of timber poles with non-combustible poles in bushfire prone areas, conductor and feeder replacement to address flooding risk	• Difficult to accurately forecast extreme weather events on grid from climate change thus recommend review of modelling assumptions under the multiple scenarios that justify investments
	Innovation fund	• $20M capex trial that would invest in solutions and technologies to support the energy transition. This includes collaborating on local emergency plans, developing communication protocols and education programs	• Allowance appears to be more consistent with Research & Development (R&D) that explores ways to support the energy transition which consumers should not necessarily be required to fund
	Network visibility	• $14.2 M opex proposed for acquiring meter data to improve CER visibility to support efficient levels of export hosting investment	• Allowance appears excessive for just acquiring meter data. We request further information that specifically explains how the the acquisition of this meter data will improve CER visibility and improving hosting capacity

Essential	Export Services	• $88M capex for upgrading power lines to increase thermal capacity, replacing selected distribution transformers and adding on-load tap changers, investing in real time network monitoring, enabling flexible export limits and installing battery energy	• AER must review the proposal having regard to the DER Integration Expenditure Guidance note and the Customer export curtailment value (CECV) methodology .
	Future networks	• $31.7M opex to enable more DER as part of Essential's Future Networks program	• Seek further information for this allowance because it appears excessive especially given corresponding capex

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.2 million customers. We thank the AER for the opportunity to comment on the draft report. Should you wish to discuss aspects of this submission or have any further enquiries, please contact Con Noutso Regulatory Manager on [redacted]

Yours sincerely

[redacted]

Geoff Hargreaves
Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd