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16 December 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Dear Ms Collyer,

Re: Consultation paper - Electricity pricing for a consumer-driven future (EPR0097)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Australian Energy Market Commission's (Commission) consultation paper on its review of *Electricity Pricing for a Consumer-driven Future* (the Pricing Review).

The Commission's review is timely for a number of reasons. Consultation on rules for the Accelerated Smart Meter Deployment (ASMD) revealed widespread confusion about the nature and rationale for more cost reflective network pricing and concern about how retailers were managing network costs. The Commission's solution places some limits on retailers' flexibility in managing those costs. While some consumer protections are necessary, there is a clear need for the Commission to also reconsider related issues, namely, the form of network pricing and networks' tariff assignment policies.

Over the longer term, the Commission should seek to develop a framework that encourages the efficient use of network infrastructure and reduces the need for further costly augmentation as far as possible. From a consumers' perspective, the framework should send the right price signals to consumers and allow them to realise value from their investments in Consumer Energy Resources (CER). We agree that this is the appropriate time for the Commission to lay the foundation for the energy transition.

The Commission's methodology

The consultation paper outlines a comprehensive approach to assessing consumers' future needs and what type of services will satisfy them. It includes a discussion of consumer archetypes, consumer principles to guide the consultation and invites views on how the market could evolve. This analysis, and the contribution of a diverse range of stakeholders, will offer important insights and is a reasonable basis for regulatory reform. However, we also encourage the Commission to acknowledge the limits of this approach.



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In our view, it is very difficult—if not impossible—to accurately predict the form, scale and timing of the products and services that all current and future consumers will want and how the market will deliver them.

Therefore, our recommendation is for the Commission to consider how to establish a framework that delivers customer focused and efficient outcomes, even if the full range of future goods and services that it might deliver remains unknown. In our view, effective retail competition is the mechanism that delivers optimal outcomes for consumers. Service providers develop and trial offers in line with factors such as the pace of technological change but their success will ultimately be dictated by whether they align with consumers' actual needs and preferences. Over time, this form of discovery is the most efficient and effective way to achieve customer focussed outcomes.

On the other hand, we see some risks in an approach that assumes it is possible to identify the specific requirements of all future consumers, the precise offerings that satisfy those requirements and the period over which the market will deliver them. There is a risk that this will lead to specific proposals that do not align with those future needs or that distort investment towards specific activities. They might seek to achieve a specific outcome at some future point or are a response to a perception that the market is not delivering a desired outcome in a timely way. Previous examples of proposals where it is unclear that they align with consumers' needs are the Wholesale Demand Response Mechanism and for small customers to be able to contract with multiple Financially Responsible Market Participants.

We acknowledge some scepticism about whether the competitive market can deliver offerings that align with future consumers' needs and support the energy transition. However, the Commission should consider the impact to this point of factors such as regulatory uncertainty when the Energy Security Board was considering fundamental changes to the regulatory framework, the flawed implementation (in our view) of network tariff reform, the prevalence of publicly funded CER and demand response trials (and whether they have crowded out competitive activities) and the limited penetration of smart meters.

More fundamentally, it is not clear that a broad range of consumers want to participate in the market in the manner that some stakeholders are currently predicting. However, we do see this shifting significantly in the coming years.

Role of networks and retailers

The consultation paper invites views on the appropriate role for networks and retailers in driving the energy transition. Distribution networks have a role to provide safe and reliable network services and to recover the cost of providing those services in a way that encourages efficient utilisation.



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Retailers, in contrast, have multiple roles. Consumers look to retailers to manage risk on their behalf, albeit to different degrees. Retailers compete with each other to deliver consumer focused services at an efficient price and the nature of these services evolve in line with shifts in consumers' requirements. Retailers put capital at risk and succeed in the competitive market to the extent that they continue to satisfy current and prospective customers.

Equally important is the role of the retailer to deliver an essential service. This will continue into the foreseeable future and is a key issue to which the Commission must have regard as it determines the form of the future regulatory framework and competitive environment. It is likely that there will continue to be some trade-offs between offering appropriate consumers protections and the promotion of competition and innovation.

Areas of focus

The following should be key areas of focus for the Commission for this review. Each has important implications for how competition will operate and for incentives for innovation by competitive service providers. Some of these are the focus of existing processes while others will complement the ASMD.

