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10 October 2018

Mr Andrew Truswell
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Truswell

Re: Review of the regulatory frameworks for stand-alone power systems (EMO0037)

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to provide a submission to the Australian Energy Market Commission (the Commission) in its review of the regulatory arrangements for stand-alone power systems under the national electricity laws and rules.

The development of stand-alone power systems must be driven by good consumer outcomes. In order to ensure that good consumer outcomes are achieved, consumers need to be well informed and engaged as their individual circumstances in order to drive decisions to proceed with a stand-alone power system. Therefore, regardless of the infrastructure solution, consumers can not be impacted by their choice and must continue to receive all the consumer protections and reliability standards afforded to them now, irrespective of their service provider.

However, the Commission is unfortunately required by the COAG Energy Council to focus on stand-alone power systems provided by Distribution Network Service Providers (DNSPs) as the first priority followed by parties other than DNSPs. As such, we recommend that the Commission also explores consumer led stand-alone power systems models. Below, we comment on some of the key topics from the Issues Paper.

Customer experience and protections

Red and Lumo consider the consumer protections afforded to consumers that rely on grid connected energy should apply to stand-alone power systems. This would include the retail price protections afforded to grid connected customers in a jurisdiction, the national energy specific consumer protections and the jurisdictional reliability of supply obligations that apply to grid connected customers. There is no reason why these consumer protections should not apply to customers that are supplied through stand-alone power systems.

Specifically, we consider that explicit informed consent should be obtained from every customer before they are transferred to a stand-alone power system from the grid. A requirement for a DNSP to obtain explicit informed consent before transitioning customers to a stand-alone power system would ensure that customers are given adequate, up to date information on the risks and benefits of transferring to a stand-alone power system.

Retail competition in stand-alone power systems

Similar to the embedded network model, Red and Lumo consider that DNSPs should operate their stand-alone power system as a network and retailers should continue to be able to supply retail services.

Most retailers that supply the relevant customers on the grid will most likely want to continue to offer retail services to customers that transfer to a stand-alone power system. Especially as customers currently enjoy the ability to choose their retailer and should they find a different price, product or service that they prefer, they are able to switch the alternate retail service provider. This is the same for embedded network customers that have chosen to enter the retail market, and we expect that customers implementing stand-alone power systems will want the same competitive offerings.

We would be comfortable for a DNSP to provide a single integrated service to an individual customer via a stand-alone power system. However, where there are more than a few customers that are supplied by a micro-grid then the same arrangements as the embedded network framework should apply.

There are some serious ring fencing concerns should a network supply the stand-alone power system and the retail services. In circumstances where the business model is for the DNSP to provide the stand-alone power system and the retail service is inconsistent with the Ring Fencing Guideline (the Guideline). There is potential for a clear breach of the Guideline.

For example, the guideline requires non-distribution services to be provided by a subsidiary or other affiliate of a DNSP. As such, a DNSP could only offer solar, storage or generation services via an affiliate. However, under a stand-alone power system DNSPs would be supplying non-distribution services in direct breach of the Guideline.

Further, it is unlikely that DNSPs will have developed the broad range of retail services required e.g. retail billing systems, call centres to manage customer interactions, and in these circumstances, the DNSP will also need to manage bad and doubtful debts. These additional costs must not be borne by all network customers, and therefore, by continuing to allow retail services to be provided by retailers, it will avoid these additional costs.

The only way in which a DNSP could be permitted to supply non-distribution services under the Guideline is if it were given a waiver. However, we do not support further waivers under the Guideline. Granting additional waivers for DNSP led stand-alone power systems only work to weaken the Guideline.

The Commission has also requested comments on whether DNSPs should be required to consider the impact of moving a customer (or group of customers) to a stand-alone power system. This might include a customer's existing energy retailer who may no longer have the ability to offer retail services to that customer. Compensation or relief for the value of customers to retailers is an economically efficient model for the retailer that is no longer required to offer retail services to a customer anymore. The Commission also should consider the economic value of the customer to other retailers who might win the customer at a later point, should the non-retail service model be implemented for stand-alone power systems.

Economic regulation and stand-alone power systems

As noted above, consumers enjoy the benefits of retail competition and product and service offerings. We are concerned that DNSP led stand-alone power systems that include the full suite of services (including retail services) would detract from the customer's expectations.

Allowing DNSPs to replace or augment any part of their network with a stand-alone power system is a distribution service. Whilst we do not expect for a stand-alone power system investment option will always represent the option that satisfies the RIT-D, it would certainly be open to DNSPs to test this.

In addition to this, we are not clear on what basis DNSPs would provide retail services. As noted above, for example, if a DNSP was required to bill customers, or to put a call centre in place this would represent a direct breach of the AER Ring Fencing Guideline (Guideline). Therefore, we

are not clear how a DNSP stand-alone power system that provides retailer services would comply with the Guideline.

Further, we request that the Commission reviews the implications for the AER's Demand Management Incentive Scheme (DMIS) and the potential to create a bias in favour of stand-alone power systems over other investment options under the RIT-D.

The Commission treats stand-alone power systems as non-network alternatives in the Issues Paper. This is because under the contestability of services rule change DNSPs cannot own assets that are located directly behind the meter. As such, DNSPs are unable to build these assets and roll them into their regulated asset base. As a result, they are required to procure them as a network support service from a third party.

However, there is a lack of clarity on whether stand-alone power systems would qualify for a financial incentive under the AER's DMIS. If they do, then DNSPs could potentially be eligible for a cost uplift for the cost of the stand-alone power systems of up to 50%. This would give them a significant financial incentive to develop stand-alone power systems over other investment options. And it could mean that DNSPs can begin to roll out single integrated stand-alone power systems to replace their network raising the possibility that retailers could lose many customers. This should be risk assessed and mitigated.

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 to approximately 1.1 million customers.

Should the Commission have any enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd