



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

PO Box 632
Collins St West VIC 8007
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au



8 August 2018

Mr Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted online: NSW2019-24@aer.gov.au

Dear Mr Roberts,

Re: Issues Paper: NSW electricity distribution determinations AusGrid, Endeavour Energy, Essential Energy 2019 to 2024

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to make a submission to the Australian Energy Regulator (the AER) on their issues paper regarding Ausgrid, Endeavour Energy and Essential Energy's (collectively the NSW distributors) regulatory proposals for the 2019 to 2024 period.

While the AER's issues paper covers all aspects of the NSW distributors regulatory proposals, we provide specific comment on the various Tariff Structure Statements (TSS) that set out the tariff structure options for the 2019 to 2024 period.

Red and Lumo have always proposed the view that customers should have at least 12 months of smart meter data before moving onto a cost reflective network tariff. We consider that customers need the opportunity to understand their load profile over all seasons before being moved onto a cost reflective tariff. Further, the installation of a smart meter should not be tainted by the mandatory reassignment of a tariff as this may create more negativity regarding the smart meter installation.

We have extensively reviewed the TSS proposals and we consider that:

- there must be greater consistency between DNSP tariff structures, in particular the mechanism by which they are charged to a retailer.
- tariff structures must not be amended during the five year regulatory term.
- delay the implementation of cost reflective tariffs given demand for electricity in NSW is flat.

It is prudent for the AER to consider the TSS proposals in light of the final report issued by the ACCC on their inquiry into electricity supply and prices. It suggested that in addition to cost reflective tariffs being implemented, it was also important to make tariffs simple for customers to compare and understand.

In the remainder of our submission, we provide more detailed feedback on the issues that the AER has requested a response to relating to the TSS proposals.

Consistency in NSW distributor tariff structures

NSW distributors have different and varied physical characteristics which could make some forms of cost reflective tariffs more effective than others. This should not deter distributors from developing tariffs using a consistent and repeatable methodology will make it easier for retailers provide the price signals to the consumer in an effective manner. In our view, a successful cost reflective tariff will reflect on the ability of a consumer to understand the price signal and change their behavior in response to it.

As demand is flat in NSW there is limited value in implementing complex tariffs and we prefer that flat tariffs are implemented. These tariffs are easy for consumers to understand and retailers to

work with. Should the AER consider that some form of cost reflective tariffs is required for compliance with the National Electricity Rules (Rules) we prefer Time of Use (TOU) tariffs. TOU tariffs send pricing signals to consumers to avoid using the network at peak times. They are easy for consumers to understand and simple for retailers to work with.

We note Endeavour Energy has proposed residential flat energy tariffs and demand tariffs with flat energy charges. Ausgrid and Essential Energy have proposed a suite of inclining block tariffs, time of use energy tariffs and demand tariffs with time of use energy charges. In our view, the varied tariff structures creates too much complexity for consumers.

Balance between certainty and flexibility in setting tariffs

Red and Lumo consider that tariff structures should be developed to provide certainty over the regulatory period. As such, we do not support the introduction of a more flexible tariff regime that would allow NSW distributors to amend tariff structures within a regulatory control period.

Retailers and customers must have a high level of certainty with respect to the network tariffs that they will be required to work with over the regulatory period. They need time and the information to understand the tariffs structure that they will be working with over the regulatory period.

Both Essential and Endeavour appear to have a higher degree of certainty in their network tariffs compared with Ausgrid. Ausgrid's TSS proposal includes an undefined demand charge which we do not support. Ausgrid has proposed that it will not assign consumers to this undefined tariff initially.

It is impossible to support a proposal that will place consumers onto an undefined and unpriced demand tariff. Assigning a customer to a demand tariff whose value would be determined in the future based on the outcome of Ausgrid's research over the regulatory period creates too much uncertainty.

Opt in to cost reflective network tariffs

Red and Lumo consider that customers should not be mandatorily assigned to cost reflective tariffs with no opt out clauses in any area, including high growth areas. As noted above, we consider that customer choice is paramount in regards to tariffs. A mandatory reassignment to cost reflective network tariffs will not encourage consumers to change their behavior based on peak demand. We consider that customers need to understand their demand profile and manage it in order to benefit from a cost reflective tariff. This is the case in both low and high growth areas.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland to approximately 1.1 million customers.

Should the AER have any enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou". The signature is stylized with loops and a long horizontal stroke at the end.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd