Draft Export Tariff Guidelines

Explanatory statement

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Request for submissions

Interested parties are invited to make written submissions to the Australian Energy Regulator (**AER**) regarding the draft guidelines by the close of business, 8 March 2022.

Submissions should be sent electronically to tariffguideline@aer.gov.au.

Alternatively, submissions can be mailed to:

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The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested.

Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim; and
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on the AER's website at www.aer.gov.au. For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy, June 2014 available on the AER's website.

Enquiries about this paper, or about lodging submissions, should be directed to the Network Pricing branch of the AER on 1300 585 165 or tariffguideline@aer.gov.au.

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1 Introduction

This explanatory statement provides our rationale for the draft Export Tariff Guidelines (draft Guidelines). Publication of the draft Guidelines follows publication of a consultation paper[1], our holding a public forum[2], our consideration of stakeholder written submissions[3] and bilateral stakeholder meetings.

Our consultation paper asked stakeholders to comment on:

- steps distributors should take when engaging their customers on potential export tariffs
- drivers of the costs of expanding network export capacity
- the efficient cost of providing an export service compared to a consumption service
- customer impact analysis
- basic export level thresholds.

Stakeholders also had opportunity to comment on related matters.

We respond to stakeholder comments in this explanatory statement which should be read alongside the draft Guidelines.

Background – rule change

On 12 August 2021 the Australian Energy Market Commission (AEMC) published its final determination on the *Access, pricing and incentive arrangements for distributed energy resources rule change* (the rule change).[4] The rule change aims to integrate distributed energy resources (DER)[5], such as solar panels and batteries, more efficiently onto the electricity grid.

Previously, under the National Electricity Rules (the rules), distribution services involved one-way flows of electricity imported from the grid for consumption. The AEMC's rule change updated the rules to clarify that distribution services can be two-way. That is, they include both the ‘import’ of energy from the grid for consumption and ‘export’ of energy, such as rooftop solar, to the grid.

1 AER, *Export tariff guidelines consultation paper*, 23 September 2021.

2 Chaired by AER Board member Mr Eric Groom on 5 October 2021.

3 Written submissions closed 4 November 2021.

4 AEMC, *Access, pricing and incentive arrangements for distributed energy resources, Rule determination*, 12 August 2021.

5 Distributed energy resources are assets and resources that connect to the network from behind a customer’s meter.

Box 1: What are distributed energy resources (DER)?

Distributed energy resources (DER) are the name given to renewable energy units or systems that are commonly located at houses or businesses to provide them with power. DER also refers to a range of energy storage and energy management assets. Another name for DER is 'behind the meter' because the electricity is generated or managed 'behind' the electricity meter in the home or business.

Common examples of DER include rooftop solar units, battery storage, thermal energy storage, electric vehicles and chargers, smart meters, and home energy management technologies.

DER are changing the way Australia produces and manages electricity. Rather than electricity being generated by big, centralised power stations, it is now starting to come from many places, including millions of homes and businesses.

The updated rules remove a provision that prohibited the imposition of charges for the export of electricity by customers with DER.[6] This means that Distribution Network Service Providers (distributors) may design and implement export tariffs, or two-way pricing (that is, pricing options for both the import/consumption of energy and the export of energy, including negative pricing/incentives) to match two-way energy flows on distribution networks.

Box 2: What is an export tariff?

An export tariff is one that includes a charge for exporting electricity into the grid. If a distributor chooses to introduce an export tariff, it will have the ability to decide how the export tariff may look. For example, a distributor may choose to introduce a new export tariff or a new charging component for the export of electricity as part of an existing tariff. Export tariffs may incorporate both penalties and rewards for customers to export power at different times, according to network needs.

The AEMC's rule change requires us, the Australian Energy Regulator (AER), to develop and publish the Guidelines. We are also required to develop the basic export level guidelines about methodologies for determining basic export levels and related matters, which are to be incorporated in the Guidelines.

Box 3: What is the basic export level?

