30 January 2023

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

Sent via email

Incentivising and measuring export service performance – AER draft report

Dear Dr Funston,

Energy Networks Australia (**ENA**) appreciates the opportunity to respond to the Australian Energy Regulator's (**AER**) incentivising and measuring export service performance draft report.[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 supports the AER's draft position to allow DNSPs to propose bespoke export service incentive schemes developed in collaboration with customers and also supports a future review of incentive arrangements for export services to explore whether a standardised national scheme should be rolled out.

To ensure the most robust and effective outcomes, however, we recommend that this review be initiated only when there is sufficient data available to usefully inform the proposed review. In addition, ENA also recommends an increase to the Demand Management Innovation Allowance (**DMIA**) to support innovation in both imports *and* exports.

Small-scale incentive scheme

ENA supports the AER's proposed recommendation to *not* extend the Service Target Performance Incentive Scheme (**STPIS**) to export services in the immediate term and agrees that a 'one-size fits all' standardised financial incentive mechanism is not appropriate at this stage given the lack of robust data available at a national level.

Instead, ENA supports the AER's proposal to introduce a new small-scale incentive scheme (**SSIS**) to permit distribution network service providers (**DNSPs**) to propose bespoke export service incentive schemes in their regulatory proposals. This approach will allow DNSPs to design, in collaboration with customers, an incentive mechanism that is aligned with the specific priorities of their customers.

[1] AER, Incentivising and measuring export service performance: Draft report, November 2022.

Importantly, it will allow for an incentive scheme design that takes into account the different circumstances of distributors, including levels of data quality, network visibility, network constraints, and customer preferences. Any SSIS for export services should apply in addition to the current Customer Service Incentive Scheme (if applicable) and STPIS for consumption services to avoid weakening incentives on DNSPs to maintain/improve service performance for consumption services.

The learnings from any bespoke incentives developed under the SSIS could be then 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.

For example, under the Australian Energy Market Commission's (**AEMC**) access and pricing rule change[2], export pricing options may only largely be introduced from 1 July 2025[3], and therefore by 2027 there would only be one full financial year of export pricing implementation. Similarly, a timeframe of 2027 may not allow for sufficient time to observe the impacts of bespoke incentive measures given the regulatory determination timetable.

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

In addition to an allowance for an optional SSIS implementation, ENA supports the use of reputational incentives through performance reporting to help increase transparency for consumers. However, if the reputational incentives seek to facilitate comparability between the performance of DNSPs, the establishment of clear definitions and common estimation tools is required to improve data accuracy and comparability, along with the provision of supporting qualitative information to provide contextual information on networks' individual circumstances.

Allowance and margin mechanisms

ENA supports the use of the Demand Management Incentive Scheme (**DMIS**) and DMIA for specific projects that are associated with improving export services. To accommodate this use, however, the maximum funding allowance of the current DMIA should be revisited.

The current allowance (0.075% of annual revenue) was developed for consumption services and did not capture the need to support innovation in both imports and exports (i.e., two-way flows on the network). It is being fully utilised already by a number of DNSPs for consumption services alone, and the need for innovation with respect to consumption services is not decreasing in the energy transition. Therefore, the DMIA threshold should be increased to ensure that the regulatory framework also supports innovative approaches to improving export services.

It is important to highlight that there are strong protections in the current regulatory framework to safeguard against any potential duplication between incentive schemes. For example, DNSPs need to

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

[3] Under the AEMC's final rule determination, there is no mandatory assignment to export pricing until 1 July 2025 for existing customers.

apply to the AER for DMIA funding and it must be approved by the regulator to be accepted, and a DNSP's Chief Executive Officer must sign a statutory declaration that confirms that there is no double counting when applying for DMIA funding.

Benchmarking

A holistic review of benchmarking models is needed to accurately capture the valued services delivered by networks across an increasingly two-way grid. ENA supports the AER undertaking this review as soon as sufficiently robust data is available given the lead times with any potential changes in benchmarking and the impact that this may continue to have on the relative performance of networks who may be at different stages of the distributed energy transition.

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
General Manager Economic Regulation