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Australian Energy Regulator (AER)
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Submitted by email: tariffguideline@aer.gov.au

EXPORT TARIFF GUIDELINES FOR DISTRIBUTION NETWORK EXPORT TARIFFS – CONSULTATION PAPER

Endeavour Energy appreciates this opportunity to provide a response to the AER's *Export tariff guidelines for distribution network export tariffs* consultation paper and we note our support for the Energy Networks Australia (ENA) response.

Endeavour Energy was supportive of the AEMC's rule change and believe DNSPs, through consultation with their stakeholders, will develop two-way pricing signals that incentivise the efficient utilisation of network infrastructure to the long-term benefit of all. We also believe that this includes rewarding customers for exporting into the grid when it is valued.

We support the AER's development of non-binding, principle-based guidelines (the Guidelines) that provide all stakeholders with guidance on the design and implementation of any two-way pricing under the DNSPs Tariff Structure Statement (TSS) proposals.

Stakeholder engagement

Endeavour Energy supports the AER's position that the Guidelines should not prescribe a particular form or model of stakeholder engagement, as stakeholder engagement should be tailored to suit the needs of stakeholders.

We also support the AER's position that DNSPs should be able to demonstrate through their TSS proposal that they engaged on the need for two-way pricing, the pace of transition to two-way pricing, the levels of cost-reflectivity of two-way prices, and cost-allocation between consumption and export charges.

Finally, Endeavour Energy believes that export tariff trials can be a useful tool to inform future TSS proposals but should not be a necessary pre-condition for introduction of an export charge.

Applying the network pricing objective and pricing principles

Two-way tariff structures

Endeavour Energy supports the AER's position that the Guidelines should not prescribe detailed pricing structures. We note that a DNSPs two-way pricing strategy will need to be developed with stakeholders through the TSS process and must provide DNSPs with the flexibility to reflect their specific network circumstances and customer needs. We agree with the AER that a principles-based approach will provide distributors flexibility for their pricing options.

Cost Reflectivity

Endeavour Energy agrees with the AER that the long-run marginal cost (LRMC) of export charges should reflect the incremental cost of providing an export service over and above the networks intrinsic hosting capacity for export.

For clarity, however, we believe this principle should apply only to the calculation of the 'variable' export charging parameter of an export enabled tariff, but it need not necessarily apply to all charging parameters of an export enabled tariff.

The AEMC's final export rule recognises that consumption and export are distinct services offered by the DNSP over a shared network. It is possible, therefore that a DNSP will seek to delineate its service offerings (and therefore tariff offerings) across three broad categories 1) consumption only, 2) consumption and export; and 3) export only.

The pricing principles in the Rules require that each tariff be based on the LRMC of providing the service and that the revenue expected to be recovered from the tariff reflects the DNSP's total efficient cost of serving the customers assigned to the tariff. That is, the pricing principles recognise the potential for residual costs of a service to exist over and above the LRMC of the service. In practice, these residual costs represent shared network costs and may include IT systems, fleet, overheads etc.

While we agree that the LRMC of export charges should reflect the incremental cost of providing an export service over and above the networks intrinsic hosting capacity for export. We also believe the concepts of 'incremental cost' and 'intrinsic hosting capacity' recognise that the provision of export services is contingent on the pre-existence of a shared network.

We believe that customers that opt for a service that is contingent on the ongoing operation and maintenance of a shared network should reasonably be expected to contribute to the residual costs associated with the ongoing operation and maintenance of that shared network.

To preclude the DNSP from recovering residual costs from specific services, such as export only services, risks equity and subsidy concerns and may lead to inefficient over-investment in DER.

Customer impact assessment

Customer impact assessments are central to the assessment of pricing strategies and structures through the existing TSS process for consumption charges and will be integral to the introduction of export charges. We do not, however, consider it appropriate for the Guidelines to prescribe the approach to demonstrating customer impact analysis for export charges, which will be dependent on individual network and customer characteristics. We note that this level of prescription does not occur now for consumption charges.

Tariff transition strategies

Endeavour Energy notes that each DNSPs two-way pricing proposal under their TSS will be different and subject to their individual network circumstances. We believe that it is possible that in some circumstances a DNSP will not initially require sufficient DER expenditure to justify the introduction of export pricing in their next regulatory control period. We also note that customer and stakeholder feedback may also support a slower or faster transition.

We believe the Guidelines should not be prescriptive in their approach to the proposed content of the tariff transition strategy, and should instead be adaptive to multiple circumstances, including those where export charges are not being proposed in the upcoming regulatory control period (noting that the Rules require the development of a tariff transition strategy irrespective of whether export tariffs are being proposed).

Regulatory proposal overview paper

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

We do not think the Guidelines need to provide guidance and information on how DNSPs might present this information in the overview paper and note that the DNSP must still comply the requirements of the Rules when submitting their regulatory proposal.

We have concerns with possible duplication of information within a DSNPs tariff transition strategy, overview paper, regulatory proposal, and the new proposed Distribution Energy Resource (DER) Integration Strategy that is currently being consulted on. We would suggest a streamlining of information where possible, highlighting the AER's draft Better Resets Handbook, which is seeking to drive efficiencies in the regulatory reset processes and documentation.

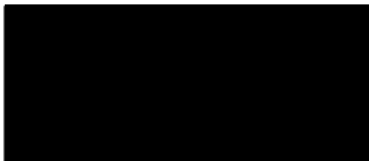
Basic export level

Under the Rules, a DNSP must specify their basic export levels for a 10-year period. The basic export level is the amount of electricity that a customer will be able to export to the grid at no extra charge and is linked to the networks intrinsic hosting capacity for export.

Customer uptake of DER has increased significantly in recent years and is expected to continue to increase over the coming decade. As such, we believe there is considerable scope for change in the intrinsic hosting capacity of the network and therefore the basic export service level over a 10-year period relative to the levels observed today. We believe, therefore, that the guidelines should clarify that the basic export level need not be the same over the 10-year period.

If you have any queries or wish to discuss our submission please contact Daniel Bubb, Manager Economic Strategy at Endeavour Energy at [REDACTED].

Yours sincerely

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Colin Crisafulli
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