The basic export level is the threshold below which the retail customer can export to the network without incurring a charge.[7] This level is identified within the tariff

6 Formerly NER, cl. 6.1.4. Now deleted.

7 NER, cl. 11.141.1.

structure statement and calculated by reference to capacity, energy or other measures permitted in the distribution determination. The requirement for a basic export level is time limited – it applies for the two upcoming regulatory control periods (10 years in total), that is, the tariff transition period.

In proposing an export tariff and basic export level we expect distributors to take into account the intrinsic hosting capacity of the network.

Box 4: What is the intrinsic hosting capacity?

Intrinsic hosting capacity is a base level of DER hosting capacity that all networks currently provide because network assets constructed to provide the consumption service have capacity to support some reverse power flow without additional investment. However, as networks are increasingly used for the upstream transport of energy exported from customers' solar PV, the networks are approaching the limit of their intrinsic export hosting capacity.

With the rules allowing two-way pricing, distributors will be able to signal to customers when it is better to consume their own rooftop generated solar electricity and when it is better to export it. It will also allow networks to recover the cost of asset upgrades from the customers who most benefit from network investment.

Where justified and in consultation with their customers, retailers and other stakeholders, distributors may develop a range of two-way pricing and service options. Within those options distributors may choose to offer rebates to customers to export (in addition to feed-in tariffs if applicable) at certain times to alleviate network investment pressures.

In response to different two-way pricing options, customers with rooftop solar may choose to use more of their own solar generated electricity in the middle of the day. Customers newly installing rooftop solar may choose to install it facing west, to take advantage of rewards for late afternoon exports. And customers may choose to invest in storage to enable them to use their own energy during the evening peak period, or export at that time to potentially access more rewards.

It is important to note that enabling two-way pricing does not mean rooftop solar owners will be forced to pay to export solar at all times or indeed, at all. The basic export level, a threshold below which power may be exported to the grid without additional charge, must be available to customers assigned to export tariffs.

To obtain our approval for two-way pricing options, distributors will need to demonstrate that supporting additional solar exports is increasing the costs of operating the network. Under this approach customers will pay export charges only if their exports (either generally or at certain times of the day) contribute to increased network costs.

While the Guidelines are not binding on distributors under the rules, the broader tariff structure statement process under which we make determinations on potential two-way pricing proposals is binding.[8] We therefore have authority to enforce the Guidelines once finalised.

Stakeholder submissions on our consultation paper tended to support the Guidelines being principles-based.[9]

Energy Networks Australia submitted:[10]

> Energy Networks Australia agrees with the AER, as outlined in its Consultation Paper, that the development of final Export Tariff Guidelines (the Guidelines) that provide guidance on the design and implementation of any two-way pricing proposals, rather than being prescriptive, matches the intention of the AEMC's final rule and is appropriate for an energy sector in transition.

Essential Energy submitted:[11]

> As part of the final rule change package, we welcome the AER's development of a principles-based guideline for export pricing which provides direction as to the implementation of export tariff arrangements.

Solar Citizens submitted:[12]

> Solar Citizens broadly supports the scope of the Guidelines.

8 NER, cl. 6.8.1B(d).

9 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Total Environment Centre, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; Public Interest Advocacy Centre, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Alinta Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

10 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4.

11 Essential Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 5 November 2021, p 1.

12 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

2 Introducing export tariffs through our regulatory determination process

A distributor may only propose to introduce export tariffs at the start of each five-year regulatory control period. Any proposed export tariff is submitted to us in the distributor's tariff structure statement.[13] A tariff structure statement describes the tariff classes and structures, policies and procedures for assigning customers to tariffs and the tariff charging parameters. It forms part of the distributor's regulatory proposal for its next five-year regulatory control period along with the distributor's proposed revenue requirement.

We assess the proposed tariff structures as part of our regulatory determination. We also assess the distributor's revenue proposal, incorporating capital and operating costs and its energy forecasts. Our assessment determines the level of any tariffs we approve for the next five years. The regulatory determination process involves considerable customer and stakeholder consultation by both the distributor and the AER.

Box 5: What is a tariff structure statement proposal?

A tariff structure statement describes the tariff classes and structures, policies and procedures for assigning customers to tariffs and the tariff charging parameters.

A tariff structure statement proposal is only approved by the AER if the distributor has demonstrated significant stakeholder engagement, customer impact modelling and compliance with a number of requirements in the rules.

The AER's decision to approve or not approve a tariff structure statement is binding.

The process by which a tariff structure statement is developed, assessed as part of our regulatory determination, and approved may be summarised as:

- over a period of up to 3 years before a new regulatory control period, the distributor develops its tariff structure statement proposal in consultation with stakeholders
- 17 months before a new regulatory period, a distributor submits its tariff structure statement proposal to the AER, which publishes the proposal and invites written submissions
- 9 months before a new regulatory period, we publish a draft determination to either approve or, if not reasonably satisfied that the proposed tariff structure

[13] Distributors undertook during the Access and pricing rule change process not to propose to re-open existing approved tariff structure statements to introduce two-way pricing ahead of the upcoming regulatory period.

statement complies with the rules including the distribution pricing principles, not approve the tariff structure statement[14]

- if our draft determination is to not approve the tariff structure statement, 7 months before a new regulatory period the distributor will submit its revised tariff structure statement proposal
- we publish the revised tariff structure statement proposal and invite written submissions on our draft determination and the distributor's revised proposal
- 2 months before a new regulatory period we publish a final determination to either approve or not approve the revised tariff structure statement
- if our final determination is to not approve the revised tariff structure statement, we will amend the document to the extent necessary to enable it to be approved.[15]

We may hold additional forums or publish targeted discussion papers to explore specific issues with distributors, customers, consumer advocates, retailers and other stakeholders.

A breakdown by jurisdiction of the beginning of upcoming regulatory periods, when new tariff structure statements may introduce two-way pricing, is set out in Table 1.

Table 1: Earliest date that two-way pricing may be introduced

Date export tariff may be introduced	Jurisdiction
1 July 2024, noting that distributors cannot require existing customers to move on to export tariffs before 1 July 2025[16]	Australian Capital Territory, New South Wales, Tasmania, and Northern Territory
1 July 2025	South Australia, Queensland
1 July 2026	Victoria

Note: These dates that an export tariff may be introduced also indicate the start of the tariff transition period which lasts for two regulatory periods (each regulatory period lasts for five years).

Export tariff transition strategy

Distributors are required by the updated rules to incorporate an export tariff transition strategy within their tariff structure statement proposals.

14 NER, cl. 6.12.3(k).

15 NER, cl. 6.12.3(l)(2).

16 Relates to customers with DER prior to the AEMC publishing its final determination on the Access, pricing and incentives rule change.

Box 6: What is an export tariff transition strategy?

The rule change requires each distributor to include, in its tariff structure statement, the export tariff transition strategy it has adopted for the potential introduction of export tariffs. The distributors are required to submit this to us even if they do not intend to introduce two-way tariffs in the short term, so that stakeholders have clarity on each distributor’s long-term plans. A distributor’s transition strategy should clearly show how the distributor will take into account the impact on customers of phasing in any proposed two-way pricing options, if a distributor is introducing two-way pricing options.

The export tariff transition strategy, while a requirement in the rules, is an opportunity for distributors to bring together the various elements that should go into forming their two-way pricing proposals, or at least set out their considerations about introducing two-way pricing. This includes explaining the role tariff trials will play in demonstrating the impact of potential future two-way pricing proposals.

3 Justifying two-way pricing and tariff trials

Section 1.3 of the draft Guidelines states we will not approve two-way pricing options unless a distributor can justify them in its particular circumstances.

The rule change does not mandate two-way pricing. Introduction of two-way pricing is only warranted where DER, including rooftop solar is driving or likely to drive network costs.

