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13 September 2019

Kate Symons  
Commissioner and Acting Chair  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Submitted electronically [REDACTED]

Dear Ms Symons,

**Re: Essential Services Commission 2019 - Electricity Distribution Code (Code) review: Issues paper**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide feedback on the Essential Services Commission's (the Commission) Issues Paper for its Electricity Distribution Code (the Code) Review.

Distribution networks have traditionally been built to cater for consumer demand by providing the capacity to meet the safety, reliability and security of electricity supply. In the past, this has meant the distribution system was built to receive energy from the transmission system from a remote generation source in a system characterised by one way energy flows.

However, the significant penetration of Distributed Energy Resources (DER) has led to a change in the market with distributors now being forced to deal with the complexities of managing a network characterised by two way energy flows. This has raised legitimate questions regarding the adequacy of the distribution network to cope with this new paradigm.

In light of these developments, a review of the Code is timely. We note that the first part of this review involves a review of the Customer Service Standards and the Technical Standards. We understand that both shallow and deep connection standards will be dealt with in the next phase of the review.

We have outlined our response to the customer service standards in the Code review for the Commission's consideration.

**Notifying government departments of unplanned outages**

Red and Lumo believe that the informal practices that distributors have adopted to notify relevant government departments of unplanned outages before the required 24 hour threshold should be codified.

Currently, the Code requires Distributors to notify some government departments if a long sustained unplanned outage occurs at a specific location. This obligation only applies if the unplanned outage is likely to last longer than 24 hours. The current practice of distributors however is to inform government departments of long outages that do not reach this 24 hour threshold. It would therefore make sense to establish minimum timeframes that would apply to notifying the relevant government departments of any unplanned outage that lasts more than 12 hours. We believe that this would support the long term interest of consumers.

## **Notifying vulnerable customers during an unplanned outage**

The Commission does not clearly define 'vulnerable' consumers but we assume it is primarily concerned with those requiring life support.

Red and Lumo do not support the establishment of minimum time frames for distributors to notify vulnerable consumers during or in advance of a potential unplanned outage. Predicting the precise duration and location of an unplanned outage with any degree of accuracy is extremely difficult. Hence, establishing minimum time frames for distributors to notify vulnerable consumers during an unplanned outage would be very difficult to comply with.

Similarly, we expect that distributors who are subject to any new obligation to notify consumers in advance of a potential unplanned outage would be risk averse (subject to the nature of the obligation) and notify a large number of customers even if the chance of them experiencing an outage is low. This would likely cause frustration and concern for many of these consumers, and prompt complaints to the networks and to retailers.

We note that the Commission is also separately reviewing energy retailer and distributor obligations to consumers relying on life support in the event of unplanned outages. Our preference is for the Commission to continue to rely on the existing obligation for networks (and the proposed obligation on retailers) to provide consumers requiring life support with the relevant information to assist them to prepare a plan of action in the event of an unplanned interruption.

## **Notifying customers of planned outages**

Red and Lumo believe it is paramount for distributors to adequately engage with consumers during planned outages.

There is always room for distributors to improve their engagement with consumers on planned outages to ensure that communication is both effective and appropriate. Generally speaking, we welcome any improvements that are made by the Commission in this regard as a way of maintaining consumer trust in the energy sector.

Currently, the Code outlines when distributors must notify consumers ahead of a planned outage. However, it does not include any obligations on distributors to notify consumers if they cancel a planned interruption. As a result there have been many instances where planned outages have been cancelled without proper notification leading to instances where consumers "may have already spent money to organise back-up generators, and these costs could have been avoided". The failure to notify consumers of a cancellation may lead to financial loss but is also a poor experience for consumers.

In order that this matter is addressed, we would therefore support an obligation in the Code for distributors to notify consumers if they cancel a planned interruption.

## **Reviewing the Guarantee Service Level scheme**

Red and Lumo recommend the Commission undertake further analysis before it amends the jurisdictional Guarantee Service Level (GSL) scheme to address the reliability of the worst served customers.

There is a trade-off between the benefits that consumers derive from the services that networks provide and the cost of delivering those services to a prescribed level. We are mindful of the contribution of network costs to our customers' bills so we encourage the

Commission to assess whether any additional service levels that the GSL scheme captures reflect consumers' true expectations and requirements. Otherwise, they could incur higher costs for services and service levels they do not value.

The Commission argues that the AER's incentive regulation applied from 2015 onwards and its Service Target Performance Incentive Scheme (STPIS) does not interact with the worst served customers. We note the STPIS scheme creates a financial incentive on distributors to ensure that the quality of service on the network is broadly maintained and not eroded under CPI-X incentive regulation.

The Commission also points out that Victoria's jurisdictional GSL scheme is no longer connected to a financial incentive mechanism to address the worst served customers. In fact, the Commission argues compensation payments under the scheme made to customers are simply a direct pass through, the implication being Victorian distributors have no incentive to address the reliability of the worst served customers.

While we have legitimate concerns about the absence of a link between the financial incentives in Victoria's jurisdictional GSL scheme and the reliability of the worst served customers in Victoria, we believe further analysis of Victorian consumers' preferences is warranted before the Commission amends the scheme.

### **Exclusions from the GSLs**

Red and Lumo support a review of the exclusions to the GSLs.

Overall, we support exclusions from GSL payments for distributors where they have been caused by events beyond the control of the distributor. For example, if there was an unplanned transmission outage and the distributor was not able to take any action to fix that outage, then it should not be liable to pay GSLs.

However, the Commission argues the AER has changed the STPIS recently making adjustments to the exclusion provisions. With this in mind, our view is the Commission should review the current exclusions applied to its own GSL scheme and decide whether they are still warranted. The Commission should use the AER's recent work in this regard as a guide to making any potential changes.

### **GSL payments to be made in a timely manner**

Red and Lumo support the introduction of measurable indicators for distributors to comply with the timing of GSL payments.

The Code requires that GSL payments are made as soon as practicable after 1 January of the following year of the relevant outage. We agree with the Commission that this runs contrary to a customer's expectation. Most customers would prefer to be paid not long after the outage.

While acknowledging that there could be some technical problems associated with distributors making GSL payments soon after a customer has experienced an outage, the Commission should not be deterred from introducing a new improved approach to this matter.

As a result, we would support the Commission introducing measurable indicators for distributors to comply with for the timing of GSL payments. As we are aware, most GSL payments could be paid at any time during the year.



For those GSL payments that are required to be made after 1 January of the following year of the relevant outage, we would support the introduction of measurable indicators that distributors would be held accountable for in relation to the timing of GSL payments.

### **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. Should the AER have any enquiries regarding this submission, please Con Noutso, Regulatory Manager on [REDACTED].

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou", written over a light grey rectangular background.

**Ramy Soussou**

General Manager Regulatory Affairs & Stakeholder Relations

**Red Energy Pty Ltd**

**Lumo Energy (Australia) Pty Ltd**