

27 May 2021

Mr David Feeney  
Australian Energy Market Commission (AEMC)  
GPO Box 2603  
Sydney NSW 2000

Dear Mr Feeney,

**AEMC DRAFT RULE DETERMINATION: ACCESS, PRICING AND INCENTIVE ARRANGEMENTS FOR DER (ERC0311, RRC0039)**

Endeavour Energy appreciates the opportunity to provide this response to the AEMC's draft rules to better integrate Distributed Energy Resources (DER) into the electricity grid. The draft rules incorporate many of the amendments put forward by the rule change proponents and gives effect to the findings made in the Distributed Energy Integration Program (DEIP) - [Access and Pricing Reform Package Outcomes Report](#).

We support the draft rules and consider them necessary to ensure the regulatory framework remains fit-for-purpose in an increasingly two-way energy system. We commend the AEMC on undertaking a comprehensive and long-term consideration of the impacts and implications to consumers of expanding the regulatory framework to include energy exports. In satisfying the conditions of the robust rule assessment criteria, the AEMC has clearly demonstrated they would better promote the National Electricity Objective (NEO) and the National Energy Retail Objective (NERO) and therefore should be implemented. The key aspects of the more preferable draft rules include:

1. Updating the regulatory framework to clarify that distribution services are two-way. This includes adapting the network planning and investment framework to include export services.
2. Allowing the Service Target Performance Incentive Scheme (STPIS) to be expanded so Distribution Network Service Providers (DNSP) are incentivised to provide efficient levels of export services.
3. Removing the prohibition on DNSPs pricing for export services. DNSPs will be required to consult with customers to develop pricing signals that incentivise customers to efficiently utilise network infrastructure. This includes rewarding customers for exporting into the grid when it is valued.

These key reforms will support the customer-driven energy transformation by ensuring the regulatory framework provides for the proper consideration and incentivisation of the efficient provision of export hosting services by distribution networks. These services can now be planned for and priced in a way that unlocks the full value of DER and optimise the benefits of DER to all consumers.

While profound in effect, we consider the changes required to the existing framework to incorporate export hosting services are minimal and the draft rule broadly reflects this. Targeted amendments of the existing framework will reduce implementation complexity and preserve the existing interrelationships between the network planning, investment, pricing and incentive frameworks.

Of particular importance, the draft rule progresses the tariff and pricing reforms that the Energy Security Board (ESB) consider are needed to better reflect the needs of the system and optimise the use of DER across network services and wholesale and system service markets. This can be achieved through cost-reflective tariffs for exports which the ESB states should be implemented as soon as practicable.

We share the views contained in Energy Networks Australia's (ENA) submission and provide feedback on possible refinements to the draft rules in Appendix A.

If you have any queries or wish to discuss our submission further please contact myself on (02) 9853 5195 or Colin Crisafulli, Manager Network Regulation at Endeavour Energy on (02) 9853 6017 or via email at [colin.crisafulli@endeavourenergy.com.au](mailto:colin.crisafulli@endeavourenergy.com.au).

**Yours sincerely**

A handwritten signature in black ink, appearing to be 'FM', followed by a period.

**Francoise Merit**  
**Chief Financial Officer**

## **Appendix A: Detailed comments on AEMC draft rule determination: Access, pricing and incentive arrangements for DER.**

### **The draft Rules do not mandate export charging and the existing framework compels networks and the AER to consider the impacts of any proposed export tariffs on customers**

There has been an intense interest in and scrutiny of the AEMC's draft determination from a subset of DER customer and stakeholder representatives. Broadly, their concerns can be summarised as:

1. Rooftop solar benefits all energy consumers;
2. Large, grid-scale generators do not face network charges;
3. Network costs of rooftop solar may be overestimated;
4. Solar households should be rewarded for the benefits they provide; and
5. Existing solar households should be exempt from this Rule.

We understand these concerns but do not consider the draft Rule embeds any inefficient or unfair outcomes. Instead, it allows networks to propose expenditure to address export capacity constraints and to price exported energy subject to consultation with stakeholders. It also requires that the AER establish a value for exported energy, determine DER hosting expenditure assessment and benchmarking methodologies and develop incentives to ensure an efficient level of export service quality is provided to customers.

The draft Rule in combination with the existing regulatory framework adequately address all of the above concerns in our view. More specifically:

1. Rooftop solar can result in network costs and/or benefits depending on the circumstances. There should be an opportunity to consult with customers on the extent to which these benefits are socialised with, and costs subsidised by, non-DER customers. The draft Rule simply allows this consideration to occur and does not mandate any particular outcome from this exercise. For instance, a network in consultation with its customers and the AER can come to the view that no export charges are necessary or that only export rewards are necessary under the draft Rule. We intend to engage extensively with our customers in advance of the next TSS on this matter and are open to their views.
2. Solar customers are distinct from large generators in that they make use of the local grid to both consume and export energy. There are several national and jurisdictional reforms currently underway seeking to promote the establishment of large scale renewable generation to replace existing coal-fired powered generation.
3. The draft Rule provides greater protections against network over-estimation of costs. The AER will update its forecast expenditure assessment guideline and benchmarking approach and publish a Customer Export Curtailment Volumes (CECV) methodology. This will provide greater clarity to networks as to how DER enablement expenditure will be valued and assessed. Whilst the existing framework provides the AER with the ability to scrutinise and reject forecasts that it does not consider to be prudent and efficient. There is instead a longer term risk from the existing framework failing to explicitly recognise the role of networks in facilitating export services. The status-quo could result in networks failing to properly consider and cater for increasing customer demand for export capacity and curtail its use and therefore value.
4. The draft Rule will provide networks the ability to reward DER customers for the benefits they provide, and we fully support DER customers receiving the benefits associated with optimising their DER systems and usage.
5. The draft Rule does not prevent a network or the AER from transitioning existing customers to any new tariff or not applying it at all. Whilst this may be a matter better suited to the implementation of the Rules by jurisdictional regulators there would be value in a consistent approach to grandfathering (if any). This may be an issue worth considering further with stakeholders in advance of the final decision. However, we note that whilst existing DER customers have already made an investment decision there remains value in providing a cost

reflective price signal for their use of their DER assets and/or future investment decisions such as the replacement of an existing solar asset or addition of other DER assets like a battery.

We therefore encourage the AEMC to maintain its draft position which maximises social welfare by establishing a framework that allows for the optimisation of DER use by customers and incentivisation of networks to provide an efficient level of export services. We oppose any amendments which prescribe specific outcomes in the Rules such as DER customer tariff assignment policies. For instance, prescribing that DER customers can only receive benefits via an export tariff would embed a potential subsidy in the Rules that may result in the oversizing and/or sub-optimal use of DER which would in turn impose additional costs on a network which would be funded in part by non-DER customers.

We support the view expressed in the St Vincent de Paul Society Victoria rule change request on the objective and framing of this rule change<sup>1</sup>:

*The solutions proposed in this paper are not aimed at penalising households with rooftop solar installed or other Distributed energy resources. We recognise that these households have made investment decisions based on the information (and in some cases, subsidies) made available to them. We are, however, of the view that consecutive governments' policies promoting the uptake of rooftop solar have created an imbalance in favour of solar and, potentially, at the disadvantage of other technologies, such as storage. If these policies continue, the network problem is likely to exacerbate.*

*DER is central to a lower emissions energy future and it is therefore imperative that we can achieve a high DER penetration without allowing electricity to become inexpensive for some and unaffordable for others. Inefficient and inequitable allocations of costs and benefits will not deliver the desired outcomes in the long run.*

*Non-DER participants have already subsidised this initial shift to a DER future and while this has incentivised the DER uptake, largely in the form of rooftop solar, this does not justify ongoing subsidies from non-DER participants to DER participants into the future. Rather, we need to deliver price signals that can incentivise DER participants to engage with energy management services as well as other technologies, such as storage, to deliver a sustainable DER future.*

We consider the final Rule should maintain its neutrality and allow networks, stakeholders and the AER to engage on export hosting and pricing options. Networks have been consultative and responsible to date in introducing new tariff structures. We fully support rewarding optimal DER use and the AER has adequate powers to reject inefficient DER expenditure proposals and/or export pricing which is harmful and punitive to DER customers. The AEMC should seek to promote economic efficiency in the NEM that best promotes the long term interests of customers in its final determination. It will then be a separate matter for jurisdictional governments and regulators to decide how to implement the Rules.

### **Applying the existing planning and investment framework to both export and consumption services equally balances transparency and regulatory burden**

We support the AEMC's decision to not implement the proposed DER Integration Strategy (DERIS). We consider the existing planning and investment framework is largely fit-for-purpose for exports and that mandating additional reporting requirements for a particular aspect of network services may instead elevate export services over import services and/or impose unnecessary costs.

We consider networks have transitioned to a customer-centric approach in developing their regulatory proposals through extensive engagement with a broad range of stakeholder groups. The AER places significant weight on the level and quality of consultation undertaken and how consumer preferences and priorities have been incorporated in a proposal. Networks are therefore already sufficiently incentivised to be transparent in their DER strategies as they bear the risk of not doing so. In the context of this rule change, an inadequate consideration of customer feedback and impacts is likely to result in the rejection of a networks DER expenditure plans, connection policies and pricing structures.

Given this, there is limited benefit in compelling networks to specifically provide sufficient information in the NEM to support any export hosting expenditure plans. However, whilst the draft rules do not add a DERIS they do instead add:

- a new range of DER metrics in the Distribution Annual Planning Report (DAPR).

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<sup>1</sup> St Vincent de Paul Society Victoria rule change request, p. 9

- several new requirements for DNSPs to include in the Overview Paper accompanying their regulatory proposals; and
- a requirement that networks provide Export Transition Tariff Strategy (ETTS) in accompaniment with their Tariff Structure Statement (TSS).

We note some stakeholders requested increased transparency from networks on their DER hosting and integration constraints and strategies. We also accept that increased information on DER hosting will help facilitate informed regulatory, policy and DER investment decisions for regulators, DNSPs and customers. However, we question whether codifying specific reporting requirements and strategic documents in the NER is the appropriate mechanism. More specifically:

- DAPR: The principal objective of the DAPR is to provide visibility of identified needs and investment activities on the distribution network in the forward planning period. Whereas the information required in the draft rule is historical data and less informative on future investment needs for the benefit of non-network service providers.
- Overview Paper: this document is intended to be a brief, easy-to-engage with plain English summary of the main proposal. Several additions have been made to the previously limited and high level requirements that introduce details perhaps better suited to the main regulatory proposal document and attachments. In particular, the requirements of draft rule 6.8.2(c1)(3), (4) and (7) require detailed cost allocation and category level variation analysis. It is also not clear how the framework – when applied symmetrically to consumption and export services – would result in limited transparency of export investment decisions which can be best addressed through prescribing additions to the Overview Paper regarding a specific category of investment irrespective of whether it forms a material aspect of the overall proposal.
- ETTS: the TSS process already provides the ability to implement tariff structures in a manner cognisant of customer impacts (such as via a transition). This is the approach we have taken to implementing demand based tariffs whilst still providing customers the ability to opt-in to more cost-reflective options. The TSS process has been consultative and response to customer feedback to date. The pace of the transition to cost-reflective tariffs has instead been more seriously hampered by the roll out of enabling technology, retailer opt-out and jurisdictional regulators in some instances. Adding an ETTS requirement will increase regulatory costs to a process that already seriously regards customer impacts and consults deeply in developing tariff structures.

Relative to alternative options, embedding specific requirements in the NER is less flexible as changes in the type of DER information that is considered relevant over time would necessitate a rule change process. Given DER reporting is a relatively new area of regulatory focus there is an increased likelihood that the information required could change in the near future and risk that networks establish systems and incur costs on reporting less useful or relevant information.

This risk is particular pronounced given the AER will be tasked with reviewing incentive schemes, its Expenditure Forecast Assessment Methodology, benchmarking approach and developing an Export Tariff Guideline and a CECV methodology. The information requirements prescribed in the NER pre-empt what may be considered relevant or necessary by these reviews.

