



PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenery.com.au



11 September 2020

Ms Merryn York
Acting Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Ms York,

Re: Distributed Energy Resources Integration - Updating Regulatory Arrangements

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Market Commission (the Commission) on the Distributed energy resources integration - updating regulatory arrangements consultation paper (the consultation paper).

Red and Lumo agree there is a need to amend the regulatory framework to support the efficient integration of distributed energy resources into the distribution system. Planning arrangements should encourage networks to consider the potential benefits of distributed energy resources and how best to incorporate them into their operations. At present this is not always possible, due to factors such as the high threshold for the RIT-D.

We note the rule change proposal by the Australian Energy Council that relates to this threshold and we support this proposal. We also support some aspects of the Total Environment Centre and Australian Council of Social Services' (ACOSS) rule change proposal that requires networks to consider how they might optimise existing and incentivise future investment in distributed energy resources as part of their standard planning processes and expenditure proposals.

However, the regulatory framework should also provide price signals to maximise network efficiency and deliver cost savings to consumers through lower network costs. We consider that this should apply equally across the distribution system, to fairly and efficiently allocate costs with a view to driving net reductions across all consumers.

Red and Lumo have consistently argued that cost reflective network pricing must be structured in a manner that is simple for consumers to understand and respond to. On this basis, we support a change to the regulatory framework to allow the networks to recover the costs of integrating distributed energy resources into their network as a simple, flat volumetric charge.

When considering changes to the regulatory framework the Commission must ensure networks have the right obligations to ensure they provide adequate network capacity, available when desired. Costs for network capacity must be fairly and efficiently allocated to appropriate parties and void of cross subsidies as far as practicable. We do not support the proposal by the Total Environment Centre and ACOSS for changes to the regulatory framework that require consumers to purchase firming services on the distribution system. This is a highly complex concept that would substantially change how small consumers access and pay for network services. We think that far more stakeholder engagement and explanation of how this will work in practice is necessary before the Commission could consider such a substantial change.

The consultation paper does not contemplate how any changes to this framework will work with existing jurisdictional derogations and distributed energy resources that are already installed. We strongly encourage the Commission to contemplate these issues when developing their draft determination.

Changes must deliver efficient outcomes for the long term interests of consumers

The Commission must ensure that any change to the regulatory framework delivers benefits to consumers. In the consultation paper, the Commission outlines that they are assessing both the National Electricity Objective (NEO) and the National Electricity Retail Objective (NERO). The consultation paper does not outline what changes, other than definitions, may be required to be made to the National Energy Retail Rules. We note that changes to the National Energy Retail Rules require a higher threshold for the Commission to meet, not only must outcomes be in the long term interests of consumers but also the Commission must meet the consumer protections test. Red and Lumo strongly recommend that this consideration includes all implementation and ongoing actual costs and benefits to consumers, ensuring a net benefit is the result of any changes that it proposes to make to the regulatory framework.

Removal of 6.1.4 of the National Electricity Rules is likely to contribute to efficient market outcomes as it will allow consumers to invest in distributed energy resources knowing they can export their surplus energy back into the distribution system without being constrained. We also consider that abolition of existing cross-subsidies is likely to deliver net benefits to consumers. We consider that the changes proposed by SA Power Networks provide an explicit mandate to deliver the network capacity required to integrate distributed energy resources efficiently in the future. This is also likely to increase the efficient investment in electricity services for the long term interests of consumers.

Red and Lumo support any reduction in regulatory burden imposed on the energy industry that currently adds cost with little benefit for consumers. We consider that the changes proposed by SA Power Networks deliver efficient outcomes and complement the existing regulatory framework. For example, the AER would test export services to determine the form of regulation that would apply to them within the various guidelines. Their proposal fits into the current expenditure rules, by providing an immediate framework for consumers requirements to be delivered.

Importantly, we do not support adding energy exports into the Service Target Performance Incentive

Scheme (STPIS). SA Power Networks itself documents the challenges associated with including energy exports into this incentive scheme, especially related to measuring and expressing service performance for exports in the STPIS. The Commission should consider placing an obligation requiring regular transparent reporting by networks on their performance with regard to export capacity, either directly into the National Electricity Rules or indirectly via inclusion in an existing guideline managed by the Australian Energy Regulator. Once established, this will provide a consistent evidence base for the networks to propose a change to incentive schemes in the future.

Customer focused, simple cost recovery

Should the Commission decide to remove the prohibition on networks charging for exporting to the distribution system, cost reflective network pricing must be structured in a manner that is simple for consumers to understand and respond to. As a result, any cost recovery of exporting to the distribution system must be introduced as a simple, flat volumetric tariff. This is easily understood and an accepted method of cost recovery for distributed energy resources. Further, it would not result in any significant changes to the mechanism by which individual distributed energy resources are credited onto customer bills. Additionally, this type of simple tariff would lower any implementation burden as it is consistent with the current processes.

We acknowledge that there is likely to be a strong desire by networks to introduce tariffs that are extreme, and attempt to encourage efficient use of the distribution system with complex price signals. Retailers and consumer representatives must play a central role in tariff development, as they will be able to provide feedback and insights from consumers. Consistent with our position on cost reflective consumption tariffs, consumers need to first have a basic understanding of how this new arrangement might operate and affect their bills prior to any complexity being added. We strongly encourage the Commission to take this into consideration and include the concepts of fairness and simplicity into any drafting amendments made to the regulatory framework.

The Commission must also consider how the introduction of any additional charges will operate with retail price regulation, specifically the Victorian Default Offer (VDO) and the Default Market Offer (DMO). As the Commission must also consider the consumer protection test under the NERO, we acknowledge that a simple arrangement will be consistent with retail price regulation. Should the Commission allow a peaky demand export charge that penalises injections into the distribution system at inappropriate times, this will be passed onto the retailer by the network. The VDO or DMO may prevent that charge from being passed on, forcing retailers to absorb the cost and therefore the intended price signal will not reach the distributed energy resource owner. This is inconsistent with the intent of the rule change proposals and the NEO and NERO.

Red and Lumo consider the proposal by SA Power Networks that the tariffs be considered as part of the Tariff Structure Statement (TSS) process providing them with the opportunity for the tariff to be introduced in a cost reflective manner. Noting our recommendations above, we urge the Commission to consider the implications of the consumer protections test, if it determines that a rule change be made.

Consideration of existing arrangements

The consultation paper does not consider whether the rule change will satisfy the NEO or the NERO in delivering net benefits to consumers in light of existing arrangements. Red and Lumo note that should the Commission decide to make a rule, there are jurisdictional impediments in Victoria¹ that renewable energy and other retail customers must be treated equally and placed on the same tariffs.

Red and Lumo note that the National Energy Retail Law² provides the ability for a jurisdiction to mandate retailers provide for specific standing offers to small customers with interval meters. Further, that the networks must not only comply with the National Electricity Rules, but also any jurisdictional pricing obligation. We request that the Commission obtain advice and consider any existing arrangements when making its draft determination.

About Red and Lumo

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

Should the Commission wish to discuss or have any enquiries regarding this submission, please contact 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

Lumo Energy (Australia) Pty Ltd

¹ See: section 23C *Electricity Industry Act 2000 (Vic)*

² See: section 22 of *National Energy Retail Law (South Australia) Act 2011*.