Export Tariff Guidelines

Explanatory statement

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AUSTRALIAN
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Contents

1 Introduction

This explanatory statement provides our rationale for the Export Tariff Guidelines (Guidelines). Publication of the Guidelines follows publication of a consultation paper[1] and draft Guidelines[2], our holding a public forum[3], our consideration of stakeholder written submissions[4] and bilateral stakeholder meetings.

The draft Guidelines included guidance on:

- the structure of export tariffs (see Box 2 for an explanation of export tariffs)
- the structure of proposals for two-way pricing
- stakeholder engagement
- our approach to applying the network pricing principles, including customer impact analysis
- the basic export level guidelines (see Box 3 for an explanation of the basic export level).

We respond to stakeholder feedback from both the consultation paper and the draft Guidelines in this explanatory statement. We received 21 submissions on the consultation paper and 11 submissions on the draft Guidelines.[5] This explanatory statement should be read alongside the 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).[6] The rule change aims to integrate distributed energy resources (DER)[7], such as solar panels and batteries, more efficiently onto the electricity grid. See Box 1 for an explanation of DER.

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 AER, *draft Export Tariff Guidelines*, 19 January 2022.

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

4 Written submissions closed 4 November 2021.

5 Submissions are available publicly here: https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/export-tariff-guidelines

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

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

Box 1: Distributed energy resources (DER)

Distributed energy resources (DER) are 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.[8] 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: Export tariffs

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 can 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 incorporated in the Guidelines.

Energy Queensland submitted that the Guidelines should primarily focus on residential and small business customers.[9] We acknowledge the stakeholder engagement components of the Guidelines will be of particular importance to tariffs for residential and small business customers relative to large customers connected on the high voltage network. Large customers have greater capacity and capability to engage with distributors on export tariff structures. Tariff structures are explained further in Box 5 and throughout this document.

8 Formerly NER, cl. 6.1.4. Now deleted.

9 Energy Queensland, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1.

Box 3: Basic export level

The basic export level is the threshold below which the retail customer can export to the network without incurring a charge.[10] This level is identified within the tariff 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: 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.

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

10 NER, cl. 11.141.1.

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.

Stakeholder submissions on our draft Guidelines and consultation paper tended to support principles-based Guidelines.[11]

Energy Consumers Australia submitted:[12]

> In our view, the Guidelines provide good guidance to networks as to how to form basic export limits and will ensure that they are set at a reasonable level. We also consider they outline the principles of sound stakeholder engagement.

Conversely, Red Energy and Lumo Energy submitted: [13]

> Red and Lumo recommend that the AER consider making the Guideline enforceable.

Our approach to the Guidelines is intended to provide robust guidance but also allow for flexibility between the distributors. While the Guidelines are not binding on distributors under the rules[14], the broader tariff structure statement process under which we make determinations on potential two-way pricing proposals is binding. We have authority to apply the Guidelines, once finalised to our decision-making, but we will retain flexibility to respond to circumstances as they emerge.

11 Energy Networks Australia, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1; South Australia Power Networks, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1. Energy Queensland, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1, Ausgrid, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1; AusNet Services, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1; South Australia Department for Energy and Mining, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1; Energy Consumers Australia, *Submission on draft Export Tariff Guidelines,* 2 March 2022, p 2;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.

12 Energy Consumers Australia, *Submission on draft Export Tariff Guidelines,* 2 March 2022, p 2.

13 Red Energy and Lumo Energy, Submission on draft Export Tariff Guidelines, 9 March 2022, p 2.

14 NER, cl. 6.8.1B(d).

2 Introducing export tariffs through our regulatory determination process

A distributor may only propose to introduce export tariffs at the start of each 5-year regulatory control period. Any proposed export tariff is submitted to us in the distributor's tariff structure statement.[15] 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 5-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 5 years. The regulatory determination process involves considerable customer and stakeholder consultation by both the distributor and the AER.

Box 5: Tariff structure statement proposals

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 statement complies with the rules including the distribution pricing principles, not approve the tariff structure statement[16]

15 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.

16 NER, cl. 6.12.3(k).

- 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.[17]

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[18]	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 2 regulatory periods (each regulatory period lasts for 5 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.

Box 6: Export tariff transition strategies

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 consider 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

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

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

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 Guidelines state 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. See Box 1 for an explanation of DER.

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:[19]

> 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:[20]

> 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:[21]

> 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.

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

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

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

Energy Consumers Australia submitted[22]:

> 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. See Box 4 for an explanation on intrinsic hosting capacity.

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.

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 that raise the revenue thresholds from 0.5% of a distributor's annual regulated revenue per tariff, or 1% of regulated revenue cumulatively[23], to 1% and 5% respectively, significantly expanding the scope for distributors to run tariff trials.[24]

Energy Networks Australia and SA Power Networks submitted that tariff trials are an important tool to inform future tariff proposals but should not be mandatory.[25] It is correct that under the rules there is no requirement for distributors to undertake tariff trials. While not mandatory, we encourage distributors to undertake tariff trials to test innovative tariff structures and to understand customer or third-party responses. This is important in helping customers and other stakeholders understand how two-way pricing may deliver benefits.