- **Reassessment of the case for cost reflective network pricing** - it is clear that the rationale for sharper price signals is not well understood or supported by many consumers. In our experience, tariff reform to this point has not proceeded in a manner that has adequately accounted for consumers' or retailers' needs. In many instances, we have seen overly complex network pricing that has shifted across regulatory periods and this has created operational challenges for retailers, noting the contribution of network costs to the retail cost stack. More importantly, many small customers have experienced unexpected outcomes. While tariff reform is a worthy initiative on the grounds of efficiency and equity, it must account for operational considerations and allow for the appropriate allocation of risk between networks and retailers. In our view, the outcome of the ASMD does not achieve this. Moreover, consumers need to understand its rationale.
- **Greater role for retailers in network pricing determinations** - we seek a more defined role for retailers in the Australian Energy Regulator's (AER's) Tariff Structure Statement processes. This is particularly important given retailers' customer facing role and where the objective of tariff reform is to encourage behavioural change. It is the role of retailers to pass through network costs to consumers in some form and retailers will offer an informed perspective on how different consumer segments might respond to different price signals, whether that is through shifts in consumption or by drawing on CER. As an example, Red and Lumo have consistently argued for a delay in tariff reassignment following meter exchange that would allow consumers to better understand their



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consumption profile before facing different pricing structures. We acknowledge this could involve some compromise in tariff design (and potentially less theoretically efficient tariffs) but simple and stable network pricing is a more reasonable and customer focused outcome.

- ***Evaluation of the impact of retail price regulation and reference pricing on competition and innovation*** - the Commission should assess the extent to which the prioritisation of affordability in pricing determinations relative to cost recovery, to and competition and innovation might be impacting market outcomes. For example, removal of the competition allowance from the Default Market Offer (and uncertainty about its reinstatement) may be impacting decisions about entry and innovation. Retail price regulation should also ensure a broad range of retailers can recover reasonable costs, including network costs, smart meters, and operating costs that reflect regulatory obligations. Similarly, prescriptive obligations around reference pricing can limit retailers' ability to develop more innovative pricing models.
- ***Mechanisms for consumers to maximise the value of CER*** - the Commission should consider the mechanisms available for owners of CER to generate value from their investments. This might be through access to different markets, such as the wholesale or FCAS markets, or by providing network support. As the procurement of CER integration processes matures and becomes more digitalised, this will open up more markets for consumers to extract further value for their energy. One potential example is the CER Data Exchange, which could create a platform to assist consumers to monetise their CER investments. The creation of a market for network services should be managed and coordinated by a centralised, regulated organisation like AEMO. This would provide a well functioning market with clear price signals and uniform interfaces for market participants. The alternative of each distribution network hosting a self managed Distribution System Operator (DSO) platform, for example, would introduce complexity and costs to market participants as well as considerable overheads in monitoring and regulating the fair operations of those DSOs
- ***Monopoly regulation of distribution networks*** - in addition to tariff design and assignment policies, the Commission should consider how monopoly regulation can support, rather than undermine, the competitive market. Examples include non-discriminatory connection arrangements, reasonable and well understood parameters around networks' control over CER (including appropriate backstop mechanisms) and assessment of the current threshold for the Regulatory Investment Test-Distribution. It is arguable that the threshold should decline in line with the increased penetration of CER and where non network solutions are an increasingly viable alternative to network replacement and augmentation. Another area of priority for Red and Lumo is for the Commission to ensure the ring-fencing framework is sufficiently



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rigorous and establishes a clear boundary between monopoly services and the competitive market. This is particularly important as competitive offerings that draw on CER remain in their early stages of development and waivers from ring-fencing requirements may have serious consequences for the competitive market.

- ***Core consumer protections that apply in a competitively neutral manner*** - as Australia continues to expand its renewable generation sources over the next decade and we progressively move towards new sources of disaggregated generation, the form of suppliers and the diverse business models that develop will continue to grow. However, energy remains an essential service so regulatory obligations must apply equally to any service provider who has direct control over its sale and supply.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.4 million customers.

We thank the Commission for the opportunity to respond to its consultation paper. Should you wish to discuss aspects of this submission or have any further enquiries, please contact Con Noutso, Regulatory Manager, on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to read "G. Hargreaves".

Geoff Hargreaves
Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd