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14 February 2019

Mr Andrew Truswell
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Truswell,

Re: Review of the regulatory frameworks for stand-alone power systems: Draft Report (EMO0037)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide a submission to the Australian Energy Market Commission's (the Commission) draft report on the review of the regulatory arrangements for stand-alone power systems under the national electricity laws and rules (the draft report).

Broadly speaking, we support the introduction of distribution network service provider (DNSP) led stand alone power systems in the NEM, in remote areas and at the fringes of the grid where the costs of providing electricity services are highest. We do not support these investments being made in areas that do not fall into the fringes of the grid or remote areas. Technological developments and the falling costs of renewable generation and batteries, are making stand alone power systems more economically viable. Developing stand alone power systems where they are economically viable results in lower electricity costs to consumers in the long run.

As such, we welcome the proposed amendments to the rules that will allow DNSPs to consider stand alone power systems (>\$6M) as a viable investment option under the distribution regulatory investment test (RIT-D). These changes will allow DNSPs to consider the value of these investments against other traditional network options to determine the most efficient investment option for consumers. We consider that DNSPs making more efficient investments in network areas will lead to lower network prices for consumers, both in general and as it applies to stand alone power systems at grid-edge and remote areas.

Importantly, our support for stand alone power systems is subject to the condition they are developed under the NEM consistency model. The NEM consistency model preserves the

consumers access to full retail competition. Therefore, we support a DNSP being able to roll the network part of the stand alone power system into its regulated asset base. However, generation must be sourced from third parties, and levied to retailers (and therefore customers) via an opex charge. Noting that we expect this to be a straight pass-through cost from the DNSP.

We do not support stand alone power systems developed under the Integrated Service Delivery Model. Under this model, consumers would be supplied through a vertically integrated model and subject to a regulated charge. Service classification and ring fencing would be treated differently from the manner they are under the AER ring fencing guideline because the services would not be differentiated. Markets, particularly competitive markets, place clear incentives on retailers to provide benefits to consumers in both pricing and service. Under the integrated service delivery model, consumers would no longer have access to the competitive retail market. This is a clear removal of existing benefits to consumers.

DNSPs suggest that stand alone power systems might be relatively small in the context of the NEM as a whole – with perhaps less than 10,000 consumers being supplied into stand alone power systems over the next ten years. However, with the price of renewable generation and batteries continuing to fall in the long term, it is likely that stand alone power systems will continue to replace traditional network augmentations in the future at an accelerated rate. As a result, it will be important that consumer protections afforded to the grid-connected consumers to apply to those supplied by stand alone power systems. The protections should apply regardless of which DNSP lead model is chosen to develop them. Adoption of the NEM Consistency model will ensure this. Meaning not only will the DNSP be able continue to contribute to recovering their costs of their existing network assets, they will also recover those associated with the stand alone power system.

Consumer protections within stand alone power systems

As a part of the consumer engagement strategy, the Commission needs to consider how the consent process will apply for consumer's that transition into a stand alone power system. In order to maintain competitive neutrality from a retailer's perspective, all providers of retail services within a stand alone power system should be subject to providing equivalent consumer protections as to grid-connected customers.

However, we consider that the Commission should review whether or not there needs to be additional protections (above those in Australian Consumer Law) placed on DNSPs gaining explicit informed consent to ensure that consumers understand the implications of any brownfield conversion from grid-connection to stand alone power system. As the Commission is already reviewing the consumer protections framework as part of its retail competition review, it

should also review the applicability of energy-specific consumer protections, given that DNSPs will continue to provide an essential service. These considerations should also include the rights of consumers and associated connection agreements for behind the meter generation within the stand alone power system post-establishment through solar or EV.

In conclusion, if as we predict the take up of stand alone power increases over the long term, it will become even more important to develop them through the NEM consistency model. As if they are developed under the Integrated Service Delivery Model, consumers will lose choice of retailer and the benefits of competition. Only adoption of the NEM consistency model is consistent with the National Electricity Objective and will deliver to the long term interests of energy consumers.

About Red and Lumo

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

Should the Commission have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou". The signature is fluid and cursive, with a long horizontal stroke at the end.

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