Part of Energy Queensland

30 September 2022

Ms Sara Stark
Director, DER – Network Regulation
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

By email: sara.stark@aer.gov.au

Dear Ms Stark

AER Consultation - Incentivising and Measuring Export Service Performance

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), operating as Distribution Network Service Providers (DNSPs) in Queensland, welcome the opportunity to provide a submission to the Australian Energy Regulator (AER) on its Consultation Paper - Incentivising and Measuring Export Service Performance (the Consultation Paper).

Ergon Energy and Energex appreciate the concerns raised with respect to the current absence of a specific export service-related incentive and, specifically, the view that the current regulatory environment could disincentivise DNSPs from investing in export capacity. Further, Ergon Energy and Energex support the objectives of incentivising export services in principle. However, there are notable concerns with respect to the quality, availability, and comparability of the data necessary to support a number of the incentive options the AER has proposed.

Given the average low level of constraints currently experienced and the challenges associated with deriving suitably robust export service metrics, Ergon Energy and Energex strongly oppose the extension of a STPIS financial incentive to exports at this time. It is our view, that a conservative approach to the introduction of export service-related performance incentives is warranted and reputational incentives are sufficient to encourage the efficient provision of export services by DNSPs. On this basis, a paper trial should be implemented to explore and test the robustness of a selection of potential metrics with the view of reconsidering other incentives in the future.

Ergon Energy and Energex support the AER in its development of an inaugural export performance report as part of the 2023 electricity network performance report. As outlined in the consultation paper, there are a number of data limitations that require consideration and clear direction in relation to the manner by which data is collected or estimated. This is critical to ensure comparability between DNSPs.

Whilst Ergon Energy and Energex consider that the existing benchmarking reports do not adequately cater for export services, the current impact of this on productivity results is likely to be immaterial. Nonetheless, as export services increase there is potential for impacts on productivity results to also increase. As such, Ergon Energy and Energex are supportive of the AER further exploring options for adjusting the benchmarking framework to account for export services.

Ergon Energy's and Energex's responses to the AER's consultation questions are included in the attached response template.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact me or Sarah Luinys on [redacted]

Yours sincerely

[redacted]

Alena Chrismas
Acting Manager Regulation

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Encl: Ergon Energy and Energex's comments to the Consultation Paper's questions

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Attachment A: Stakeholder feedback template

1. Submitter details

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Section 4: Incentive review for export services

AER Question	Ergon Energy and Energex feedback
1. Do stakeholders consider further incentive measures are required to ensure DNSPs provide efficient levels of export services?	Ergon Energy and Energex appreciate the concerns raised in relation to the absence of a specific export service-related incentive and, specifically, the view that the current regulatory environment could disincentivise distributors from investing in export capacity. However, given that export service relevant data has only been captured or become available recently, there are clear challenges associated with identifying and producing reasonable and accurate metrics across all distribution network service providers (DNSPs). As such the implementation of reputational incentives should be considered as a preliminary step.
2. Do stakeholders agree with these objectives for assessment of the merits of enhancing incentives for export services?	Ergon Energy and Energex support the objectives of incentivising export services in principle. Specifically, we support the "enhance information disclosure" objective as the information disclosed is useful for customers and assists in making informed decisions. However, there is a risk that customers may be confused or overwhelmed with information if it's provided out of context.
3. How significantly does the average low level (and value) of constraints currently experienced by most NEM exporting	The AER notes that one of the objectives for the assessment of the merits of enhancing incentives for export services is to "provide

AER Question	Ergon Energy and Energex feedback
customers influence the need to enhance incentives for the provision of export services at this time?	penalties and rewards commensurate with the problem being resolved"; however, based on the current low level of constraint experienced and the low value of the customer export curtailment value (CECV), a conservative approach to the introduction of export service-related performance incentives is warranted and reputational incentives are recommended in the short term.
4. What level of accuracy and robustness of data metrics would stakeholders consider appropriate for a financial incentive mechanism to operate? For example, are stakeholders comfortable with the use of approximated/modelled inputs for the purpose of a STPIS export service performance measure given most DNSP face significant data visibility issues? Do stakeholders agree that the CECV is the appropriate valuation of improvements or decline in export service performance? Should a non-symmetrical (penalty only) STPIS mechanism apply for export service levels about the basic export level? Do stakeholders agree that there are significant concerns with implementing a STPIS mechanism for export services at this time? Are there any other issues we have not considered? Should the AER explore establishing a paper trial to test the robustness of a selection of potential metrics? What metrics do stakeholders suggest should be included in a paper trial?	Ergon Energy and Energex expect that a high level of data accuracy and robustness should be required for a financial incentive mechanism to operate. Real or actual parameters rather than approximated or modelled inputs are necessary to avoid over or under incentivisation across different categories of consumer energy resources (CERs). Given the current data challenges, Ergon Energy and Energex do not support the use of approximated inputs for the purpose of a STPIS export service performance measure. As noted by the AER, the CECV represents the detriment (benefits) to all customers from the curtailment of export services. However, we recognise that it: a) may be exhausted as part expenditure forecasts rendering it impracticable as an incentive scheme metric; and b) Is considerably low and may not be appropriate for calibrating incentive rates Despite this, Ergon Energy and Energex do not support a penalty only STPIS mechanism. Ergon Energy and Energex agree that there are significant concerns with implementing a STPIS mechanism for export services at this time. Further consideration of a number of variables and specifics is required. Accordingly, additional time should be taken to monitor performance levels outside of a financial incentive scheme and the ability to explore and refine data metrics and its availability.

AER Question	Ergon Energy and Energex feedback
	Ergon Energy and Energex are therefore, supportive of the AER further exploring a paper trial to test the robustness of a selection of potential metrics.
5. Should a GSL for export services be further explored? If a GSL were to be implemented, do stakeholders agree a GSL would best relate to the basic export level and would the applicable jurisdictional CECV be the appropriate compensation for failing to meet the basic export level?	Ergon Energy and Energex do not support implementing an export services GSL framework. We also consider that the CECV is unlikely to be the most appropriate form of compensation for failing to meet the basic export level. As such, additional options for determining the compensatory amounts should be considered.
6. Should a bespoke export service incentive mechanism be explored further?	Ergon Energy and Energex are supportive of the AER exploring this option further.
7. Should an allowance and/or margin incentive mechanism be explored further? Do stakeholders think appropriate output measures could be used to assess a DNSPs performance given the flexibility of these approaches? Should consumers drive these types of proposals?	Ergon Energy and Energex are supportive of the AER exploring this option further. Targeted projects may provide a better outcome for all customers and allow for consumer preferences and performance expectations to be more appropriately considered.
8. What sorts of reporting measures do stakeholders consider are likely to impose reputational incentives on DNSPs? Do stakeholders consider reputational incentives are sufficient to address concerns about DNSPs provision of efficient export services?	Ergon Energy and Energex consider that reputational incentives are sufficient at this time. Further work is required to assess and determine the most suitable measures and metrics for inclusion.

Section 5: Export service performance reports

AER Question	Ergon Energy and Energex feedback
9. What export service performance metrics should we ideally capture, even if this is only feasible or practical in the long-term? (a) Do stakeholders agree that the ideal measurement of export service performance would use equivalent	Ergon Energy and Energex agree that the ideal measure of export service performance would entail measuring network-driven curtailment of exports per customer per year. As outlined in section 4.5 of the consultation paper, there are a number of challenges associated with deriving a measure of network export

AER Question	Ergon Energy and Energex feedback
measures to those used to measure import service performance – and that this would entail measuring interruptions to exports (or network export curtailment) per exporting customer? (b) Do stakeholders agree with our view that it would not be feasible to report involuntary export curtailment per exporting customer in the short term (that is, for the inaugural export performance report due by end2023)? That is, do you agree with our 64 understanding that this metric is not currently measurable, or cost effective to measure?	curtailment. As such, we agree that this metric is not currently viable.
10. Do stakeholders agree that financial year 2020–21 is a reasonable base year to start reporting data for most export service performance metrics? If not, what would you recommend and why? Considering current constraints to collecting export service performance metrics, what metrics are useful and feasible to collect for the inaugural export performance report (to be published by end-2023)? Do you agree with using the potential metrics summarised in Table 5, and are there particular factors we should consider in tracking those metrics? Relatedly, Attachment B summarises our understanding of current data holdings and limitations, and the potential usefulness of each metric. Please provide comments if you have any views on Attachment B.	Given that adequately reliable export service-related data has only become available in recent years and historical reporting would be challenging, Ergon Energy and Energex support using the 2020-21 financial year as the base year for most export service performance metrics. We are supportive of most of the metrics summarised in Table 5, particularly given that most of the data required to support these metrics is available. However, it should be noted that some data may be subject to estimation and/or assumptions being applied. If the AER considers that these metrics are necessary, it should be noted that system and process changes may be necessary to remove any assumptions that are currently applied.
11. Do stakeholders agree with the data imitations, impacts and potential solutions summarised in Table 6? Please advise if there are other key limitations we have overlooked or if there are further solutions to explore. Several of the potential solutions in Table 6 refer to the need for the AER to tightly specify how data should be collected or estimated to ensure comparability. What should the AER consider or be aware of in pursing such an approach?	Ergon Energy and Energex agree that there are a number of data limitations that require consideration. It is critical that definitions and specifications for data collection are clear with no room for ambiguity. Comparability between distributors relies on the data being produced in a like manner. Where it is not possible for distributors to estimate data through a prescribed process, consideration of any variability should be documented and accounted for in performance comparisons.

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	Table 6 identifies a "feasible" solution in relation to DNSPs lack of visibility off export curtailment as, the purchase of inverter data from a relevant party. However, in section 4.5.1 of the consultation paper, the AER acknowledges that the cost of obtaining inverter data may be prohibitive on the scale necessary to administer a STPIS scheme. As such, the costs to obtain this data for the purpose of performance reporting should be weighed against the benefit of reporting this information.
12. Do stakeholders have input on our proposed approach to develop the inaugural export performance report as part of the 2023 electricity network performance report? Please provide any views on the proposed project steps and timelines, including suggestions to improve the approach? If option one (early release of the export performance report based on 2021–22 data) is feasible, do you prefer this over option two (December 2023 release of the export performance report based on 2022–23 data)?	Ergon Energy and Energex support the AER in its development of the inaugural export performance report as part of the 2023 electricity network performance report and would welcome additional opportunities to contribute to its development. With respect to the options and timing proposed, pending the assessment of the data collected in Phase 1, either option is considered acceptable. The approach that results in the most reliable and effective reporting outcome should be adopted.

Section 5: Update to benchmarking reports

AER Question	Ergon Energy and Energex feedback
13. To what extent do the existing benchmarking techniques in Box 4 account for and / or do not account for export services? How does this impact the productivity results generated by these techniques, and are these impacts currently material? How do you see these issues changing over time as the level of installed export capacity increases and technology changes?	Ergon Energy and Energex consider that the existing benchmarking reports do not adequately cater for export services. Inputs likely capture export service-related expenditure adequately. However, outputs do not correspondingly capture energy imported. Nevertheless, the current impact of this on productivity results is likely to be immaterial. As export services increase, there is potential for impacts on productivity results to also increase.
14. Do you agree that the options identified above are possible options for adjusting the	Ergon Energy and Energex agree in principle with the options identified by the AER as

AER Question	Ergon Energy and Energex feedback
benchmarking framework to account for export services? Are there any other options?	possible options for adjusting the benchmarking framework to account for export services. However, given that the majority of export service-related expenditure is capital expenditure, and operational expenditure (opex) is reported at a total level (ie. export services-related opex is difficult to demerge), an Operating Environment Factor (OEF) for export services may not effectively account for differences experienced across distribution networks and may have an immaterial effect on the opex econometric models.
15. What are your views on the proposed staged approach? What if any changes would you suggest?	Ergon Energy and Energex are of the view that a two-staged approach is reasonable and that a considered assessment of any complex changes over the longer-term is required.
16. In the context of developing an OEF and determining incremental efficient export services cost: a) Have there been any changes in the export service -related cost data (capex and opex) collected since DNSPs provided responses to our initial data consultation process? Please outline these changes, including how these expenditures are categorised and reported, and provide the related cost data. b) To the extent export service -related costs are not separately captured in your processes and systems, can you disaggregate or estimate these costs from historical expenditure? What are the barriers (i.e. regulatory, technical, practical, cost, etc.) to doing this? What type of AER guidance would be helpful to facilitate disaggregation of export service costs? c) How export services -related cost data be collected that would allow for consistent measurement and allocation approaches between DNSPs?	Ergon Energy and Energex have no comments.

AER Question	Ergon Energy and Energex feedback
17. How could the efficiency of export services - related incremental opex be tested?	Ergon Energy and Energex have no comments.
18. Do you see an estimation method as an in - principal option that could be examined for deriving incremental efficient export service opex? Why? Why not? If an estimation method were required, do you have views on: • what metrics could best proxy the size of the exporting task faced by DNSPs? • how weights could be calculated (if needed)? • how an efficient cost elasticity could be calculated?	Ergon Energy and Energex have no comments.
19. To what extent do the existing outputs and inputs listed in Box 5 account for, or not account for export services? Please consider in your explanation: • how the given output or input accounts for, or does not account for, export services. • how this impacts the productivity results generated, and the materiality of any impact. • how you see these issues changing over time as the level of installed export capacity increases and technology changes. How could the existing outputs and inputs be modified or added to better account for export services in the productivity results? Please consider the options outlined in Table 9 in your response and include in your explanation what you see as the key developmental and implementation issues that would need to be resolved to progress the modification(s) (i.e. data availability for the benchmarking period (currently 2006-21), new definitions, conceptual or technical issues that would need to be resolved).	Current inputs likely capture export service-related expenditure adequately, although export service specific expenditure would not be identified. However, outputs do not correspondingly account for export services as they are largely focused on energy exports. While Ergon Energy and Energex are generally supportive with the model specification issues in relation to outputs which are outline in Table 9 of the consultation paper, a specific measure that identifies customers with distributed energy resources may be beneficial.