Distributors should base their two-way pricing considerations on the use of their networks, expectations of future network needs and related costs.

Ensuring networks justify two-way pricing proposals is important not just for the cost reflectivity of network tariffs, as required by the rules' pricing principles, but also for consumer and stakeholder acceptance of two-way pricing.

Solar Citizens submitted:[17]

> We welcome the indication in the Guidelines that the Australian Energy Regulator (AER) would only approve export charges where distribution networks can demonstrate that supporting exports is increasing network costs.

The Clean Energy Council submitted:[18]

> We welcome the AER’s indication that it would approve export charges only where DNSPs are able to demonstrate that supporting additional solar exports is increasing the costs of operating the network.

Energy Networks Australia submitted:[19]

> 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.

If distributors consider their network circumstances justify introduction of two-way pricing, they must demonstrate that the way in which two-way pricing is proposed to be established is justified in the circumstances.

Energy Consumers Australia submitted:

17 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

18 Clean Energy Council, *Submission on Export Tariff Guidelines Consultation Paper*, November 2021, p 1.

19 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 6.

> Energy Consumers Australia considers that export tariffs should be relatively rare, because the capacity of rooftop solar that typical residential consumers need to meet a reasonable majority of their energy needs likely fall within the intrinsic hosting capacity of most networks.

While we are unable to comment on how common two-way pricing may become, we agree with Energy Consumers Australia that the intrinsic hosting capacity of a distributor's network is a key factor for distributors and their stakeholders to account for when considering two-way pricing options.

We also note that interactions between tariffs, basic export levels, export limits (whether static or dynamic), network investment and customer preferences are complex and likely to change over time.

In developing tariff structure statement proposals in consultation with consumers, distributors should enable informed feedback on options for distributors to respond to large volumes of exported power entering their networks. This means providing information and analysis to their stakeholders to facilitate meaningful feedback on the merits of two-way pricing as a response to their network circumstances.

The role of tariff trials

The rules permit distributors to introduce trial tariffs. Trial tariffs are not required to conform with the pricing principles and do not need to be approved by the AER. Such tariffs are referred to as 'sub-threshold' because the maximum revenue these tariffs may earn is capped.

The AEMC's Access and pricing rule change final determination established transitional provisions which raise the revenue thresholds from 0.5 per cent of a distributor's annual regulated revenue per tariff, or 1 per cent of regulated revenue cumulatively,[20] to 1 per cent and 5 per cent respectively, significantly expanding the scope for distributors to run tariff trials.[21]

We encourage distributors to undertake tariff trials, to test innovative tariff structures and customer or third-party responses. We see tariff trials as important not just to a distributor's own understanding of tariff options, but also in communicating to customers and other stakeholders how two-way pricing may deliver benefits to consumers.

Trials may also demonstrate how two-way pricing can facilitate new services to support not only customers but also networks, wholesale markets and ancillary services markets.

[20] NER, cl. 6.18.1C.

[21] NER, cl. 11.141.8.

We do not anticipate that each distributor will trial every potential two-way pricing option available to them prior to introducing one or more two-way pricing tariff structures. Because of each distributor's capacity limitations to run trials, we encourage distributors to share tariff trial learnings with other distributors in addition to making those learnings more widely available.

We see tariff trials as an important element of each distributor's journey in considering, developing and introducing two-way pricing proposals where justified.

4 Stakeholder engagement in relation to proposed export tariffs

Section 4 of the draft Guidelines provides guidance on stakeholder engagement appropriate for distributors in developing two-way pricing proposals. This approach is consistent with the approach outlined in our consultation paper and the **Better resets handbook − towards consumer centric network proposals** (the Handbook).[22]

While the Guidelines do not prescribe a particular model or form of customer engagement, they provide direction that distributors should tailor their proposed two-way pricing to their customers' needs and priorities. This is consistent with feedback from Jemena that the Guidelines should allow distributors to be led by customers on what they themselves consider they can effectively contribute to.[23]

The Public Interest Advocacy Centre, Clean Energy Council, SA Power Networks, AusNet Services and Alinta Energy agreed broadly with our proposed approach to use the Better Resets Handbook as a framework to examine customer engagement.[24] They submitted that it was important for stakeholders to have the ability to meaningfully engage and shape tariff structure statement proposals.

