



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



19 June 2020

Ms Kami Kaur  
A/General Manager - Distribution  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted electronically: [VIC2021-26@aer.gov.au](mailto:VIC2021-26@aer.gov.au)

Dear Ms Kaur,

**Re: Issues Paper - Victorian electricity distribution determination, 2021 to 2026**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Australian Energy Regulator (AER) Issues Paper on the Victorian electricity distribution determination for 2021 to 2026 (issues paper).

Regulatory proposals are a complex set of documents that propose a network's revenue cap for the regulated services that electricity networks provide over a five year period. Electricity networks must identify how they deliver to the long term interests of consumers, under the National Electricity Objective, through operational efficiencies in their regulated services. We strongly support the Victorian electricity distribution business ensuring that consumers receive safe and reliable services, and are paying no more than reasonably necessary for the meters, poles and wires. Straying into the provision of competitive services or duplicating services already provided to customers via their energy retailer must not form part of the revenue cap nor regulated services that electricity network businesses provide.

The AER clearly identified specific interest in key aspects of the regulatory proposals including whether the Victorian electricity networks' expenditure and tariff reform proposals would support the energy system's transition to a more disaggregated energy system. This includes the efficient integration of Distributed Energy Resources (DER) into the grid, such as rooftop solar, home batteries and electric vehicles. We continue to see that the structure of retail offers that are simple for customers to understand, provide the benefit to all aspects of the supply chain. Complex tariffs, alongside an inability for customers to shift their demand profile, will not deliver meaningful benefits that tariff reform intended.

**Provision of customer services**

Competitive businesses are best placed to deliver services to customers and ensure the provision of that service is focused on customer experience and outcomes. Red and Lumo are concerned that the issues paper outlines a number of 'customer service improvements' to be

delivered by electricity networks that stray into the domain of an electricity retailer. For example, Jemena identified that it intends to investigate “how customers could be provided with personal usage and bill information for different pricing structures”.<sup>1</sup> It is difficult to understand how Jemena specifically, but electricity networks more generally, are able to deliver these types of services to an end use customer. Specifically, as networks do not bill consumers directly for services nor offer energy products to consumers. Furthermore, retailers and other competitive service providers offer a range of services, including distributed energy resources and demand management services, to help consumers respond to network price signals and in some instances, wholesale market prices. This encourages efficient energy consumption and investment.

The customer services outlined in the issues paper, while they do not account for a large portion of the regulated revenue of an electricity network, must be left to the competitive market to deliver. This will allow electricity networks to focus on delivering to customer needs, which all networks identified as customer affordability. We urge the AER to remove provisions in the regulated revenue for delivery of competitive services to end-use consumers, as duplicating these costs for both electricity networks and retailers is not in the long term interests of consumers.

Further, we note that the AER is yet to make a final decision on the introduction of a Customer Service Incentive Scheme. We reiterate our comments made in our submission on this scheme, that unlike competitive businesses, regulated monopolies have limited incentives to improve their customer service outcomes, as customers of the electricity network have no choice of provider. On that basis, a Customer Service Incentive Scheme should only be introduced on the basis that the customer service component of (+-0.5% of a distributor’s annual revenue) of the Service Target Performance Incentive Scheme be abolished. It is not in the long term interests of consumers to provide two incentive mechanisms for electricity networks for the same service. Additionally, we consider that as customers do not have the ability to readily choose their electricity network, there also are penalties attached where the level of service is not upheld. Red and Lumo consider that this could be achieved by providing the direct benefit to the affected customer via a GSL payment, through creating a mechanism that places the annual revenue of a network at risk, or both.

### **Tariff reform**

Red and Lumo do not support mandated time of use tariffs for DER customers, new connections and customers that upgrade from single phase to three phase connections as proposed by the Victorian distributors.

However, if the AER decides to accept this proposal then we would urge it to continue to ensure that consumers retained the choice to opt out of these default tariffs if it was beneficial

---

<sup>1</sup> Australian Energy Regulator, Issues Paper: Victorian electricity distribution determination, 2021 to 2026, April 2020, pg. 11

to them. Red and Lumo continue to be strong advocates for allowing customer choice, and that customers should opt in to any cost reflective tariff. We continue to support our customers making informed decisions based on their consumption for tariff structures that suit their usage profiles. It is important that customers understand how to manage the impact of any cost reflective tariff in order for them to benefit from the new structure and have a positive customer experience.

We see that together governments, networks, retailers and consumer advocates as a whole must take an active role in educating consumers on cost reflective tariffs to guarantee the success of the reform. A mandatory approach to cost reflective tariffs as proposed, is highly likely to result in unintended consequences like tariff and bill shock, eroding trust in the energy market.

### **Common tariff charging windows**

In order for retailers to be able to promote cost reflective tariffs consistently across the state, we consider that there is sufficient benefit and merit in setting common tariff charging windows between Victorian electricity networks. This will result in a consistent and simple message for all Victorian consumers, and likely to further the introduction of tariff reform.

We acknowledge that peak periods are not sufficiently aligned across residential and business customers across the Victorian electricity networks. However, we consider that this risk to consumers of this is outweighed by the long term benefits to tariff reform of a consistent, simple message that will result in increased customer uptake.

### **Price path**

Red and Lumo welcome the marginal revenue reductions that have been proposed by the Victorian electricity networks (except for the increase proposed by Powercor) for the 2021-2026 regulatory period.

We strongly encourage the AER to translate these revenue proposals into a smooth price transition from one year to the next during the next regulatory period. We have found that customers are more receptive to a smooth price path, rather than a substantial increase in any single year. Sharp price movements between years tend to increase complaints about bill affordability and provision of less appropriate signals to encourage consumers to consider the profile of their energy use, including investments in distributed energy resources.

### **Expenditure to accommodate increase solar exports**

Red and Lumo have concerns with the combined \$134.6m solar enablement program proposed by Citipower, Powercor and United Energy. The majority of the proposed capex is to increase network capacity.



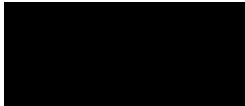
As electricity networks do not have an explicit network planning obligation to build the network to have the required network capacity to connect all potential DER, it will continue to be a challenge. We consider that this matter needs to be addressed and welcome the opportunity to work with the AER in the future to try and resolve this.

### **About Red and Lumo**

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

Red and Lumo thank the AER for the opportunity to comment on the issues paper. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on [REDACTED].

Yours sincerely



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