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Dr Kris Funston
Executive General Manager, Network Regulation
GPO Box 520
Melbourne, VIC 3001

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Kris,

Ausgrid welcomes the opportunity to provide this submission on the Australian Energy Regulator's (**AER**) Draft Distributed Energy Resources (**DER**) Integration Expenditure Guidance Note (**Guidance Note**).

Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometers from the Sydney CBD to the Upper Hunter. As a Distribution System Operator (**DSO**) we have an important role in providing safe, reliable, and efficient network services that enable customers and communities to get the most value from DER investments and supports the transition to distributed and renewable energy system.

Ausgrid generally supports the AER's approach to developing the Guidance Note. DER integration expenditure will help network businesses better support customers with DER. The Guidance Note's role to provide a clear process is important for both network businesses and customers. However, in response to the AER's Guidance Note and the associated Explanatory Statement's consultation questions, Ausgrid believes that consideration should be given to the following matters.

Be technology neutral and broader in scope

The Guidance note should take a broad approach to its framing of DER technologies and integrating expenditure. A broader scope will ensure that changing technology types and associated expenditure allowances for networks can be accommodated in the long term. Ausgrid notes that solar is the current dominant DER technology. However, this may not always be the case with the anticipated take-up of other types of DER such as electric vehicles. Therefore, adopting a broader approach mitigates the risk of inadvertently impeding new technology entrants into the market and enables the NEM to remain technology neutral. Taking a technology neutral approach is consistent with the Australian Energy Market Commission's (**AEMC**) advice for interpreting the National Energy Objectives (**NEO**) where they recommend frameworks should be flexible and resilient to support the energy sector respond to technology changes.¹

¹ AEMC 2019, *Applying the Energy Market Objectives*, p6. https://www.aemc.gov.au/sites/default/files/2019-07/Applying%20the%20energy%20market%20objectives_4.pdf

The business case should take a principles approach

The business case format should not take a prescriptive approach. A prescriptive approach is not appropriate because of the rapid evolution and roll out of DER as it would be cumbersome and be likely to result in sub optimal outcomes that do not realise the full value of DER expenditure. A principled based approach is more appropriate as it allows for the consideration of new technology types and innovative solutions and will allow the Guidance Note to remain current in an evolving DER environment as new regulatory components of DER integration come into play.

Expand the definition of environmental benefits

In our view the Guidance Note's approach to environmental benefits is too narrow. It should be expanded beyond only being quantified 'if there is an identifiable tax, levy, or other payment associated with the environmental or health costs, which producers are required to pay or where jurisdictional legislation directs DNSPs to consider the impact of these externalities and has provided a value that is to be used'. Instead, it should be consistent with the AEMC's application of the NEO that support network businesses taking environmental benefits into account.²

This broader interpretation of environmental benefits was further supported in the AEMC's *Final Rule Determination on Access, Pricing and Incentive Arrangements for DER (rule determination)*. It used 'robustness to climate change mitigation and adaptation risks' as a criterion for the rule determination as it was considered relevant to promoting the long-term interest of consumers.³

Expanding the definition of Value of DER (VaDER)

We welcome the AER developing a customer export curtailment value (**CECV**) that quantifies market benefits of exports and can be used consistently by network businesses. We look forward to engaging with the AER on the methodology for the CECV when the draft is released later this year.

However, we continue to disagree with the exclusion of customers' 'willingness to pay' from the VaDER methodology. An important feature of the regulatory framework under which we operate is that our customers, and advocates representing customer interests, have a direct influence on the services and expected service levels from the shared distribution network. It is vital that the framework allows us to make investments in hosting capacity to the level our customers value and are willing to pay for. This is aligned with how reliability levels are currently set.

General comments

We also note the recent release of the Energy Security Board's (**ESB**) *Post 2025 Market Design Final Advice to Energy Ministers Part B* which highlights the importance and complexity of DER

² AEMC 2019, above n.1, p8-9.

³ AEMC 2021, *Final Rule Determination on Access, Pricing and Incentive Arrangements for DER*, p10. <https://www.aemc.gov.au/sites/default/files/2021-08/Final%20determination%20-%20Access%2C%20pricing%20and%20incentive%20arrangements%20for%20DER.pdf>.

expenditure integration and the role of network businesses as DSOs.⁴ The AER's final Guidance Note should therefore consider the implications of this report.

We thank the AER for providing Ausgrid with an opportunity to provide a submission on the draft Guidance Note and look forward to further developments supporting DER integration into the NEM. Should the AER have any questions in relation to this submission, please contact Naomi Wynn, Manager Regulatory Policy at [REDACTED].

Regards,

[REDACTED]

Rob Amphlett Lewis
Chief Customer Officer

⁴ ESB 2021, *Post 2025 Market Design Final Advice to Energy Ministers Part B* P69-70. <https://esb-post2025-market-design.aemc.gov.au/32572/1629945809-post-2025-market-design-final-advice-to-energy-ministers-part-b.pdf>