The Australian Energy Council recommended the Guidelines include a requirement for distributors to give an overview of network tariff reform and the plausible outcomes of export tariffs to customers.[25]

While we consider the Australian Energy Council's suggestion is outside the scope of the Guidelines, as it relates to a broader responsibility for communicating tariff reform to customers, we note the importance of distributors incorporating contextual information in any two-way pricing proposals.

The introduction of two-way pricing is a significant development for distributors and their customers. It represents a shift in the way networks charge customers for the use of electricity services. Distributors should meaningfully engage with customers to

[22] AER, *Better Resets Handbook, Towards Consumer Centric Network Proposals,* December 2021.

[23] Jemena, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

[24] Public Interest Advocacy Centre, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; Clean Energy Council, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4; SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; AusNet Services, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Alinta Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

[25] Australian Energy Council, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, pp 1–2.

ensure the success of network tariff reform. They should clearly explain their approach to network tariff reform in plain English.

We expect distributors to engage with retailers on their two-way pricing proposals and explain them with appropriate clarity. This will enable retailers to reflect two-way network tariffs in their retail offers, to communicate clearly with their customers and to meet their obligations under the draft Better Bills Guidelines.

We place significant weight on the quality of distributors' engagement with stakeholders, including their customers, on two-way pricing. We consider this will improve the likelihood of consumer and stakeholder acceptance and reduce the risk of the AER requiring significant changes to a distributor's proposed tariff structure statement.

In many ways the Guidelines restate the expectations we already have for stakeholder engagement conducted by distributors.

While there was consensus amongst submissions on the importance of breadth and depth in engagement, feedback on our proposed approach was mixed. Energy Networks Australia[26] and Essential Energy submitted support for not prescribing a particular form of engagement. [27] However, CitiPower, Powercor and United Energy considered our approach to consumer engagement was highly prescriptive.[28]

Solar Citizens' submission discussed the importance of distributors having targeted strategies to engage consumers from a spectrum of demographics. Further, that while it understood the AER does not prescribe how engagement should be conducted, it considered that the Guidelines should include minimum thresholds of engagement.[29]

We agree with Solar Citizens that distributors should have targeted strategies to engage customers with different demographics. The Handbook and the draft Guidelines are clear that tailored channels of engagement are essential to understanding and representing the interests of customer cohorts. However, with regards to including minimum thresholds for engagement, our position is that this is difficult to define and should not be prescribed in the Guidelines. We also consider

26 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 5.

27 Essential Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

28 CitiPower, Powercor and United Energy*, Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

29 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3.

the other requirements outlined in the Guidelines implicitly provide a minimum threshold of engagement.

Overall, submissions were supportive of engaging a range of stakeholders:

- AusNet Services noted the importance of engaging with customers and the jurisdictional government regarding the formulation of basic export levels[30]
- as noted above, Solar Citizens expressed a preference for the Guidelines to require distributors to develop targeted strategies to engage customers from a spectrum of demographics, including low-income users with solar PV[31]
- AGL, Alinta Energy and Solar Citizens explained the importance of distributors engaging with retailers on how export tariffs are translated to retail offerings. [32]

Many stakeholders such as AGL, CitiPower, Powercor and United Energy, Red Energy and Lumo Energy, Evoenergy and the Public Interest Advocacy Centre supported the AER's preference for two-way proposals that capture the values and preferences of customers. [33]

SA Power Networks agreed with the expectation that distributors should demonstrate how feedback had been considered in its two-way pricing proposal but thought that the AER should not prescribe the specifics of how this is undertaken.[34]

The draft Guidelines reflect the views expressed above.