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

23 NER, cl. 6.18.1C.

24 NER, cl. 11.141.8.

25 Energy Networks Australia, *Submission on draft Export Tariff Guidelines*, 8 March 2022, p 3; SA Power Networks, *Submission on draft Export Tariff Guidelines*, 8 March 2022, p 1.

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.

We do not anticipate that each distributor will trial every potential two-way pricing option available to them before 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. This builds the capacity of all distributors to propose export tariff strategies and to explore potential tariff options more efficiently.

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 for proposed export tariffs

Section 4 of the Guidelines provides guidance for distributors on stakeholder engagement appropriate for 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).[26]

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.[27]

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 Handbook as a framework to examine customer engagement.[28] They submitted that it was important for stakeholders to have the ability to meaningfully engage and shape tariff structure statement proposals.

The introduction of two-way pricing, where justified, 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 ensure the success of network tariff reform. They should clearly explain their approach to network tariff reform in plain English.

Red Energy and Lumo Energy submitted that the Guidelines should consider the impacts of two-way pricing on the Default Market Offer (DMO) and Better Bills Guideline.[29]

We expect distributors to engage with retailers while forming their two-way pricing proposals and explain them with appropriate clarity. The Guidelines have been amended to make it clearer that we expect retailer engagement throughout the process of introducing two-way pricing, not just afterwards, as per Energy Consumer Australia's submission.[30] This will

26 AER, *Better Resets Handbook, Towards Consumer-Centric Network Proposals,* December 2021.

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

28 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.

29 Red Energy and Lumo Energy, *Submission on draft Export Tariff Guidelines,* 9 March 2022, p 3.

30 Energy Consumers Australia, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 2.

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 Better Bills Guideline.

However, the Guidelines are aimed at distributors (setting their network tariffs), not retailers. While we expect that any two-way retail tariffs comply with the Better Bills Guideline, in line with Red Energy and Lumo Energy's submission, we consider that going into the impacts on the DMO and Better Bills Guideline goes beyond the scope of guiding distributors.

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 among submissions on the importance of breadth and depth in engagement, feedback on our proposed approach in the consultation paper was mixed. Energy Networks Australia and Essential Energy submitted support for not prescribing a particular form of engagement.[31] However, CitiPower, Powercor and United Energy considered our approach to consumer engagement to be highly prescriptive.[32] Overall, submissions on the consultation paper were supportive of engaging a range of stakeholders.[33] Solar Citizens' submission on the consultation paper discussed the importance of distributors having targeted strategies to engage consumers from a spectrum of demographics. Further, while it understood the AER does not prescribe how engagement should be conducted, it considered that the Guidelines should include minimum thresholds of engagement.[34]

We agree with Solar Citizens that distributors should have targeted strategies to engage customers with different demographics. The Handbook and the 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

31 Energy Networks Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 5; Essential Energy, *Submission on Export Tariff Guidelines Consultation Paper*, 4 November 2021, p 1.

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

33 AusNet Services, *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 3; 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.

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

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

Many stakeholders such as AGL, CitiPower, Powercor, 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.[35]

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.[36]

The Guidelines reflect the views expressed above.

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

36 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 for 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.[37] Section 5 of the 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.

Recovery of historical costs through export charges

Distributors and Energy Networks Australia submitted on the consultation paper that the Guidelines should not preclude distributors from establishing export charges to recover residual costs in addition to long run marginal costs. Some distributors went further and submitted that historical costs should be recoverable through export charges. [38]

We agree with distributors and Energy Networks Australia that costs may be incurred in providing both the 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.

On the issue of historical cost recovery, costs associated with providing a network's intrinsic hosting capacity should continue to be recovered 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. See Box 4 for an explanation of intrinsic hosting capacity.

The approach in our draft Guidelines recognised 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 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

[37] NER, cl. 6.18.5.

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

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

We received further submissions on the recovery of historical costs through export charges in response to our draft Guidelines.

Energy Networks Australia submitted:[39]

> We … recommend that the AER consider further the cost recovery treatment of historical DER enablement costs (i.e., historical costs that have been incurred to increase a network's DER hosting capacity), which should instead be engaged on through the TSS process.

South Australia Department for Energy and Mining submitted:[40]

> The Division considers that retrospective costs, such as those associated with providing a network's intrinsic hosting capacity, should not be recovered through export charges… However, residual historic costs related to network investments that enabled export services should be recovered if able to accurately be identified by DNSPs.

On cost allocation and overlap, Ausgrid submitted: [41]

> In our view export customers should not cross-subsidise consumption customers. We consider that the draft Guidelines section on 'Network intrinsic hosting capacity' potentially goes further than this… by implying there can be no recovery of expenditure in export tariffs that was not driven by demand for export services.
>
> We suggest that the final guidance clarifies how distributors should set export charges (and rewards) in situations where long-run marginal cost prices would over-recover the specific costs incurred for providing these services.

Our final position on historical cost recovery remains unchanged. That is, we do not support the recovery of historical DER enablement costs through export tariffs. This is consistent with the position expressed in our submission on the AEMC's draft rule change determination. In that submission, we noted that consumer DER investments to date have been undertaken in good faith without export tariffs.[42] These costs are already being recovered through

[39] Energy Networks Australia, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 2.

[40] South Australia Department for Energy and Mining, *Submission on draft Export Tariff Guidelines*, 8 March 2022, p 2.

[41] Ausgrid, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 2.

[42] AER, *Submission on AEMC's Access, Pricing and incentive arrangements for distributed energy resources draft decision,* 27 May 2021.

consumption tariffs and it is not appropriate to retrospectively reassign these costs to export charges.

However, there is a question of timing as to when distributors may start to recover export service costs from export tariffs. In section 5.1.2 of the Guidelines, we have provided 2 potential dates that distributors may consult stakeholders on when designing their export tariff transition strategy.

Regarding Ausgrid's query about LRMC pricing, the pricing principles as they relate to consumption charges relate to export charges in the same way. The LRMC price signal is the most appropriate signal to send to customers and there should not be overlap between LRMC price signals for the export and supply services. Where residual costs are incurred, the pricing principles require them to be recovered in ways that do not distort the long run marginal cost price signal. Residual costs should also be allocated to supply and export charges appropriately.

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.[43] 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 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.

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 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 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

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

- in metropolitan, regional and remote areas.

The approach set out in our consultation paper was supported by submissions from Energy Networks Australia and distributors.[44] 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, Energy Consumers Australia requested in submissions to the consultation paper and draft Guidelines that we prescribe what distributors should focus on when conducting their customer impact analysis.[45]

We agree that distributors should demonstrate their customer impact analysis and we will not approve a distributor's tariff structure statement proposal if the distributor does not demonstrate quality, insightful customer impact analysis and engagement with its stakeholders. We have not prescribed any one form of customer impact 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 tariffs.[46] 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. The export tariff transition strategy is discussed further in section 2 and Box 6 of this document.

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.[47]

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

44 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.

45 Energy Consumers Australia, *Submission on Export Tariff Guidelines Consultation Paper*, 8 November 2021, p 12; Energy Consumers Australia, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 2.

46 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.

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

determination until July 2025. We will consider any proposed assignment of customers to two-way pricing in light of the distributor's network circumstances at the time and the views of stakeholders.

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.

Red Energy and Lumo Energy, and the Energy and Water Ombudsman of Queensland expressed a preference for simple network tariffs that customers can easily understand.[48] Red Energy and Lumo Energy also submitted that distributors should develop consistent export charging windows for consumers in the same jurisdiction.

The Guidelines note that we expect distributors to demonstrate customer understanding and to consult stakeholders, including retailers and third-party intermediaries, on how two-way pricing structures can be incorporated into retail tariffs. We have amended the Guidelines to be clearer on this, in line with the Australian Energy Council's submission.[49] 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, complexity and efficiency may need to be balanced. Distributors should address this in relation to their network circumstances and stakeholder views. While we agree with stakeholders that some tariffs should be simple where possible, prescribing simplicity could inhibit distributors from creating innovative tariff solutions. Because two-way tariffs are new, we recognise some level of complexity may be unavoidable. On this, we expect that distributors engage with retailers and their customers throughout the tariff structure statement process to co-design both simple and complex network tariffs that can be understood and/or incorporated as best as possible.

We also acknowledge that consistency between distributors in the same jurisdiction can aid customer and retailer understanding in some circumstances. However, we do not think it should be a requirement for distributors in the same jurisdiction to have the same charging windows because different areas of the grid have different network investment pressures.

48 Red Energy and Lumo Energy, *Submission on draft Export Tariff* Guidelines, 9 March 2022, p 1; Energy and Water Ombudsman Queensland, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 2.

49 Australian Energy Council, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1.

6 Basic export levels

Section 6 of the Guidelines sets out background to, and the content of, the basic export level guidelines.[50]

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.[51] This is a time-limited requirement for the 2 upcoming regulatory control periods (10 years in total) – that is, the tariff transition period.[52]

The 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.[53]

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.[54] Some submissions provided suggestions on approaches that should be taken by distributors. For example, Energy Consumers Australia submitted:[55]

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

50 NER, cl. 11.141.14(a).

51 NER, cl. 11.141.1.

52 NER, cl. 11.141.12(a)(2); NER, cl. 11.141.1, definition of 'transition period'.

53 NER, cl. 11.141.13(a).

54 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.

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

Ausgrid went further than Energy Consumers Australia in its submission on the draft Guidelines and submitted[56]:

> We seek further guidance from the AER on approaches distributors can adopt to calculate a basic export level… We recommend the AER include simplified worked examples in the final Guideline to help distributors comply with the NER…

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).[57]

In response to Ausgrid, we consider the guidance already provided in the basic export level guidelines is appropriate. Distributors should retain flexibility to tailor their approaches according to their circumstances and to reflect stakeholder preferences. These proposals should be well justified and we will assess them as part of the tariff structure statement process.

56 Ausgrid, *Submission on draft Export Tariff Guidelines,* 8 March 2022, p 1.

57 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 DNSP	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