20 May 2022

Dr Kris Funston
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Australian Energy Regulator
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Canberra, ACT, 2601

By email to: AERResets2024-29@aer.gov.au

Dear Dr Funston

# Framework and approach preliminary position paper

Evoenergy appreciates the consultative manner in which the Australian Energy Regulator's (AER's) preliminary positions on the Framework and Approach (F&A) for distribution businesses in the four jurisdictions, including Evoenergy in the Australian Capital Territory (ACT), whose regulatory control periods begin on 1 July 2024 has been developed, and welcomes the opportunity to respond.

Evoenergy looks forward to further consultation with the AER on the preliminary positions, especially where indicated in our comments below.

**Classification of services**

The *Draft proposed service classification of ACT distribution services 2024−29* published by the AER with the preliminary position paper and providing a schedule of the AER's proposed classifications of Evoenergy's distribution services for the period, shows that Evoenergy and the AER are well aligned regarding the AER's draft service classifications for the ACT. Exceptions to this, as discussed below, are export services and Type 5/6 (legacy) metering services where engagement with the AER is ongoing, as well as connection services where the AER has requested further discussion on the interaction between the classifications and Chapter 5A of the National Electricity Rules (Rules).

Evoenergy's views on other relevant proposed classifications are also noted below.

Standalone Power Systems

Evoenergy supports the AER's proposed change to the standard control regulated Standalone Power Systems (SAPS) service in recognition of the intent of the 2022 Rule change to treat regulated SAPS in the same way as other distribution services.

Leasing of excess battery capacity

The AER notes that Evoenergy expects to play no role in owning community batteries. On this point, Evoenergy should clarify that, while we are generally pursuing a model for sourcing battery capacity for network services under contract, we intend always to implement the most cost-effective model in the long-term interests of electricity consumers. A distributor-owned battery may in some circumstances meet that objective better than other alternatives. The business case for batteries with a primary purpose of meeting network objectives is often enhanced through the leasing out of excess capacity.

We recognise that a network battery performs a standard control service while the leasing out of excess battery capacity is a service provided into the contestable market and is an unregulated distribution service under the ring-fencing guideline. Evoenergy seeks a regulatory environment for community batteries that is as clear and predictable as possible such that it does not impede implementation of a community battery solution where indicated by prudent planning and assessment.

Export services

The AER's preliminary position on export services focuses on the proposal from two distributors to include as *common distribution services*:

> *customer export services back to the distribution network, including 'basic' and 'additional' exports.* [1,]

The preliminary position paper discusses:

- firstly, whether export services need at all to be specifically nominated as common distribution services, and
- secondly, the meaning and implications of 'additional exports' on classification as standard control services.

On the first point, the AER accepts that, whether listed or not, export services are currently and will remain part of common distribution services classified as standard control services, stating:

> *… the choice between the options [whether or not to specifically nominate export services] does not affect the way in which the service is delivered as part of the common distribution service to customers, or the prices customers pay. Either way, export services would form part of the existing distribution use of system standard control services and the AER would continue to apply a revenue cap to these services.*

[1] AER, Framework and approach; Preliminary position paper, p.15.

Evoenergy agrees with the AER and accepts that there is no need for a separate export service to be nominated consistent with the Australian Energy Market Commission's (AEMC's) 2021 rules changes to clarify that distribution services include export services.[2]

On the second point, Evoenergy's understands the distinction between 'basic' and 'additional' exports as being intended to differentiate between exports that fall within the network's intrinsic hosting capacity (for which the AER's draft export guideline specifies as a minimum requirement that no new export charge may be levied for the upcoming two regulatory periods) and 'additional' exports (i.e. in excess of the basic level) for which an export tariff or charging component can be levied. We accept that this distinction is not relevant to classification of export services.

