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10 March 2022

Ms Sophia Vincent
Director - Energy Consumers and Competition Policy
Department of Planning, Industry & Environment
4 Parramatta Square, 12 Darcy St
Parramatta NSW 2150

Submitted electronically

Dear Ms Vincent,

Re: NSW Enabling the Transformation of the Energy Sector Consultation Paper

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make this submission to the Department of Planning, Industry and Environment (the Department) on the Consultation on NSW Enabling the Transformation of the Energy Sector (the consultation paper).

We welcome the intent of this consultation to improve access to innovative technologies for consumers. However, we are extremely concerned that much of the consultation appears to be rehashing existing consultations which have already been or are currently being examined. The NSW Government must ensure that national consistency is maintained and prioritised, as any derogations from the national framework will be inherently inefficient and increase costs.

Red and Lumo have attached specific responses to the various items covered in the consultation paper.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in New South Wales, Victoria, Queensland, South Australia and the ACT to over 1.1 million customers.

Red and Lumo thank the Department for the opportunity to respond to this consultation. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

Stefanie Monaco
Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd

Attachment: Red Energy and Lumo Energy Response

Part 1: Digital Energy Technologies

As the Department is aware, the Australian Energy Market Commission (AEMC) is already conducting a review into smart metering, assessing the regulatory framework to increase the uptake of smart meters. On this basis, Red and Lumo question the need for or potential benefit of this review as the AEMC has already flagged that it will seek national changes to accelerate the rollout of metering.

Red and Lumo are extremely concerned that in order to achieve the objective of increased smart meter penetration in NSW, the consultation paper may propose further derogations from the National Electricity Rules. Red and Lumo note that national consistency delivers the most efficient outcome, reducing costs for consumers and that further inconsistencies will only further hamper the efficient roll out of smart meters. Instead of seeking further derogations, we strongly urge the Department to work with the AEMC and other Governments to reduce the regulatory burden and impediments to smart meters by developing a nationally consistent approach which facilitates the uptake of smart meters as well as reducing costs for retailers and consumers.

Issue 1: Meter Costs to Customers

Red and Lumo question how this proposal would assist in increasing the uptake of smart meters in NSW? If consumers are shown the costs of the meters this is likely to only increase customer reluctance to smart meters as they will only associate these with increased costs. Crucially this idea has already been tried unsuccessfully. During the smart meter roll out in Victoria a retailer elected to present this cost directly to consumers on the energy invoice, however this was subsequently removed due to consumer backlash.

Red and Lumo also question how retailers will split out the individual costs as the majority of retailers bundle these charges into ongoing costs and they can even be spread across the entire customer base rather than billed to an individual customer. Furthermore, as each retailer negotiates their own contracts with metering providers this means that the costs will not be comparable between retailers. Each consumer will therefore potentially have a different cost for the installation based on their individual address, the metering provider used and the contract negotiated by the retailer; which will only lead to increased confusion for consumers.

Issue 2: Meter life and redundancy charges

While Red and Lumo oppose the introduction of mandated targets for meter installations, we support a further examination of an aged based meter replacement program done on a nationally consistent basis involving a regulatory framework to support and facilitate an orderly and efficient smart meter roll out. Although the most appropriate avenue for this would be through the AEMC metering review no matter how it is progressed it is paramount that any aged replacement program is nationally consistent as a state based approach would only guarantee inefficiencies which would increase costs for retailers and consumers.

Any aged replacement program should only be implemented with substantive changes in information sharing from the Distribution Network Service Providers (DNSP) to rebalance the existing information asymmetry between networks and retailers as well as extensive cost analysis on the impact to consumers.

A lack of information on the status and ages of meters currently in operation remains an ongoing challenge to installing smart meters. Currently retailers will be notified when an individual meter has failed, however they do not have any predictions or reports from distributors on the age or status of other meters in the area and therefore no ability to plan multiple replacements simultaneously. This is an inefficient approach forcing retailers to only replace meters on an ad hoc basis.

Placing a new obligation on DNSPs to share detailed information on the age and status of existing assets in the field would allow retailers and metering providers to plan ahead for scheduled replacements. This will not only ensure there are adequate metering stock and technicians but also allows the possibility of multiple replacements (dependent on customer consent) in an area (this is especially important for remote and regional communities which are difficult to access).

