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15 May 2024

Mr Gavin Fox
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted electronically to: energyqueensland2025@aer.gov.au and sapn2025@aer.gov.au.

Dear Mr Fox,

Re: Draft Proposal QLD & SA Electricity Distribution Determinations Energex and SA Power 2025 to 2030

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make this submission to the Australian Energy Regulator (AER) on draft proposals by Energex and SA Power Networks for the 2025-2030 period.

As a general point, Red and Lumo agree that cost reflective tariff structures are an important component of the energy transition. They can encourage more efficient use of network infrastructure and provide an opportunity for consumers to reduce their bills if they can shift their consumption away from peak periods. They can also encourage efficient investment in distributed resources and the efficient use of those assets. However, this depends on how the networks implement tariff reform.

To this point, some networks have not engaged effectively with consumers or had sufficient regard to how retailers incorporate network tariffs into retail prices. Complex structures and frequent changes to those structures and to assignment policies present significant challenges. In contrast, retailers are better able to construct pricing offers that consumers understand and can respond to if networks present them with stable and simple price signals. This necessarily involves some trade-offs and means network pricing will retain an element of cross subsidy. On the other hand, tariff reform will not achieve its desired outcome if it does not adequately account for the consumer perspective. This is a consistent theme throughout this submission.

Tariff codes

The networks should adopt a simple and common approach to the use of tariff codes. This means creating new codes for new tariff structures. This is the easiest way for retailers to capture new tariff structures in their billing systems, allowing them to archive the old structure and then capture the new structure in a retail offer. Retailers are then able to explain to their customers that the price change is due to tariff reassignment, rather than a change to the product they initially selected.

Red and Lumo previously supported Evoenergy's tariff code proposal as it aligned with our preferred position and recommend the AER use the same approach across all network determination.

Default tariffs

We see a limited role for demand tariffs and suggest they are better suited to larger energy consumers, rather than residential consumers. As a result, Red and Lumo do not support demand tariffs as a default option for the residential segment.

Demand tariffs *can* encourage a shift in the load profile of consumers but this tends to be for those who are more engaged and energy literate than the typical consumers or those with greater control over their consumption. Such consumers have often invested in distributed energy resources. In our experience, however, the vast majority of consumers—particularly residential—simply do not understand how demand pricing works or believe that this form of pricing exposes them to unreasonable risks. This means these tariffs cannot be relied on to lead to meaningful changes in consumption patterns. Furthermore, mandatory assignment of such tariffs, or even applying them as a default, runs the risk of confusion and resentment.

Red and Lumo's preference is for simpler and more intuitive default options, which are more likely to encourage behavioural change. An example is SA Power Networks' proposed Time of Use, which does not include a seasonal component. On the other hand, Energex should swap its default and opt-out tariffs, giving consumers a simple Time of Use tariff without demand or seasonal components as the default with the option of a more complex demand tariff.

This view is the basis for our recommendation that Energex's proposed two-way export pricing should be based on total kWh exported, rather than 30 minute interval demand. The latter approach is effectively a demand charge, based on the capacity of a consumer's inverter. We note that Essential Energy's two-way export pricing trial resulted in it proposing a kWh, rather than export demand, approach that the AER subsequently approved in its 2024-2029 Tariff Structure Statement.

We also view SA Power Networks' Residential Time of Use structures as particularly complex and it is not clear how they relate to observed consumption patterns. For example, peak periods differ across the tariffs available to residential consumers; the evening peak period for the proposed default tariff ends at midnight, while the peak period for the opt-out 'Electrify' tariff ends at 9 pm. The latter seems more aligned with our observations of consumer usage and is the more common approach across other networks. We also expect that consumers will be more receptive to a peak period that ends at 9 pm which gives them a better opportunity to shift their consumption. Quite simply, it gives them the opportunity to delay the use of dishwashers, washing machines and dryers before sleeping.

Simple and timely reassignment policies

We view SA Power Networks' tariff reassignment proposal as a model for other networks due to its simplicity and clarity. They propose that all meter exchanges, whether they are customer, network or retailer initiated, result in the customer being assigned to the default tariff (Time of Use) through a single change; this is an administratively simple approach. In addition, we support the proposal to reassign any current customers on demand tariffs at 1 July 2025 to the default tariff (Time of Use). This is a clear and simple approach that brings certainty for retailers and for consumers, both of whom can account for it accordingly.

An assignment policy that minimises the number of product changes to tariff structure across a regulatory period is a model for the other distribution networks. Fewer product changes across a regulatory period means retailers are much better placed to pass through the changes and tariff structures to retail offers, and achieve the desired outcome of the networks' pricing proposal.

However, there is a broader issue of how consumers respond to changes in tariff structures. Looking ahead, the AER will need to consider how assignment policies align with the forthcoming Legacy Meter Replacement Program. The AER will be aware that distributor tariff reassignment currently occurs immediately upon the exchange of a consumer's meter. However, the Australian Energy Market Commission has proposed that retailers should '*be required to give at least 30 business days' notice before the varied tariff is to apply to the customer.*'[1] This is an unreasonable restriction on retailers' ability to manage risk and a more preferable approach is to impose this limitation on networks through their assignment policies; through a delay on network tariff reassignment, for example.

A failure to adequately account for the risks for retailers and the customer experience will undermine the objectives of tariff reform, while adding to retailers' costs. Consumers need to understand the reasons why networks want to encourage them to shift consumption while retailers need to be able to manage their exposure to the underlying network costs. We understand the Australian Energy Market Commission will soon commence a review of network pricing and this will be a key issue for it to consider.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail electricity and gas in New South Wales, Queensland, South Australia, Victoria and the Australian Capital Territory to over 1.3 million customers.

[1] AEMC Final Report - Review of the Regulatory Framework for Metering Services

Red and Lumo thank the AER for the opportunity to comment on the revised drafts. Should you wish to discuss or have any further enquiries regarding this submission, please call Jordan Rigby, Regulatory Manager [redacted].

Yours sincerely

[redacted]

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