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Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted electronically: aerpricing@aer.gov.au

Dear Warwick,

Re: Network tariffs for the DER future

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to Argyle Consulting and Endgame Economics exploratory paper on “Network tariffs for the distributed energy future” which has been written for the Australian Energy Regulator (AER). Argyle Consulting and Endgame Economics have written a paper that explores the manner in which distributors could progress tariff reform to realise the full benefits of grid scale and community batteries. We understand that it is designed to stimulate discussion on the future direction of network tariffs for batteries in the context of ongoing tariff reform.

The paper reviews the role of retailers as an enabler of tariff reform. They argue that retailers have historically developed simple tariff offerings even where they have had the opportunity to signal costs for complex time varying components like wholesale costs and Time of Use (TOU) tariffs. However they predict that this will change with the emergence of a two-sided market that puts retailers under competitive pressure to innovate to retain their customers and grow their value. In fact, they argue the emergence of more dynamic retail tariffs that signal to customers the cost of using electricity at different times of the day demonstrates that this process has already started.

However, the position put forward in the paper is not accurate. Retailers already offer both simple and more complex retail products with network price signals that provide incentives to use the network more efficiently. However, unlike networks to remain competitive, retailers must respond to and design products and offerings to suit their customers needs. This means that in practice, many customers do not actively select and often seek to opt out of more complex tariffs because of understanding, the perceived lack of benefit that they can derive from them or the opportunity cost of managing a complex tariff based on their willingness or ability to change their behaviour to maximise those perceived benefits. These customers do not want to be exposed to pricing risk through sharper price signals and expect their retailer to manage this exposure on their behalf, similar to how retailers manage wholesale market risk. It is inaccurate to suggest that retailers are an obstacle to reform in this context.

On the other hand, retailers operating in a competitive market are actively working with customers who are better placed and willing to respond to sharper signals. The quantum of this customer cohort will likely change in the future, in line with technological changes and as the cost of distributed energy resources falls. Furthermore, some customers are more focused on responding to wholesale prices, rather than network price signals, and will change retailers based on their risk appetite depending on the wholesale market conditions they wish to respond to. However at this stage, the proportion of small customers who are willing to face sharper price signals remains relatively small.

Despite the requirements in the pricing principles outlined in the National Electricity Rules that requires distributors to consider whether a tariff structure can be reasonably understood by customers, distributors continue to propose tariff structures for all consumers that are more complex and cost reflective including both export tariffs and consumption tariffs. It is clear that in order for the industry to promote network tariff reform, the distributors must work with retailers to understand what customers want, how preferences differ across customer segments and how they evolve over time, and how customers can derive any value from the price signals in the tariffs they design. For this to happen, cost reflective tariffs must be developed in a manner that makes them easy for consumers to understand and easy for retailers to incorporate into their offerings to customers.

However, it is not only retailers and distributors who have a role to play in implementing this reform. For the tariff reform process to be successful, governments, regulators, policy makers and the consumer advocates will also need to work with retailers and distributors in simplifying the message and clearly and concisely articulating the benefits of network tariff reform. In the absence of a clear, easily understandable message, and collaboration across all stakeholders, network tariff reform will continue to be unsuccessful.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in South Australia, Victoria, New South Wales, Queensland and the ACT to over 1.2 million customers.

Red and Lumo thank the AER for the opportunity to comment on the consultant paper. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on [REDACTED].

Yours sincerely,

[REDACTED]

Stefanie Monaco
Manager - Regulatory Affairs
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