Government
of South Australia
Department for
Energy and Mining

Our Ref: D21011025

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

Anna

Dear ~~Ms Collyer~~

Thank you for the opportunity to comment on the Australian Energy Market Commission's (Commission) draft determination for *Access, pricing and incentive arrangements for distributed energy resources* (ERC0309, ERC0310, ERC0311 and RRC0039).

As grids continue to modernise and evolve, the regulatory framework also needs to adapt. The Energy and Technical Regulation Division (the Division) welcomes the Commission's draft determination and draft rule, which would update the regulatory framework to reflect the transformation in distribution systems that is well underway and allow more effective and efficient integration of distributed energy resources (DER).

The Division recognises that the Commission seeks to establish a flexible, robust and transparent framework and processes within which proposals relating to the provision of export services and associated expenditure may be developed, consulted, and regulated, rather than seeking to prescribe the outcomes or require export charging. This is appropriate given the different conditions and levels of DER across distribution systems and aligns with the approach to regulating consumption services.

By providing the enabling architecture, including regulatory guidance and scrutiny of proposals, options such as charging for export services can be explored where, when and to the degree appropriate for each network and the value consumers place on those services. Equally, though, the framework would also allow alternative, non-tariff options for minimising DER-related expenditure and achieving DER integration outcomes to operate in parallel or in place of export tariffs. Importantly, clearly recognising the provision of export services by Distribution Network Service Providers (DNSPs) allows for more efficient provision and use of those services as well as for more equitable allocation of costs and benefits.

The Division supports incorporating DNSPs' DER integration planning and investment for export services within existing regulatory arrangements as far as practicable. Recent characterisations of the proposed rule as a 'solar tax' and the Commission's additional communications around the draft determination highlight the very significant consultation and engagement work that will be required of DNSPs, the Australian Energy Regulator (AER), and consumers to underpin these reforms before charging for export services could be considered.

Transitioning to new export charging arrangements is likely to be challenging and the structured consumer engagement process will be a vital component of the proposed rule. The proposed export tariff transition strategy and overview paper will assist consumers to understand how options for pricing, expenditure and other strategies can be brought to bear on the DER challenges and drivers of network costs.

Requiring DNSPs to clearly explain how different aspects of their regulatory proposal and Tariff Structure Statement (TSS) proposals are interrelated and how pricing options relate to investment plans will aid stakeholders' understanding of the options, trade-offs and various equity dimensions. The Division agrees the TSS provides a familiar and suitable framework for the consideration of export tariff options and design. However, where export charging is approved, it would ultimately remain with retailers to determine how retail tariffs would be structured and, therefore, how these price signals flow through to customers.

The Division is aware of stakeholder concerns about the introduction of export charges and the potential for confusion about the extent to which any new export tariffs would or could apply to existing users of export services. The Division understands that the purpose of an export tariff transition strategy prepared by a DNSP and approved by the AER as part of the TSS process would be to set out when and how export tariffs would be introduced. DNSPs already have the ability to manage the introduction of new tariff structures for consumption services and to transition customers from legacy tariffs over time.

The draft determination appears to accept that transition arrangements would differentiate between customers according to whether they were using export services prior to the introduction of a new export tariff. The Division notes that whilst this may be an outcome in a transition strategy, it will be for each DNSP to determine this with their stakeholders. In the case of South Australia, SA Power Networks has been clear it does not intend to immediately seek to apply export pricing to existing solar PV customers and the Minister supports this position. In its rule change, SA Power Networks flagged the need for a conversation with stakeholders and customers on appropriate triggers and timing for applying export charges to existing customers. The State Government has communicated that position to consumers considering purchasing solar.

A range of considerations should be factored in to determining transition arrangements. There are likely already areas with high levels of DER penetration that contribute to a need for investment in the distribution system. The customers of this DER should be able to respond to the price signals just as new DER customers would. There are vulnerable customers who have not had the capacity to invest in DER and the risk of cross subsidisation by these customers should be a paramount consideration. The final determination could benefit from clearly stating that the full range of outcomes would be possible in respect of transitioning customers to new tariff structures for export services. The AER could be required to specifically address the equity dimension by determining principles or criteria in relevant guidelines.

The Division agrees the proposed framework should logically apply to all generation connected at the distribution system level, rather than excluding large embedded generator customers who are 'standalone' generators or applying only to small customers. Stakeholder opinions were divided on this point, with a key rationale of those in favour being the need to preserve regulatory symmetry and competitive neutrality with transmission-connected generators. The Commission has sensibly opted to preference needs-based decision-making around whether export charges are appropriate for particular customer types or locations of embedded generators. The negotiated connections framework remains an option to address the impacts and requirements for large embedded generators. The consistent application across all distribution-connected generators could also enable embedded generators to benefit from other elements of the draft rule, such as the potential for rewarding exports that are beneficial to the grid.

The Division supports consideration of extending the Service Target Performance Incentive Scheme (STPIS) to encompass export services and agrees that responsibility appropriately sits with the AER. The draft rule commits the AER to "consider" arrangements for performance incentives by 31 December 2022. However, the pathway for establishing effective incentive arrangements beyond that review is unclear. The Division understands that the AER would need to undertake a subsequent process to amend the STPIS, but this is beyond the scope of the draft rule. The Division is concerned that the staged approach may not be sufficiently advanced, relative to DNSPs' revenue determination timetables, to support implementation in the next regulatory period.

The Division encourages the Commission, in its final determination, to set out how this timing will work in practical terms. Without service incentives, consumer stakeholders may be concerned with export services components of regulatory proposals and the assurance that networks are incentivised to provide a level of service that matches customer needs. Alternatively, it may be feasible to shorten the timeframe for the proposed review, or to require the proposed review to include (where feasible) amendment of the STPIS.

Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director, Energy Policy and Projects, Department for Energy and Mining on (08) 8429 3185.

Yours sincerely

Vince Duffy
EXECUTIVE DIRECTOR, ENERGY AND TECHNICAL REGULATION

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SOUTH AUSTRALIA