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2 July 2021

Ms Kate Symons
Chairperson
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Submitted electronically

Dear Ms Symons,

Re: Draft decision - Victorian Default Offer amendment to price determination 2021

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Essential Services Commission's (the Commission's) draft decision to amend the Victorian Default Offer (VDO) for 2021.

We strongly support the Commission's decision to amend the current VDO to account for significant changes to distribution network costs. As the Commission notes, this is the largest component of the cost stack so a failure to account for the changes that are taking effect from 1 July would have created significant cash flow and working capital challenges for retailers.

More specifically, we support the Commission's approach to adjust the flat VDO and maximum annual bill, and to introduce a new two period time of use tariff VDO, in line with tariffs and structures that were recently approved by the Australian Energy Regulator.

The delay to the VDO adjustment, although largely unavoidable, means that retailers are exposed to higher network costs from 1 July to 31 August that are not reflected in the VDO. Therefore, we also support the Commission's consultation on ways to recover that shortfall. Red and Lumo's preference is for option 2, i.e. to reflect the network costs incurred over July and August 2021 in the next regulatory period starting 1 January 2022.

The Energy Retail Code limits a retailer's ability to amend market offers to existing customers to one month after network pricing applies and to standing offers in line with the VDO determination made by the Commission. This process is complex and prudent retailers will have already commenced with the decision made by the Australian Energy Regulator's distribution network determinations and are well progressed with those processes. This involves changes in billing systems, in addition to the preparation of the prescribed notifications and reference material to accompany price changes and changes to the VDO, of which the Commission is aware. Further uncertainty about the allowable network component of the VDO for the

remainder of 2021 will disrupt retailer operations. We also think it is a better experience for consumers if retailers recover this additional amount in a later period (i.e. as part of the next VDO determination), rather than adding to the 1 September adjustment.

For similar reasons, we strongly encourage the Commission to carry the proposed usage profiles for maximum annual bill calculations in the draft decision across to the final decision. Otherwise, retailers will not have sufficient time to make the necessary adjustments in their billing systems and to tariff structures after the final determination and ahead of 1 September.

Finally, Red and Lumo's comments in this submission reflect our ongoing recommendation that the next VDO apply for 6 months in order to align with annual network tariff determinations as soon as possible. While this year's misalignment is particularly challenging as it coincides with a new network revenue period, there will still be confusion and operational challenges for the Commission, industry and for consumers as long as the misalignment persists.

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 Commission for the opportunity to respond to the draft decision. Should you wish to discuss aspects or 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 stylized with 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