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7 February 2019

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: Draft Report (EMO0037)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Market Commission's (the Commission) draft report on the review of the regulatory arrangements for stand-alone power systems under the national electricity laws and rules (the Draft Report).

Broadly speaking, we support the introduction of DNSP-led stand-alone power systems in the NEM, in remote areas and at the fringes of the grid where the costs of providing electricity services are highest. This support does not extend to these investments being made in areas that do not fall into the fringes of the grid or remote areas. Technological developments and the falling costs of renewable generation and batteries, are making stand-alone power systems more economically viable. Developing stand-alone power systems where they are economically viable results in lower electricity costs to consumers in the long run.

As such, we welcome the proposed amendments to the rules that will allow DNSPs to consider stand-alone power systems (>\$6M) as a viable investment option under the RIT-D. The changes will allow DNSPs to consider the value of these investments against other traditional network options to determine the most efficient investment option for consumers. Particularly as more efficient investments in network areas will lead to lower network prices for consumers.

Importantly, our support for stand-alone power systems is subject to the condition they are developed under the NEM consistency model. By doing these systems under this model, consumers will continue to be supplied by an energy retailer and continue to be exposed to competition.

We do not support stand-alone power systems developed under the Integrated Service Delivery Model. Under this model, consumers would be supplied through a vertically integrated model and subject to a regulated charge. Consumers would no longer have access to the competitive retail market. Competitive markets provide benefits to consumers as it places pressure on retailers to increase service standards and ensure they offer efficient pricing. Service classification and ring fencing would be treated differently from the manner they are under the AER ring fencing guideline because the services would not be differentiated.

DNSPs suggest that stand alone power systems might be relatively small in the context of the NEM as a whole – with perhaps less than 10,000 consumers being supplied into stand-alone power systems over the next ten years. However, with the price of renewable generation and batteries continuing to fall in the long term, it is likely that stand alone power systems will continue to replace traditional network augmentations in the future at an accelerated rate. As a result, it will be important for:

- the consumer protections afforded to the grid supplied consumers to apply to those supplied by stand-alone power systems. The protections should apply regardless of which DNSP lead model is chosen to develop them
- customers supplied through stand-alone power systems are supplied via the NEM consistency model. This would mean they would continue to contribute to recovering the costs of both the stand alone power system and the broader grid. The supply of more customers through Integrated Service Delivery Model would mean fewer customers remain to recover the costs of the grid.

As a part of the consumer engagement strategy, the Commission needs to consider how the consent process will apply for consumer's that transition into a stand-alone power system. At a minimum, consumers will need to understand the implications to them, including any changes to their reliability standard or ability to select a retailer of their choice.

In conclusion, if as we predict the take up of stand-alone power accelerates over the long term, then it will become even more important to develop them through the NEM consistency model. As if they are developed under the Integrated Service Delivery Model, consumers will lose choice of retailer and the benefits of competition in the long term. If this occurs, the concern is that the current market structure of the NEM as we know it could be threatened, leading to an outcome that is inconsistent with the National Electricity Objective (NEO).

About Red and Lumo

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

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

Yours sincerely

A handwritten signature in black ink, appearing to read "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
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