Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

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Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra, ACT 2601

Dear Mr. Anderson,

Export tariff guidelines consultation paper

Jemena Electricity Networks' **(JEN)** appreciates the opportunity to respond to the Australian Energy Regulator's **(AER)** consultation paper on the export tariff guidelines (**Consultation paper**). We acknowledge the consultative approach the AER has taken to consider the design of the guideline.

We support the AER approach to err on the side of guidance rather than being prescriptive on the design and implementation of proposals.[1] This aligns to approaches and outcomes that are driven by customer and stakeholder engagement.

We have grouped our responses below on key topic areas identified by the AER.

Engagement

Customer-led engagement

We note the AER expectation for detailed engagement on a number of areas including the need for export tariffs, levels of cost reflectivity and cost allocation.[2] The guideline should allow distributors to be led by customers and stakeholders on what they themselves feel they can effectively contribute to, recognsing this can lead to good (and cost-effective) engagement outcomes. We need to bear in mind that customers desire to engage on minute levels of detail may be limited and there are areas they would expect us to be led by best practice or engagement with industry experts, including industry stakeholders, customer representatives and the AER.

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1 Consultation paper, p. 14.
2 Consultation paper, p. 16.

Use of 'reward'

The AER state that "*We expect distributors to sincerely partner with consumers and retailers to develop tariff options that <u>reward</u> customers*" (emphasis added).[3]

This language is potentially unhelpful in setting stakeholder expectations when there are may be a number of compliant tariff offerings that don't include 'rewards'.

Clarifying that 'reward' can include the ability to lower bills via the customers consumption and export choices would be helpful.

Guidance could recognise shared learnings

The AER indicates that tariff trials could be a useful source of customer impacts evidence. Question 1 asks "*Are there additional steps distributors can take or consider when engaging with their customers on export tariffs*".[4]

Recognising potential stakeholder resource constraints, their necessary work prioritisation[5], the level of common stakeholders across all the distribution businesses (eg retailers who are essential for trials), and potential stakeholder fatigue, we should avoid incentives for multiple trials of the same (or similar) thing by different distributors. Using each others learnings would be much more efficient and should be recognised in the guideline as a potentially valid evidence base for distributors to rely on.

Applying the network pricing objective and pricing principles to export tariffs

Export pricing only reflecting incremental cost

By providing guidance that export charges should predominantly, or solely, reflect only the incremental cost of providing additional export capacity[6], the AER has taken a prescriptive approach on one element of the numerator of the LRMC calculation.[7] It's not clear why this one LRMC input is singled out for guidance, but other LRMC inputs are not.

This particular guidance has a number of potential implications, including:

- Customers have generally preferred to lower price volatility and the guidance would allow no, or very limited, ability for price smoothing. Prices could change significantly when LRMC calculations change. Contrastingly, the use of residual may often be used by distributors for import pricing to reduce these sharp price changes.

[3] Consultation paper, p. 16.
[4] Consultation paper, p. 17.
[5] For example, the ECA has recently advised it will step down from distributor customer councils.
[6] Consultation paper, p. 20.
[7] In simplistic terms, the numerator is the present value of the change in the capex program and associated opex over the time horizon. The denominator being the present value of the increment in (export) demand.

- Distributors will effectively need to build a solely export capex program and a create a new export RAB, to undertake the LRMC calculation.

- This new export capex program and related RAB could be a very small proportion of the distributors overall RAB. For example, within JEN's 2021-26 regulatory period, there was $30.4M of easily identifiable DER capex[8], out of a $636m five-year capex program and a $1,457M RAB.

- At least initially, this is likely to drive a very low export LRMC values for some distributors[9] and may not provide any meaningful signal to incentivise export shifting.

- Distributors will need to consider tradeoff's between the administrative impost (transaction costs) versus the benefit of implementing very low price export signals.

To ensure there is flexibility when it comes time to price any export tariffs or tariff components, the AER should consider whether there is scope for pricing above LRMC levels in limited circumstances where the distributor has tested this with customers and provides a compelling justification.

Drivers of the costs of expanding network export capacity

The solutions to address issues created by exports will often be different to those that efficiently deliver the consumption service. However, the drivers of the costs of expanding network capacity are similar. We support descriptions being kept broad enough to accommodate any emerging drivers that may not be foreseen today.

The NER's existing definition of 'system limitation' is useful in this regard.[10] This outlines limitations due to:

- Forecast load or forecast use of distribution services by embedded generating units exceeding total capacity (thermal constraints)

- The requirement for asset refurbishment or replacement

- The requirement for power system security or reliability improvement

- Exceeding design fault levels limits

- Voltage constraints or any other aspects of quality of supply to Network Users

[8] This is JEN's Future Grid program.
[9] This may also depend on the demand measure used for the denominator.
[10] NER (cl 5.13.1(d)(2)).

- The requirement to meet any regulatory obligations or requirement, which may include low voltage visibility needs.

Evidence of no-cost/low-cost options

The AER suggests that distributors provide evidence of no-cost/low-cost options to address issues created by exports that have been implemented or considered before proposing export tariffs.[11]

From the tariff structure statement perspective, this issue is perhaps best addressed by the guidance seeking that distributors pricing and capex 'story' is appropriately linked – which falls out of NER 6.8.2(c1)(1)(v). This is because distributors capex programs developed for their 5-yearly regulatory proposals will be optimised and will therefore include these options where appropriate. These capex plans are interrogated by the AER prior to making its draft and final decisions. The evidence therefore lies in the capex plans.

Transition

We are generally supportive of the AER approach to guidance on transition.

However, we do not consider the guidance should require distributors to provide evidence that two-way pricing itself promotes customers interests.[12]

Distributors tariff structure statement proposals need to meet the NER requirements, including the network pricing objective and pricing principles. If the proposal meets these, then they are deemed to be in customers long term interests, otherwise there is an issue with the NER.

Distributor's should not be guided to misspend time building an evidence base for export tariffs that has already been through the Australian Renewable Energy Agency's (ARENA's) Distributed Energy Integration Program (DEIP) and AEMC rule change process.

Basic export limit

A non-prescriptive guidance approach is ideal for the basic export limit. This could accommodate differences between and within networks, including geography and asset and IT systems capabilities.

For instance, it may be appropriate for one or more of:

- A single date is used by which intrinsic hosting capacity is set for the regulatory period (simple).

- The hosting capacity changes to reflect actual changes on the network (complex).

[11] Consultation paper, p. 21.
[12] Consultation paper, p. 22.

- One basic export level to be defined for the entire network at different network's feeder type.

- Applying different basic export levels for (1) existing customers with solar/DER export to that for (2) existing customers without solar/DER export and new customers—for example existing residential customers may have connected DER with certain export allowances under the model standing offer at the time, whereas new customers might be expected to access only the technical limit from providing the additional import capacity.[13]

- Locational basic export levels by geographical areas at different network's feeder type .

- Determining BEL by using the lowest hosting capacity, average hosting capacity across feeder types or another methodology that reflects the variability of hosting capacity at different network locations.

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

Kind regards,

[redacted]

Chris Stewart
Group Network Pricing & Compliance Manager
Jemena Electricity Networks

[13] For example, it is assumed that back-feeding up to 30% of equipment ratings can be tolerated for LV networks (i.e the technical limit of export capacity is estimated at 30% of the import capacity).