

Export tariff guidelines for distribution network export tariffs

Response to AER's Consultation Paper

4 November 2021

1 Contents

1	Contents	2
2	Key messages	3
3	Overview	3
4	Background	4
5	Guideline design	5
6	Next steps	10

2 Key messages

- » ENA supports the development of **principle-based export tariff guidelines** that continue to allow tariff structures and values to be engaged on and considered in detail at the start of each regulatory period through the tariff structure statement process.
- » Customer impact assessments will be integral to the introduction of export charges. The export tariff guidelines, however, **should not prescribe the approach to demonstrating customer impact analysis for export charges**, which will be dependent on individual network and customer characteristics.
- » ENA supports the AER's position that the export tariff guidelines should not set out detailed price structures for distributors to follow, as any **two-way pricing will have to be justified to reflect specific network circumstances** and may differ across distributors.
- » **Precluding DNSPs from recovering residual costs from specific services, such as export only services, risks equity and subsidy concerns and may lead to inefficient over-investment** in DER over the longer term.
- » The **tariff transition strategy guidance should be adaptive to multiple circumstances**, including those where export charges are not being proposed in the upcoming regulatory control period.

3 Overview

Energy Networks Australia appreciates the opportunity to provide a response to the Australian Energy Regulator's (AER) Consultation Paper on the development of export tariff guidelines for distribution network export tariffs.¹

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the enablement of export charges and rewards as an option for further consideration, consultation, and design. In implementing the Australian Energy Market Commission's (AEMC) final rule determination², ENA supports the development of a principle-based guideline specific to export tariff that continues to allow tariff structures and values to be engaged on and considered in detail at the start of each regulatory period through the tariff structure statement (TSS) process.

¹ AER, *Consultation Paper: Export tariff guidelines for distribution network export tariffs*, September 2021.

² AEMC, *Access, pricing and incentive arrangements for distributed energy resources*, Rule determination, 12 August 2021.

4 Background

Distributed energy resources (**DER**), such as rooftop solar and battery storage, are becoming an increasingly significant part of Australia's energy mix and have fundamentally changed the role of the distribution network. Traditionally, distribution networks supplied energy downstream to end-use customers ('consumption services'). However, distribution networks are increasingly being used to export customers' surplus energy upstream to other customers or the market ('export services').

ENA strongly supports the AEMC's final rule determination that explicitly recognises the changing role of the electricity grid; from one of traditionally providing consumption services to one of facilitating the two-way flow of energy.

This reform is key to ensuring that distribution network service providers (**DNSPs**) can continue to enable the customer-driven transition to distributed energy, which is supporting Australia's move to a low carbon future and driving down wholesale prices for all customers.

The enablement of export charges and rewards *as an option* is an integral component of the final reform, and central to ensuring that we make best use of infrastructure at the lowest cost for all consumers. Recognition within the regulatory framework of the provision of export services to customers is interlinked with the efficient recovery of these costs and cannot be considered in isolation.

Importantly, however, removal of National Electricity Rules (**NER or the Rules**) clause 6.1.4 (Prohibition of DUOS charges for the export of energy) does not mandate the introduction of export pricing but rather instead enables it as an option for further consideration, consultation, and design with consumers and stakeholders, including jurisdictional governments. The implementation of export pricing will be subject to customer and stakeholder consultation and AER review and approval.

In our submissions to the AEMC's rule change process³, ENA supported the development of an AER guideline specific to export pricing, and noted that a principles-based, rather than prescriptive, guideline will ensure that DNSPs are able to continue to innovate and develop tariffs to the circumstances and preferences of their own customer base.

ENA agrees with the AER, as outlined in its Consultation Paper, that the development of final Export Tariff Guidelines (**the Guidelines**) that provide guidance on the design and implementation of any two-way pricing proposals, rather than being prescriptive, matches the intention of the AEMC's final rule and is appropriate for an energy sector in transition.

In our submission below we provide feedback on the AER's proposed approach to developing the Guidelines.

