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Dear Mr Feather

Flexible export limits Issues Paper

The Power and Water Corporation (Power and Water) welcomes the opportunity to provide a response to the Australian Energy Regulator's (AER's) review of the regulatory framework for flexible export limit implementation.

We support the AER's objective of identifying gaps in the regulatory framework to support the efficient implementation of flexible export limits, and ensure distribution network service providers (DNSPs) consider and address consumer outcomes and experience when implementing flexible export limits to efficiently utilise the spare capacity available in our networks to manage congestion. This is a key aspect of the Energy Security Board's broader work program to effectively integrate consumer energy resources (CER) into the National Electricity Market (NEM).

We are responsible for meeting customer needs, facilitating the Darwin-Katherine Electricity System Plan and delivering the Northern Territory's (NT) goal of achieving 50 per cent renewable energy by 2030. The AER's suite of CER-related initiatives and guideline reviews support us to achieve these outcomes.

Flexibility to innovate and invest in flexible export limits

There are now clear obligations on DNSPs to support two-way energy flows, including requirements for DNSPs to plan for the provision of export services and provide non-zero export limits. Recent industry trials – including Project Edge, Project Edith, Flexible Connections and Project Symphony – have demonstrated flexible export limits are a low-cost solution that enables much higher volumes of export services.

Now is the time for us to take proactive steps to integrate more renewables and transform our network – especially given the energy sector is a major contributor to greenhouse emissions in the NT. We consider implementing flexible export limits is a foundational step within our broader CER integration strategy to ensure forecast additional CER entering our system is managed more efficiently.

This will require us to undertake significant initial investments in network infrastructure and technology. We expect to learn from our experiences and develop more advanced and innovative approaches over time to provide greater benefits to our customers.

The above trials have also shown the importance of investing in relationships with key stakeholders to gain installer support and customer uptake. We hear our customers say their exports should not be limited unnecessarily. But most customers find concepts relating to the efficient integration of CER complex, and do not have access to a trusted source of information. We recognise a major step-up in stakeholder engagement is required to achieve a successful implementation of flexible export limits.

We support continued flexibility in the regulatory framework and discretion for DNSPs to both propose flexible export limit-related work programs to the AER for approval, and implement them in a way that maximises benefits to consumers – responding to the AER’s incentive schemes. Prescriptive requirements on DNSPs to implement flexible export limits would undermine the potential for innovative solutions, service offerings and pricing options in response to varying network circumstances and consumer preferences.

Flexibility to develop and implement our broader CER integration strategy

The regulatory framework is designed to give DNSPs flexibility to respond to their particular circumstances in a timely way, and account for different state and territory government policies. Each DNSP is responsible for developing its CER integration strategy in a way that meets a network’s circumstances, and addresses customer and stakeholder views.

Higher uptake of CER can create voltage, system strength and thermal issues in the low voltage (LV) network. DNSPs will need greater network visibility and analytical tools to monitor the physical limitation and solar availability in the LV network with sufficient granularity. The timing of these network investments will depend on CER penetration rates and forecasts and the level of network capacity in each jurisdiction (among other factors).

We recognise flexible export limits are a more efficient way of increasing the utilisation of the existing network capacity and customer sourced renewable energy. To date, we have had to rely on broad-brush restrictions placed on CER using static export limits – which may only be required at specific times in the year, and at discrete locations across the distribution network. We are exploring a work program to implement flexible export limits in the next regulatory period, as highlighted above.

Nevertheless, flexible export limits are just one aspect of our broader CER integration strategy. We have identified several other initiatives to unlock the benefits of CER and to allow more household solar on our network.

Our objective is to improve our ability to maximise customer exports onto the grid, while managing the risks to reliability and stability. This will require investments to improve our visibility of the network infrastructure and ability to send signals to CER devices. Further, we intend to pursue a range of measures from passive responses like new connection standards, through to active grid management capability, as well as tariffs and incentives that signal a need to increase or decrease exports.

These initiatives are highly complementary and require an integrated strategy. For example, dynamic network tariffs can support implementation of flexible export limits by rewarding customers for actions that better utilise existing infrastructure or improve network operations.

DNSPs require flexibility to efficiently manage the integration of CER and promote consumer confidence to become more active participants. Our strategy is to continually monitor and adapt to technology and market developments, and ground our decision-making based on our customers’ preferences and the values that drive them. These are highly dynamic considerations that will change over time.

Further, over the next 5–10 years we plan to undertake innovative trials and make incremental steps to develop our understanding of the most cost-effective ways to integrate CER. We expect our planning and investment strategy will continue to evolve.

Therefore, we support the AER’s view that a principles-based approach is appropriate to provide flexibility for DNSPs in terms of integrating the functionality of flexible export limits with their existing capability, systems and infrastructure.

Flexibility to manage capacity allocation based on customer preferences

We consider DNSPs should have full discretion to develop and implement:

- a capacity allocation methodology to determine how available network hosting capacity should be allocated among customers
- customer service options – including static vs dynamic limits and any opt-in/opt-out arrangements of flexible export limit connections.

This is consistent with the current regulatory framework. More intrusive regulatory oversight would potentially create unintended consequences for customers.

Capacity allocation decisions should be based on the circumstances and customer/stakeholder preferences at the time. This means we should have flexibility to change our policy within a regulatory period as necessary. In developing our approach, the export hosting capacity allocation principles identified by the AER, based on previous work under ARENA's Distributed Energy Integration Program, provide helpful guidance for us and our customers and stakeholders.

DNSPs could report on their customers' experience of flexible export limits over the current regulatory period as part of their five-yearly regulatory proposals, rather than relying on an AER audit process. Also, flexible export limit data could be provided as part of the new export service performance reporting.

We consider the current regulatory framework governing contractual arrangements between DNSPs and customers is appropriate for facilitating the implementation of flexible export limits – including through DNSP connection policies and the model standing offer. Further, liability of compliance can be passed on from the customer to the trader through a bilateral contract between the two parties, thereby minimising the need for wider changes to the existing framework – consistent with Energy Networks Australia's (ENA's) submission to the AER.

A holistic compliance framework for CER connections is required

We also strongly support ENA's submission that effective and pragmatic approaches to compliance are needed. Compliance with technical standards and network requirements, including compliance with static or flexible export limits, is an ongoing issue across all Australian networks.

Under the existing rules, DNSPs have limited options to address non-compliance and are generally reluctant to disconnect customers in response to non-compliance. We agree with ENA that:

- there needs to be a broader focus on developing a holistic framework for compliance of CER connections to the network
- the compliance framework should consider the role of DNSPs in enforcing compliance – including allowing more proportionate options to manage varying levels of non-compliance.

Further consultation is welcomed

If you have any queries or wish to discuss our response to the Issues paper, please do not hesitate to contact Shaun De Zylva, A/Manager Power Engineering, at: [REDACTED]

Yours sincerely

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Manager Customer, Strategy and Regulation