



PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 632
Collins St West VIC 8007
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au



11 March 2016

Queensland Productivity Commission
PO Box 12112
George St QLD 4003

Submitted electronically

Dear Mr Wood,

Re: Electricity Pricing in Queensland Issues Paper

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Queensland Productivity Commission (QPC) on the Electricity Pricing Inquiry Draft Report (the Draft Report).

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

While this submission will not go into great detail regarding the deregulation of electricity pricing in Queensland given the Government's notification of commencement from 1 July 2016, we support the majority of the recommendations in Chapter 8 of the Draft Report.

Networks

Draft Recommendation 14

Red and Lumo strongly support the recommendations made by the QPC regarding the development of an energy services business as part of the structural reform of Ergon and Energex proposed. We agree that:

“The separation of the regulated and unregulated aspects of the network businesses should result in a stronger focus on their core regulated business of network management. This arrangement should encourage the networks to build relationships with service providers to get the most efficient outcome rather than expand services themselves, potentially inefficiently, and at the expense of competitive service providers.”¹

As the Australian Energy Regulator commences the development of the Ring-fencing Guideline later this year, this principle will be critical. Competitive markets provide the best outcomes for consumers where effective competition is found, and full structural separation from the regulated network business will allow these markets to continue to develop unimpeded, to the benefit of consumers in Queensland.

¹ Page 71 of the Draft Report

Retail Markets and Consumers

Draft Recommendation 18

Red and Lumo support the recommendation that the Government's involvement in the retail market should be limited to points of significant change, and regarding support for vulnerable consumers. We strongly believe that support for vulnerable consumers requires tripartite input. Government, consumer organisations, and retailers must look to work towards the mutual goal of assisting consumers experiencing difficulty in paying their energy bills.

Red and Lumo are concerned that in recent years there has been an increasing dependence on retailers supporting consumers unable to afford a basic level of consumption. The requirement to offer a payment arrangement in line with a customer's capacity to pay represents a cost for retailers which is socialised to some extent across all other consumers. For this situation to improve to the benefit of all consumers, Government policies regarding income and concession support must be sufficiently targeted and provided to those consumers who are most in need.

The Draft Report discusses the need for retailers to develop trust with consumers, particularly in times of significant change. Red and Lumo strongly support this contention, and note that retailers have been working hard to achieve this over recent years. As we move to a deregulated electricity market, this development of trust will need to be supported by Government and the consumer sector, to improve understanding of how the changes will impact small customers in South East Queensland (SEQ). Retailers can assist in this development of trust by improving clarity as to what they are offering customers, particularly regarding how any available discounts are marketed.

Draft Recommendation 19

While Red and Lumo support the Government commencing preparations for the 2018 review of the National Energy Retail Law (NERL) to ensure effective analysis of the success of its introduction is undertaken, we believe this review to be too late to look into the current retail market frameworks regarding new or alternative service providers, and the broader consumer protections framework.

Red and Lumo understand this review to be on the COAG Energy Council key priorities list for 2016, and we strongly believe the time is now right for this to commence. The NERL is not fit for purpose in today's energy market.

Queensland consumers in particular are generating more of their own renewable energy than ever, have the capability to load shift with in-home batteries, and even feed energy back into the grid as embedded generators. Consumer protections must be rationalised, remaining focused on the outcome of the protection, whilst ensuring the resulting framework is technology and provider agnostic. There is a risk that continuing to operate with an outdated framework will encourage more providers to sell energy to consumers outside the boundaries of the NERL and the protections it provides, potentially at the risk of those consumers who choose to take up such offers, and the significant detriment of those who remain on the grid.

Impacts of network tariff reform and impediments to participation

Draft Recommendation 51

Red and Lumo support the concept of addressing targeting of concessions prior to the introduction of tariff reform by expanding the concession regime to include Health Care Card holders. We don't however believe this recommendation is appropriately worded. It could be misconstrued that the QPC recommends ensuring that any customer vulnerable to the impacts of tariff reform should be targeted by the concessions regime. While we believe this would be beneficial theoretically, the practical nature of the tariffs proposed are unlikely to result in defined groups who will ultimately be winners or losers. Consumption profiles, rather than demographic segmentation, will allow for a definitive understanding of the impact on certain customers.

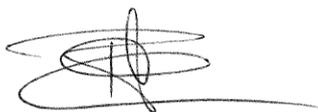
The impact of tariff reform on vulnerable customers is an important issue. In order to mitigate this, it is crucial that the Government encourages the implementation of a market led smart meter rollout in Queensland, and Energex and Ergon do not mandate consumers with smart meters to be immediately transitioned to a cost reflective network tariff. A staged approach, in which consumers first obtain a smart meter which provides the customer access to their interval data, followed by opting into a cost reflective tariff after it is determined their consumption profile is appropriate, will result in the best outcomes for consumers as they learn how best to manage their usage moving towards the 2020-25 Tariff Structure Statement period.

Draft Recommendation 53

Red and Lumo believe the establishment of a cross sectoral working group in Queensland will be invaluable as we progress towards a fully cost reflective tariff environment. While electricity consumers in Victoria have had access to comprehensive energy data and varying tariffs for some time, Queensland customers on regulated, flat tariffs have not. When considered in line with the development of trust in retail markets discussed in Chapter 6, we are concerned that too rapid a change in Queensland will not achieve the positive outcomes intended by the reform. To achieve this, it is clear a significant education campaign will be required in the coming years, which should be undertaken under the guidance of this group.

Red and Lumo thank the QPC for the opportunity to respond to this consultation. Should you have any further enquiries regarding this submission, please call Ben Barnes, Regulatory Manager on 03 9425 0530.

Yours sincerely

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

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