

27 May 2021

Mr Jashan Singh  
Project leader – Access, pricing and incentive arrangements for DER  
Australian Energy Market Commission (AEMC)  
GPO Box 2603  
Sydney NSW 2001

Via electronic lodgement

Dear Jashan

**RE: Draft rule determination: Access, pricing and incentive arrangements for DER (Project ERC0311)**

We welcome the opportunity to make this submission on the AEMC's draft rule determination which proposes National Electricity Rules (NER) amendments to formalise the role of networks, including the provision of export services. This will facilitate the more efficient integration of distributed energy resources (DER), such as small-scale solar and batteries, into the electricity grid.

At a broad level, we agree that the draft rule determination will allow more consumers to continue to connect their DER to the grid while also protecting those who cannot, or choose not to, invest in DER from higher network costs. It will also help the power system run securely.

We also agree that the draft rule determination will:

1. Clarify the regulatory framework to a degree and make clear that distribution services are two-way and include export services.
2. Allow incentives to apply to export services which will further encourage efficient investment in operation and use export services. However, the shape and scope for any potential incentive is to be determined by the Australian Energy Regulator (AER) and we look forward to constructive engagement on this issue in due time.
3. Provide the option for us to undertake additional tariff trials and potentially propose (following appropriate engagement with our customers and other key stakeholders), two-way pricing for export services. We note that we have no intention of proposing two-way pricing for export services before the next regulatory period.
4. Enable us to propose flexible pricing solutions that suit our capability, customer preferences and jurisdictions.
5. Strengthen customer safeguards, which will ensure consumers and jurisdictional governments have a strong say in how DER should be integrated into the energy system and priced.

We particularly welcome the recognition that there are reasons why customers in different jurisdictions may have different expectations and preferences when it comes to DER access and pricing. Customer preferences, State Government policies and differences in climate (impacting payback periods and therefore take up-rates) will continue to play an important role in determining outcomes going forward.

However, there are several areas of the AEMC's draft rule determination that could benefit from more detailed guidance and explanation being provided by the AEMC. While we support the intent of the AEMC to leave much of the detail of implementing the rule change to the AER in developing guidelines and assessing networks' Tariff Structure Statements (TSSs), some clearer policy guidance on service levels, export tariffs and customer protections in the Final Determination will better capture the findings of the Distributed Energy Integration Program (DEIP) process and current consultation. This will also improve the effectiveness and efficiency of the resulting consultations on AER documents and guidelines, and networks individual TSSs.

Our comments on the draft rule determination are outlined below.

### **Export service levels**

The AEMC concludes that there should be no firm access rights for exporting customers and that networks should be allowed to apply static limits of zero export where appropriate. Instead, the Service Target Performance Incentive Scheme (STPIS) may be developed to provide an incentive for distributors to maximise hosting capacity to the extent valued by customers. We support these aspects of the draft rule determination. While we endeavour to maximise hosting capacity to enable customers to maximise their export, and are continuing to adopt new technology and develop new ways to do this, there are circumstances where providing network capacity for additional export would require expensive network upgrades that are not proportionate to the private and broader customer benefits. This may include customers on the end of single-wire earth return (SWER) lines and in particular parts of the network with already high levels of DER penetration and problems with minimum demand.

The AEMC has instructed the AER to develop Customer Export Curtailment Values (CECVs). These are to be applied to network investment decisions and potentially the STPIS, in a parallel way to how the Value of Customer Reliability (VCR) is used for planning consumption services. We consider that clearer guidance should be provided to the AER about what the CECV should capture. Currently, it is left open whether the values should capture:

- The detriment of export curtailment to the customer using the export service; and/or
- The potential detriment to all (including non-exporting) customers from the lower levels of customer export.

This is a fundamental issue which impacts whether standard control service revenues fund network investment to facilitate export services only to the extent the whole customer base benefits through suppressed wholesale market prices, or if it also funds network investment to mitigate individual exporting customer losses (i.e., loss of income). This is a policy question rather than a regulatory question.

We agree there is a link between the response to the question above and the extent of costs recovered solely from DER exporters, as noted in the AEMC's draft rule determination on page 108. Again, the link between network investment and cost recovery could benefit from some more specific policy and economic guidance by the AEMC.

### **Information requirements**

The draft rule determination proposes to introduce new annual reporting requirements on Distribution Network Service Providers (DNSPs).

