



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



17 January 2020

Ms Kate Symons
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale St
Melbourne Victoria 3000

Submitted electronically

Dear Ms Symons,

Re: Minimum electricity feed-in tariffs to apply from 1 July 2020

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Essential Services Commission's (the Commission) draft decision on the minimum electricity feed-in tariffs (the draft decision).

Red and Lumo reiterate our opposition to the Commission's determination of feed-in tariffs (FITs). Competitive markets effectively determine the value of this source of generation so the only role for the Commission is to specify any premium to that value that reflects the avoided social cost of carbon. Despite the obvious information asymmetry, the Commission has chosen to specify rates at a level that cannot perfectly align with the value that each retailer who operates in Victoria ascribes to solar exports at particular times of the day. In general, the uncertainty of solar output means that it is a less reliable mechanism for managing the consumption load for many retailers but their ability to manage wholesale costs is diminished under a regulated approach.

The Commission suggests that retailers support the methodology to calculate the value of solar outputs. We agree that Frontier's approach to calculating wholesale costs is a reasonable methodology but this is only within the context of a regulatory determination and is clearly a second best solution. We also strongly support the Commission's decision to use a 12 month method that is solar, rather than time, weighted.

However, as with any theoretical model, it remains a highly imperfect estimate of the value of solar generation and has the potential to negatively impact some retailers relative to others, depending on their other sources of generation. We expect that some retailers will respond by avoiding exposure to solar exports and that we can expect fewer solar offers in the market as a consequence. We also encourage Frontier to adopt a conservative approach to the estimation of the value of solar exports.

Mandated structure

The Commission's decision to now mandate that retailers must also offer tariffs in a particular structure is a further significant intervention that undermines competition and innovation in retail product development.

Retailers are considering the development of more sophisticated products that reflect technological change and the characteristics of their specific customer segments. This includes solar customers who bundle other services such as batteries and electric vehicles to give themselves greater flexibility in terms of when they generate and consume electricity. Owners of distributed generation are increasingly considering how to optimise their value of their output, either individually or in aggregate with other asset owners. All of this is explored further in recent issues paper by the Australian Energy Market Commission on consumer protections in an evolving market, in which it refers to a range of emerging business models and innovations in services provided to consumers.¹

Within this context - and also in the context of the Victorian Default Offer - the Commission's decision to mandate that retailers construct solar offerings in a specific way further undermines their ability and incentive to develop innovative products to cater to their customers' needs.

The Commission refers to one out of the many retailers operating in Victoria who is currently offering the choice of single rate or time varying FiTs to their solar customers. In a highly competitive market, this suggests there are few net benefits to retailers or to consumers of such offers and that they are difficult and costly to implement. It seems that retailers will only offer tariffs in this way if they are compelled to do so, rather than in response to any significant consumer demand.

Red and Lumo's urges the Commission to retain the optionality with respect to the structure of FiTs. This would be a less disruptive model and provide flexibility for retailers to respond to technological change and the evolving needs and preferences of their customers.

¹ See <https://www.aemc.gov.au/market-reviews-advice/consumer-protections-evolving-market> for more information.

Costs of implementation

We appreciate that the Commission acknowledges that the decision to mandate a time varying FiT will have some implementation costs for retailers and is interested in better understanding their materiality. These costs are substantial and we expect they will be accounted for in the Commission's determination of the next Victorian Default Offer for 2021 if it proceeds with the proposal.

Notification of customers

In response to the Commission's request for information about customer notifications, we confirm that we also notify our customers in advance of changes to FiTs through their preferred form of communication, i.e. letter or email.

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 and Queensland, and electricity in the ACT to over 1 million customers.

Red and Lumo thank the Commission for the opportunity to respond to this draft decision. Should you have any further enquiries regarding this submission, please call Geoff Hargreaves, Regulatory Manager on 0438 671 750.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou". The signature is fluid and somewhat abstract, with 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