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1 December 2020

Mr Arek Gulbenkoglu
A/General Manager, Consumers and Markets
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically regulatoryinnovation@aer.gov.au

Dear Mr Gulbenkoglu,

Re: Customer Service Incentive Scheme (CSIS) Regulatory proposal 2021-2026

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to CitiPower, Powercor and United Energy's proposals for access to the Australian Energy Regulator (AER's) Customer Service Incentive Scheme (CSIS) to improve their customer service. We have considered the proposal in light of the new obligations placed on CitiPower, Powercor and United Energy in the most recent determination by the Essential Services Commission on the Electricity Distribution Code which will come into effect during the proposal period.

Unlike competitive businesses where consumers have a choice of provider, regulated monopolies have limited incentives to improve their customer service outcomes. Consistent with previous submissions, we consider that the delivery of high quality customer service outcomes for energy consumers are important. Requiring an incentive mechanism in order to deliver that outcome for consumers is what the AER has determined as the most efficient in achieving the result.

CitiPower, Powercor and United Energy have made a submission to the AER to create a CSIS that reflects their customers' service priorities, and includes three specific customer service measures. We note that improving customer service is always in the long term interests of consumers, however that the AER must determine whether these metrics are efficient and effective. Particularly as the determination must reflect consumers' preferences and willingness to pay for specific outcomes, something that is very challenging in practice.

Retailers and consumers to assist with the development of customer preferences

The AER must be satisfied that the proposed measures reflect genuine engagement with consumers. We also think that retailers offer a useful perspective, given our customer facing role and our understanding of customers. Retailers add significant value to customers in their negotiations with distributors.

CSIS stretch targets must be credible

The networks refer to the proposed CSIS customer service measures as stretch targets. However, we are not convinced that the targets that have been applied in the customer service measures are particularly difficult to achieve. The AER should assess this further.

For example, SMS notifications for unplanned outages would be set at 6 minutes which is two minutes faster than today. While noting that this is an improvement, our view is it is not a significant stretch. As such, we prefer that the distributors set more aggressive targets. It would also benefit consumers if SMS messages explained the reason for the unplanned outage and an approximate time for when power would be restored.

No overlap with other regulatory instruments

The CSIS must not overlap with the Electricity Distribution Code or other legislative instruments in Victoria, rewarding distributors for achieving an outcome that is prescribed in regulation. Incentive mechanisms are not required to meet regulatory obligations. For example, the Essential Services Commission's recent decision on the Electricity Distribution Code review (published on 16 November 2020) gave customers the option to nominate their preferred contact channels for planned outage notices, including text message and email.

Similarly, recent legislation in Victoria allows the Energy Minister to introduce licence conditions on any licensed entity (notably on distributors), creating another mechanism through which to achieve specific consumer outcomes. Therefore, it is crucial that the AER ensures there is no overlap between its incentive schemes and other network requirements.

Maximum revenue at risk for combined CSIS and STPIS must not exceed 0.5%

Given the challenges involved in developing a CSIS, we strongly recommend that the revenue at risk for the CSIS and customer service component of the STPIS remain relatively small, i.e. $\pm 0.5\%$ of a distributor's annual revenue. Otherwise, consumers may face unreasonable costs if networks incur costs to produce outcomes that don't accurately reflect their willingness to pay.

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 Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

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

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd