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Dear Mr Anderson

Ausgrid welcomes the opportunity to provide this submission in response to the Australian Energy Regulator's (AER) Draft Export Tariff Guidelines (**draft Guidelines**).

It is important for us to note at the outset that we have not decided whether we will seek to introduce export tariffs in our 2024-29 Tariff Structure Statement (**TSS**). Our decision whether to introduce export tariffs will be informed by factors including our ongoing customer engagement and what we learn from our two-way tariff trials.

The draft Guideline provides useful guidance for Ausgrid in preparing for our 2024-29 TSS proposal. We broadly support the draft Guideline. The AER's guidance, in most areas, aligns with our expectations of how the AEMC's rule change to remove the prohibition of charging for exports should be implemented. We appreciate the AER's ongoing engagement and consultation with Ausgrid and other stakeholders on the draft Guidelines.

Below we seek further clarification on two elements of the draft Guidelines.

Basic export level

We seek further guidance from the AER on the approaches distributors can adopt to calculate a basic export level. The NER and draft Guidelines require that basic export levels are set with regard to:

- the capacity of the network to accept exports to the extent it arises from the provision of electricity supply to customers with minimal or no further investment – the intrinsic hosting capacity; and
- forecast exports from customers on the network.

We have begun consulting with customer representatives, through our Pricing Working Group on how we would interpret the rules and calculate basic export levels, if an export tariff was introduced. We have outlined in the appendix the different approaches we have presented to our Pricing Working Group for calculating the basic export level. We recommend the AER include simplified worked examples in the final Guideline to help distributors comply with the NER, we have included the examples we developed for our pricing working group in the Appendix.

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

We support basing export tariffs on long-run marginal costs, consistent with both the guidance and NER pricing principles. Long-run marginal cost price signals will help customers and distributors manage our networks and the transition to higher levels of distributed energy resources. We consider that signalling the long-run costs of customers exports (and investments in export technologies) is essential to help customers make sustainable decisions (and maximise allocative efficiency).

In our view export customers should not cross-subsidise consumption customers.[1] We consider that the draft Guidelines section on 'Network intrinsic hosting capacity' potentially goes further than this, and the NER, by implying there can be no recovery of expenditure in export tariffs that was not driven by demand for export services.

This becomes an issue where a distributor can temporarily manage exports with its intrinsic hosting capacity (either network-wide or in a location with a location-based price). In these situations, the draft Guidelines may imply that distributors are unable to signal the future costs of exports to their customers, if they have not yet incurred costs specifically to provide export hosting capacity.

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 to support export services. Ausgrid's preference is for the AER to allow distributors to recover the long-run marginal cost of exports in regulatory periods where there are likely to be costs incurred for providing these services. This will ensure that customers can make informed decisions and distributors are not forced to incur inefficient expenditure or curtail exports.

We look forward to meeting with the AER to discuss this submission and the draft Guidelines. If the AER has any questions in relation to this submission, please contact Justin Robinson, Pricing Innovation Manager on [redacted] or [redacted].

Regards,

[redacted]

Alex McPherson
Head of Regulation

[1] Defining cross-subsidy consistently with ACCC, *Tests for assessing cross-subsidy in Australia,* June 2014

Appendix: Worked example of calculating a basic export level

Ausgrid considers that there are multiple ways to interpret the NER and AER's guidance on how to calculate the basic export level. To explain the different approaches, we have developed a hypothetical example. It is highly simplified and assumes the number of total customers is static and all exports under the basic export level are coincident. It is for illustrative purposes only. We would value the AER's feedback as to whether it considers any of these methods do not comply with the NER.

Hypothetical network characteristics	
Intrinsic hosting capacity (A)	1,000kW
Customers (B)	1,000 customers
Current export customers (at 2024) (C)	200 customers
Average capacity of existing export systems (D)	4kW
Forecast additional export customers from 2024 to 2029 (E)	25 customers
Forecast additional export customers from 2024 to 2054 (F)	200 customers
Forecast average capacity of additional export systems	10kW

When assess, at a high-level, each approach's performance against Ausgrid's pricing principles in developing our TSS:efficient, flexible, and fair.

Approach 1: Sharing intrinsic capacity across all customers

For the first approach, we created a basic export level by sharing the intrinsic hosting capacity across all customers. For the hypothetical this is a 1 kW basic export level:

$$\frac{A}{B} = \frac{1{,}000\ kW}{1{,}000} = 1\ kW$$

This approach could be considered that this approach is fair, given it treats all customers equally, regardless of whether they are currently export customers or not. However, it is not set with regard to forecast exports from customers, contrary to NER requirements.

Approach 2: sharing intrinsic hosting capacity across existing export customers

Our second approach builds off the first approach by sharing the intrinsic hosting capacity across all export customers in the regulatory period (i.e. all customers by 2029). For the hypothetical this is a 4.5 kW basic export level.

$$\frac{A}{C+E} = \frac{1{,}000\ kW}{225} \cong 4.5\ kW$$

This approach might be considered fair, in the sense that all export customers expected in 2029 receive an equal share of the current intrinsic hosting capacity. However and reflects that not all customers will (or can) export. We expect that this approach would lead to reduced basic export levels each regulatory period as export customers increase faster than intrinsic hosting capacity. The shortcoming of this approach is it is not clear whether customer numbers is sufficient to satisfy the requirement to set the BEL with regard to forecast exports.

Approach 3: sharing intrinsic hosting capacity across forecast export customers

Our third approach is the same as second approach over a longer time horizon. This allows a greater stability in basic export level, which could be useful for customers not wanting to see a larger proportion of their export charged each regulatory period. For the hypothetical this is a 2.5 kW basic export level.

$$\frac{A}{B+F}=\frac{1{,}000\ kW}{400}=2.5\ kW$$

Our assessment of this approach is the same as our assessment of approach 2.

Approach 4: Sharing spare capacity by new entrants in the next 5-years
For the fourth approach, we tried to account for forecast exports by assuming customers that already export will not change their current exports.[2] Therefore, we calculated a basic export level that signals to new customers how much export we can host without needing to augment the system. That is the currently unused portion of intrinsic hosting capacity (spare capacity) divided by the forecast number of new entrants. For the hypothetical this is a 8 kW basic export level.

$$\frac{A-(C\times D)}{E}=\frac{200\ kW}{25}=8\ kW$$

This sends a signal to customers investing in export capacity, who will have the greatest capacity to respond to the basic export level. However, if new export customers use all of the remaining intrinsic hosting capacity – in this example installing 8 kW export systems, the spare capacity will be exhausted, and this same formula would result in a 0 kW basic export level. It is not clear that a 0 kW basic export level is consistent with the rules in the second regulatory period.

Approach 5: Sharing spare capacity by new entrants over the forecast horizon
The final approach is the same as Approach 4 with a longer forecast period. For the hypothetical this is a 1 kW basic export level.

$$\frac{A-(C\times D)}{F}=\frac{200\ kW}{200}=1\ kW$$

This approach offers greater stability in the basic export level if customers respond. However, if customers proceed with larger export systems (as forecast) the formula will result in a 0 kW basic export level in the second regulatory period.

We note that under all approaches the basic export level distorts the long-run marginal cost pricing signal, reducing allocative efficiency of pricing.

[2] This may not be completely unrealistic given customers will face no new price signal on exports within the basic export level, and the low-price elasticity of demand suggests we may also expect a low price elasticity of exports for customers with existing exports.