It is important to note that any increase in uptake of smart meters or replacement of Type 6 meters before they are scheduled to be replaced will lead to a loss of revenue for DNSPs. This loss will inevitably need to be recouped and accounted for in the regulated revenue cap and therefore incurred by consumers through network charges. It is crucial that the Department publicly assess the impact of the proposals put forward on network charges as well as an assessment of the costs associated with the implementation of any of these changes.

Issue 3: Solar connection delay

Red and Lumo question the assumptions in the consultation paper that installation timeframes for smart meters for solar customers have dramatically increased and that any delays are due to “internal processes of electricity retailers and metering providers.”¹ Delays to the connection process more often relate to other factors outside the control of retailers such as delays in providing the required paperwork, explicit informed consent to the changes, access to the meter or unforeseen events such as inclement weather.

Red and Lumo are concerned that the consultation paper does not propose to examine alternative reasons for the delays such as the convoluted role of multiple parties in the connection process (including the DNSP, solar installer, retailer, meter provider and potentially a registered electrician).

Importantly in 2019 the AEMC implemented new obligations seeking to address these customer concerns around metering delays with the National Electricity Amendment (Metering Installation Timeframes) Rule. As this rule change explicitly set mandatory timeframes for the installation of smart meters Red and Lumo question how this issue has not already been addressed? If the

¹ NSW Department of Planning, Industry and Environment, *Promoting innovation for NSW energy customers*, p7

Department is of the belief that the AEMC's rule change has not been successfully implemented or has failed in its objective then the most appropriate response would be to request a review of this rule change or to seek an alternative rule change rather than seeking further state derogations.

Red and Lumo also question how the Department's proposal to allow third parties to request a meter installation on behalf of a customer would improve this outcome or address the issues causing the delay. Red and Lumo are concerned that this proposal would only add another party to the convoluted process, likely causing further confusion and delays. This proposal also fails to consider the importance of the discussions between consumers and retailers prior to the meter installation (including potential changes to tariff or contracts).

Issue 4: Meter board upgrades

Red and Lumo strongly oppose any process that would encourage consumers to access their switchboard and take photos as part of their meter replacement. This proposal is inherently dangerous for consumers and delivers little to no benefit in relation to the meter exchange. When this idea has been tried in the past consumers have taken poor photos (requiring a site visit anyway) or placed themselves in danger going behind the fusing or the safe wiring. Considering how concerned the NSW Government was with the danger posed by remote services, Red and Lumo question why they would be comfortable with customers accessing their own meter board and the danger this poses when they are not qualified to do so?

Currently, the main concern by consumers remains a reluctance to pay for a meter board upgrade they do not believe they are responsible for (especially to address problems that existed before they became the occupant). It is unclear to Red and Lumo how the proposal for the introduction of a process to report on the meter board will overcome this.

To properly address this and support the smart meter roll out Red and Lumo would encourage the NSW Government to consider introducing a fund to help cover the cost of meter board upgrades for vulnerable consumers. A similar program was successfully implemented by the Victorian Government during their mandated smart meter roll out. This specifically provided financial support to vulnerable customers (those on concessions) to cover the cost of upgrades to the customer's electrical installation in order to enable a smart meter installation. This helped address not only one of the main customer complaints but also overcame one of the main public concerns with smart metering that it increased costs unfairly.

Examining the other options put forward, Red and Lumo would strongly support DNSPs providing ASPs with blanket approval to remount old meters on new meter boards in apartment buildings. This would appear to be a simple change to implement and would address a large number of impediments to smart meter installations in apartment buildings. While Red and Lumo also in principle support changes to require owners' corporations to consider meter board upgrades as part of capital works there appears to be an easier solution in updating the owners corporation rules to require that metering isolators be installed at all sites.

Issue 5: Sample meters

Red and Lumo consider that this issue needs to be examined further once the implementation of global settlements has bedded down. Sample meters are a key part of the settlement process, and suggest that a thorough and fulsome review with subject matter experts is undertaken at a later stage.

Issue 6: Consumer protections for remote vs manual re-energisation and de-energisation

Red and Lumo are extremely concerned the consultation paper does not consider the existing regulations for remote services recently implemented by the NSW Government. The obligations placed on retailers by the Safety Management Plan (SMP) have not only limited the offering of remote services and the ability for consumers to enjoy one of the main benefits of smart meters but have also increased costs for retailers and consumers. It appears unfathomable that the Department can adequately examine consumer protections for re-energisations without examining the existing obligations under the SMP. Red and Lumo also question how a new framework for remote services proposed in the Consultation Paper would operate when the existing regulations have put extensive restrictions on retailers providing remote services to consumers.

