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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Sir/Madam,

Re: Distribution Market Model: Approach paper

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on the Distribution Market Model (DMM) Approach Paper.

The Commission plans to examine the robustness of the energy market arrangements and their ability to accommodate new technologies on the distribution system in the light the increasing level of Distributed Energy Resources (DER) as part of the DMM project. Following this, it will recommend changes to these arrangements to integrate the increasing level of DERs in manner consistent with the National Electricity Objective (NEO).

We note that the market is dynamic and it is difficult to forecast with any degree of accuracy on technology and consumer preferences. Hence, it is important not to pre-empt the costs and uptake of distributed energy resources into the future. Regulatory frameworks should be guided by two key principles: competitive neutrality and competitive markets supplying services to consumers.

Red and Lumo support the Approach Paper and support the DMM project for the following reasons:

1. It is prudent for the Commission to examine whether changes to the regulatory framework, distribution system operation and market design are required to enable the efficient transition to a decentralised market for electricity services at the distribution level. The Commission needs to be satisfied that these arrangements are appropriate to facilitate a transition, should it eventuate.
2. Changes to the regulatory framework, distribution system operation and market design in distribution to accommodate a transition will be necessary. This will be especially important:
 - should the market to supply energy services through a decentralized energy market on the distribution system begin to gather pace; and
 - the competitive market begins to supply more energy through market platforms on the distribution system using price signals via a market mechanism to incentivise the efficient integration of DER.

B: Responses to key questions

1. Do stakeholders agree with these definitions, or have any views on the project scope as a result of these definitions?

Red and Lumo are comfortable with the Commission's definition of DER.

The Commission has restricted the definition of a DER to energy technology that is equipped to a smart controller capable of responding to short-term changes in prices from wholesale markets in the supply chain. This definition does not capture passive energy equipment such as rooftop PV system that generates power for the grid as the sun shines.

With the focus of electricity distribution in the future predicted to move away from being asset owners that transport electricity to energy service providers operating through market platforms that send price signals to integrate DER, the Commission's definition is appropriate.

2. Do stakeholders the project scope? Is there anything that has not been flagged for consideration that should be? Is there anything that should exclude from the project scope?

Red and Lumo support the project scope in the DMM. In general, we are comfortable with the:

- project scope, which should this market eventuate, the key focus must be on transitioning the regulatory framework and market design to accommodate competitive provision of services where service providers send and respond to signals that incentivise efficient integration of DER in a manner consistent with NEO.
- Commission's position to use transmission as a basis from which to make changes to the distribution system, should changes be required. We agree the issues similar in distribution are similar to those currently on transmission system - especially given power system security issues.

3. Should the co-ordination of distribution systems with distribution energy resources be centralized under the direct control of one body? Or should it be developed and performed in a tiered manner?

Red and Lumo are looking forward to working with the Commission, should this market eventuate, to ensure that the market design results in positive outcomes for consumers and industry alike. DER should be provided in a competitive market, with the criteria outlined below key to its success.

4. Do stakeholders agree with the Commission's framework and these principles of good market design? Is there anything that the Commission has missed, or is unnecessary?

Red and Lumo recommend that any future market design be based on the following criteria:

- Consumer choice should drive the development of the market;
- Competition should be promoted to the extent possible – not only does this enable choice, it is also the best driver of cost efficiencies, an of the process of discovery

that is necessary to find out what value propositions/services consumers will respond to;

- Competitive neutrality meaning particular technologies should not be biased over others;
- Regulation should only be used where necessary to address market failure (and even then only when it is clear that the costs/distortions of the intervention exceed that of the market failure);
- Monopoly businesses should not be permitted to directly participate in the supply of services that could otherwise be provided by competitive markets;
- Risks should be allocated to parties that are best able to manage them;
- The role of DNSPs should be to provide open access to the distribution system for DER and to facilitate energy flows;
- The market should determine the highest value of DER i.e. it should not be determined through a regulatory process; and
- The regulatory framework should not constrain the expansion of additional services to consumers.

C: About Red and Lumo

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

We thank Commission for the opportunity to respond to this consultation. Should you have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 03 9976 5701.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou", written over a horizontal line.

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