³ For example: ENA, *Enabling a distributed energy future*, 27 May 2021.

5 Guideline design

5.1 Engagement

ENA supports the AER's position that the Guidelines should not prescribe a particular form or model of stakeholder engagement, as stakeholder engagement should be tailored to suit the needs of stakeholders. We note the interaction with the AER's Draft Better Resets Handbook (**the Handbook**)⁴ and are engaged in the consultation to design the final Handbook, including providing feedback on the proposed tariff expectations.⁵ We expect that the final Guidelines will reflect any changes made to the final Handbook.

The Guidelines will inform export tariffs that DNSPs may introduce in their TSS proposals. Through the AER's regulatory determination process, DNSPs must develop and submit a TSS to the AER for approval. As noted in the AER's Consultation Paper, a TSS proposal describes the tariff classes and structures, policies and procedures for assigning customers to tariffs and charging parameters.

The TSS is set for the five-year regulatory control period and provides a considerable degree of certainty to stakeholders about the future direction of the DNSP's network tariffs.

In the development of the TSS, a DNSP is required to engage with customers and stakeholders and provide an overview to the AER of how they have sought to address any relevant concerns. Customers and stakeholders are also afforded the opportunity to provide formal comment to the AER on a DNSP's proposed TSS through the regulatory determination process.

It is essential that the Guidelines continue to allow tariff structures and values to be engaged on and considered in detail at the start of each regulatory period through the TSS processes.

ENA acknowledges that two-way pricing is a significant change to how electricity is currently priced, and DNSPs should engage on two-way pricing in detail. ENA supports the AER's position that DNSPs should be able to demonstrate through a TSS proposal that the DNSP has engaged on areas including, the need for two-way pricing (i.e., both consumption and export pricing), the pace of transition to two-way pricing, the levels of cost-reflectivity of two-way prices, and cost-allocation between consumption and export charges.

ENA supports the AEMC's final rule determination to increase 'in period' tariff trials to promote both technological and market innovation and timely implementation of export pricing. Export tariff trials can be a useful tool to inform future TSS proposals but are not required to be a necessary pre-condition for introduction of an export charge. Tariff trials can be resource intensive and costly, and ENA supports industry sharing of tariff trial learnings, noting that a DNSP may be able to incorporate the feedback from tariff trials run by other DNSPs into the development of its own TSS as an efficient way to integrate trial learnings.

⁴ AER, *Draft Better Resets Handbook – Towards consumer-centric network proposals*, September 2021.

⁵ ENA, *Collaborating for better customer outcomes*, 21 October 2021.

Key conclusions – Engagement

- » Two-way pricing is a significant change to how electricity is currently priced, and DNSPs should engage on two-way pricing in detail.
- » The Guidelines will inform export tariffs that DNSPs may introduce in their TSS proposals. ENA supports the development of principle-based Guidelines that continue to allow tariff structures and values to be engaged on and considered in detail at the start of each regulatory period through the TSS process.
- » Tariff trials can be resource intensive and costly, and ENA supports industry sharing of tariff trial learnings, noting that a DNSP may be able to incorporate the feedback from tariff trials run by other DNSPs into the development of its own TSS as an efficient way to integrate trial learnings.

5.2 Network pricing objective and pricing principles

The TSS process requires consultation with customers and stakeholders and would require that export pricing – if deemed efficient under the network pricing objective – is introduced under a timeframe and approach supported by customers and stakeholders, and with AER oversight.

The network pricing principles in the NER require DNSPs to manage the customer impacts of changes to network tariffs. DNSPs typically do this in relation to consumption tariff design by considering transitions of various kinds, and ENA considers that these measures will also be required for any export tariffs.

There will be trade-offs between faster or slower transitions, and these issues should be subject to close consultation with key stakeholders, including jurisdictional governments, through the TSS process.

Customer impact assessments are central to the development, proposal, and assessment of tariff structures through the existing TSS process for consumption charges and will be integral to the introduction of export charges. We do not, however, consider it appropriate for the Guidelines to prescribe the *approach* to demonstrating customer impact analysis for export charges, which will be dependent on individual network and customer characteristics. We note that this level of prescription does not occur now for consumption charges, nor is it needed.