Our experience in the completion of requests between the Metering Providers (MP) and the DNSPs is vastly different. MPs are prompt in their responses and actively seek solutions to satisfy the customer—due to them operating in a competitive environment. The responsiveness of the DNSPs is lower and this in part is reflective of them not operating in a competitive environment. Aligning the obligations between distributors and MPs is therefore unnecessary as the MPs already face competitive pressures which drive service.

Part 2: The future of distributed energy resources

Issue 8: DER in New South Wales

Red and Lumo support the proposal by the Department to establish a national approach to state reforms in relation to DER. This will allow for the more efficient role out of DER as well as lead to reduced costs for consumers. We are also encouraged by the proposals to support market mechanisms and limit costs for households, businesses and taxpayers at the same time ensuring coordination with other initiatives. This is of particular importance as uncoordinated approaches lead to inefficient outcomes which increases costs for consumers.

Issue 10: Quality, standards and compliance

Red and Lumo support any effort to improve the quality, standards and compliance of DER. Consumers often invest large amounts of money into DER for their homes for a variety of reasons and there are increasing reports of consumer complaints and problems associated with DER. This is not only leading to poor outcomes for the specific consumers involved but it is also inevitably leading to a reduction of trust by consumers which will inevitably impact uptake.

We would encourage the Department to work constructively with other jurisdictions to ensure that any changes are introduced nationally consistent.

Distributor-led stand-alone power system (SAPS) regulatory framework

Red and Lumo are extremely concerned by the pretence of this consultation as it has not yet been made clear to us what justification there is for this review as the AEMC already consulted extensively on these issues before releasing its national framework for DNSP-led SAPS. The changes proposed in the consultation paper appear completely divergent from the AEMC final decision by giving DNSPs greater opportunities to supply SAPS, introducing more cost-reflective wholesale pricing for customers and allowing DNSPs to supply individual power systems with single customers through direct contracting.

Red and Lumo are concerned that the proposed changes will negatively impact the long term interests of consumers by:

1. Crowding out third party providers from supplying SAPS and reducing competition in a developing market.
2. Abolishing the use of the Administered Settlement Price in SAPS thereby making it harder for retailers to supply SAPS customers
3. Reducing critical consumer protections including hardship and family violence at the same time as removing the benefits of jurisdictional reliability standards to single customers.

More concerningly, based on the recent information session hosted by the Department the main driver for the review appears to be that some stakeholders were unhappy with the outcomes of the AEMC and have lobbied the NSW Government to open this review to sidestep these recommendations. This would appear to create a potential situation with any future AEMC rule changes which potentially do not satisfy these stakeholders would see a new review initiated.

Issue 14: Service delivery model

Although stakeholders have argued that the AEMC's SAPS delivery model needs to be more flexible and give consumers greater choice, the Consultation Paper appears to believe DNSPs should have the right to supply individual power systems with single customers by directly contracting with them.

Red and Lumo are unable to support this proposal as the merits of this model were already thoroughly examined and dismissed by the AEMC. Crucially the AEMC's service delivery model retains the customer's relationship with their existing retailer which supports a smooth transition of existing grid-connected customers to SAPS.

In contrast, providing single customers supplied by individual power systems with a choice on whether to be directly supplied by DNSPs raises serious concerns regarding consumer protections. For example, it is not clear to us how critical consumer protections (such as hardship) would be enacted for these customers.

Issue 15: Pricing

Red and Lumo are concerned that neither of the cost-reflective pricing models put forward in the consultation paper will provide benefits to consumers.

A regulated price cap applied to SAPS customers would fail a net benefit test and represents an expensive solution for consumers. While a time varying Administered Settlement Price is economically efficient, adopting a simple approach would encourage retailers to supply these SAPS at this time which is critical. In the long term, it could make sense to examine the merits of implementing a more cost reflective pricing arrangement however it is not appropriate at this stage.

Adopting the Administered Settlement Price itself removes the price volatility risk that retailers would normally be required to manage thus simplifying the process of supplying these customers. In addition, with retailers not being required to send cost reflective pricing signals that reflect the cost of their wholesale energy this should minimise the costs of supplying SAPS.

Issue 16: Service classification

Red and Lumo are unsure how the proposed service classifications will effectively deliver benefits for consumers or increase competition. It would appear that under the proposed alternatives, DNSPs would simply get more opportunities to directly supply SAPS. Over time, this would be contrary to the long term interests of consumers for a range of reasons.

Firstly the proposal to reclassify SAPS generation services as a distribution service through the Framework and Approach process is fundamentally flawed. At their core, SAPS services are contestable services and cannot be classified as a distribution service. Under the AER Ring Fencing Guideline, DNSPs are permitted to own SAPS up to a cap which represents a percentage of their annual revenue where they are able to get an exemption.

Secondly, a decision to permit DNSPs to include SAPS generation assets in their Regulated Asset Base (RAB) above the AER generation cap would have a detrimental impact on competition in the market for SAPS services. The market for SAPS are in their early stages of development and adopting this policy would have serious consequences on long term competition. Hence, any proposal that would increase the current threshold under the exemption framework would crowd out third party providers which could have a significant impact on the development of competition for SAPS services.

Part 3: Energy customers' digital journey

Issue 17: Access to information

Red and Lumo strongly support the development of a one-stop shop for smart meter and DER information published by the NSW Government and the consolidation of Government information for ease of access for information for consumers. It is pivotal however that the Government consult extensively with energy retailers on the development of this information. Retailers have a direct relationship with the customer during the connection process and have a

wide range of information provided to customers through multiple avenues. It is crucial that the one-stop shop from the Government is consistent to ensure it is valuable to consumers.

We would also encourage the NSW Government to align the one-stop shop with the planned changes to the concessions information and application process which is scheduled to go live in 2024. It is likely that consumers who are looking for information on smart meters and DER information will find it useful to access information about concessions and vice versa.

Issue 18: Electricity retailers' emissions performance

Red and Lumo support the intent of this regulation and see the value in providing the emissions data to the Department and would support this information being publicly available to consumers through multiple channels (including Energy Made Easy).

Red and Lumo support the Department working with retailers to submit information on their emissions intensity and other important criteria around the business operations. This information could then be used to rank retailers' performance, providing consumers with a transparent and independent source of information for their decision making.

However looking at the metrics proposed, it is crucial that the Department take a holistic approach in its examination and ranking. It must identify if the retailer is a renewable organisation seeking to improve and strongly contribute to furthering renewables in Australia and demonstrate an ongoing commitment to renewable energy rather than simply promoting green credentials in marketing material through carbon abatement or offsets. Importantly, not all carbon offsets are equal and there is a question of the value of compliance with the Renewable Energy Target (RET) for consumers in measuring a retailer's renewable energy credentials.

Issue 19: Definition of life support equipment for energy rebates

Red and Lumo are supportive of a review into the definition of life support equipment for energy rebates however this review should not only be an opportunity to simply add additional life support equipment but to thoroughly examine the existing life support equipment and rebate process on a nationally consistent basis. This review should encompass whether life support for gas equipment remains appropriate and/or whether any items should be added or removed. If the NSW Department recommends changes to life support equipment, this must be reflected on a national basis including adequately examining the costs on the industry and accommodate for these extra costs and benefits accordingly.

Issue 20: Digitalising engagement with DNSPs

Red and Lumo support efforts by the Department to digitalise engagement between consumers and the DNSPs. It is the experience of Red and Lumo that consumers increasingly prefer to receive digital communications and especially prefer to have the option to select their preferred communication method. Despite this there needs to be adequate protections in place for consumers to ensure that the electronic communications do not breach the existing regulations (such as the Spam Act) and that this consumer information is not used for communication from the DNSPs outside of its intended purpose (such as promotion for electrical services).

In regards to the best approach to implementation Red and Lumo suggest that the NSW Department examine the recent introduction of these changes in Victoria through the Customer Service Standards in the Distribution Code Review.

These changes enabled the sharing of electronic communications information by retailers with the DNSPs and also provided a process for consumers to opt into and out of electronic communications. It is crucial that not only is there an adequate process for the sharing of customer information with DNSPs but also a process for customers to select their preferred communication option as well as opt in and out of different communications as appropriate for their circumstances. It would also be beneficial if the NSW regulations mirrored the Victorian obligations to reduce the implementation costs of these changes.

Red and Lumo also suggest that the Department examine existing national regulations which do prove an impediment to the use of electronic communications including the National Energy Retail Law 38(1)(d) which requires retailers to get Explicit Informed Consent (EIC) to email customers. The Department should work to amend this obligation to allow for a further improvement in digitalisation for consumers.