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Australian Energy Regulator
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Melbourne VIC 3001

Submitted electronically via tariffguideline@aer.gov.au

AER Consultation Paper – Export tariff guidelines for distribution networks

Essential Energy welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on its *Consultation Paper: Export Tariff Guidelines for Distribution Network Export Tariffs* (the consultation paper), and we appreciate the collaborative approach undertaken by the AER to date. Energy Networks Australia has also produced a submission which Essential Energy supports.

The electricity supply chain is currently undergoing a fundamental transformation. Distributed Energy Resources (DER) will impact security, reliability, equity and affordability outcomes for consumers across Australia's many networks. As such, Essential Energy strongly supported the AEMC's *Access, Pricing and Incentive Arrangements for Distributed Energy Resources* final rule change that explicitly recognises (but does not mandate) export services being offered as part of the 'distribution services' provided by distribution network services providers (DNSPs) to customers.

As part of the final rule change package, we welcome the AER's development of a principles-based guideline for export pricing which provides direction as to the implementation of export tariff arrangements. The development of the export tariff guideline is an important step in unlocking benefits for consumers as part of the energy sector transition. To that end, we offer the follow observations for further consideration:

- **Engagement** – As a general principle, we believe DNSPs should be free to tailor their engagement to best meet the needs of their unique stakeholders and customer groups. As such we support the AER's position that the guideline should not prescribe a single particular model of customer engagement, rather a flexible approach be undertaken tailored to the requirements of a DNSP's customer base.

As noted in the consultation paper, there is already somewhat an overlap of existing Tariff Structure Statement (TSS) consultation processes and the new export tariff engagement requirements required under AEMC's final rule change. Given these overlaps, we support the AER's position that DNSPs should be able to demonstrate through their TSS proposals that they have engaged with customers on the following topics:

- The general need for export tariffs;
- The transition pathway to export tariff;
- The levels of cost reflectivity of export tariffs; and
- The ultimate proposed cost allocation between consumption tariffs and export tariffs.

- **Basic export level** – The final rule change introduces an obligation for Essential Energy to provide a basic level of exports for all customers which would be free from export tariffs up to a certain level.

Given each DNSP will be experiencing different level of network constraints, capacity requirements and general DER uptake across the network what level constitutes a “basic export level” will differ across DNSPs and may even differ across the different geographic areas serviced by the same DNSP. In addition, basic service levels will not be static, rather they will change over time as a result of increased DER penetration levels and network augmentation works which will increase hosting capacity.

For these reasons we support the AER’s position not to set strict boundaries for basic export levels, but rather provide high-level guidance as to what the AER expects DNSPs to consider and provide back to the AER in proposing export levels within their individual TSS. We agree that this flexibility will ensure a more robust and durable guideline.

- **Regulatory proposal overview paper** – We note the requirement for DNSPs to submit a separate overview paper within regulatory proposals which summarises the DNSP’s export tariff strategy and which outlines the interrelationships between this strategy and the DNSPs relevant TSS.

In practise we consider that such a requirement would result in a duplication of existing materials on near identical content. We note Essential Energy would already be producing a tariff structure statement, a tariff transition strategy, regulatory proposal attachments, a customer friendly regulatory proposal overview paper and now a unique DER integration strategy. All of these documents would expressly refer to and draw attention to the export pricing activities that Essential Energy would be planning to undertake.

We do not think the export tariff guidelines need to expressly lay out how DNSPs provide this information in their regulatory proposal. We recommend DNSPs be provided with greater autonomy in the manner in which they present this information in their regulatory proposals (subject to compliance with existing reporting obligations).

- **Pricing Principles** – We note the proposed approach that the guideline would not set out prescriptive tariff arrangements which DNSPs would be obligated to follow, rather a principles-based approach would seek to provide flexibility to DNSPs in their export tariff setting arrangements.

We support this proposed approach. In our view allowing flexibility is important to account for the unique network characteristics and circumstances which may differ across DNSPs geographic area serviced, voltage constraints, and network visibility needs. This is particularly relevant for DNSPs who service regional areas such as Essential Energy. This is also good for customers, as it allows DNSP to be able to tailor solutions to their unique customer base that will deliver on customer expectations.

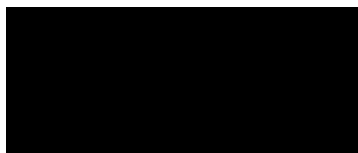
- **Principle of export charges should predominately, or solely, reflect only the incremental cost of providing additional export capacity** – We would suggest that this principle should be reconsidered so that a portion of residual costs may also be included to be reflective on how a customer uses the network. This would need to comply with the residual cost principle in the Rules.

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If you have any questions in relation to this submission, please contact Mr Anders Sangkuhl, Regulatory Strategy Manager via [REDACTED] or via phone on [REDACTED].

Yours sincerely,

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Chantelle Bramley

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