In terms of the three options offered by the AER in the preliminary position paper to assist in clarifying this issue, Evoenergy considers Option 1, which stipulates:

> *Standard control service classification for a single export service that covers all export services. This assumes that, because all customers pay for standard control services, that all customers also benefit from any network augmentation to needed to provide export capacity that exceeds the "basic export level"* [3]

to be the intended model. Costs of accommodating the basic export level are collected implicitly via tariff charges for consumption services, and prudent investment to allow exports beyond the basic level either via consumption charging components or export charging components.[4]

Further, Evoenergy considers that the AER's Option 3:

> *A customer request for an export service beyond a threshold set by the distributor, classified as ACS [alternative control service] – where the costs of provision for that extra service level are directly attributable to the person requesting the service* [5]

is relevant to export services performed at the request of an individual not providing benefit to other network users.

For completeness, we consider that the AER's Option 2:

> *SCS [standard control service] classification that covers some 'standard export services' that may provide a service equivalent to the "basic export level", with an ACS classification for 'additional exports'. An ACS classification is suitable for services for*

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[2] AEMC, Access, pricing and incentive arrangements for distributed energy resources, Rule determination, 12 August 2021.
[3] AER, Framework and approach; Preliminary position paper, p.16.
[4] Export charging components can be introduced either during the 2024-29 regulatory period or subsequent regulatory control periods as outlined within the AER's Export Tariff Guidelines.
[5] AER, Framework and approach; Preliminary position paper, p.16.

*which the costs of provision can be directly attributable to the person requesting them* [6]

is not consistent with this export charging framework since it assumes that some investments that benefit all network users would be funded by individual customers. As with the approach to consumption services, the AER's connection charge guideline and a distributor's connection policy will determine if and when a customer needs to make an upfront payment for connection to the network.

Type 5/6 metering

The preliminary position paper recognises the issue raised by Evoenergy regarding the alternative control service classification of legacy (Type 5/6) metering services and Evoenergy's concerns about growth in potential costs of meter reading services as the number and density of such installations decreases at an unpredictable rate. [7]

Evoenergy acknowledges the AER's undertaking to continue to monitor any changes in the metering policy framework arising from ongoing review by the AEMC of the roll out of contestable meters, as well as modelling work being undertaken by Evoenergy for changes in circumstances relevant to service classification for the AER's draft or final determination.

Public lighting services

The AER recognises that Evoenergy expects to play no direct role in smart public lighting services. This is because, in contrast to other distributors, Evoenergy has no mandate for the provision of public lighting services.

**Forms of control**

Evoenergy supports the AER's preliminary position to retain the current revenue cap form of control for standard control services and the individual price cap form of control on alternative control services.

On the separate F&A matter of the formulae for implementing the regulatory controls, the AER notes that work is to be undertaken to improve definitions and transparency of operation of control mechanisms. This needs to include a review by the AER on the implementation of side constraints on network tariffs as this proved problematic for Evoenergy in the current regulatory period.

For ancillary network services (alternative control), the AER's preliminary position is to allow the inclusion of a profit margin in the cost build up for charges as well as including a component for tax recovery. Evoenergy supports this decision as a means of encouraging distributors to provide ancillary services on a more equal basis with standard control services.

[6] Ibid.
[7] Ibid, p.20.

### Application of incentive schemes

Evoenergy supports the AER's preliminary position to apply all five incentive schemes to Evoenergy and awaits the outcomes of the ongoing separate AER incentive schemes review for a decision for guidance on how the schemes are to be applied.

### Approach to depreciation – forecast or actual

The AER's preliminary position, consistent with the capital expenditure (capex) incentive guideline, is to use the forecast depreciation approach to establish the regulatory asset base (RAB) at the commencement of the 2029–34 regulatory control period. This is the default position, supported by Evoenergy, in terms of providing a neutral approach to unavoidable, unplanned capex overspend.

### Dual function assets – transmission or distribution pricing

The AER's preliminary position is to apply transmission pricing to transmission services provided by Evoenergy's dual function assets since they represent a material proportion of the value of Evoenergy's electricity network RAB. Evoenergy welcomes the continuation of the application of the current transmission pricing methodology given it ensures that ACT distribution customers do not pay for the use of Evoenergy assets to perform transmission services for electricity consumers outside the ACT.

Evoenergy would welcome further discussion with the AER on any issues raised in this response. Please contact Gillian Symmans, Group Manager Regulatory Reviews, [redacted]

Yours sincerely

[redacted]

Peter Billing
General Manager Evoenergy