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Mr Warwick Anderson  
General Manager, Networks Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Submitted electronically: [SAPN2020@aer.gov.au](mailto:SAPN2020@aer.gov.au)

Dear Mr Anderson,

### **Re: South Australian Power Networks revenue proposal 2020-2025**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Australian Energy Regulator's (AER) issues paper for the 2020-2025 South Australian Power Networks (SAPN) electricity distribution determination (the issues paper). Our submission provides feedback on the tariff structure statement part of the issues paper which sets out the details regarding network tariffs, tariff structures and assignment arrangements offered for 2020-2025

Red and Lumo support arrangements that move customers from inclining block tariffs to a single flat rate tariff and opt in arrangements for the prosumer tariff.

Moving small customers to a single flat tariff is not expected to result in any major step changes to individual customer bills avoiding potential bill shock. We also consider that consumers are still able to invest in energy efficient appliances and to install solar PV under flat tariffs, and still be relatively better off. This would still be the case if these customers continued to use the same amount of energy at times which are costly to the network (peak periods), and in time will be able to make decisions regarding whether to opt-in to the prosumer tariff.

The proposed prosumer demand tariff provides a suitable option in the tariffs offered by SAPN as it provides customers with the choice to opt in. We have consistently advocated that consumers best transition to cost reflective tariffs when they have choice. This allows retailers and other stakeholders to encourage consumers to change their behaviour based on peak demand. For consumers that benefit, it is an easy decision, while others may seek to understand their demand profile before making an informed decision to transition.

The prosumer tariff also has strong cost reflective components. With combined time of use and demand elements, the tariff accurately signals the cost of using electricity at different times of the day. This provides an incentive for consumers to make more informed decisions about how they use electricity to better manage their bills. Retailers and other stakeholders are incentivised to educate consumers on these benefits and encourage the take up alongside reductions in consumption during in higher costs periods and being rewarded through lower overall bills.

However, we strongly object to increasing the supply charges for small customers and mandatory reassignment of small customers to a default time of use tariff from 1 July 2020. Red and Lumo have maintained that customers should have the ability to choose a tariff that suits their needs and mandatory reassignment erodes the agency of customers. Below we outline the specific rationale regarding the matters in the tariff

structure statement that we urge the AER to reconsider. Our primary concern is to avoid exposing consumers to costs that they do not understand and are not well placed to manage.

### **Disproportionate impacts on vulnerable consumers**

Increasing the supply charge for small customers by \$10 will disproportionately impact vulnerable consumers and does nothing to improve the cost reflectivity of tariffs. SAPN presented a range of efficiency arguments to justify this change, however, they are unconvincing.

While we understand that SAPN has fixed charges that it is attempting to recover, we are particularly concerned that this change will disincentivise energy efficiency, where consumers reduce consumption to manage their energy costs. Customers who have undertaken this change of behaviour, particularly those experiencing payment difficulty will be subject to much higher fixed charges which they have no ability to avoid.

### **Mandatory reassignment erodes choice**

Red and Lumo strongly object to SAPNs proposal to place all small customers with smart (type 4) meters or interval (type 5) meters onto a default time of use tariff from 1 July 2020.

As stated above, mandatory reassignment of customers to cost reflective tariffs is likely to cause increased complaints through the erosion of choice and result in a negative perception of the cost reflective tariff. We have maintained that consumers need to understand how cost reflective tariffs work for them, based on their usage, before they are placed onto them. At a minimum, consumers need to understand the basic principles of a tariff and how they are best able to manage the associated costs and risks before they are transitioned to them.

In our experience, explaining to a customer how a time of use tariff operates in practice is much easier than other complex, tariffs designed to send pure economic signals to users of a network. In the absence of targeted consumer education to understand what the mandatory reassignment of cost reflective tariffs to them, we do not support any mandated roll out.

Therefore, we consider merit in adjusting the manner in which this TOU tariff is introduced based on the following proposals:

#### *12 month sampling period with change in retailer variation*

Allowing a consumer to have a 12 month period on a single rate tariff before moving onto a default cost reflective tariff with their retailer. This sampling period provides the retailer time to work with their customers to understand their demand profile before moving to a cost reflective tariff.

This is a practical and consumer-friendly approach would need to restart when a customer establishes a relationship with a new retailer. Allowing the new retailer to work with their customer to choose the product that best suits their needs and preferences. Anything less than 12 months would not give the retailer enough information about that consumer's usage profile to provide any meaningful assistance. This relates not only to the appropriate network tariff but also to other elements of the

retailer service offering, such as advice about energy usage or the value of potential investments in solar and storage assets.

#### *Opt-in approach*

Consumers need to have a basic understanding of how cost reflective tariffs work, including the basic principles of a time of use tariff and how it would best be managed, before they are placed onto them. In addition, consumers need to understand their consumption profile and usage patterns before they can properly manage a time of use tariff and the resulting impacts on their energy costs.

Automatically placing all new customers with a smart meter onto a time of use tariff without them having a basic understanding of the charge and associated risks and how best to manage them could lead to unintended consequences.

### **Consumer education**

We consider that consumers must be educated on the proposed network tariff reform with the government playing a key role for it to deliver results. Cost reflective tariffs provide price signals that deliver efficient outcomes for the network services provided. As such, they allow consumers to compare the value they place on using the network against the costs caused by their use of it. This is expected to result in engaged consumers responding to network prices by reducing their consumption in higher costs periods are rewarded through lower network charges.

However, in order for consumers to respond to the price signals embedded in cost reflective tariffs, they must have a basic understanding of how the tariffs work before they are placed onto them. Additionally, consumers that understand their profile and usage patterns can manage cost reflective tariffs and the resulting impacts on their energy costs.

In order for the tariff reform process to be successful, the government will need to become more active in selling the benefits of the reform. It will be required to work closely with retailers, SAPN and other key stakeholders to implement this reform in a cooperative manner.

### **About Red and Lumo**

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

Should the AER have any enquiries regarding this submission, please call [REDACTED].

Yours sincerely



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