

30 September 2022

Ms Sara Stark  
Director, DER – Network Regulation  
Australian Energy Regulator

*Sent via email*

### **AER Incentivising and measuring export service performance review**

Dear Ms Stark

Energy Networks Australia (**ENA**) welcomes the opportunity to provide a response to the Australian Energy Regulator's (**AER**) Consultation Paper on incentivising and measuring export service performance (**Consultation Paper**).<sup>1</sup>

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Consideration of different customer preferences and data capabilities of each distribution network service provider (**DNSP**), and an allowance for transition paths as necessary, will be key in this review.

ENA therefore supports further exploration of an optional bespoke export service performance incentive scheme, enabling DNSPs to collaboratively design an incentive mechanism that is aligned with the specific priorities of their customers. Importantly, this will allow for an incentive scheme design that takes into account the different circumstances of distributors, including levels of data quality, network visibility, network constraints, and customer preferences.

Reputational incentives will also help increase transparency for consumers and address the disparity in DNSP access to export service data, without inappropriately rewarding or penalising DNSPs.

When considering performance reporting, a number of likely short-term performance reporting metrics are required based on what can currently be measured on an objective and cost-effective basis, with the reporting of more sophisticated measures that better reflect export service performance developed in the longer term as data access and systems improve.

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<sup>1</sup> AER, [Consultation Paper: Incentivising and measuring export service performance](#), August 2022.

## Distributed energy future

The Australian Energy Market Commission's (AEMC) Access, pricing and incentive arrangements for distributed energy resources (DER) final rule<sup>2</sup> explicitly recognises the changing role of the electricity grid; from one of traditionally providing consumption services to one of facilitating the two-way flow of energy.

This reform is key to ensuring that DNSPs can continue to enable the customer-driven transition to distributed energy, which is supporting Australia's move to a low carbon future and driving down wholesale prices for all customers.

As highlighted by the AER in its Consultation Paper<sup>3</sup>, there are a number of interrelated DER workstreams that the AER must commence following the AEMC's final rule, including reviewing incentive arrangements, performance reporting and benchmarking for export services, the focus of this Consultation Paper.

This review will need to consider the different customer preferences and data capabilities of each DNSP and allow for transition paths as necessary. It will be important for the AER to have sufficient time to collect data and decide on the appropriate metrics to measure each distributors' performance, which will build confidence in requisite measurement processes, systems, and datasets. The current regulatory framework provides the AER with sufficient discretion to implement interim incentive arrangements if deemed necessary.

## Criteria for assessing suitability of export service metrics

The Consultation Paper proposes the following criteria for assessing the suitability of export service metrics:

1. Measurable
2. Not significantly influenced by exogenous factors (outside the DNSPs' control)
3. Not gameable
4. Cost effective
5. Reflective of the services provided to customers

ENA largely supports the proposed criteria but suggests that the AER considers reframing item 3 ('not gameable') to more neutral language. This criterion should instead focus on ensuring that export service metrics do not lead to perverse incentives or perverse service outcomes.

## Objectives of incentivising export services

ENA broadly supports the AER's proposed objectives for assessing the merits of enhancing incentives for export services<sup>4</sup>, and further highlights the importance of ensuring that export service

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<sup>2</sup> AEMC, [Access, pricing and incentive arrangements for distributed energy resources, Rule determination](#), 12 August 2021.

<sup>3</sup> AER, [Consultation Paper: Incentivising and measuring export service performance](#), Figure 1 [Graphical representation on inter-relationships between work streams], Page 9, August 2022.

<sup>4</sup> AER, [Consultation Paper: Incentivising and measuring export service performance](#), Section 4.3, Page18, August 2022.

incentives be flexible to accommodate the differing starting points of DNSPs (data quality, network visibility, network constraints etc), different jurisdictional programs and future technology changes.

