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1 February 2023

Dr Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted via email to: exportservicesreview@aer.gov.au

Dear Kris,

Re: Draft report: Incentivising and measuring export services performance

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the Australian Energy Regulator's (AER's) draft report on 'Incentivising and measuring export service performance.'

In 2021, the Australian Energy Market Commission (AEMC) published the 'Access, pricing and incentive arrangements for distributed energy resources' rule change (the Rule change). Under the Rule change, the AER would be required to develop an incentive scheme for Distribution Network Service Provider (DNSP) export services. To achieve this objective, the AER began to consult with its key stakeholders on developing such a scheme in early 2022. In late 2022, it published a draft report that outlined the regulatory changes that would be required to implement such a scheme.

We have reviewed the AER's draft report and we do not support it, primarily because we don't support an incentive scheme on export services. In our view, CPI-X incentive regulation via the capital expenditure sharing scheme (CESS) and the efficiency benefit sharing scheme (EBSS) already creates strong incentives for DNSPs to provide services both efficiently and reliably. As such, we:

- support the decision to not extend the STPIS to export services
- reject the need for the development of reputational incentives for export services
- oppose the development of bespoke incentive schemes
- dismiss the need for a future review of the incentive arrangements for export services.

Below, we expand on these key positions.

Extending the Service Target Performance Incentive Scheme (STPIS) to export services at this time

We support the AER's decision to refrain from extending the STPIS to export services at this time. With the current low level of constraints on the network, DNSPs should be able to manage congestion on the network without any significant disruption to energy exports. Also, absent the required data to implement a standardised incentive scheme for exports that places revenue at risk, expanding the STPIS to export services would not be possible now.

Reputational incentives for export services

We do not support the development of reputational incentive schemes. This is because of the costs associated with implementing these schemes and the lack of a financial reward for good performance. Equally important, quantifying the impact on a DNSP's reputation under the scheme would be challenging as would determining if its reputation was impacted as a result of providing export services or other network services.

Overall, DNSPs pay more attention to incentive schemes like the CESS and the EBSS that have significant regulated revenues at risk and the potential to deliver strong financial rewards. As such, while regulators consider that reputational incentive schemes can be effective, our experience with these schemes suggest that this is not the case.

Bespoke incentive schemes

We do not support the introduction of bespoke incentive schemes that seek to improve export services. The main reason for this is developing and defining the appropriate parameters to be applied in an incentive export scheme is very challenging with DNSPs well positioned to benefit from these schemes. In addition, for these schemes to have legitimacy they must incorporate the genuine engagement of consumers which is difficult due to their complexity. These problems raise legitimate questions on whether these schemes should be developed at all.

Future review of the incentive arrangements for export service

We do not support a future review of the incentive arrangements for export services. CPI-X incentive regulation provides sufficient incentives for DNSPs to operate their network efficiently and reduce their expenditure relative to their forecast allowances sharing any outperformance with consumers. The AEMC's view that there is a risk that a DNSP would reduce their expenditure on the network at the expense of network reliability is not credible. It implies DNSPs operate their network for expedient short term profits rather than genuinely attempting to become more efficient over the long term. In our view, this observation is not credible.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.2 million customers. We thank the AER for the opportunity to comment on the draft report. Should you wish to discuss aspects of this submission or have any further enquiries, please contact Con Noutso Regulatory Manager on [redacted]

Yours sincerely

[redacted]

Geoff Hargreaves
Manager - Regulatory Affairs
Red Energy Pty Ltd
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