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28 April 2020

Mr Warwick Anderson  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Submitted via email: [aerinqury@aer.gov.au](mailto:aerinqury@aer.gov.au)

Dear Mr Anderson,

**Re: AER invites submissions on proposal to delay final decisions for SA Power Networks, Energex, Ergon Energy, Directlink and Jemena Gas Networks**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the proposal to delay the final decisions for SA Power Networks, Energex, Ergon Energy, Directlink and Jemena Gas Networks (final decisions).

The AER has proposed delays to the above final decisions until late May in order to allow it to use the Reserve Bank's May 2020 short-term forecast of inflation. Normally, when making determinations on the networks regulatory control period, the AER would use the February forecast when making the final decision. However, in the current environment, the AER has proposed that the May inflation forecasts are more likely to reflect the economic circumstances over the next 5 years.

The AER must strike a balance between ensuring the network's regulatory control periods are reflective of the economic conditions, while being able to set a Default Market Offer (DMO) is reflective of actual network prices. The National Gas Rules and National Electricity Rules provide timeframes for the AER to set prices in order to allow for retailers to ensure that their standing and market offers reflect actual networks costs. This means that consumers are not being charged too much, or too little, because of uncertainty in the network component. As the Australian Competition & Consumer Commission (ACCC) found in the Retail Electricity Price Inquiry, network costs can account to up to 43% of a retail bill.<sup>1</sup> As a result, we recommend that the AER continue to use the Reserve Bank's February inflation forecasts in its final decisions.

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<sup>1</sup> Australian Competition & Consumer Commission (2018), Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry--Final Report, pg. 34.



### **Costs and benefits of a delay**

The AER needs to make sure that the benefits to consumers over the course of the next regulatory period in using the May inflation forecasts outweigh any short term costs of waiting for the Reserve Bank to set the May inflation rate.

If AER considers that there will be considerable benefits to consumers through a materially lower network price component over the next regulatory control period, then we understand why the AER would choose to delay the price resets.

However, the AER must also consider the implications on consumers should there be an insignificant change. As retailers must manage price change processes, which also now include calculating comparisons to the Default Market Offer (DMO) in price change letters which would be challenging in the tight time frame.

As the AER is aware, there are new timeframe requirements that retailers must adhere to when issuing price change letters, in addition to requirements surrounding a DMO comparison. These timeframes are condensed as we require time to facilitate distribution through our external mail house as well as provide sufficient time to train internal resources to manage customer queries.

As such, it is important for the AER to ensure that a delay provides benefits to retailers and consumers alike.

### **About Red and Lumo**

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

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

Yours sincerely

[REDACTED]

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
**Red Energy Pty Ltd**  
**Lumo Energy (Australia) Pty Ltd**