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Dr Kris Funston
Executive General Manager
Australian Energy Regulator

by email: exportservicesreview@aer.gov.au

Dear Kris

Incentivising and measuring export services performance – Submission to the Draft Decision

AusNet welcomes the opportunity to provide this submission to the Australian Energy Regulator's (**AER**) draft decision on incentivising and measuring export services performance.

We welcome the AER's draft decision to allow for the development of bespoke incentives for export services, and the decision to delay any changes to benchmarking at this stage. The introduction of new and targeted incentives will ensure network investment is directed towards services customers most value. Delaying export-related benchmarking is appropriate given the significant data gaps to support sound benchmarking outcomes. However, a holistic benchmarking review should be carried out urgently, to address numerous issues with the current models and approach, as raised by us and other networks previously.

Our response to the draft decision is provided below.

Incentive review for exports services

We welcome the AER's decision to not extend the Service Target Performance Incentive Scheme (**STPIS**) for export services, due to lack of robust data necessary for the standardisation of an incentive scheme, and due to differences between distributors regarding demand for export services and network conditions.

We also welcome the AER's proposal to introduce a new small-scale incentive scheme (**SSIS**) to permit distributors to propose bespoke incentive schemes through regulatory resets. A SSIS will allow distributors and their customers to design a scheme that is in line with customers' preference and values, and addresses network-specific needs. The new SSIS should be separate, and additional, to the Customer Service Incentive Scheme (**CSIS**), as the two are likely to have different purposes—for example, the CSIS is focussed on customer service or experience incentives, while the new SSIS may be centred around export or capacity data.

We support a future review of incentive schemes for export service. Rather than determining the date of the future review through this consultation, we propose the AER monitor the quality of the export services performance data to determine if sufficient data quality improvements have occurred to warrant a holistic review. This should include monitoring of the performance of distributors' bespoke schemes and if further changes to the incentive framework are necessary.

Improvements to demand management incentives to support two-way flows

The energy sector is undergoing significant reform, which is both driving growth in exports and two-way flows on the network, as well as presenting technological opportunities for networks to innovate in how these two-way flows are managed. As distributors transition to the role of the Distribution System Operator (**DSO**), the level of innovation required to support new operations, including management of imports and exports in real time, will be substantially higher than in the past where innovation was focused largely on one-way flow.

We welcome the AER's confirmation that the Demand Management Innovation Allowance (**DMIA**) and the Demand Management Incentive Scheme (**DMIS**) are inclusive of export services. However, when the DMIA and the DMIS were designed, and then updated five years ago, the main focus and intent of the schemes

were peak demand management. This does not capture the need to manage export-related challenges on the network, including (but not limited to):

- hosting capacity management
- minimum demand and reverse flow management
- power quality management.

These export-related challenges require solutions and innovative approaches that may be different to peak demand management. For example, a dynamic voltage management system (**DVMS**) is an innovative solution that improves power quality and hosting capacity on the network but does not address peak demand challenges.

As both peak demand and export related challenges will only continue to grow, with the electrification of gas/transport and the growing penetration of CER, we encourage the AER to further consider whether the DMIA and the DMIS are still sufficient and fit for purpose to continue to encourage innovation and investment in flexible solutions.

To better align the schemes with the changing needs of the network and our customers, we propose:

1. An increase to the DMIA to account for growing need for innovation in both imports and exports (two-way flow management)

We anticipate significant innovation will be required in areas related to dynamic network management of two-way flows, implementation of remote controls of exports and imports, dynamic pricing and management of new loads such as electric vehicles and smart appliances, transition to use of dynamic limits on imports, and similar. Trials of these technologies are likely to cost an order of magnitude of the current DMIA funding, which may stifle innovation in the absence of government subsidies. It is appropriate to double the value of the DMIA, given the magnitude of new challenges facing networks, related to both imports and exports.

