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2 June 2021

Mr Ed Chan
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Chan,

Re: Access, pricing and incentive arrangements for distributed energy resources draft rule determination

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Australian Energy Market Commission's (the Commission's) Draft rule determination on access, pricing and incentive arrangements for Distributed Energy Resources (DER) (the draft rule).

The draft rule provides Distribution Network Service Providers (DNSPs) with the regulatory flexibility to implement more efficient pricing arrangements and integrate DER more equitably and efficiently. We support regulatory changes that deliver efficiency to consumers equitably.

Red and Lumo are concerned that when the draft rule is applied in practice it has the potential to lead to some unintended consequences. This could include an increase in augmentations to the distribution network to transport DER energy during peak periods or when operational demand is low, rather than deliver more efficient network usage. Without a linkage between pricing and planning, we are concerned that as network planning will cater to provide both import and export services. This could increase the risk of gold-plating the network with increased amount of augmentations justified under the RIT-D.

While DNSPs may try to justify the cost for more augmentations that provide two-way energy flows by arguing they will reduce wholesale prices in peak periods to provide a net economic benefit this is less likely to occur in practice. Therefore, we consider that it is important the Australian Energy Regulator (AER) capture this when assessing network augmentations under the RIT-D following this rule change. The AER must ensure that only augmentations with genuine market benefits are built under the RIT-D to avoid asset stranding in the future.

Further, we consider that extending the Service Target Performance Incentive Scheme (STPIS) to export services will not deliver benefits in the long term interests of consumers. Unless the STPIS is precisely defined, the AER may find it difficult to differentiate expenditure allowances provided and spent on the network to achieve reliability targets for both import and export services. Expansion of grid capacity to enable consumption will also make the grid more reliable for export services, meaning expansion of the STPIS may simply create a windfall gain for DNSPs.

Finally, in terms of implementing the final rule, Red and Lumo strongly urge the Commission to commence changes to the National Energy Retail Rules on 4 August 2022. As the amendments to the Retail Rules are not ostensibly required until such time that a DNSP decides to amend their Tariff Structure Statement, it would be more efficient to align the Retail Rule changes to a date where there is already a change taking place. This will also delay the requirement to change standard retail contracts, which at a minimum require 12 weeks to implement.

About Red and Lumo

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

Red and Lumo thank the Commission for the opportunity to respond to its draft rule. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

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