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9 October 2020

Mr Sebastian Roberts  
General Manager - Transmission and Gas Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted electronically

Dear Mr Roberts,

### **Re: Cost Pass Through Application - 2019-20 Summer Bushfires**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Regulator (AER) on Endeavour Energy's cost pass through application in respect of the increase in costs under clause 6.6.1 of the National Electricity Rules (NER).

In general, we support Endeavour Energy's application to recover the costs of the bushfires in 2019-20 which caused significant damage to parts of the network and interrupted supply to over 55,000 consumers. The application appears to satisfy the pass through event provisions in the NER, however, as many parts of the application have been redacted, we defer to the AER to confirm that the application meets all the relevant tests.

### **AER must ensure Endeavour Energy had a prudent level of insurance**

We note that the AER is currently consulting on a guidance note in relation to insurance coverage for pass through events. The NER provides an insurance allowance to the networks, additionally it incentivises networks to underspend and share any savings with consumers based on a carry over formula. This underspend incentive also applies to insurance, which inevitably creates conditions for commercial decisions which expose networks and therefore consumers, to uninsured risk.

If the AER determines that Endeavour Energy has failed to obtain a level of insurance that a prudent network would have obtained, then they should not be permitted to recover the losses requested in their cost pass through application.

We strongly encourage the AER to undertake a rigorous assessment process to protect consumers from paying for insurance losses that an efficient and prudent network should have obtained in advance.

### **Timing of pass through**

Should the AER determine that Endeavour Energy is permitted to recover the additional bushfire costs, they should not be permitted to recover these costs immediately. Endeavour Energy must consider the pass through as part of their next annual pricing proposal and vary their tariffs accordingly. This will allow the AER to account for the pass through in the Default Market Offer (DMO).

It is currently unclear how the AER will manage an intra-period pass through event that it approves. The AER must ensure that any new network charges as a result of a cost pass through event are included in the DMO. Therefore, it is appropriate that Endeavour Energy's pass through occurs at the same time as their standard network cost reset.

### **Price impact for cost recovery to be minimised**

We note that Endeavour Energy has proposed to recover the costs of the pass through over several years. This is reasonable as consumers on Endeavour Energy's network have also been impacted by the bushfires and all efforts must be made to minimise the impact for these affected customers. Where costs are recovered from a pass through event are significant, then we would support this amount being recovered over a longer period to ensure consumers are protected.

### **About Red and Lumo**

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

Should the AER wish to discuss or have any enquiries regarding this submission, please contact Con Noutso Regulatory Manager on [REDACTED]

Yours sincerely

[REDACTED]

**Ramy Soussou**

General Manager Regulatory Affairs & Stakeholder Relations

**Red Energy Pty Ltd**

**Lumo Energy (Australia) Pty Ltd**