30 September 2022

Sara Stark
Director, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email to: AERInquiry@aer.gov.au

Dear Ms Stark,

Re: Submission to AER's Consultation Paper on incentivising and measuring export services performance

Evoenergy welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) consultation paper on incentivising and measuring export services performance.

Evoenergy supports the AER consulting on arrangements to incentivise export services from Distributed Energy Resources (DER) and measuring the performance of Distribution Network Service Providers (DNSPs) as they enable DER. Our comments on specific questions from the consultation paper are attached to this letter.

The regulatory framework for exports from DER and the respective performance of DNSPs is evolving rapidly and constantly presenting new challenges and opportunities. Therefore, a measured approach to any changes is particularly important.

Evoenergy supports the AER further considering bespoke incentive scheme(s) to measure the export performance of DNSPs. However, we consider it critical that there is flexibility in the scheme(s) to allow DNSPs to align with the specific priorities of their customers and jurisdictional programs.

Evoenergy acknowledges the range of factors contributing to DER penetration across jurisdictions, and export performance between DNSPs. Performance metrics should be developed in a cost-effective manner, noting data limitations in the short term, and refined over time as more sophisticated metrics become available. Along the way a consultative approach will ensure unnecessary costs are not passed on to customers.

We welcome all opportunities to collaborate with the AER on initiatives that will support the energy transition, including providing information to inform the design of balanced incentive mechanisms, performance benchmarking and reporting.

Should you wish to further discuss matters raised in this submission, please contact Cameron Shields, Group Manager Regulatory Finance & Strategy at [redacted]

Yours sincerely

[redacted]

Zoe Dougall
A/General Manager Evoenergy

Attachment

This attachment outlines Evoenergy's response to some of the questions posed in the AER's consultation paper.

Q1. Do stakeholders consider further incentive measures are required to ensure DNSPs provide efficient levels of export services?

Evoenergy supports further investigation into an optional export service performance incentive scheme, noting the current underlying difficulties to measure performance. Evoenergy is proposing efficient DER integration expenditure in our upcoming regulatory proposal to support export service performance. Our proposal will reflect our best estimate of the expenditure needed to provide efficient levels of export services. However, reflecting efficient expenditure levels to support DER integration will take time and the future design of an incentive scheme must acknowledge the different circumstances facing DNSPs and their respective customers' preferences.

Q2. Do stakeholders agree with these objectives for assessment of the merits of enhancing incentives for export services?

Evoenergy agrees with the objectives and supports a measured approach to assessing the design of any new incentive scheme. DER penetration and investment levels vary significantly between DNSPs. The share of DER as a proportion of total network demand is an important factor that appears largely absent from consideration.

The efficient investment required to implement systems and build capabilities to support export service performance and meet new regulatory obligations do not scale linearly with the size of the network. Smaller DSNPs face a proportionally higher level of expenditure to enable DER integration and this is particularly relevant for Evoenergy. Export service incentives should recognise and accommodate for this impact on smaller networks.

Q3. How significantly does the average low level (and value) of constraints currently experienced by most NEM exporting customers influence the need to enhance incentives for the provision of export services at this time?

Constraints currently experienced by exporting customers, in most jurisdictions, are not a good representation of potential constraints exporting customers may experience in the future as DER penetration increases and exports start to exceed the intrinsic hosting capacity of the network. Implementing systems and uplifting capability to measure, monitor and support export service provision requires time. Timely enhancement of incentives for the provision of export service should drive investment by DNSPs, provide greater visibility of export services performance, and enable greater customer choice when exporting customers may face higher levels of constraint in the future.

Q4. 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?

Evoenergy supports a staged, incremental approach either through the:

- Introduction of a voluntary financial incentive in the future once systems and capabilities have matured; or
- Use of approximated/modelled inputs until better metrics are available.

Under the second option, there is a risk that if approximated/modelled inputs overestimate export service performance, targets may end up being set too high and performance may erroneously appear to deteriorate once better metrics become available.

In principle, customer export curtailment value (CECV) would be appropriate, but CECV is not a fixed value and may introduce unnecessary complexity to an export service incentive scheme.

Evoenergy does not support a non-symmetrical STPIS mechanism. We support the symmetrical design of all incentive schemes.

