

8 March 2022

Warwick Anderson
General Manager Pricing
Australian Energy Regulator

Sent via email

AER Draft Export Pricing Guidelines

Dear Mr. Anderson

Energy Networks Australia (**ENA**) appreciates the opportunity to make a submission to the Australian Energy Regulator's (**AER**) consultation on the development of the AER's Export Tariff Guidelines (**the Guidelines**).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.

The electricity grid is changing – from one of traditionally providing consumption services to one of facilitating the two-way flow of energy. ENA supports the AER's draft Guidelines strong focus on the critical role of customer engagement in developing two-way pricing proposals, and strongly supports the development of principle-based Guidelines that continue to allow tariff structures and values to be engaged on and considered in detail with customers and stakeholders.

Principles-based, rather than prescriptive, Guidelines will ensure that distribution network service providers (**DNSPs**) are able to continue to innovate and develop tariffs tailored to the circumstances and preferences of their own customer base through the AER's tariff structure statement (**TSS**) process.

Customer and stakeholder engagement

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.

The enablement of export charges and rewards *as an option* is 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.

¹ AER, *Draft Export Tariff Guidelines*, January 2022, and AER, *Draft Export Tariff Guidelines – Explanatory Statement*, January 2022.

ENA acknowledges that two-way pricing is a significant change to how electricity is currently priced, and DNSPs should therefore engage on two-way pricing in detail. ENA supports the AER's draft position that the Guidelines should not prescribe a particular model or form of customer engagement but instead provide direction that distributors should tailor their proposed two-way pricing to their customers' needs and priorities.

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 through this process.

Network pricing objective and pricing principles

The network pricing principles in the National Electricity Rules (**NER**) require DNSPs to manage the customer impacts of changes to network tariffs.

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. ENA supports the AER's position that the Guidelines, while requiring DNSPs to demonstrate their customer impact analysis, should not prescribe the approach to demonstrating customer impact analysis for export charges.

As acknowledged by the AER, DNSPs are best placed to determine the type of analysis most relevant to their network and customers. There will also be trade-offs between faster or slower transitions, and these issues should be subject to consultation with customers and stakeholders through the TSS process.

ENA strongly supports the AER's position that:

- » costs incurred in providing consumption services should not be recovered through export charges. Export charges of any kind, whether variable or fixed, may recover only costs associated with providing the export service, and
- » export charges may reasonably recover both long run marginal and residual costs associated with providing export services. Costs may be incurred in providing both the consumption and export services, and an allocation of such shared costs is required to recover them efficiently and equitably through charges levied on consumption and export services.

ENA also strongly supports the position that export charges should *not* reflect the cost of providing intrinsic hosting capacity for export i.e., the costs associated with providing a network's intrinsic hosting capacity should continue to be recovered through consumption charges. We do, however, recommend that the AER consider further the cost recovery treatment of historical DER enablement costs (i.e., historical costs that have been incurred to *increase* a network's DER hosting capacity), which should instead be engaged on through the TSS process.

Principles-based Guidelines should not preclude DNSPs from engaging with customers through the TSS process on the cost recovery treatment of historical DER enablement costs. Note that allowing for this does not mandate it to occur in practice, and a DNSP will still be required to undertake customer impact analysis and engage closely with customers and stakeholders of the results of this analysis. The

implementation of any proposed export charges will be subject to customer and stakeholder consultation and AER review and approval.

Export tariff transition strategy

During the rule change process, ENA supported the Australian Energy Market Commission's (AEMC) 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.

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.

ENA therefore supports the AER's recognition that the information requirements for an export tariff transition strategy should be tailored depending on whether a DNSP is proposing to introduce export tariffs in the upcoming regulatory control period (noting that the NER requires the development of an export tariff transition strategy irrespective of whether export tariffs are being proposed).

The draft Guidelines state that the export tariff transition strategy should explain how export tariff trials and customer bill impact modelling have informed an equitable transition strategy. Tariff trials, while a useful tool to inform future TSS proposals, are not a necessary pre-condition for introduction of an export tariff. Therefore, ENA recommends that this is reflected in the expectations of an export tariff transition strategy in the final Guidelines, along with a further consideration of use of equitable and its consistency with the current NER requirements.

Basic export levels

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.

ENA strongly supports the AER's position that the:

- » basic export level may vary during the 10-year transition period,
- » basic export level may be better expressed as a range where the selection of a value within the range depends on one or more variables, and
- » TSS may set out the method for determining basic export levels applicable to specific export tariffs for each year, rather than setting discreet basic export levels.

ENA acknowledges and supports the AER's position that significant weight will be placed on network tariff and service proposals being expressed in ways that both retailers and customers can readily understand and respond to.

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,



Garth Crawford
General Manager Economic Regulation