30 AusNet Services, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

31 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3.

32 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4; AGL, Submission on *Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Alinta Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

33 Public Interest Advocacy Centre, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

34 SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; AGL, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4; CitiPower, Powercor and United Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Red Energy and Lumo Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Evoenergy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

5 Approach to applying the network pricing objective and pricing principles in relation to export tariffs

The rules' pricing principles promote efficient tariff structures but also require distributors to manage the impact of price changes on consumers by gradually moving to new price signals over time.[35] Section 5 of the draft Guidelines describes how distributors should apply the rules' network pricing principles when developing two-way pricing proposals. Stakeholder submissions broadly supported the approach set out.

Recovering export service costs through export charges

Submissions were consistent in agreeing that costs incurred in providing consumption services should not be recovered through export charges. This is fundamental to the pricing principles. Export charges of any kind, whether variable or fixed, may recover only costs associated with providing the export service.[36]

However, some submissions differed on which costs associated with providing export services should be recovered through export charges.[37] In particular, there was disagreement over the recovery of historical costs.

Recovery of historical costs through export charges

Distributors and Energy Networks Australia submitted that the Guidelines should not preclude distributors from establishing export charges to recover residual costs in addition to long run marginal costs. We agree that export charges may reasonably recover both long run marginal and residual costs associated with providing export services.

Some distributors went further and submitted that historical costs should be recoverable through export charges.

[35] NER, cl. 6.18.5.

[36] AER, *Export tariff guidelines for distribution network export tariffs - consultation paper,* September 2021, p 20.

[37] Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 7; SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; CitiPower, Powercor, United Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Jemena, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; AusNet Services, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1; Red and Lumo Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

Evoenergy submitted:[38]

> Historical sunk costs are associated with network infrastructure that facilitates both import and export of electricity. We believe that limiting recovery of export driven sunk costs to import charges may therefore not be appropriate.

Endeavour Energy submitted:[39]

> While we agree that the [long run marginal cost] of export charges should reflect the incremental cost of providing an export service over and above the networks intrinsic hosting capacity for export. We also believe the concepts of 'incremental cost' and 'intrinsic hosting capacity' recognise that the provision of export services is contingent on the pre-existence of a shared network.
>
> …
>
> To preclude the DNSP from recovering residual costs from specific services, such as export only services, risks equity and subsidy concerns and may lead to inefficient over-investment in DER.

In contrast, Solar Citizens submitted that it:[40]

> …strongly supports the Guidelines stipulating that distribution networks must be prevented from using export tariffs to recoup costs for consumption services or legacy network issues, and that distribution networks must consider and account for potential overlaps to avoid double counting or unfair allocation of costs.

We agree with distributors and Energy Networks Australia that costs may be incurred in providing both the consumption and export services. An allocation of such shared costs is required to recover them efficiently and equitably through charges levied on consumption and export services. Such costs may be considered residual costs to the extent that distributors need to recover these costs after recovering the long run marginal cost (LRMC) from the charging components where LRMC applies, both for consumption and export services.

We also agree with Solar Citizens that distributors should account for any cost allocations between service types and on how such costs are to be recovered through tariffs.

On the issue of historical cost recovery, we consider that costs associated with providing a network's intrinsic hosting capacity should continue to be recovered

[38] Evoenergy, *Submission on Export Tariff Guidelines Consultation Pape*r, 4 November 2021, p 2.

[39] Endeavour Energy, *Submission on Export Tariff Guidelines Consultation Pape*r, 4 November 2021, p 2.

[40] Solar Citizens, *Submission on Export Tariff Guidelines Consultation Pape*r, 4 November 2021, p 4.

through consumption charges, as they are now. That is, historical costs associated with providing a network's intrinsic hosting capacity should not be recovered through export charges.

Our approach recognises that network assets already in use have an intrinsic capacity to support some exports without any additional investment and that customers (including those with rooftop solar) are already paying for this intrinsic capacity through consumption charges.