We therefore suggest the AER's information gathering powers, specifically its ability to issue a Regulatory Information Notice (RIN), would be a more suitable reporting mechanism. The AER can separately consult on the information required in a separate DER RIN or more efficiently through the addition of a DER component to existing RINs. This would allow for the DER information requirements in a RIN to be better tailored to the requirements of any amendments the AER make as part of its various reviews referred to above.

In our view, expanding the RIN reporting requirements to include export measures would also improve the transparency of network export service performance. It is unlikely a broad range of stakeholders (outside of demand management service providers) would review and extract DER information from a DAPR. Whilst a once in five years Overview Paper may prove insufficient to interested parties; export data in a RIN could instead be analysed and disseminated by the AER as part of its annual Electricity Network Service Report or the Annual Benchmarking Report.

Further, whilst export hosting is a significant issue in the energy industry currently, in the future we expect it to become fully incorporated into the asset management strategies and services networks provide. We would expect the regulatory framework to be technologically neutral and treat all distribution services whether import or export equally. In which case, even if the AEMC consider there remains merit in the additional information requirements outlined above it would be worth considering whether the amendments be transitional instead with a prescribed sunset date.

### **Adapting the STPIS for exports requires improved access to metering data**

As discussed in our submission to the AEMC's review of the regulatory framework for metering services, networks outside of Victoria have found it challenging to access metering data from Metering Coordinators (MC) despite there being requirements that energy data be shared in certain circumstances. Adapting the STPIS for export services further reinforces the need to improve network access to the metering data of DER customers.

Significant volumes of DER metering data will be required by networks initially to provide a robust dataset to set STPIS export service targets and monitor performance on a frequent and ongoing basis. We expect the underutilisation of many smart meter functionalities could restrict the number potential metrics considered for the STPIS.

Although it is possible for network devices to be deployed to collect energy data, we consider installing them where smart meters exist is duplicative, inefficient and is often not possible due to limited space at the switchboard. Where energy data is available from MCs, networks should be deterred from installing such devices. However, purchasing ever-increasing volumes of data is likely to have a material cost impact, particularly if they are set above the Metering Data Providers (MDP) marginal cost which is likely in the absence of effective competition in the metering market and/or regulatory oversight.

We strongly encourage the AEMC strengthen metering data provision requirements to allow networks to readily access affordable data, either as part of this rule determination or promptly following completion of the metering review.

### **Implementation timeframes should be cognisant of the next regulatory cycle**

The draft rules require the AER to update a range of guidelines as well as developing an Export Tariff Guideline and a CECV methodology. The majority of these reviews and new guidelines are required by July 2022 and notably the STPIS, which may include new export hosting related measures, by December 2022.

Whilst there is a need to consult on these significant reforms we note that networks are increasingly engaging with customers and stakeholders well prior to the submission of their regulatory proposals. This will present a challenge for networks to incorporate the updated guidelines in their expenditure plans, connection policies and tariff structures whilst also providing customers and stakeholders a meaningful opportunity to review and provide feedback on their draft plans that are formally due for submission to the AER in January 2023.

The review of DER incentives (most likely as part of the STPIS) in particular may prove problematic given its conclusion several months after the Framework and Approach (F&A) process for the 2024-29 regulatory control period. We do note that the application of incentive schemes is not a binding aspect of the F&A decision. However, as it is a review it may then be followed by a rule change process or further consultation to implement the recommendations of the review. An extended review could mean that networks subject to the 2024-29 regulatory control period do not have an opportunity to apply an amended STPIS incentive subsequent to the F&A process but prior to their revised proposals.

If an expedited review process is not feasible it would be prudent as part of this rule change to provide networks an ability to apply for the early application of an amended STPIS during the next regulatory control period. We note an equivalent rule amendment was made in April 2018 to bring forward the benefits of the Demand Management Incentive Scheme (DMIS).

From a planning perspective, we would also value early CECV estimates to assess the economic case for DER hosting investment to inform our DER expenditure proposal. We encourage the AEMC to consider opportunities to leverage from the research conducted by the CSIRO and CutlerMerz to establish values of DER (VaDER) to facilitate timely CECV methodology and estimates.