Evoenergy agrees that robust metrics are required to inform financial incentives. As exports are a relatively new service, DNSPs systems and capabilities may not be mature enough to calculate the preferred metrics. We strongly support the need for ongoing collaboration with DNSPs to identify and refine performance metrics. We expect that most DNSPs would need to implement additional capabilities to enable better DER reporting, and a collaborative approach will help establish the balance between complexity, and the costs and benefits of these options.

Q5. 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?

A guaranteed service level (GSL) is well aligned with the intent of providing certainty and protection to customers and may be flexible enough to take into account jurisdictional differences. CECV challenges discussed in feedback to question 4 are relevant consideration here as well. To provide necessary transparency to customers, GSLs should be simple to understand and avoid unnecessary complexity.

Q6. Should a bespoke export service incentive mechanism be explored further?

Evoenergy supports further consideration of a bespoke export service incentive mechanism. However, we note the considerable capability differences between DNSPs, including scale, the availability and quality of data and maturity of systems.

Q7. 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?

There is merit in exploring this option further. A similar approach to the demand management incentive allowance (DMIA) would allow DNSPs to trial and assess the comparative benefits of systems that would need to be implemented to measure, monitor, and enhance export service performance. The outputs to this type of scheme may not necessarily be an increase in hosting capacity but may be qualitative.

Q8. 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?

Evoenergy agrees that reputational incentives will help increase transparency for customers, and may be sufficient in the short term to address concerns about the provision of efficient export services. We would recommend that metrics used for reputational incentive are robust and uniform across DNSPs.

Q9. 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 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 end-2023)? That is, do you agree with our understanding that this metric is not currently measurable, or cost effective to measure?**

Evoenergy agrees that network export curtailment is currently the best measure of export service performance. However, we consider it would not be feasible to report in the inaugural report and further consideration should be given to the timing of when this reporting commences.

Q11. Do stakeholders agree with the data imitations, impacts and potential solutions summarised in Table 6? 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?

Limitation	Impact	Feasible solution?	Evoenergy Comment
Limited access to smart meter data outside of Victoria.	Limits DNSPs' ability to get observed voltage data at the connection point.	Problem will diminish as more customers get smart meters Networks can also attach voltage monitoring devices to estimate voltage, although this is costly.	A DNSP's ability to get voltage data at the connection point is impacted by the cost of acquiring data from metering data providers, and the need for additional investment to build system capability.
Export curtailment is not directly visible to networks as customer generation occurs on the customer's side of the meter.	Export curtailment metrics are not directly measurable by the network.	DNSPs can purchase inverter data from the relevant party: inverter data can be held by a solar retailer, aggregator (including virtual power plant operators), or inverter manufacturer.	Purchasing inverter data will not provide export curtailment information without additional data and analysis.

Various connection agreement processes mean it is difficult to measure customer requested export capacity vs approved export capacity.	Results in estimates or sample data underpinning the metric, approved to requested export capacity (%).	There may be scope to improve connection agreement data, particularly as the AER approves DNSP's connection policies (NER clause 6.12.1).	Residential customers generally only request an export capacity specified as the standard export limit by the DNSP.

Q14. and Q15.

Do you agree that the options identified above are possible options for adjusting the benchmarking framework to account for export services? Are there any other options?

What are your views on the proposed staged approach? What if any changes would you suggest?

The AER is considering incorporating export services into the annual benchmarking report to capture changes in relative DNSP hosting capacity and costs over time so that productivity levels are not underestimated. The suggested two-staged approach to incorporating export service performance in its benchmarking analysis, include an interim treatment of using an operating environment factor (OEF) adjustment to the opex efficiency assessment and later integrating performance into the model specifications.

Evoenergy considers export services should be incorporated into benchmarking analysis through model specification or reporting on opex rather than an interim OEF adjustment as part of a two-staged approach. An ex-post OEF adjustment to efficiency scores is not the first best option for understanding the impacts of export services on productivity performance. Our preferred approach is to use mature and robust data metrics that can be reliably integrated into the model specification of the productivity index number and econometric cost function models. There are several reasons why an OEF adjustment should not be applied to efficiency scores as:

- An OEF may not be appropriate given that expenditure on export-related services is small but increasing and is a more recent issue that has not been a material opex cost driver over the entire long and short benchmarking periods (2006-2021 and 2012-21, respectively).
- Efficiency may be either under or overestimated if the benchmarking model inputs and outputs are not consistent, which would occur if export services are not incorporated into the model specification. Incorporating export services into benchmarking may shift