Future expenditure undertaken to expand network hosting capacity above its intrinsic hosting capacity, including both long run marginal and residual costs associated with export services, may be recovered through export charges. However, residuals should be recovered in ways that minimise distortions to the long run marginal cost price signals, consistent with the network pricing principles.

We do not consider it appropriate for a distributor to recover historical network costs through export charges. This is because those costs were primarily or exclusively incurred to provide the network consumption service, with intrinsic hosting capacity for exports being incidental. Moreover, the cost of historical network investment is being recovered through consumption tariffs. We consider historical network costs should continue to be recovered through consumption charges, as should future network costs associated with providing the consumption service.

The draft Guidelines list possible cost drivers for the export service. This list may not be exhaustive and is not exclusive. Distributors may identify other cost drivers.

Expressing long run marginal cost as a range

CitiPower, Powercor and United Energy submitted that long run marginal cost may be better expressed as a range rather than an absolute number.[41] These networks noted that calculating the long run marginal cost of export capacity is based on forecasting a number of uncertain trends, including take up of rooftop solar, home batteries and electric vehicles. Also uncertain are electric vehicle charging patterns, the level of future fuel switching from gas, and the impact of demand management.

We recognise that changes currently occurring in the sector make accurate forecasting difficult. We do not specify in the draft Guidelines whether long run marginal cost can be presented as a range. Nor do the rules mandate a particular approach to presenting long run marginal cost estimates.

41 CitiPower, Powercor and United Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

We will consider proposals where distributors express long run marginal cost initially as a range and then after consultation with stakeholders, select a single value as long as supporting evidence is provided.

Consider the impact on customers of changes in tariffs

The draft Guidelines note that distributors should demonstrate insights into the impact on customers resulting from any two-way pricing proposals and should share this with stakeholders. The draft Guidelines are not prescriptive in terms of how customer impact analysis should be undertaken. However, we consider relevant customer impact analysis should include the impact of two-way pricing on a range of different customer groups, including customers:

- with and without rooftop solar,
- with electric vehicles,
- who are considered vulnerable,
- in metropolitan, regional and remote areas.

The approach set out in our consultation paper was supported by submissions from Energy Networks Australia and distributors.[42] They noted we do not prescribe customer impact assessment techniques for consumption tariffs, allowing distributors to tailor their analysis to their individual network and customer characteristics.

In contrast, some submissions requested that we prescribe what distributors should focus on when conducting their customer impact analysis.[43]

While we agree that distributors should demonstrate their customer impact analysis, we do not prescribe specific forms of analysis. We seek to provide flexibility for distributors to determine how they will conduct their own customer impact analysis because distributors are best placed to determine the type of analysis most relevant to their network and customers.

Energy Networks Australia and Energy Queensland expressed concern that we may require customer impact analysis from distributors who are not proposing two-way

42 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 6; SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2; Endeavour Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

43 Energy Consumers Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 8 November 2021, p 12; Public Interest Advocacy Centre, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, pp 1–2; Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3; Red Energy and Lumo Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3; Australian Energy Council, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, pp 1–2.

tariffs.[44] This is because our consultation paper stated that we expect customer impact analysis would be incorporated in the export tariff transition strategy.

Our intention with the consultation paper was to signal that export tariff transition strategies should outline how distributors would use customer impact analysis to develop and consult on two-way pricing proposals. It would be inappropriate for distributors to be required to estimate bill impacts absent a proposal to establish two-way pricing in an upcoming regulatory control period.

In the context of managing customer impacts, the Clean Energy Council proposed that distributors be prevented from mandatorily assigning customers to two-way pricing structures before 2030.[45]

In response to the Clean Energy Council, we note such an approach would be inconsistent with the intent of the AEMC's rule change determination. Where distributors can justify the establishment of two-way pricing the updated rules now permit that to occur. The rules already bar mandatory reassignment of customers with DER at the time of the AEMC's final determination until July 2025. We will consider any proposed assignment of customers to two two-way pricing in light of the distributor's network circumstances at the time and the views of stakeholders.

