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Dr Kris Funston
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

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Australian Energy Regulator - Draft customer export curtailment value methodology

Essential Energy welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on its *Draft Customer Export Curtailment Value Methodology (CECV) interim report and values* and we appreciate the collaborative approach undertaken by the AER to date.

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. Once produced, CECVs are expected to play a comparable role to the Value of Customer Reliability under the current framework and will help guide the efficient levels of network expenditure related to export services and will act as an essential input into existing and new network planning, investment and incentive schemes.

Nonetheless, as presently proposed Essential Energy is apprehensive that the indicative values produced in the CECV interim report represents an overly conservative interpretation of wholesale market values which could be avoided relative to network investments which maximises customers value of their own household DER investments by avoiding solar curtailment. Absent amendment, we hold concerns that the draft CECV values will result network businesses making inefficiently low levels of investment in capacity to accommodate DER, ultimately leading to higher costs of energy served.

Houston Kemp, on behalf of Energy Networks Australia has produced a memo assessing the technical elements of the modelling undertaken in the draft CECV. This assessment concludes the approach taken materially underestimating CECV values. Essential Energy supports Houston Kemp's technical memo and we would encourage consideration of this assessment. In addition to the memo, we offer the follow high level observations for the AER's consideration:

- **Risk of conservative interpretation which understates benefits of avoided DER curtailment** – we hold concerns that the draft methodology fails to take into account benefits arising from the prevented generation and transmission investment which would have otherwise occurred. We understand that this decision has been undertaken on the basis that the amount of DER curtailment is small relative to total system generation. Whilst this may be true in the short term, the significant projected uptake in household DER is a material underpinning of the energy transition and as such we believe that unaddressed, significant amounts of DER will be curtailed in the foreseeable future. Given this, we believe that the CECV should take into account avoided costs of both generation and transmission capacity to ensure efficient long-term investment. It is also worth

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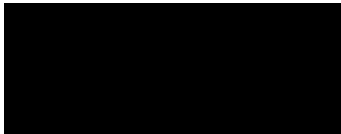
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noting that ultimately network businesses will still further test with customers their willingness to pay for additional higher levels of DER hosting capacity, providing an additional sense check of regulatory proposals.

- **Integrated system plan assumptions** – the wholesale dispatch modelling undertaken by the AER's consultant appears to underestimate the new roof top solar generation MW capacity forecast to be built within AEMO's most recent integrated system planning report. This would further amplify the issue raised above, where the avoided costs from lessening the curtailment of household DER is further understated.
- **Outage factors** – the application of an average outage rate in the draft CECV appears to be a cautious modelling approach, relative to other modelling techniques available.

We believe many of the issues above can be constructively addressed through additional technical workshops where the relative merits of CECV modelling approaches can be further debated in time for final CECV publication. We appreciate the collaborative approach undertaken by the AER to date and would welcome further dialogue on any of the points raised above. 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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Natalie Lindsay
Head of Regulatory Affairs