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Sara Stark
Director, Network Regulation
Australian Energy Regulator
GPO Box 520
Melbourne, VIC, 3000

Lodged via email at AERInquiry@aer.gov.au

Dear Sara,

AER's incentivising and measuring export service performance consultation paper

Jemena Electricity Networks (**JEN**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) incentivising and measuring export service performance consultation paper (**the consultation paper**). JEN supports the AER's continued engagement on matters relating to customer energy resources (**CER**), including the role that distribution network service providers (**DNSPs**) play in securely managing the performance of customers' export services.

The consultation paper seeks feedback on three workstreams relating to export service performance—incentive arrangements, performance reporting metrics and benchmarking. Our submission below focuses on these three key considerations. Overall, we consider that export services are not currently mature enough to accurately and meaningfully measure, assess, incentivise and benchmark. Further, there are no clear measures of export service performance, and DNSPs do not currently report accurate, consistent and fit-for-purpose export service performance data.

Incentive mechanisms influence the investment in and operation of electricity distribution networks and these influences can change over time. In this context, we consider DNSPs should have the flexibility to adapt to the changing network characteristics—this is imperative to ensure efficient investment that is in customers' long-term interests. This includes the ability to economically manage system security risks such as minimum demand and under-frequency load shedding. This may involve constraining customers' export services at certain times to protect the security of the distribution network and the broader electricity system. Critically, any future export service measures and incentives should be aware of and address these challenges.

Incentive arrangements

In regards to incentive arrangements, the consultation paper states:

> *"The incentive frameworks in the NER, if left unchanged, could incentivise DNSPs to reduce expenditure, through the application of incentive schemes such as the capital efficiency sharing scheme (**CESS**) and the efficiency benefit sharing scheme (**EBSS**), without providing effective incentives for DNSPs in relation to export service performance."*[1]

Notwithstanding the AER's characterisation that there are no effective incentives for DNSPs in relation to export service performance and that DNSPs will not deliver the export service levels and performance that our customers expect, we believe there are effective measures in place. When developing our price reset proposal, we engage widely with our customers, including on providing export services and the expenditure required to

[1] AER, *Incentivising and measuring export service performance consultation paper,* August 2022, p. 15.

maintain these services. We consider that the reputational benefits associated with delivering on our commitments to our customers during this process provide strong incentives in relation to export services. Importantly, the AER's *Better Resets Handbook* is based on encouraging DNSPs to better engage and have consumer preferences drive the development of regulatory proposals and to benefit from the associated reputational benefits.[2]

The AER acknowledges that these reputational incentives have worked well to date, with the consultation paper highlighting that:

> *"DNSPs have been historically providing export services absent any explicit incentive to date due largely to ensure good customer relations. The high level of export service provision (demonstrated by currently small levels of export constraint) indicates it is likely that increasing the transparency of DNSPs export service performance information will lead to enhanced reputational incentives."*[3]

As well as reputational incentives, the consultation paper outlines two other options for establishing incentive arrangements for export services—a financial incentive mechanism similar to the service target performance incentive scheme (**STPIS**) and an allowance or margin mechanism. As noted above, there are currently no clear measures of export service performance. Regarding the STPIS, the New South Wales DNSPs collected data for one regulatory control period before the scheme came into operation. This highlights that the traditional approach to applying incentives is to have a robust historical dataset. We believe the AER should adopt a similar approach for an export service incentive scheme to ensure any unanticipated biases are not introduced.

The consultation paper proposes that reputational incentives may be appropriate as DNSPs mature in their delivery of export services and historical data is established, but over time the use of financial incentives may become more appropriate.[4] We support this approach and consider that any financial incentives should not apply to export services until stakeholders have agreed on a set of clearly defined performance metrics and a sufficient historical dataset has been captured. We welcome future engagement on possible financial incentive schemes for export services once they have matured and DNSPs have collected appropriate data. We discuss this data in more detail in the *performance reporting* section below.

Performance reporting

Table 5 of the consultation paper outlines several potential short-term performance reporting metrics.[5] Overall, we support the AER's proposal to collect and report data relating to export services. We do not have any material concerns with the AER's proposal to report high-level customer metrics, such as the number of export customers at the end of each reporting period, installed export capacity, and the number of export customers with static, non-zero and flexible export limits. These metrics will help improve transparency for customers and stakeholders, are readily available, and can be reported within our existing data and performance reporting capabilities. These metrics were provided to the AER for the 2020-21 regulatory year in our *DER export service metrics* information request response in May 2022.

Using metrics outside of DNSPs' control

We are concerned with the other metrics proposed in Table 5 of the consultation paper. In particular, we do not consider that the *approved to requested export capacity ratio* and *approved export capacity to installed capacity ratio* metrics meaningfully or accurately capture DNSPs' export service performance. In both of these cases, the denominators of these metrics are determined by customers and are outside DNSPs' control. In some instances, customers may request or install very large capacity CER systems where an

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2 AER, *Better Resets Handbook, Towards consumer-centric network proposals,* December 2021, p. 1.