We support additional transparency on network investment to integrate DER and recognise the high level of stakeholder interest in such data. Indeed, during negotiations with the Customer Forum – an independent body established to represent the views of customers<sup>1</sup> in our 2022-26 revenue reset – we committed to publishing details of annual investment to integrate DER and facilitate exports where it is economic. The information we committed to publishing includes:

- The number of DER customers connected to our network.
- The total capacity of DER connected.
- The number of sites connected subject to an export limit (including reason).

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<sup>1</sup> For information on the Customer Forum and the NewReg process please refer to: <https://www.aer.gov.au/networks-pipelines/new-reg> (accessed 16/04/2021).

- How many export-constrained sites have been remediated (cumulatively and during the previous year). This reporting will include details of the additional maximum capacity added to the network and how much additional energy DER customers are expected to be able to export because of us addressing the constraints at those sites.
- Proportion of all customers experiencing voltage variation events.
- Expenditure for each of our programs in total and against our approved allowance.<sup>2</sup>

However, the information requirements in the draft rule determination differ from both the data we provide the Victorian Government and the data we have agreed with the Customer Forum to publish. We also note that the information we are required to publish in the annual Distribution Annual Planning Report (DAPR) has grown materially over the last few years. For example, the DAPR for 2014-2018 (the first issue) was 96 pages in length, while the most recent DAPR (2021 – 2025) was 133 pages in length. That is an increase of almost 40% in eight years.

Given the above, and recognising the significant resources required to produce the DAPR, we encourage the AEMC to reconsider, prior to the final rule determination, whether all the new information requirements are necessary and whether they could be narrowed or consolidated.

Reporting requirements also need to be clearly defined to minimise the scope for inconsistent interpretation. For example, the draft rule determination proposes that DNSPs report on the “*number of enquiries related to connection of DER*”. While this could be considered a relatively simple metric, is an enquiry an initial enquiry as outlined in clause 5A.D.2, or should other communication be captured? By providing additional information on each of the proposed data requirements (including its intended use), the AEMC could address any potential ambiguity. That would, in-turn, ensure greater data consistency and increased customer confidence and trust in all the data. Please refer to Attachment 1 for the concerns we have with the information requirements proposed in the draft rule determination.

### **Proposed amendments to the NER and NERR**

While the proposed amendments to the NER are largely uncontroversial, we have identified several matters which, if accepted by the AEMC, would improve the clarity or operation of the draft rule. Attachment 2 contains our detailed comments on the proposed amendments. We also note that the ENA has sought legal advice on the proposed amendments to the NER and the National Energy Retail Rules (NERR), with that advice looking to minimise the scope for unintended consequences.

The NERR govern the sale and supply of energy from retailers and distributors to customers in New South Wales, Queensland, South Australia, Tasmania and the Australian Capital Territory. These rules do not apply in Victoria. We have, therefore, largely limited our comments to the proposed changes to the NER.

### **Export tariffs**

We support, in principle, the removal of the prohibition on export charging and additional tariff trials. Trials allow the testing of innovative pricing structures that can help DNSPs to improve and deliver the services that our customers want. The information collected through trials (be it trials we conduct, or trials undertaken by other DNSPs), will become increasingly valuable inputs to TSS processes as the energy sector transitions to a new energy future.

While we support the removal of the prohibition on export charging in principle, we note the complexities of introducing new pricing arrangements and the importance of gaining confidence of customers and other stakeholders. We encourage the AEMC to further develop its positions on the issues listed below in the Final Determination document so that the AER and networks have a solid and consistent basis to start from when developing and approving TSSs. We consider this guidance will also benefit exporters facing uncertainty around whether export charges will be levied in the near future. These issues include:

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<sup>2</sup> Please see: <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/2020/DER--Additional-info-for-CF--Final-18-Nov-2019-PUBLIC.ashx?la=en> (accessed 13/05/2021).

- Whether it is appropriate to levy export tariffs on large embedded generator connections that have paid up front for shared network augmentation required for their connection;
- Customer protections, including appropriate use of grandfathering provisions; and
- How network investment to enable additional exports up to the point at which all customers benefit through reduced wholesale market prices should be funded.

Notwithstanding the above, we recognise that views on export tariffs vary across jurisdictions, across customer groups and across time. We are, therefore, committed to ensuring comprehensive engagement occurs on whether an export tariff should be part of a future TSS. We note that stakeholder engagement for our TSS that will apply from 1 July 2022 commenced in March 2018, almost four years prior to the TSS coming into effect. This four-year period included both a network engagement process and a 14-month AER review period, which involves additional stakeholder engagement.

We are confident that through the engagement process for our next (2026-30) TSS, stakeholder views on the impacts of any potential export tariffs (assuming we consider it appropriate to raise this as an option) will be fully understood and considered by the networks, the Victorian Government and the AER in determining whether it is desirable to apply export charges in Victoria.

### **Commencement date**

The draft rule determination suggests that these new rules should commence on 1 July 2021. We consider this is too soon, particularly in Victoria. The draft rule determination fails to adequately reflect the time required to facilitate and implement changes to systems and documentation, including our Model Standing Offers and Deemed Distribution Contracts. For example, s 40A(3) of the *Electricity Industry Act 2000 (Vic)* states that a deemed contract cannot be inconsistent with the Distribution Code, so the Essential Services Commission (ESC) may have to make amendments to Victorian regulatory instruments to ensure consistency with any new rules. Similarly, we may need to engage with the AER if we need to change our Model Standing Offers. Given the above, a commencement date of 1 October 2021 may be more reasonable, as it will provide greater scope for the necessary changes, including to regulatory instruments, to occur.

Finally, we take this opportunity to note that:

- We will continue to look for opportunities for our customers to connect DER to our network and to maximise this, including through the implementation of a DER Management System (DERMS) and our participation in trials with South Australia Power Networks and the Australian Renewable Energy Agency.<sup>3, 4</sup>
- Our customer research found strong support for networks facilitating export of energy from solar PV. However, there continues to be a low level of awareness that solar PV can cause voltage problems for the distribution network, and that investment or export constraints may be required to address this.
- The AEMC has proposed that the AER review and update several guidance documents, consider incentive arrangements, potentially develop new benchmarking approaches for exports, and develop a new customer export curtailment value. It is notable that the AER's 2012 Connection Charge Guideline, which clearly prescribes different treatment for load and non-registered embedded generators<sup>5</sup>, is excluded from this list.

<sup>3</sup> Please refer to our Electricity Distribution Price Review 2022-26 proposal, available at: <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2021-26/proposal> (accessed 16/04/2021). Note, in our proposal we used the term Distribution Network Optimisation Platform (DENOP) rather than DERMS, as this was the name of our proof-of-concept platform.

<sup>4</sup> Please refer to SA Power Networks' Flexible Exports for Solar PV Trial, information on which is available at: <https://arena.gov.au/projects/sa-power-networks-flexible-exports-for-solar-pv-trial/> (accessed 16/04/2021).

<sup>5</sup> AER, Connection charge guidelines for electricity retail customers, June 2012. See, for example, the note on page 24.

We look forward to continuing to work with the AEMC on issues that impact the consumer-driven transition that is currently underway. If you have any questions regarding this submission, please contact Ian McNicol by email on [ian.mcnicol@ausnetservices.com.au](mailto:ian.mcnicol@ausnetservices.com.au).

Yours sincerely

A handwritten signature in black ink that reads "C. Eddy". The signature is written in a cursive style with a long horizontal stroke extending to the left and underlining the name.

Charlotte Eddy  
Manager Economic Regulation

| AEMC proposed metric  | Comment   |
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| <p>Average of the maximum export capacity provided to customers by type of feeder.</p> <p><i>(Or, as per the proposed rule change:</i></p> <p><i>In relation to all new connections to the Distribution Network Service Provider's network during the preceding year of retail customers who are micro embedded generators or non-registered embedded generators, the average, by:</i></p> <p><i>(i) type of retail customer (micro embedded generator or nonregistered embedded generator); and</i></p> <p><i>(ii) type of feeder,</i></p> <p><i>of each of the following:</i></p> <p><i>(iii) the maximum capacity of the connection to import and export electricity sought in the enquiry under clause 5A.D.2; and</i></p> <p><i>(iv) the maximum capacity of the connection to import and export electricity agreed in the connection contract; and)</i></p> | <p>While we have the capacity to report export capacity, we do not currently capture import capacity data. We would welcome further consultation on this issue.</p>   |
| <p>Average of export capacity requested by customers by different feeder type.</p> <p><i>(Or, as per the proposed rule change:</i></p> <p><i>In relation to all new connections to the Distribution Network Service Provider's network during the preceding year of retail customers who are micro embedded generators or non-registered embedded generators, the average, by:</i></p> <p><i>(i) type of retail customer (micro embedded generator or nonregistered embedded generator); and</i></p>  | <p>Customers currently notify us regarding the size of the system that they want installed, rather than requesting a particular export capacity. Our response to a customer request will indicate if their request is possible or if some type of export limit is required.</p> <p>Our systems do not currently allow for customers to request a particular export capacity, so we will not be able to report this.</p> |

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| <p><i>(ii) type of feeder,</i></p> <p><i>of each of the following:</i></p> <p><i>(iii) the maximum capacity of the connection to import and export electricity sought in the enquiry under clause 5A.D.2; and</i></p> <p><i>(iv) the maximum capacity of the connection to import and export electricity agreed in the connection contract; and)</i></p> |   |
| <p>Number of enquiries related to connection of DER.</p> <p><i>(Or, as per the proposed rule change:</i></p> <p><i>quantitative summary for the preceding year of:</i></p> <p><i>(enquiries under clause 5A.D.2 in relation to the connection of micro embedded generators or non-registered embedded generators)</i></p>                                | <p>Should an enquiry only be an initial enquiry as per clause 5A.D.2, or should it be broader, recognising that DNSPs typically communicate with their customers through several channels?</p> <p>There is also a question as to how to treat customers that make multiple pre-approval enquires before proceeding with a connection.</p> |
| <p>Number of applications for DER connection.</p> <p><i>(Or, as per the proposed rule change:</i></p> <p><i>quantitative summary for the preceding year of:</i></p> <p><i>applications for new connections or connection alterations under clause 5A.D.3 in relation to micro embedded generators or nonregistered embedded generators;)</i></p>         | <p>This requirement is clear.</p>   |
| <p>The number of retail customers provided zero export limits or provided export capacity lower than requested.</p> <p><i>(Or, as per the proposed rule change:</i></p> <p><i>quantitative summary for the preceding</i></p>   | <p>As noted above, our systems do not currently allow for customers to request a particular export capacity, so we will not be able to report this.</p>   |

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| <p><i>year of:</i></p> <p><i>the number of retail customers provided zero export limits or provided with export capacity lower than requested; and)</i></p>   |   |
| <p>The estimated volume of electricity that could not be exported due to system limitations.</p> <p><i>(Or, as per the proposed rule change: quantitative summary for the preceding year of:</i></p> <p><i>the estimated volume of electricity that could not be exported due to system limitations;)</i></p> | <p>We would welcome further engagement on this issue.</p> <p>There are differences between energy not exported/limited due to network constraints and energy not exported due to faults.</p> <p>Customer-side issues can also contribute to the volume of electricity that can be exported.</p> |

| Draft rule clause | NER/NERR clause                        | Issue / Amendment required  |
|-------------------|--|---|
| Schedule 1        |  |   |
| [4]               | 5.2A                                   | The rule to be amended is rule 5.2A.4(a).   |
| [8]               | S5.8(b)(2)                             | Delete 'generation' and substitute ' <i>generation</i> ' as this is a defined term in the Rules.  |
| [12]              | S5.8(b)(4)                             | Delete 'relevant' and substitute 'applicable'.  |
| [17]              | S5.8(l)(4)(iii)                        | It is not clear what the AEMC wants DNSPs to report on. Is it the number of <i>retail customer connection contracts</i> that provide for zero export limits or that offered an export capacity less than the capacity requested in the <i>connection application</i> ? Or is it customers that were constrained during the year to a zero-export limit or to some other limit less than their contracted maximum export capacity? |
| [14]              | S5.8(l)(4)(iv)                         | Delete 'could' and substitute 'was'. This makes the objective of the reporting obligation clearer.  |
| [48]              | 6.1.4                                  | The amendment addresses an issue that is unrelated to this rule change proposal and is more appropriately dealt with in the AEMC's next Minor Rule change.  |
| n/a               | 6.6.1(e)                               | The marked up NER contains a change that is not included in the draft Rule for an error that does not appear in version 163 of the Rules. AEMC to confirm whether an amendment to this paragraph is required.   |
| [61]              | 6.6.2(b)(3)(iv)                        | After 'improved performance insert 'in the delivery of <i>distribution services</i> .' This clarifies the performance improvement that is to be taken into account.   |
| various           | 6.6.3(b),<br>6.6.3A(2)(i),<br>11.xxx.3 | AEMC to consider whether 'export services' should be a defined term. It could be based on the definition of <i>export tariff</i> (see discussion re clause [116] below).  |
| [68]              | 6.8.2(c1)(1)(iii)-(v)                  | The inclusion of these paragraphs goes beyond the scope of the current rule change proposal and should not be included in the draft Rule.   |
| [68]              | 6.8.2(c1)(2)(i)                        | Delete 'including the <i>export tariff transition strategy</i> '. This phrase is unnecessary because the draft Rule's definition of <i>export tariff transition strategy</i> states it is the "strategy in a <i>tariff structure statement</i> ".   |
| [68]              | 6.8.2(c1)(2)(iii)                      | Insert after 'concerns' the words 'in its <i>regulatory proposal</i> ' to clarify the forum in which the DNSP is required to explain how it is addressing those concerns.   |
| [68]              | 6.8.2(c1)(4)                           | Delete 'chosen approach' and substitute 'approach referred to in subparagraph (3)'. This ensures a clear link back to the approach adopted under  |

