



4 November 2021

Warwick Anderson  
General Manager, Network Pricing  
Australian Energy Regulator

By email: [tariffguideline@aer.gov.au](mailto:tariffguideline@aer.gov.au)

Dear Warwick,

**Export tariff guidelines for distribution network export tariffs - consultation paper**

CitiPower, Powercor and United Energy welcome the opportunity to comment on the Australian Energy Regulator's (AER) export tariff guidelines consultation paper.

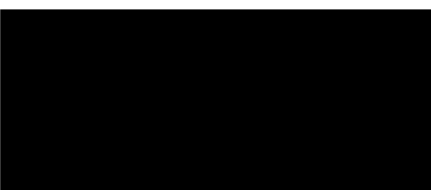
To efficiently provide distribution services to our customers, exports tariffs are an important consideration in a wider integrated network strategy that considers customer expectations and preferences, tariff structures, connection policy and distributed energy resources (DER) strategies.

We support the development of principles-based export tariff guidelines (Guidelines) which will allow distributors to integrate export tariffs into their wider network strategy and continue to innovate through the energy market transition. Distributors will then be able to develop export tariffs that complement their specific network circumstances and reflect the expectations and preferences of their own customer bases and network issues.

Attached is our response to the consultation paper.

Should you have any queries about this letter please do not hesitate to contact Mark de Villiers on [REDACTED] or [REDACTED]

Yours sincerely,



Renate Vogt  
GM Regulation  
**CitiPower, Powercor and United Energy**

## 1 Stakeholder engagement

We support the AER's intended objectives to capture customer values and preferences in the development of the tariff structure statement (TSS) and any future two-way tariffs that maybe considered.

However, the proposed content of the Guidelines on stakeholder engagement takes a highly prescriptive approach to the type of engagement and the key stakeholders that distributors must engage with, without an explanation on how the AER plans to take into consideration the outcomes of the engagement.

In our experience, stakeholder engagement practices evolve rapidly, and distributors are constantly adapting to their customers' and stakeholders changing needs. This has led to innovative leaps in engagement across the sector, as evidenced through the introduction of deliberative forums, 'draft plans', citizens' juries, ideation sessions, co-design workshops, and similar.

To continue to allow distributors and stakeholder to innovate their communications and engagement, we do not consider the AER need provide guidance on the types of engagement distributors should or should not be undertaking. Rather, the AER should provide guidance on how it will consider the outcomes of stakeholder engagement in its assessment of the TSS. This guidance is important if there is evidence of strongly opposing views among customers and stakeholders, or if the assessment of stakeholder engagement for the purposes of the TSS will be assessed differently to the engagement for the remainder of the regulatory proposal. This will assist distributors in designing stakeholder engagement programs that are 'fit for purpose'.

## 2 Compliance with pricing principles

We support the position that the Guidelines should not establish detailed price structures for distributors to implement, as export tariffs should be reflective of individual distributor's engagement with stakeholders, impact analysis and be relevant to their network circumstances and its customers' expectations and preferences. We agree a principles-based approach will provide greater flexibility for different tariff options.

One pricing principle requires distributors to demonstrate individual tariff be reasonably capable of being understood by customers or incorporated by retailers or aggregators into customer offers. Retailers operate in a competitive environment and are understandably less willing to provide information on how they would respond to network tariffs. The number, and diversity, of retailers also means that it is difficult to generalise how they may incorporate network tariffs into retail offers. Historical observations as to how retailers have responded to network tariffs may be more informative than retailer consultation.

Another pricing principle, that tariffs be based upon long run marginal cost (LRMC), now applies to both import and export tariffs. This makes the calculation of LRMC more complex because:

- it is based on forecasts of a large number of uncertain trends, including rooftop solar growth, home battery growth, electric vehicle uptake and charging patterns, fuel switching from gas, and the impact of import/export management initiatives
- it depends on the methodology chosen to calculate long run margin cost
- it is highly locational.

It may therefore be appropriate for LRMC to be expressed as a range, rather than a point value since a point value may imply a false level of accuracy.

We agree with the principle that there should be no double counting of forecast costs when calculating import and export LRMC. However, we see no need for the Guidelines to explicitly list the drivers of costs of expanding network export capacity since this list may become incomplete.

### **3 Reflecting the efficient cost of providing the service**

If export charges are intended to recover costs attributable to export services over and above the intrinsic hosting capacity for exports, then the amount of export that is subject to export charges will need to be forecast which will depend on:

- the basic export level
- whether export charges are applied to new exporting customers or all exporting customers
- whether export charges will be locational
- whether export charges will be mandatory or voluntary.

### **4 Considering the impact on customers of changes in tariffs**

We agree customer impact assessments are central to the development, proposal and assessment of tariff structures. However, we do not consider it appropriate for the Guidelines to prescribe the approach to demonstrating customer impact analysis for export charges as it may depend on:

- feedback from our customers and stakeholders as to how they would prefer customer impact analysis to be undertaken and presented. For instance, in our last TSS development process, some key stakeholders requested that we undertake an impact analysis specifically for vulnerable customers
- the appropriate reference point for customer impacts
- information and data that is available to our businesses
- whether certain proposed tariffs are voluntary.

While we agree that customer impact assessments are important, we can only make generalised assumptions about retailer responses when estimating the impact on customer bills of different tariff structures, since retailers may have a diversity of responses and maybe unwilling to disclose how they may respond to network tariffs.

### **5 The role of tariff trials**

We, and other distributors, are starting to plan and implement tariff trials which will provide a rich diversity of learnings. The sharing of tariff trial learnings across distributors will be a valuable input into the development of TSS proposals, noting they need to be considered in the context of each distributors' unique network and customer base.

### **6 How two-way pricing will be presented in the overview paper**

The AEMC's final rule requires distributors to submit a plain language overview paper with their regulatory proposals. This must include a summary of the TSS, two-way pricing transition strategy and the interrelationships between different aspects of the regulatory proposal and the TSS.

We do not think the Guidelines should provide any further guidance and information on how distributors might present export tariff information in the overview paper.

### **7 Basic export level**

Clause 11.141.13(b)(1) of the NER states that basic export levels must be set, having regard to, the capacity of the network to supply electricity to customers with minimal or no investment. For similar reasons to LRMC, basic export level might be better expressed as a range. The selection of a value within the range might depend on stakeholder engagement, customer impacts and the export tariff transition strategy.