We also agree with the AER's view that the materiality of any residual incentive concern is currently low, acknowledging that DNSPs, in consultation with their customers, are proposing DER integration expenditure to support greater levels of export services on their networks. If approved, export service performance will then be improved via funded expenditure in the forthcoming rounds of regulatory determinations.

Nonetheless, despite the materiality currently being low today, there does remain a role for export service performance incentives.

## Options for providing incentives

The Consultation Paper seeks feedback on the proposed options for providing incentives, including:

- » a financial incentive mechanism,
- » allowance/margin mechanisms, or
- » reputational incentives.

A 'one-size fits all' financial incentive mechanism (i.e., a service target performance incentive scheme (**STPIS**) for export services) is not appropriate at this stage. As highlighted by the AER, its initial consultation with DNSPs on export service metrics indicated that while a range of metrics are available, these currently lack accuracy and robustness on a national level, with clear differences in DNSPs' access to quality granular data.

A financial incentive mechanism requires accurate and robust metrics for setting the baseline performance and for measuring and valuing changes in performance. A 'one-size fits all' scheme does not meet the AER's 'targeted' objective, with the AER highlighting that a STPIS incentive would likely mean a broad approach to export service performance assessment and will not necessarily address the issues and services that consumers value most.

Therefore, ENA supports further exploration of a bespoke export service performance incentive scheme, which would allow DNSPs to design, in collaboration with customers, an incentive mechanism that is aligned with the specific priorities of their customers. Importantly, this will allow for an incentive scheme design that takes into account the different circumstances of distributors, including levels of data quality, network visibility, network constraints, and customer preferences.

The learnings from any bespoke incentives could be then used by the AER to inform the design of any national standardised incentive scheme over the longer term.

A bespoke export service performance incentive scheme should be optional for DNSPs to implement as part of the regulatory determination process, which would then allow networks and customers to determine whether an incentive scheme would generate customer value. This approach may be able to be implemented under the AER's small-scale incentive scheme provision in the National Electricity Rules, with the AER's Customer Service Incentive Scheme guideline potentially used as the initial basis for design of a bespoke export service performance incentive scheme.<sup>5</sup>

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<sup>5</sup> Any bespoke export service performance incentive scheme should apply additionally and separately to a Customer Service Incentive Scheme.

Reputational incentives also help increase transparency for consumers and address the disparity in DNSP access to export service data, without inappropriately rewarding or penalising DNSPs. However, if the reputational incentives seek to facilitate comparability between the performance of DNSPs, the establishment of clear definitions and common estimation tools is required to improve data accuracy and comparability.

## Export service performance reporting

ENA supports the AER's position that a number of performance reporting metrics are likely required in the short term based on what can currently be measured on an objective and cost-effective basis, with the reporting of more sophisticated measures that better reflect export service performance developed in the longer term as data access and systems improve.

In establishing the metrics to track export service performance, we encourage the AER to take into consideration industry wide learnings, such as the SA Power Networks, Essential Energy and University of Technology Sydney's 'Race for 2030' research, which explored and evaluated potential service measures.

In particular, the research insight that we will likely need to consider a number of service performance metrics in combination. For example, measures based on amount of energy exported may not be useful in isolation as increased self-consumption would reduce performance under such metrics, and it may incentivise DNSPs to encourage customers to export rather than self-consume.

It will also be important that sufficient contextual detail be included in performance reporting to provide stakeholders with a more comprehensive overview of export service performance. There are a broad range of operating factors that can influence the level of export capacity and amount of exports, such as the intrinsic hosting capacity of networks, weather and climate, type of network and customer preferences.

In addition, as highlighted above, when further developing the performance reporting metrics and corresponding data requests, it will be important to establish clear definitions and common estimation tools to improve data accuracy and comparability.

We strongly welcome further engagement and collaboration with the AER on the proposed set of short-term performance reporting metrics prior to the release of the AER's draft report in late November 2022.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation, on [REDACTED]

Yours sincerely,

[REDACTED]

Garth Crawford  
**General Manager, Economic Regulation**