4 November 2021

Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted electronically at: tariffguideline@aer.gov.au

Dear Warwick,

Export tariff guidelines for distribution network export tariffs.

The Australian Energy Council (AEC) welcomes the consultation opportunity in the Australian Energy Regulator (AER) consultation paper 'Export tariff guidelines for distribution network export tariffs'.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Many of the consultation questions put forward by the AER track into areas that have already been exhausted through the AEMC's consultation/s, and it seems unlikely that any new information or evidence as to the fundamental worthiness of the AEMC decision is likely to emerge. The Guideline principles, in particular with regard to consumer comprehension, should be precedent in this consultation.

The AEC has provided responses to specific questions below.

Question 1. Are there additional steps distributors can take or consider when engaging with their customers on export tariffs? Please explain them.

The introduction of export tariffs requires a supportive political and local regulatory environment. The political environment is vulnerable to well-resourced interest groups that often have objectives that are at odds with both greater transparency and with other stakeholder interests. An overview of this to consumer representations, including historical examples, will help with context.

The AEC noted in our submission to the AEMC final determination on Access, Pricing and Incentive Arrangements that draft determination reflected the consultation, compromise and consensus representative of entire jurisdictions. Whilst Australian Energy Ministers endorsed the shift to cost-reflective pricing through tariff reform way back in November 2014, ensuing progress has been slow. Providing an overview of this timeline to consumer representations will help with managing their expectations.

The other step distributors can take in addressing expectations is to explain the practical range of plausible outcomes that adherence to the guideline can likely produce. That is, there are limits to change that will be embedded within the guideline that will impact some stakeholders. These limits

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to change will create winners and losers and as such might be seen equally as consumer protection or as an impediment to consumer interest, but either way to assist consumer comprehension the range of plausible outcomes should be explained up front.

Question 2. What are the drivers of costs of expanding network export capacity?

The fundamental cost driver identified in the Oakley Greenwood report Pricing for the Integration of Distributed Energy Resources[1] was the ability to connect Distributed Energy Resources to the grid and have unconstrained ability to export electricity in parts of the existing network was becoming more difficult.

Oakley Greenwood published their study to assess:

> *..pricing structures that could be used to signal how DER that is provided in the right place, at the right times and in the right quantities can reduce costs in the electricity supply chain and thereby benefit all consumers.*

Oakley Greenwood contended that using these structures could allow market-based approaches to shape the economically efficient integration of DER within grids. The AEC has also supported this approach.

CEPA's 2020 report[2] to the AEMC on Feasibility of Export Capacity Obligations and Incentives identified that the current arrangements in the NEM for other areas such as demand management options, the CESS and EBSS financial incentive arrangements may be insufficient to encourage DNSPs to investigate proposals to optimise export capacity.[3] It may be concluded therefore that the current regulatory arrangements are in of themselves cost drivers.

The same thinking that got us to this point is unlikely to be its solution. The current absence of pricing structures to correctly signal DER provision, combined with the flaws in the incentives regimes such as the CESS and EBSS, would appear to have delivered us to this point of having to expand network export capacity. As Oakley Greenwood found, pricing structures that signal that DER is provided in the right place, at the right times and in the right quantities is required and the AEC urges that the Guideline must effectively address this condition.

Question 3. Is the efficient cost of providing an export service different to the efficient cost of a consumption service? If yes, how are these costs different?

In 2019 the AER published a consultation paper on this topic, in which it indicated that it is open to considering expenditure differences to enable greater export capability to accommodate DER if DNSPs can demonstrate that this is prudent and efficient and that it benefits customers.[4]

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[1] Pricing for the Integration of Distributed Energy Resources, Hoch, June 2020 http://oakleygreenwood.com.au/pricing-for-the-integration-of-distributed-energy-resources

[2] Feasibility of Export Capacity Obligations and Incentives, CEPA report to the AEMC, July 2020 https://www.aemc.gov.au/sites/default/files/documents/cepa_report_-_feasibility_of_export_capacity_obligations_and_incentives_1.pdf

[3] Feasibility of Export Capacity Obligations and Incentives, CEPA report to the AEMC, July 2020, p.6 https://www.aemc.gov.au/sites/default/files/documents/cepa_report_-_feasibility_of_export_capacity_obligations_and_incentives_1.pdf

[4] Assessing DER integration expenditure, AER consultation paper, p. 12. https://www.aer.gov.au/system/files/Explanatory%20statement%20-%20Draft%20DER%20integration%20expenditure%20guidance%20note%20%286%20July%29.pdf

The resulting draft decision on the DER integration expenditure guidance note, according to the AER,

> *will improve our expenditure assessment toolkit by providing clarity and certainty to DNSPs and their customers about what we expect to see in DER integration investment proposals, and how we will assess these proposals. It does not replace any of our existing guidance, but ensures that we have the right tools to assess this emerging area of network expenditure.*

This determination is not yet finalised, and while the guidance note starts to align network businesses' approach to distributed energy resources (DER) integration expenditure, we consider that the AER's network expenditure assessment framework should also be revised directly though the Expenditure Forecast Assessment Guideline.

The AEC's view is that this question of efficient costs would be better considered in a revision of the AER's Expenditure Forecast Assessment Guideline to avoid the emergence of further parallel processes examining essentially the same things.

Question 4. What can distributors do in practice to demonstrate they have considered customer impact analysis when setting tariffs? For instance, how should distributors explain or quantify a negative customer impact analysis? Please give examples.

As the AER notes in its consultation paper:

> *Introduction of export charges should result in lower consumption charges for customers without DER, which the customer impact analysis quantifies.*

Given the total revenue neutral nature of tariff charges, this will logically result in higher tariff charges than applies now (zero) for exports. Quantification should broadly explain the reasoning behind the price increases (or negative customer impact), such as the avoided costs of network hosting capacity expansion. In a way, this explains how any price increase is valuable to all customers.

Distributors should also be required to avoid euphemism. A positive compliance obligation on distributors to explain, for example, the change for what it actually is, the impact for what it is, and where possible, the mitigations a customer might take is required.[5] Past examples of this include such written advice that "Your meter configuration has changed" to either avoid saying that the peak and off-peak periods you previously had have been unilaterally changed or because the retailer didn't understand the changes either.[6]

Question 5. Are there other matters not listed in this section that stakeholders think should be included in the Guidelines? Please list them in order of importance, and explain why they should be included in the Guidelines.

The AEC believes that the Guideline is currently over scoped, as per our introductory remarks and the response to Question 3.

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[5] Article: If you're going to raise prices tell customers why. Utpal M. Dholakia, Harvard Business Review, June 2021 https://hbr.org/2021/06/if-youre-going-to-raise-prices-tell-customers-why

[6] For the record, this was a letter from a retailer to customers that attempted to explain the network tariff changes. However, it highlights the importance of a positive obligation on technical businesses to communicate their topics clearly.

Question 6. How should distributors define basic export level thresholds? What matters should be taken into account when defining basic export level thresholds?

The AEMC's rule change requires distributors to provide a 'basic export level' for free[7] export up to certain level for all export tariffs for all customers. The AEC supports the consultation papers proposed approach to provide guidance and/or options for distributors to choose from in determining basic export levels that best suit their customers and network circumstances. The matters to be taken into account described in the consultation paper are also reasonable.

Any questions about this submission should be addressed to David Markham by email to david.markham@energycouncil.com.au or by telephone on (03) 9205 3107.

Yours sincerely,

David Markham
Networks and Distributed Energy Resources Policy Manager
Australian Energy Council

[7] Realistically nothing is acquired for free, and necessarily must have cost something even if the network can host it without requiring further investment.