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|       |   | subparagraph (3).  |
| [68]  | 6.8.2(c1)(5)  | Delete 'including the <i>export tariff transition strategy</i> '. See clause 6.8.2(c1)(2)(i) above for explanation.  |
| [69]  | 6.18.1A(a)(2A)                                      | After 'description of the' insert 'strategy or strategies'. This maintains consistency with the drafting amendment made to clause 6.4.5(a)(1) and reflects the fact that a DNSP may adopt one or more strategies.  |
| [72]  | 6.18.1C   | Delete ' <i>retailers</i> and <i>Market</i> ' and substitute ' <i>retailers, Market</i> '.   |
| n/a   | 6.18.5(h)   | This amendment is not contained in the draft Rule. Delete 'services' and substitute ' <i>distribution services</i> '.  |
| [80]  | 6.18.5(i)   | <p>The drafting of the amended paragraph is complicated and difficult to understand. We suggest reformatting it as follows to improve clarity.</p> <p>The structure of each tariff must be reasonably capable of:</p> <p>(1A) being understood by <i>retail customers</i> that are or may be assigned to that tariff (including in relation to how usage decisions or controls may affect the amounts paid by those customers); or</p> <p>(1B) being directly or indirectly incorporated by <i>retailers</i> or <i>Market Small Generation Aggregators</i> in contract terms offered to those <i>retail customers</i>, having regard to information available to the <i>Distribution Network Service Provider</i>, which may include: ....</p> |
| [80]  | 6.18.5(i)(3)  | Delete 'or' and substitute 'and'.  |
| [84]  | 6.20.1(c)   | Delete 'it' and substitute ' <i>Distribution Customer</i> '. There are a number of different entities referred to in this paragraph. This change is designed to avoid any confusion.   |
| [85]  | 6.20.1(e)(2)  | Delete ' <i>Customer</i> ' and substitute ' <i>Customers</i> '.  |
| [86]  | 6.20.1(e)(5)  | Typically, the draft Rule refers to Market Customers or retailers before referring to Market Small Generation Aggregators. Consider reordering the participant categories for consistency.   |
| [87]  | 6.22.2(e)   | The amendment addresses an issue that is unrelated to this rule change proposal and is more appropriately dealt with in the AEMC's next Minor Rule change.   |
| [116] | Glossary – <i>distribution network user access</i>  | The amendment addresses an issue that is unrelated to this rule change proposal and is more appropriately dealt with in the AEMC's next Minor Rule change.   |
| [116] | Glossary – <i>embedded generating unit operator</i> | CEM to confirm: this definition intends to include an <i>Embedded Generator</i> connected to a <i>distribution network</i> .   |

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| [116]             | Glossary – <i>export service</i> | New definition:<br><i>A distribution service relating to the transfer of electricity generated by a distribution service end user into a distribution network.</i>   |
| [116]             | Glossary – <i>export tariff</i>  | Amendments consequent upon inclusion of a definition of <i>export service</i> :<br><br>A tariff for an <i>export service</i> , excluding charges for the provision of connection services (as defined in Chapter 5A).<br><br>If the proposed change is rejected, delete 'generated' and substitute ' <i>generated</i> '. |
| <b>Schedule 2</b> |                                  |  |
| [4]               | 8.13(d)                          | The drafting of this paragraph could be improved by aligning it more closely with the approach in clauses 8.12(d) and (e). The obligation to publish an updated CECV methodology in 8.13(d)(1) is already contained in 8.13(f)(1) and can be deleted.  |
| <b>Schedule 3</b> |                                  |  |
| [1]               | 11.xxx.3(a)                      | Delete ' <i>network services</i> ' and substitute ' <i>distribution services</i> '.<br><br>Delete ' <i>distribution network</i> ' and substitute ' <i>distribution system</i> '.   |

| Draft rule clause | NERR rule         | Issue / Amendment required          |
|-------------------|-------------------|-------------------------------------|
| [1]               | 56A               | Delete 'Electricity'.               |
|                   | Sched 2, Preamble | Consider defining 'supply services' |