28 April 2023

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator

Sent via email

Dear Dr Funston,

Draft Export Service Incentive Scheme

Energy Networks Australia (**ENA**) appreciates the opportunity to respond to the Australian Energy Regulator's (**AER**) draft Export Service Incentive Scheme (**ESIS**).[1]

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 strongly supports the introduction of a new small-scale incentive scheme for export services, the ESIS, which will allow distribution network service providers (**DNSPs**) to engage with their customers and design an incentive mechanism that is aligned with the specific priorities of their customers.

To ensure effective implementation of the scheme, however, we have included recommendations below for the AER's consideration as the scheme is finalised.

Default maximum revenue at risk should be increased

The rewards or penalties under the small-scale incentive schemes that apply to a DNSP must not exceed 0.5% of the DNSP's annual revenue requirement, or 1% where the DNSP consents.[2]

With the introduction of the ESIS, there will be two small-scale incentive schemes that *could* apply to a DNSP – the ESIS and the Customer Service Incentive Scheme (**CSIS**) – and the AER's draft position is to set a default maximum revenue at risk of 0.5% for the ESIS. Not all DNSPs, however, will have a CSIS applying to them, and to ensure full flexibility and utilisation of the small-scale incentive scheme provision in the National Electricity Rules (**NER**), ENA recommends an increase to the maximum revenue at risk under the ESIS from 0.5% to 1%.

[1] AER, Export service incentive scheme: Draft, March 2023, and
AER, Draft export service incentive scheme: Explanatory statement, March 2023.

[2] NER cl. 6.6.4(d)(1).

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A maximum revenue at risk of 1% for the ESIS will also allow the DNSP to reflect their customers' preferences and, if both an ESIS and CSIS apply, balance the value that their customers place on the export service and customer service equally or place more value on the provision of the export service.

ENA also welcomes continued discussions with the AER to confirm the application of the revenue at risk with multiple small-scale incentive schemes operating concurrently.

Proposed amendments to the scheme principles

Like the CSIS, the proposed ESIS is principles-based and allows DNSPs to propose different incentive scheme designs, which must meet the scheme's principles.

Importantly, a principles-based approach will allow for an incentive scheme design that takes into account the specific preferences and priorities of a DNSP's customers and the different circumstances of DNSPs, including data quality, network visibility and network constraints.

ENA supports the AER's proposal to divide the scheme's principles into four 'elements' that reflect the fundamental components of an incentive scheme, covering:

- performance parameters – what customers want to be incentivised under the scheme,
- measurement methodology – how performance is measured,
- assessment approach – how performance is rated, and
- financial component – how rewards and penalties are calculated and applied.

ENA, however, recommends that the draft scheme's requirement that the measurement of a DNSP's performance be based upon an independently developed methodology (principle (e)) be removed. The proposed requirement for independently developed measurement methodologies precludes distributors from taking advantage of the substantial subject matter expertise within their businesses and mandates the involvement of a third party, where the additional costs would ultimately be borne by customers but not necessarily result in better measurement design.

Rigorous customer consultation on scheme design and the AER's subsequent approval process should provide sufficient safeguards and ensure the integrity of performance measurement under an ESIS, which is the over-arching objective of principle (e).

ENA supports the AER's proposal *not* to prescribe that the historical performance of a DNSP be set as the baseline performance under the assessment approach principles. While it may be suitable in certain circumstances, we agree that customers may desire a different base level of performance or historical performance data may not be available.

Review timeframes

As foreshadowed by the AER, the learnings from any bespoke incentives developed under the ESIS could be used by the AER to inform the design of any national standardised incentive scheme over the longer term, and ENA supports the AER initiating a future review of incentive arrangements for export services.

It is uncertain, however, whether the proposed review initiation timeframe of 2027 will allow sufficient time for the AER to consider the effects of export tariffs and flexible export limits on export service quality and monitor DNSP performance against any bespoke incentive measures.

Therefore, while ENA supports a review, this should be contingent on there being sufficient data available to usefully inform that review.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation, on lmoon@energynetworks.com.au.

Yours sincerely,

G Crawford

Garth Crawford
Acting Chief Executive Officer