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13 June 2019

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

Submitted online: EnergyQueensland2020@aer.gov.au

Dear Mr Anderson,

Re: Energy Queensland Distribution determinations 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 2020-2025 Electricity Distribution Determination (the issues paper). In our submission, we provide feedback on the Tariff Structure Statement (TSS) which sets out the details regarding network tariffs, tariff structures and assignment arrangements offered for 2020-2025 by Energex and Ergon (collectively Energy Queensland).

It is unacceptable that Energy Queensland have issued a non compliant TSS to the AER. Red and Lumo have consistently participated in the TSS process and aim to ensure that tariff structures have the consumer in mind when they are designed. We are focused on ensuring that consumers can understand the cost reflective signals and have the information available to them in order to respond. On that basis, we consider that Energy Queensland made a logical decision to abolish the lifestyle tariff. Red and Lumo have also been firm advocates that consumers should be given choice as to when they choose to move onto cost reflective tariffs, and that the benefits of tariff reform can only be realised where all stakeholders including government, networks and retailers play an active role in educating consumers.

Specifically, regarding the Energy Queensland TSS, we consider that a default daily access charge combined with inclining block tariffs applied to residential consumers on basic and smart meters after 1 July 2020 is inappropriate. It is not clear to us how this will improve the cost reflectivity of tariffs. In addition, we consider that when a consumer has or gets a new smart meter, they should not be forced to take on a demand tariff after 1 July 2020. Consistent with our position, we object to the introduction of residential capacity tariffs, proposed for 1 July 2020, even on an opt in basis, as it is too complex for consumers to understand.

Consumer focused tariff process

Non-compliant TSS

Red and Lumo is concerned Energy Queensland has failed to submit a compliant TSS. Energy Queensland's failed to effectively engage with all stakeholders, including retailers, undermines the implementation of more cost reflective tariffs. These are challenging concepts and require orderly and coordinated implementation to ensure that consumers understand the price signals they face and can respond accordingly. In addition, it prevents us from making the necessary system and process changes to support more complex tariffs.

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As a result of Energy Queensland's failure to deliver a compliant TSS, stakeholders are unclear regarding network tariffs, structure and assignment arrangements for implementation in 2020, the next regulatory period. Even after Energy Queensland submitted additional information on 2 May 2019, the TSSs continued to be non compliant, as they did not provide all the information required in the National Electricity Rules. The AER's decision not to hold Energy Queensland accountable for submitting non compliant TSSs has lead to a serious delay in the process. Therefore, we urge the AER to ensure that Energy Queensland submit all of the information in a compliant TSS and provide additional opportunities for consultation once the compliant TSS has been received.

Lifestyle tariff

Red and Lumo support Energy Queensland's decision not to proceed with the lifestyle tariff as it is too complex (both for retailers and consumers) and disproportionately impacts vulnerable consumers.

Under the lifestyle tariff consumers would have been required to buy the right to use the network to import up to an agreed amount of electricity for the summer peak window through a fixed monthly charge. The tariff included five peak periods (bands) that are offered from 0kWh up to 20kWh. Where a consumer exceeds the network allowance in the band, then it would be required to pay a top up charge. Such a charge would have the potential to disproportionately impact vulnerable consumers. We strongly support the removal of this tariff structure by Energy Queensland.

Consumer education and choice

We consider that consumers must be educated on the network tariff reforms for it to deliver results with regulatory agencies and/or government playing a key role. Cost reflective tariffs seek to 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 who 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.

As a result of this understanding, consumers can make a choice regarding what tariff structure suits their energy needs and profile. We consider that this approach will be the most successful when all stakeholders, including retailers, regulators and government are more active in selling the benefits of the reform. This means explaining to consumers that they have the ability to choose a product offering (and tariff structure) that suits their needs.

Specific feedback on Energy Queensland's TSS

Default daily access charge with inclining block tariffs

Red and Lumo do not support the introduction of a two part tariff that includes a daily access charge combined with inclining block tariffs to be applied to existing consumers on basic or smart meters. Energy Queensland argues the implementation of this two part tariff would

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represent a credible step towards greater cost reflectivity. It is unclear how inclining block tariffs would be more cost reflective than the existing flat tariffs.

<u>Mandatory assignment to demand</u>

The Energy Queensland proposal will default all residential consumers that have a smart meter after 1 July 2020, or consumers who receive a smart meter post 1 July 2020, to be automatically assigned onto a residential demand tariff. We oppose this proposal.

We understand that Energy Queensland is also suggesting that consumers will have the ability to opt out onto a legacy flat tariff. However, Red and Lumo support consumers being given education and understand the basic principles of a demand tariff first, then they can choose whether to take it up. This is because automatically placing all new consumers with a smart meter onto a demand tariff without them having a basic understanding of the charge exposes them to costs that they cannot yet manage. Consumers need sufficient lead time to understand the new price signal, adjust their consumption profile and/or invest in distributed generation or other infrastructure to manage their exposure to higher prices.

As a result, we urge the AER to only approve opt in demand tariffs. However, if this is unacceptable, we would support the introduction of a 12 month sampling period (commencing on the date that they join a retailer). Allowing a consumer to have a 12 month period on a single rate tariff before moving onto a default cost reflective tariff provides the retailer with the time to work with their consumers to understand their demand profile before moving to a cost reflective tariff.

We consider this is a practical and consumer-friendly approach that would need to restart when a consumer establishes a relationship with a new retailer. This allows 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.

<u>Opt in residential demand tariff for existing consumers with smart meters from 1 July 2020</u>

Red and Lumo supports giving consumers with smart meters the choice to move onto a demand tariff after 1 July 2020. We consider that this choice will be supported by education and allow the consumer to revert to their previous tariff should they decide that the demand tariff is too difficult to manage.

This will allow consumers the ability to understand their demand profile and usage patterns before they can properly manage a demand tariff. These elements are vital prerequisites that need to be satisfied before a consumer is moved onto a demand tariff.

<u>Opt in residential capacity tariffs as of 1 July 2020</u>

While Red and Lumo support choice of tariffs, we do not support the residential capacity tariff offered on an opt in basis from 1 July 2020 because it is too complex.

Consumers need to understand the price signal embedded in the tariff and change their behavior in response to the price signal. In our view, the proposed capacity tariff is too complex for consumers to understand and manage appropriately. For example, the residential capacity tariff includes:

- A fixed charge in $ per day, which includes prepayment for a selected capacity level

- Two demand charges in $/Kw/month for daytime and night time which apply to demand in excess of selected capacity level
- A volume charge in $/Kwh
- A penalty charge for consumers who exceed their capacity level on three on more than three days per month to pay for the highest monthly day time and evening window exceedances of their capacity level at the day time demand rate or night time demand rate respectively

In the end, it is important that we get simple tariff design that helps consumers reduce their network bills either by reducing their network usage or change their usage patterns to avoid using the network during peak times is necessary.

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, and electricity in the ACT to over 1 million customers.

Should the AER have any enquiries regarding this submission, please call [redacted], Regulatory Manager on [redacted].

Yours sincerely

[redacted]

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