

10 September 2020

Merryn York
Acting Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Merryn

Re: ERC0311: Distributed Energy Resources integration – updating regulatory arrangements

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on distributed energy resources (DER) integration – updating regulatory arrangements.

The National Electricity Market (NEM) is transforming – large central generators are giving way to a new normal in which the energy exported by customers' rooftop solar and other DER is an increasingly significant part of Australia's energy mix.

We fully appreciate the important role our networks play in facilitating new energy technology, such as rooftop solar, and the benefits this delivers for the environment and the communities we serve. The challenge is to support the uptake of these technologies and help consumers take control of their energy choices while also sustaining distribution system security.

SA Power Networks (SAPN), the St Vincent de Paul Society Victoria (SVDP), and Total Environment Centre (TEC) together with the Australian Council of Social Service (ACOSS) consider the regulatory framework is no longer fit-for-purpose, given it was not designed for two-way flows of electricity. The rule change proposals aim to unlock the benefits of DER by identifying reform options that promote greater flexibility for the Australian Energy Regulator (AER) and distributors to efficiently manage each jurisdiction's circumstances and meet consumer protections.

We support updating the regulatory framework to ensure it is fit-for-purpose. However we believe that to minimise the disruption to particular classes of customers, consideration should be given to introducing change over a period of time. In our view:

- the right framework and incentives should be provided for efficient network investment in DER hosting capacity
- the regulatory framework should be updated to recognise the evolving role of distributors, thereby enabling the introduction of export tariffs over the longer term
- careful consideration is required before introducing a base level of DER exports however 'firm access' is not appropriate.

We have expanded on several key issues below.

1. Distributors should be encouraged to enable the efficient level of DER

The TEC/ACOSS proposal seeks to encourage us to increase our hosting capacity for DER. We have no objection to increasing our hosting capacity provided the regulatory framework is amended to facilitate this. We are already seeking to enable efficient DER through our proposed investments in solar enablement and digital networks, which build upon our existing smart meter platform. This investment will allow the majority of our

consumers to connect their solar systems and provide a level of export which will provide net benefits to all consumers including those without DER.

2. The market benefits test should be extended to recognise wider DER benefits

Currently, our DER hosting capacity is not separated-out as a value for consumers. It is a benefit we provide but we do not have a direct quantifiable benefit captured that we can attest to.

We strongly support extending the market benefits test to recognise wider DER benefits, such as wholesale or behind-the-meter benefits. Indeed we support expanding the definition of market benefits to include societal and environmental benefits from DER, such as decarbonisation.

While outside the scope of these rule changes, we also support the National Electricity Objective being amended to explicitly recognise these societal benefits. This will ensure that DER investment decisions can be made where the benefits to society outweigh the costs of the program, thereby supporting a greater penetration of DER on distribution networks which is in the long-term interest of consumers.

We support in-principle the AER's work on valuing DER and recognising DER consumer value, including decarbonisation and lower prices. This is a very positive step, as until there is an agreed value to DER it will be very challenging for network businesses to propose a business case which is capable of AER acceptance.

3. The definition of distribution services should reflect consumption and export

We acknowledge the evolving role of our business and believe the definition of terms applicable to 'distribution service' in the National Electricity Rules (NER) need to be amended so that these terms explicitly recognise that the distribution network now not only provide consumption service but also provide export service.

If export services are defined as being 'distribution services', the AER will be able to then classify those services in its Framework and Approach process for each distributors' regulatory reset. We support the SAPN approach for these to be classified as standard control services. Many of the network investments for consumption services also support export services, and attempting to classify these differently will raise serious challenges for cost allocation and the regulatory asset base. It will also stifle innovation including the adoption of other forms of technology, such as batteries, which can be used to manage and operate the network and provide consumer choice at least cost.

4. We support the removal of clause 6.1.4 of the NER

We support the removal of clause 6.1.4 of the NER and believe the introduction of export tariffs are necessary over the long term as we transition to a two-sided market. These could be facilitated through the Tariff Structure Statement which we discuss with our stakeholders prior to lodging with the AER. We would plan for extensive stakeholder engagement prior to submission including consultation with our customer advisory panel (CAP).

Consistent with the current distribution pricing rules we support a managed introduction over a period of time to minimise the risk of price shocks to our customers. Management of any price shock is essential to garner community and government support for export tariffs.

A regulatory regime which accommodates export charges will enable more efficient price signals to be provided to customers upon which to base their DER investment and operations decisions. It will also improve the allocation of costs between those customers consuming from the grid and those exporting to the grid.

5. Careful consideration is required before introducing a base level of DER exports and corresponding performance standards

Introducing base levels of DER export capacity requires careful consideration. Whilst we strongly support outcomes-based measures and indeed, consider our customers are entitled to a minimum level of expectations, the setting of base levels must necessarily differ across and within networks.

The network characteristics of Australian distributors can differ markedly. This can be the case even within a network such as that of Powercor. A common national minimum standard is unlikely to result in an efficient outcome given the different starting points of networks in terms of DER penetration, levels of existing network utilisation and network structure e.g. single wire earth return (SWER) networks. The costs should be weighed against the benefits of this element of the proposal.

Whilst we support the concept of base levels of performance, these are best negotiated by individual distributors with the customers/AER in the context of that network and what customers are able, and willing, to afford. We strongly support an incentive scheme with base level performance measures that can be aggregated. We believe that base levels of performance should not go down to the customer level but rather it should be an aggregated measure per network. It is not appropriate to have a 'one size fits all' approach across the NEM given the unique challenges across different networks.

Consideration should also be given to the impact of performance against service standards with the emergence of aggregator models. The co-ordinated use of DER, without regard to network limitations, can increase the instances of DER constraint and result in the deterioration of reliability and higher costs.

6. Firm access is not appropriate

Applying firm access to residential customers for solar export is inconsistent with open access for consumption and raises serious competitive neutrality concerns. Firm access must be considered across the entire supply chain, including transmission generators, large generators connected to the distribution network and residential households with solar PV. Firm access also raises implementation issues in terms of grandfathering existing capacity and the ability of distributors to manage it in the context of a set of rules designed for open access.

Should you have any queries, please contact Elizabeth Carlile on 0419 878 852 or ecarlile@powercor.com.au.

Yours sincerely,



Renate Vogt
General Manager Regulation
CitiPower, Powercor and United Energy