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24 February 2017

Mr Warwick Anderson
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted electronically: DM@aer.gov.au

Dear Mr Anderson,

Re: Demand Management Incentive Scheme and Innovation Allowance Mechanism

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Regulator (AER) on the Demand Management Incentive Scheme and Innovation Allowance Mechanism Consultation Paper (the consultation paper). This submission will focus on the Demand Management Innovation Allowance (DMIA).

Given the views arising at the Issues Day on 20 September 2016¹, we consider there is merit in the AER initially maintaining the status quo presented in option 1². We are particularly concerned that the adoption of an alternative scheme under the DMIA at this stage may inadvertently incentivise distributors in a way that undermines the competitive segments of the market. As such, we strongly believe that it would be prudent to understand the impacts of implementing the Electricity Ringfencing Guideline in 2018, and to determine the outcomes of the Australian Energy Market Commission's Contestability of Energy Services Rule Changes³ before initiating any changes to this scheme.

In recent years under the previous mechanism, we have seen many DMIA projects that may not be allowed under a future regulatory framework. We consider that outcomes of this nature have the potential to limit competition moving forward in emerging technology markets. Given this we believe a significant expansion of the current DMIA at this time to be risky.

Recommended extensions to the status quo

We support the AER's suggested extensions to the current DMIA. Requiring reporting and information to be published will significantly enhance the understanding of demand management in the market, and hopefully encourage other distributors to make efficient decisions in their own future DMIA projects. An added benefit of

¹ Consultation Paper, pg 1-4.

² Ibid, pg 7-47

³ AEMC, Contestability of energy services, Consultation paper, 15 December 2016.

reporting and information sharing would provide greater understanding as to the type and success of the projects consumers are funding, thus placing a greater onus on distributors to undertake value driven projects.

We are comfortable with the AER indexing the allowance to the Consumer Price Index, and would support the assessment criteria being re-written to improve clarity and more closely reflect the objective and principles under the new rules. We consider this third extension would place a greater onus on innovation, and mitigate the risk of inefficient expenditure on repeated projects.

The ability to remove funding ex-post

Red and Lumo strongly support the AER removing funding to projects ex-post if they do not meet the objectives and principles of the scheme rules. We consider this would ensure a strong obligation on distributors to ensure any expenditure is in the long term interests of consumers and does not unnecessarily increase prices.

About Red and Lumo

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

Yours sincerely

A handwritten signature in black ink, consisting of several 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