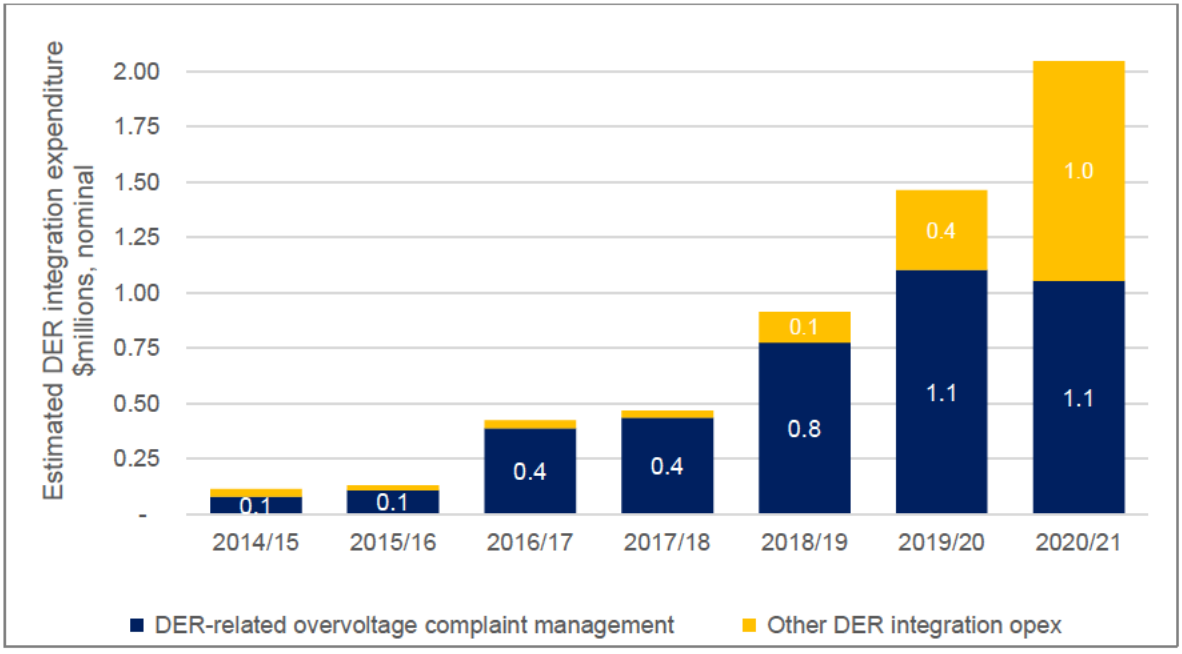
the relative performance of DNSPs and change the efficient reference DNSPs. OEF adjustments are applied after efficiency scores are derived, and efficient DNSPs have been identified. If an export service OEF were to be applied after efficient DNSPs were determined without regard to the impacts of increased DER on networks, the comparative customer-weighted average proportion of costs would be misrepresented.

- OEFs are factors beyond a DNSP's control that effect efficiency levels. With the adoption of defined non-zero static export limits and the development of dynamic operating envelopes, networks may initially have some control over export services. OEFs are stagnant, reflecting differences in costs at a point in time and do not account for changes in the rapidly evolving energy transition over time. As such, an OEF may not be a suitable solution to understand relative DNSP benchmarking performance as the market transitions to more flexibly manage network constraints.

Given that it is early in the process of positioning export services into the regulatory framework, it is vital that integrating performance into revenue determinations reflects accurate and robust data, which is not necessarily available to networks with low network visibility.

Notably, there may be limitations with incorporating export service performance into the econometric models as data may not be available for all networks in the sample, especially those DNSPs not located in Australia that are subject to a different policy environment with different consumer preferences. An alternative approach is to exclude export services opex from the benchmarking analysis and assess the efficiency separately. Evoenergy has provided information on opex associated with export services to the AER as part of their information request in early 2022, shown in Figure 1.

Figure 1 Estimated DER integration operating expenditure ($millions, nominal)



The AER's consultation paper includes preliminary options for addressing the benchmarking model output specification, including the potential increase in installed export service capacity. There are different levels of data availability across DNSPs to inform the AER's benchmarking analysis. More work is required to ensure metrics are fit for purpose before they are included in the input and output specification of the benchmarking models and applied to efficiency analysis.