2. Changes to the DMIS criteria to allow for any procurement process that is non-discriminatory

The DMIS requirement to tender for solutions and publish the tender to the Demand Management Register is no longer fit for purpose as network management becomes more dynamic. For example, through EDGE we are trialling a new model for network service procurement, which includes sharing opportunities for network support though a service exchange platform. Equally, proponents of new technologies such as community batteries may negotiate a network service contract with us based on their chosen location for the connection, which would necessarily be catered for that proponent in that circumstance.

The DMIS criteria should be updated to allow for procurement of network services through any process that demonstrates the non-network solution is efficient and the process was non-discriminatory towards any party.

We consider there is merit in updating the DMIA and the DMIS as well as designing a bespoke export service incentive, as there are sufficient protections in the current regulatory framework against double-counting. For example:

- networks need to apply for DMIA funding, which considers whether the costs claimed are recoverable through other sources including approved revenue allowances, other incentive schemes, or any other state or Australian Government schemes
- DMIA is typically used for projects that are uneconomic at the time, which would exclude them from being funded under the efficiency incentives
- the Chief Executive needs to sign a Statutory Declaration that highlights there is no double-counting when applying for DMIA funding.

If the AER and stakeholders are concerned with double-counting under multiple incentive schemes, this can be addressed through use of conditions in the development of the new incentives (e.g., a requirement the incentive scheme does not reward networks for investment funded through other mechanisms).

Export service performance reports

We support the extension of performance reporting to export services, to capture exports in the overall reporting requirements by networks. While we consider the quantity of data requested, as published in the Export service straw man request, is substantive and likely disproportionate to the impact of exports on network

performance, our key comments are on the reliance on data that may not be accurately reported to networks, as well as the level of estimation required.

A key data source for export related services and records is the distributed energy resource (**DER**) register. The register is owned by the Australian Energy Market Operator (**AEMO**), while distributors are required to collect the data from installers and share it with AEMO. The DER register is filled out (by installers) as part of an application process for the connection of DER.

In the recently published consultation paper on the Electric Vehicle Supply Equipment Standing Data, the Energy Security Board highlighted some of the data accuracy issues with the current DER register.[1] We are working with AEMO and the industry to improve the data quality of the register; however, in the meantime the data linked to the DER register should be used with caution, for performance or benchmarking purposes.

Additionally, several proposed metrics in the exports service straw man request require estimation using data that is not available to distributors (e.g., the metric '11.0.4 - Total utilised consumer energy resources generated' requires data on the generation of CER which is not available to distributors and may not be metered by any party). This would require estimates of several factors which may not be possible to verify at present. There would also likely be differences in the approach taken by each network in estimating these metrics which could lead to materially different results due to estimation differences alone. We look forward to working with the AER on the development of appropriate estimation techniques for these metrics.

Update to benchmarking reports

We welcome the AER's draft decision and support its proposed approach of collecting data to understand the materiality of the impact of export services on benchmarking, before taking concrete steps to modify the benchmarking models. Specifically, we agree:

- an interim export services operating environmental factors (**OEF**) should not be developed
- a full review of the benchmarking models with respect to export services is required
- there should be no further consideration of excluding exports service inputs from the benchmarking inputs.

We make the following observations with respect to data collection and materiality checks process described in the AER's draft decision:

- We agree that a materiality check is necessary to ensure that resources and effort are focussed on areas that have the greatest ability to impact benchmarking outputs.
- We agree that the definitions of Energy Throughput (**ETP**) and Ratcheted Maximum Demand (**RMD**) could potentially be changed to account for self-consumption / underlying demand. To the best of our knowledge, there is no requirement for benchmarking outputs to be aligned with how the National Electricity Rules define services. However, as mentioned above in relation to performance reporting, the estimation methodology will be important.
- We agree that the size of export hosting services can be proxied by either Option 1 (export services customers as a proportion of total customers) or Option 2 (curtailment measure weighted by Customer Export Curtailment Value (**CECV**)), and that this could be introduced as a new output measure on top of a change in the ETP and RMD definitions, provided there is no double counting.
- Conceptual merit is similar to theory in that it may be accurate (or appropriate) in highly controlled environments. Intuitive sense should be added to the final assessment criteria as a check on the conceptual merit.

Feedback on the proposed data collection

Table 1 provides our preliminary views of the proposed data to be collected.

The overarching issue is that historical data (2006 or 2012 start) cannot be provided or estimated with sufficient reliability to enable it to be used for benchmarking and the assessment of base year efficiency. Our systems

[1] ESB, Electric Vehicle Supply Equipment Standing Data, consultation paper, Appendix B – Summary of DER Register processes, December 2022.

and processes for data collection, with respect to exporting customers, have evolved over time and we are not able to reliably interpret historical data, or make assumptions about historical data gaps to allow for estimation, as far back as 2006 (or 2012). Consequently, the AER should reconsider the need for collecting historical data.

A more robust and accurate approach to data collection would be to select a realistic commencement date, where this becomes the base or benchmark on which future export services data is compared against. We propose a commencement date of 1 July 2024, which allows consultation on the form and granularity of the data, and systems and processes to be updated over a 6–12-month period.

The data collected should be reliable without being overly onerous and without requiring a standard of auditing that is disproportionate to the impact.

Table 1 AusNet preliminary views on AER's proposed data collection for benchmarking

AER's proposed data collection	AusNet preliminary views
Annual quantity of energy self-consumed; and average quantity of energy self-consumed during the same peak hours over which maximum demands at transmission connection points are calculated	An estimation approach, and an ability to verify assumptions, would be needed.
Average quantity of energy exported during the same peak hours over which maximum demands at transmission connection points are calculated	We can provide this data as we have access to net consumption from smart meters.
Data to inform an assessment of whether expenditures undertaken to provide export services are likely to reduce customer minutes off-supply (**CMOS**)	Expenditures on export services are unlikely to have an observable reduction on CMOS, if at all. The primary cause of maximum demand outages can be effectively mitigated by targeted augmentation with meter data and network analytics.
Export customer numbers as a proportion of total customer numbers	This can be provided as our systems and processes do capture this information.
Exported electricity as a proportion of energy throughput	We can provide this data as we have access to net consumption from smart meters.
Export services cost (opex and capex)	We can provide this information once guidance is provided on what costs are included/excluded, and sufficient time is provided for systems/process upgrades.
Data to calculate a curtailment measure	While the data on export limits can be provided, it is unclear how curtailment will be measured for customers with static limits, or how to account for the differences between exports being curtailed by networks and exports being curtailed by other factors. Data accuracy is also an important factor as the data would be captured from the DER register.

A holistic review of benchmarking should be undertaken urgently

A holistic review of the benchmarking models needs to be untaken urgently and cannot wait until 2027. The impact of export services is potentially minor compared to other factors so it should not be the reason to delay a complete and fulsome review.

There has not been a holistic review of the current benchmarking models since they were developed in 2014, and substantive concerns raised repeatedly by AusNet and other networks in recent years have not been adequately addressed. In particular, we are concerned that :

- the inclusion of Guaranteed Service Level payments in the benchmarking models distorts the outcomes
- Sapere Merz' recommendation of prioritising a vegetation management OEF has not been addressed
- the current bushfire OEF is out of date as it only accounts for bushfire-related regulatory obligations arising from the Bushfire Royal Commission, and not new bushfire-related costs that have since arisen.

We are currently undertaking some work to address these factors and will make a submission to the AER in February 2023. Finally, we welcome the AER's recently published Draft Guidance Note on the impact of capitalisation differences on benchmarking as it is an issue that has been raised by networks, including AusNet.

Please do not hesitate to contact Angella Nhan on [redacted] about benchmarking or me on [redacted] about the remainder of the submission.

Sincerely,

[redacted]

Sonja Lekovic
Regulatory Policy Manager
AusNet Services