3 AER, *Incentivising and measuring export service performance consultation paper,* August 2022, p. 32.

4 AER, *Incentivising and measuring export service performance consultation paper,* August 2022, p. 20.

5 AER, *Incentivising and measuring export service performance consultation paper,* August 2022, pp, 38-39.

equivalent level of export capacity cannot be facilitated on the network. We do not consider DNSPs' export service performance should be so inextricably tied to factors outside DNSPs' control.

Relying on voltage information

As highlighted in previous consultations, voltage data or the number of customers receiving overvoltage is not suitable for measuring export service performance. This issue was also raised in SA Power Networks' presentation to the AER's export service performance forum in August 2022. Importantly, voltage relates to both import and export services, and therefore should not be isolated as a strictly export-related performance measure. Further, export curtailment due to inverter overvoltage is unlikely to be material in the future.

As outlined in our *DER export service metrics* information request response in May 2022, in most instances, DNSPs are unable to determine if customer complaints relating to overvoltage were caused by CER devices or other non-CER-related network issues. DNSPs would need to take customer devices off supply—including customers close to the customer raising the complaint—to properly assess the network condition with and without the devices operating to determine the driver of the network issue. This is impracticable, particularly given the planned interruption notification requirements in the STPIS and the Victorian Electricity Distribution Code of Practice.

Proposed options

As noted above, currently there are no clear measures of DNSPs' export service performance. To overcome this challenge, we propose collecting data that details how often customers are *fully* constrained[6] from exporting onto the network during a specific period (i.e. in a regulatory reporting year). For example, on a particular feeder within the distribution network, on average export customers received a service level of 99.2%, meaning their CER systems were fully export constrained or limited for less than 0.8% of the year.

We consider this metric should apply for both export customers with static and dynamic export limits. This is because dynamic export limits are better for the whole system and allow DNSPs to more economically manage system security risks such as minimum demand and under-frequency load shedding. Using this approach, DNSPs would not be penalised or portrayed as delivering poor export service performance when they partially constrain customers' export capacity dynamically. We expand on these concepts further in the case study below.

Case study: Considering static vs dynamic export limits

Due to existing network constraints and limitations, DNSPs may be able to offer a customer seeking to connect a CER device to the network a static export limit of 5 kVA. However, if agreed by the customer, the DNSP may be able to offer a dynamic export limit of 10 kVA, where they can export up to this limit 95 per cent of the year.

If DNSPs report on the percentage of time during the year that the customer is constrained down from its 10 kVA dynamic export limit—for example, down to 8 kVA—it will appear that the DNSP has not provided a high-quality export service performance. However, in reality, the customer would:

- have access to double the export capacity for 95 per cent of the year than if they had a static export limit of 5kVA
- have still been better off when their export limit was dynamically adjusted down from 10 kVA to 8kVA than if they had a static export limit of 5kVA.

An alternative approach of creating an incentive based on any constraint level is binary and does not necessarily deliver the best economic outcome. Overall, the preferred metric outlined above is clear, transparent, easy to measure, and accounts for customer preference and choice. Importantly, different jurisdictional requirements relating to voltage compliance will make it challenging to compare these

[6] Note this would exclude customers with a static zero export limit, because they would not be constrained from an approved higher capacity down to zero. Rather, they would have a static zero export limit until this constraint was removed.

measures across different DNSPs. Therefore, we consider these proposed options should be used to compare the export service performance of individual DNSPs over time rather than comparing performance with other DNSPs.

Benchmarking

The consultation paper discusses how well the AER's current productivity benchmarking accounts for export services and the impact this has on the productivity results reported in its annual benchmarking report.[7] It proposes a two-staged approach to first estimate an operating environment factor (**OEF**) for export services and then explore options for updating model specifications of various benchmarking models.[8]

CER-specific operating expenditure has not been explicitly defined. For example, it is not clear if operating expenditure incurred to provide intrinsic hosting capacity should be included as CER-related expenditure. As a result, to date, we have not captured operating expenditure costs associated with providing export services. It is therefore not possible to provide robust estimates of CER-related operating expenditure for estimating an OEF. It is also unclear whether the CER-related operating expenditure can be consistently reported across all DNSPs to enable meaningful comparisons.

Updating model specifications does not require DNSPs to explicitly capture CER-related operating expenditure. This is more consistent with the AER's top-down assessment of operating expenditure in a regulatory price reset. However, it requires long-term time series of historical data that is consistent across DNSPs and other international jurisdictions. As discussed in the consultation paper and noted above, DNSPs do not currently collect or report this consistent data. Overall, the lack of consistent and reliable data on export services means that it is likely to be too immature to be included in the AER's benchmarking analysis at this stage.

We welcome future engagement on the potential role benchmarking can play in measuring export service performance once these services have matured and DNSPs have collected an appropriate time series of data. Our current recommendation is to collect adequate data to understand the materiality of export service cost drivers and to only focus on intertemporal improvements for DNSPs rather than intercompany comparisons.

If you have any questions regarding this submission, please contact me on [redacted] or [redacted]

Kind regards,

[redacted]

Matthew Serpell
Manager Regulation
Jemena Electricity Networks

[7] AER, *Incentivising and measuring export service performance consultation paper,* August 2022, p. 44.

[8] AER, *Incentivising and measuring export service performance consultation paper,* August 2022, p. 48-49.