



PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au



10 July 2020

Ms Rebecca Knights
Director, Energy Policy & Projects
Department for Mining and Energy
Level 8, 11 Waymouth St
Adelaide SA 5000

Submitted electronically: ETRConsultations@sa.gov.au

Dear Ms Knights,

Re: Consultation on the Proposed Tariffs to Incentivise Energy Use in Low Demand Periods in South Australia

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the South Australian Government (the SA Government) on the consultation on the proposed tariffs to incentivise energy use in low demand periods in South Australia (the consultation).

Similar to SA Power Networks, we understand that the SA Government is trying to incentivise consumers to increase their energy consumption during times of high solar export, to ensure system and network security during periods of low demand. Red and Lumo are firm advocates for a national regulatory framework, where competition best drives outcomes for consumers. As such, in principle we do not support jurisdictional specific regulation that places obligations on the types or structures of offers retailers must provide.

Challenges of standing offer regulation

Red and Lumo support the policy intent of the Default Market Offer. It is intended to provide a basis for comparing offers between retailers and it sets a price cap that is high enough to allow for competition to flourish, but low enough to ensure customers on standing offers are not paying excessive amounts. As the SA Government is aware, the Default Market Offer is set annually by the Australian Energy Regulator (AER) taking into account network tariffs that it anticipates will apply in the particular jurisdiction.

When setting the Default Market Offer (DMO) to apply from 1 July the AER chose not to account for the solar sponge tariff. Further, when the AER approved the SA Power Networks Tariff Structure Statement (TSS) it chose not to include the SA Power Networks solar sponge tariff for this year and delay it until next year. Despite these AER decisions, this consultation process

highlights that the SA Government has elected to ignore the assessment and recommendations from the AER.

In the absence of being able to review the jurisdictional regulation that the SA Government wishes to implement, it is challenging for retailers to assess whether they can comply with both the SA regulation and the Default Market Offer requirements. The Default Market Offer is set as an annual amount, and it also prescribes a usage model that retailers must apply when advertising and describing their offers. This usage model is reflective of the current market consumption, whereas the solar sponge tariff attempts to shift this usage. As a result, Red and Lumo urge the SA Government to engage with the ACCC and the AER to ensure that this tariff proposal is accounted for in the guidance and its associated usage profiles.

The National Electricity Rules states that retailers do not have an obligation to mirror the structure of a network tariff when it constructs its retail offers. This is because a retail offer must take into account wholesale, network, environmental, metering and retail costs when they are developed. That being said, many retailers choose to adopt market offers that mirror the cost structure of the network tariff. This could be to promote or incentivise the customer's consumption behaviour to follow the tariff shape, or it could be for risk mitigation reasons.

On this basis, once the SA Government sees that many retailers are offering the SA Power Networks solar sponge tariff, we strongly recommend that the jurisdictional based regulation fall away. Prudent retailers will create standing offers that mirror their market offers as customers allocated to particular network tariffs have the right to take up a standing offer. As a result, we are pleased that the SA Government at the Q&A session advised that the regulations would outline the time structures but not the quantum differences as outlined by SA Power Networks.

Poorly designed jurisdictional regulation usually creates inefficient outcomes (risking higher costs for consumers) and also damages confidence in the consultation and decision making process of the AER. Therefore, while Red and Lumo provide support to this as a short-term solution to attempting to incentivise consumption during high solar generation times. We consider that this option is a more cost effective solution than the proposed technical consultations (such as changes to smart meter minimum standards) put forward. However, as tariffs evolve, we consider that the SA Government must continue to review whether the jurisdictional specific regulation is required.

Implementation date

The SA Government has proposed the changes be implemented in September 2020, which provides retailers with only 2 months to prepare their standing offers and the associated system changes. This is a very short time frame from receiving the final regulation to implementation



and does not allow retailers time to ensure compliance with the requirements under the Default Market Offer and the jurisdictional specific regulation. This will include updating websites, systems, and product documentation. It should be remembered that retailers not only have to calculate and publish this new standing offer, they also must do it while still ensuring that it remains under the Default Market Offer price cap and its associated regulations.

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 million customers.

Red and Lumo thank the SA Government for the opportunity to respond to its consultation paper. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd