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31 January 2020

Ms Gayle Leaver  
Acting Deputy Director General, Energy  
Department of Natural Resources, Mines and Energy  
PO Box 15456  
City East Qld 4002

Submitted via email: [REDACTED]

Dear Ms Leaver

**Re: Dispute resolution for residential embedded network customers: Regulatory Impact Statement**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to submit to the Department of Natural Resources, Mines and Energy in Queensland (Department) on the regulatory impact statement to expand the dispute resolution scheme to residential embedded network customers.

Red and Lumo have considered the options and consider that a slight variation on the options presented would provide an optimum solution to provide both cost reflectivity and be fair to smaller players in the initial phase. As a result, we consider that retailers and large exempt sellers with over 2,000 customers should be subject to full cost reflectivity for both participant and user pay fees. Remaining exempt sellers would pay cross subsidised fees based on a sliding scale reflective of their customer numbers. We believe that our proposal strikes the right balance between charging an appropriate fee for those players capable of cross subsidising while reducing the fees for the smaller exempt sellers that may have limited capacity to pay.

**Consideration of the options proposed in the regulatory impact statement**

Red and Lumo do not support any of the fee proposals for exempt sellers developed in the regulatory impact statement to enable residential embedded network customers in Queensland access to dispute resolution services. Specifically, we consider that Option 1, which is the fully cost reflective option could have a large financial impact on exempt sellers and embedded network customers when costs are passed through.

Option 2 which provides for 50% cost recovery, and therefore a 50% cross subsidy, is inefficient. While it would make fees more affordable to embedded network customers, the approach to

reducing the fee schedule is poor compared to Option 3, and even more so compared to our option.

The final option put forward under the regulatory impact statement, Option 3, provides for less than full cost recovery. This option includes a large cross subsidy which is also inefficient. However, the sliding scale of fees that is directly related to the exempt seller's customer numbers is a sensible structure that assumes larger exempt sellers have greater capacity to pay than smaller ones. Its major drawback is that it excludes large exempt sellers with more than 2,000 customers from paying the same cross subsidy as retailers. Hence, we do not support it.

### **Alternative proposal**

Red and Lumo encourage the Department to undertake further analysis to develop an appropriate fee proposal for exempt sellers that gives residential embedded network customers in Queensland access to dispute resolution services.

We consider that another option would provide for appropriate fees being levied on those that are capable of cross subsidising fees for smaller exempt sellers, whilst not unfairly impacting embedded network customers, that will ultimately bear these costs. As a result, we recommend that the alternative model that includes the following features:

1. Retailers continue to pay full cost reflective fees i.e participant fee plus user pay fees. As overall, compared to smaller exempt sellers, retailers are well placed to pay cost reflective fees. At the same time, fees that are fully cost reflective are both efficient and competitively neutral. Additionally, retailers are well placed to contribute to the cross subsidy that would help to make this proposal more affordable to smaller exempt sellers.
2. Large exempt sellers with more than 2000 embedded network customers will also pay full cost reflective fees i.e participant fee plus the user fees, consistent with those paid by retailers. We consider that they have the financial capacity to be subject to full cost reflectivity. By doing this, larger exempt sellers will pay for the real economic costs of providing their customers access to dispute resolution services. At the same time, they are well placed to contribute to the cross subsidy that would help to make this proposal more affordable to smaller exempt sellers.
3. Remaining exempt sellers will pay a cross subsidised user fee based on a sliding scale that reflects the number of customers in the embedded network. As such, exempt sellers with between 501-2000 customers would pay 80% of the fully cost reflective fees. At the small end, exempt sellers with up to 50 customers would only pay for 20% of the fully cost reflective fees. Under this approach, larger exempt sellers continue to contribute



and pay for their proportional cost of this scheme based on their ability to pay. As such, they would contribute to funding the scheme based on the sliding scale of fees which relate directly to the customer numbers of the exempt seller.

This approach combines both cost reflectivity, competitive neutrality and cross subsidies. Red and Lumo consider that the Department must strike a fair balance between the availability of dispute resolution services to all small customers, irrespective of where they reside, with an ability for the costs of the service to be paid for by those that provide services to them.

Should the Department wish to discuss our alternative approach further, please contact [REDACTED]

### **About Red and Lumo**

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

Yours sincerely

A handwritten signature in blue ink, appearing to be "S Grant", written over a white background.

**Stephen Grant**  
Manager - Retail Compliance  
**Red Energy Pty Ltd**  
**Lumo Energy QLD Pty Ltd**