ENA supports Farrierswier’s findings⁶ that the existing TSS process and pricing principles provide for a range of different transitional tools and other mechanisms that DNSPs and the AER can use (in consultation with customers) to mitigate the impact of introducing export pricing on customers.

ENA supports the AER’s position that the Guidelines should not set out detailed price structures for DNSPs to follow, as any two-way pricing will have to be justified to reflect specific network circumstances and may differ across DNSPs. We agree with the AER that a principles-based approach will provide DNSPs flexibility for their tariff options.

Each DNSP’s proposal will be different and subject to their individual network circumstances. For example, it is possible that some may not initially require sufficient DER expenditure to justify the

⁶ Farrierswier, *Insights report: Effectiveness of the TSS process and options for implementing export charges*, 11 March 2021.

introduction of export pricing in their next regulatory control period. Customer and stakeholder feedback may also support a slower or faster transition.

Relevant drivers of export service costs for capacity growth may include voltage constraints, thermal constraint and low voltage visibility needs. The AEMC's final rule clarified, with respect to the network pricing objective, that 'charges in respect of the provision of direct control services may reflect efficient negative costs'⁷, which creates regulatory flexibility for DNSPs to reward customers for actions that better utilise infrastructure or improve network operations.

ENA agrees that there is little scope for export charges to reflect the cost of providing intrinsic hosting capacity for export. 'Intrinsic hosting capacity' is the total power from DER that can be accommodated on a network without additional investment, recognising that the provision of export services is contingent on the pre-existence of a shared network.

The pricing principles in the Rules require that each tariff be based on the long run marginal cost (LRMC) of providing the service and that the revenue expected to be recovered from the tariff reflects the DNSP's total efficient cost of serving the customers assigned to the tariff. That is, the pricing principles recognise the potential for residual costs of a service to exist over and above the LRMC of the service. In practice, these residual costs may pertain to sunk costs of export services (not including the costs of intrinsic network hosting capacity) and/or fixed costs of export services (such as for administrative systems and processes which may involve ICT).

To preclude the DNSP from recovering residual costs from specific services, such as export only services, risks equity and subsidy concerns and may lead to inefficient over-investment in DER over the longer term.

Two-way pricing options will be required to comply with the network pricing objective and the pricing principles in the NER, and DNSPs will demonstrate this compliance through their TSS proposals. There is significant prescription in the Rules currently and the introduction of additional prescription via the Guidelines needs to be balanced with the objective of ensuring DNSPs can develop TSS proposals that reflect their specific network circumstances and customer and stakeholder feedback.

Key conclusions – Network pricing objective and pricing principles

- » Customer impact assessments will be integral to the introduction of export charges. We do not, however, consider it appropriate for the Guidelines to prescribe the *approach* to demonstrating customer impact analysis for export charges, which will be dependent on individual network and customer characteristics.
- » ENA supports the AER's position that the Guidelines should not set out detailed price structures for DNSPs to follow, as any two-way pricing will have to be justified to reflect specific network circumstances and may differ across DNSPs.
- » Precluding DNSPs from recovering residual costs from specific services, such as export only services, risks equity and subsidy concerns and may lead to inefficient over-investment in DER over the longer-term.

⁷ NER 6.18.5(a) – Network pricing objective.

5.3 Tariff transition strategy

During the rule change process, ENA supported the AEMC's proposed requirement for DNSPs to develop and consult on an export tariff transition strategy, which will outline when and how each DNSP intends to phase-in any proposed export pricing over time, noting that this would be additional to the requirements under the current TSS process.

However, as highlighted above, each DNSP's proposal will be different and subject to their individual network circumstances. For example, it is possible that some may not initially require sufficient DER expenditure to justify the introduction of export pricing in their next regulatory control period.

