

Ref: 20230428AY:NL

28 April 2023

Dr Kris Funston
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted via email

Dear Dr Funston,

Draft Export Service Incentive Scheme

Essential Energy welcomes the opportunity to respond to the Australian Energy Regulator's (AER) draft Export Service Incentive Scheme (ESIS). In doing so, we also support the Energy Networks Australia (ENA) submission which expresses industry-wide views on the draft incentive scheme design. This submission echoes concerns the ENA has made regarding the availability of sufficient data to usefully inform the design of any national standardised incentive scheme over the longer term.

Essential Energy supports the introduction of a new small-scale incentive scheme for export services and agrees that a principle-based scheme – designed in consultation with customers – will provide the flexibility needed to test a range of models and reporting measures in the interests of customers. However, Essential Energy is concerned, in the timeframe available, that it will not be able to undertake the customer engagement necessary to design a scheme, which meets the principles outlined, in time for submission with our revised proposal and implementation for the 2024-29 regulatory period.

Essential Energy has established a reputation in the community for the standard of our consumer engagement. It is something we take very seriously. For example, the development of our proposed customer service incentive scheme (CSIS) commenced in October 2021 where we sought, through our engagement, to identify and test what our customers valued when it comes to customer service. In its independent report, Comacon benchmarked Essential Energy's engagement against community engagement standards as "outstanding". Adding that: *"Essential Energy have developed their engagement strategy through a genuine collaborative approach and have responded within the limitations of environmental factors outside their control."*¹

With the final Export Services Incentive Scheme (ESIS) design expected to be released in July 2023, it doesn't provide DNSPs on our regulatory timetable much time to develop a bespoke scheme in collaboration with customers, before revised proposals are due for submission in December 2023. This is also likely to affect the other NSW, ACT, NT and Tas DNSPs who are on the same regulatory timetable.

Despite these concerns, we raised the possibility of an ESIS with our Stakeholder Collaboration Collective (SCC), our primary consumer input group for the codesign of our regulatory proposal, who expressed interest and also raised a number of issues for the AER to consider in the design of the scheme. The following is provided as a high-level summary of the initial discussion regarding the proposed scheme we conducted with these engagement consumers:

¹ Comacon, Independent consumer report, Final, December 2022, p. 14.:
<https://www.aer.gov.au/system/files/Essential%20Energy%20-%20Customer%20engagement3%20-%20Att%204-04%204-09.zip>

What is being incentivised?

The SCC questioned the objectives the AER is aiming to achieve with the scheme. They considered the term “export performance” not particularly helpful when considering optimising the use of photovoltaic (PV) generation and the two-way nature of the network. The discussion centred around the balance between the intertemporal choice for customers of optimising utilisation/consumption of PV generation capacity verses maximising exports, which the term “export service incentive” seems to convey.

The SCC also wanted to better understand the role of retailers in passing on any price signals initiated by the distributor as part of a scheme, noting that retailer offers may affect the workings of any scheme designed to change customer behaviour.

The SCC suggested that the AER’s final decision on the design of the incentive scheme should explain in easy-to-understand language how this incentive scheme will be beneficial to consumers in the future. It should also include implications for investment in Customer Energy Resources and distributed energy generation.

Measures

The SCC noted:

- Any performance metric should include utilisation – an incentive scheme should include valuing self-consumption symmetrically with exports. An incentive scheme should include load in the equation to improve utilisation to optimise for both consumption and exports to ensure consumers are the winners.
- Metrics need to be robust and repeatable, this will require more visibility of the network, higher smart meter penetration and better access to data than what is currently available.
- Should the scheme be based on historical performance, or be forward looking? i.e. be scoped for the future network? Is there a better way? Perhaps a whole of network incentive scheme which seeks to optimise network performance in the interests of consumers might be a better option? The existing regulatory approach may be archaic.
- Would like to better understand the issues around measuring export performance, both in the short term, for the development of a short-term incentive scheme and what might be ultimate measure, suitable for the implementation of a long-term scheme which benefits consumers.

Implementation

The SCC expressed some concern that the network receives funding for export initiatives, which are paid for by consumers. Some clarity would therefore need to be provided to ensure that the network wasn’t being paid twice, through rewards provided by an ESIS. They also expressed some concern that the AER has not provided a clear rationale for implementation of an ESIS.

Summary

Our initial engagement with consumers indicates there are many uncertainties regarding an ESIS that will need to be settled through the codesign process before consumers will support Essential Energy’s participation in such a scheme. Further, we also express a shared concern that due to both timing and participation, the AER may not have the necessary data to usefully inform the design of any national standardised incentive scheme to be implemented for the longer term.

If you have any queries regarding this submission, please contact our Regulatory Strategy Manager, Adam Young on [REDACTED] or via [REDACTED]

Yours sincerely

[REDACTED]
Natalie Lindsay
Head of Regulatory Affairs