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18 January 2016

Mr Chris Pattas
General Manager – Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically

Dear Mr Pattas,

Re: Energex Ring Fencing Waiver Application

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Regulator (AER) on the Energex Ring Fencing Waiver Application (the Application).

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.

Red and Lumo do not support this application for a waiver on the grounds that Energex has not provided any evidence to suggest the costs for complying with Section 1b of the Queensland Ringfencing Guideline outweigh the benefit or likely benefits to the public and as such does not satisfy the waiver requirements set out in Section 21. As detailed below, if Energex believes the costs of setting up a fully ring fenced entity to achieve its objectives to be too high, there are alternative options that should not require a waiver available to Energex at much lower cost.

Purpose of seeking a waiver

The Application sets out three objectives, detailing a desire for Energex to gain a better understanding of:

- the technology impacts of potential increased levels of solar PV penetration with Battery Energy Storage System (BESS) take up on the electricity network;
- what options are available with load control of BESS and how Energex integrates it; and
- integration of Energex's Distribution Management third party battery control software platforms.

Given the type of installation detailed in the waiver application, Red and Lumo question how the pilot program will achieve these objectives. Energex state in Attachment 1 of the Application that the installations are unlikely to have any material impact on energy markets as the level of export is expected to be predominantly zero. This seems counterproductive to learning of the technology impacts of storage on the network and the load control options associated with it.

It seems likely that the most noteworthy benefit obtained by Energex from the installation of three embedded generation and storage units behind the meter will be the intellectual property gained from carrying out the installations, at a direct cost to South East Queensland (SEQ) consumers. This is a significant benefit for Energex, and clearly goes against the principles of competitive neutrality between market participants.

Behind the meter technology

As a general principle, Red and Lumo do not support distribution network businesses selling or installing products behind the meter.

Behind the meter technologies such as embedded generation, storage, or in home energy management devices must remain the domain of competitively neutral markets. Any deviation from this principle, such as allowing distributors to perform the functions discussed in the Application under the demand management innovation allowance, will severely hamper the competitive neutrality of any future behind the meter markets. This will potentially diminish the confidence of competitive entities who may look to enter these emerging markets, at the detriment of consumers.

This position was supported by the Australian Energy Market Commission (AEMC) in the recently published Integration of Energy Storage – Regulatory Implications Final Report:¹

The AEMC recommends that services provided by DNSPs behind the meter be treated as contestable services that should therefore be unclassified. Network businesses should not provide such services except through a ring-fenced business.

Where storage behind the meter would be useful for providing network support, these services must be contracted from a third party or ring-fenced business.²

Should Energex require the services discussed in the Application for the efficient and safe operation of its network, they should look to contract for the services with an existing or future solar and battery installation at a significantly lower cost. Given the prevalence of solar and battery installations in the network today, the objectives of Energex's pilot program can be easily achieved with minimal cost to the consumers of SEQ, without the need for a waiver.

¹ AEMC, Integration of Storage: Regulatory Implications, Final report, 3 December 2015, Sydney.

² Ibid, p. iv

In addition to the above, Red and Lumo are members of the Competitive Energy Association, and support the comments made in their submission. We are also concerned that the AER's waiver process may be impacted following the recent announcement by the Queensland Government regarding the launch of the Energex battery storage trial.

Red and Lumo thank the AER for the opportunity to respond to this Application. Should you have any further enquiries regarding this submission, please call Ben Barnes, Regulatory Manager on 03 9425 0530.

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