We therefore do not support the AER's position that the Guideline mandate that DNSPs be *required* to undertake customer impact analysis in the context of developing their export tariff transition strategies. We do not consider that this requirement is suitable for DNSPs that are not proposing export charges for the upcoming TSS period.

The Guidelines should not be prescriptive in their approach to the proposed content of the tariff transition strategy, and should instead be adaptive to multiple circumstances, including those where export charges are not being proposed in the upcoming regulatory control period (noting that the Rules require the development of a tariff transition strategy irrespective of whether export tariffs are being proposed in the upcoming five-year regulatory control period).

Key conclusions – Tariff transition strategy

- » ENA supports the requirement for DNSPs to develop and consult on an export tariff transition strategy.
- » Each DNSP's proposal will be different and subject to their individual network circumstances. For example, it is possible that some may not initially require sufficient DER expenditure to justify the introduction of export pricing in their next regulatory control period. Customer and stakeholder feedback may also support a slower or fast transition.
- » The Guidelines should not be prescriptive in their approach to the proposed content of the tariff transition strategy, and should instead be adaptive to multiple circumstances, including those where export charges are not being proposed in the upcoming five-year regulatory control period.

5.4 Regulatory proposal overview paper

The AEMC's final rule requires DNSPs to submit a plain language overview paper with their regulatory proposals that includes a summary of the TSS and two-way pricing transition strategy and the interrelationships between different aspects of the regulatory proposal and the TSS.

We do not think it necessary for the Guidelines to provide guidance and information on how DNSPs might present this information in the regulatory proposal overview paper, noting that DNSPs will still need to comply with the Rules requirement when submitting their regulatory proposals.

We have concerns with the potential for possible duplication of information within a DNSP's tariff transition strategy, TSS proposal, regulatory proposal overview paper, regulatory proposal attachments,

and the new proposed DER Integration Strategy that is currently being consulted on⁸. We would suggest a streamlining of information requirements where possible, consistent with the goals of the AER's draft Better Resets Handbook, which is seeking to drive efficiencies in the regulatory reset processes and documentation.

Key conclusions – Regulatory proposal overview paper

- » We recommend a streamlining of information requirements where possible, consistent with the goals of the Better Resets Handbook, which is seeking to drive efficiencies in the regulatory reset processes and documentation.
- » It is not necessary for the Guidelines to provide guidance and information on how DNSPs might present Rules information requirements in the regulatory proposal overview paper, noting that DNSPs will still need to comply with the Rules requirement when submitting their regulatory proposals.

5.5 Basic export level

DNSPs must provide a 'basic export level' (i.e., free export up to certain level) for all export tariffs for all customers, and to set out those basic export levels, or the manner in which those basic export levels will be determined, in their TSS.

We support the AER's position not to set rigid parameters for basic export levels in the Guidelines, but rather provide high-level guidance on what the AER expects DNSPs to consider and provide to the AER when proposing basic export levels in their TSS.

We agree with the AER's expectation that basic export levels will differ across DNSPs, as DNSPs have different constraints, capacity, investment requirements and customer bases. We also support the AER's position that the basic export level may differ across different tariffs proposed by a DNSP and may also differ across different geographic areas serviced by a single DNSP.

The Guidelines should clarify that the basic export level need not be the same over the 10-year period and should instead have the flexibility to be able to be updated for each regulatory control period, and/or within each regulatory control period, if approved within a DNSP's TSS.

Key conclusions – Basic export level

- » We support the AER's position not to set rigid parameters for basic export levels in the Guidelines, but rather provide high-level guidance on what the AER expects DNSPs to consider and provide to the AER when proposing basic export levels in the TSS.

⁸ AER, *Draft DER integration expenditure guidance note*, July 2021.

6 Next steps

Given the timing of the upcoming regulatory resets, ENA supports continued consultation and collaboration as the reform progresses. The Distributed Energy Integration Program, and the subsequent AEMC rule change process, is a positive example of transparency and collaboration across a broad range of stakeholders, and we support close collaboration continuing as the final rule determination is implemented.