The structure of two-way pricing must be reasonably capable of being understood or being incorporated

Some stakeholders submitted concerns that distributors may propose tariffs too complicated for customers to understand and/or too difficult to incorporate into retail tariffs.

Submissions from retailers such as Red Energy and Lumo Energy and Alinta Energy expressed a preference for simple network tariffs that customers can easily understand.[46] Those retailers and Solar Citizens also requested that distributors consult with retailers so that distributors have a better understanding of how their tariff structures would be translated into retail options.[47]

44 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 8; Energy Queensland, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

45 Clean Energy Council, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 7.

46 Red Energy and Lumo Energy, *Submission on Export Tariff Guidelines Consultation Paper,* 4 November 2021, pp 2–3; Alinta Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

47 Solar Citizens, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4.

SA Power Networks, however, requested that we clarify whether the Guidelines would require distributors to test their customers' understanding of tariffs.[48]

The draft Guidelines note that distributors should demonstrate customer understanding and have consulted stakeholders, including retailers and third-party intermediaries, on how two-way pricing structures can be incorporated into retail tariffs. When seeking to introduce two-way pricing in relatively simple forms, distributors should also demonstrate that they provide opportunity for greater sophistication over time.

We note that simplicity and efficiency may need to be balanced. Distributors should address this in relation to their network circumstances and stakeholder views.

48 SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.

6 Basic export levels

Section 6 of the draft Guidelines sets out background to, and the content of, the basic export level guidelines.[49]

The basic export level is the threshold (calculated by reference to capacity, energy or other measure permitted in a distribution determination), in the applicable tariff structure statement up to which the retail customer can export for free to the network without incurring a charge.[50] This is a time-limited requirement for the two upcoming regulatory control periods (10 years in total), that is, the tariff transition period.

The draft Guidelines note that during the tariff transition period distributors are required to include in their tariff structure statements the basic export level, or the manner in which the basic export level will be determined, for each proposed export tariff. Distributors must also include the eligibility conditions applicable to each proposed export tariff.[51]

We note that basic export levels may vary during the 10-year transition period to account for potential changes in DER penetration, customer responses to export tariffs, and government policy.

Stakeholders submitted support for the Guidelines setting out a principles-based approach to the basic export level.[52] Some submissions provided suggestions on approaches that should be taken by distributors. For example, Energy Consumers Australia submitted:[53]

> If establishing a basic export service level requires network investment to meet basic consumer needs, distribution networks should demonstrate that they have exhausted most of these integration approaches aside from augmentation. Indeed, distribution networks should identify their own lists of technically potential DER integration options and then assess the cost of each of them if they require

49 NER, cl. 11.141.14(a).

50 NER, cl. 11.141.1.

51 NER, cl. 11.141.13(a).

52 SA Power Networks, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3; Evoenergy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.; CitiPower, Powercor and United Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3.; Jemena, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 4.; Energy Queensland, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 2.; Endeavour Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 3.

53 Energy Consumers Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 8 November 2021, p 5.

the use of DER integration techniques to maximise the intrinsic hosting capacity of their existing network to meet a basic export level.

We agree with Energy Consumers Australia and note the rule requirement that in setting their basic export levels distributors must have regard to:

- the export capacity of the distribution network (or part) to the extent it requires minimal or no further investment
- the forecast usage of export services in the distribution network (or part).[54]

The above requirements are set out in the draft Guidelines.

[54] NER, cl. 11.141.13 (b)(1). This reflects the base level of DER hosting capacity that all networks currently provide, because network assets constructed to supply load have an inherent capacity to support some reverse power flow without any additional investment.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
DER	distributed energy resources
distributor	Distribution Network Service Provider
Guidelines	Export Tariff Guidelines
Handbook	Better Resets Handbook
LRMC	Long run marginal cost
rules, NER	National Electricity Rules
rooftop solar	rooftop solar photovoltaic energy systems