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4 November 2021

Mr Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically: tariffguideline@aer.gov.au

Dear Mr Anderson,

Re: Export tariff guidelines for distribution network export tariffs

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Export Tariff Guidelines consultation paper (the consultation paper) developed by the Australian Energy Regulator (AER) to facilitate the distributors to introduce two way pricing.

The *Access, pricing and incentive arrangements for distributed energy resources* rule made by the Australian Energy Market Commission (the Commission) amends the National Electricity Rules (the Rules) to clarify that distribution services are two way. In practical terms, this means that networks are free to design two way pricing solutions allowing them to charge for both import (consumption) services and export services from consumers who generate using rooftop solar, for example.

We support changes that deliver efficiency to consumers equitably. This reform allows networks to implement more efficient pricing arrangements and integrate Distributed Energy Resources (DER) more equitably and efficiently.

The introduction of two way pricing itself represents a critical stage in the tariff reform process and needs to be carefully managed, otherwise it could result in unintended consequences. A key risk to be managed is to ensure that networks will not introduce complicated two way pricing options. Complex two way pricing will be difficult for consumers to understand, and consequently will not respond in the manner expected by the network. Further, if the tariffs are too complex, retailers may choose not to pass on the price signal in order to avoid costly changes to their billing systems. In order to address these concerns, it is important for the AER to ensure that two way pricing is introduced in its simplest form.

For this reason, we prefer that networks only develop two way pricing options that include a basic volumetric Time of Use (TOU) charge combined with a fixed charge to recover their residual costs. It is unrealistic to expect that every consumer will become an expert in network tariffs, as such it is imperative that any two way pricing is only introduced in a simple and easy to understand manner. Complex tariffs with pure economic signals while theoretically sound will fail because consumers do not understand them.

In the remaining part of this submission, we will provide responses to most of the questions raised in the consultation paper.

Question 1: Are there additional steps distributors can take or consider when engaging with their customers on export tariffs?

Red and Lumo are satisfied with the broad conditions placed on networks in the Export Tariff Guideline which require them to show the link between tariffs and stakeholder development before being permitted to introduce two way pricing.

Question 2: What are the drivers of costs of expanding network export capacity?

Red and Lumo agree with the AER's observations that there are different cost drivers for augmenting the network with consumption services powered by growth and export services driven by changing patterns of network use.

We support more equitable pricing models. However, we have previously raised some concerns that charging for export services could provide an avenue for networks to justify more augmentations and therefore will add costs for consumers in the long term. In our submissions, we argued network augmentations should not be justified where they end up increasing solar exports in the middle of the day when a regional market is in 0 or negative net consumption and further exports only destabilise the grid.

Our view is that network augmentations should only be built where they improve the efficiency of the use of system to reduce prices to consumers. This is where we see the use of two way pricing, that is by sending out price signals to customers to limit exports when they are not required and increasing them when they are needed. In some cases, this may not require two way network augmentation, but instead the right, simple economic signals being provided to consumers allowing them to shift the timing of their exports.

Similarly, there is a potential overlap between the cost drivers of both consumption and export services. As a result, networks themselves will need to ensure they prevent any overlap between these costs. It is inappropriate to charge consumers twice and add unnecessary costs.

Question 3: Is the efficient cost of providing export service different to the efficient costs of a consumption service? If yes , how are these costs different?

Red and Lumo consider that the efficient cost of providing an export service will be similar to that of a consumption service. From our perspective, the principles of cost recovery that apply to both consumption and export based tariffs will be the same with tariffs reflecting the following key characteristics.

Firstly, both import and export tariffs need to be simple for consumers to understand and respond to price signals. Successful tariff reform will occur when consumers are able to understand their consumption and export patterns, and respond to any price signals provided to them. As we have consistently argued, consumers must first have a basic understanding of their patterns <u>before</u> they are able to respond to and benefit from cost reflective tariffs.

Secondly, tariffs must be consistent and repeatable. We understand that all network businesses have different and varied physical characteristics which could make some forms of cost reflective tariffs more effective than others depending on the nature of the network. This should not deter networks from developing cost reflective tariffs in a consistent way. Developing cost reflective tariffs in a consistent manner reduces complexity making it easier for consumers to understand the proposed tariff structures.

It must be acknowledged that retailers are customer facing, and must be capable of clearly articulating the tariff structure to their customers in an understandable and simple manner. We accept that networks are free to develop complex tariffs that send pure economic signals to consumers. However, in the face of complex tariffs, retailers may choose not to pass on these price signals to their customers. We note that some networks are contemplating moving towards capacity based consumption tariffs for their next revenue caps arguing these tariffs match their cost structures. Retailers will need to decide whether to accommodate these tariffs, incurring potentially significant costs to their billing systems, in addition to the likely impact on customer experience—or simply choose not to pass it on.

Question 4: What can distributors do in practice to demonstrate they have considered customer impact analysis when setting tariffs? For instance, how should distributors explain or quantify a negative customer impact analysis?

It is important that networks report on the outcomes of any customer impact analysis in an open and transparent manner. This will provide the AER and other stakeholders an accurate picture of any customer impact analysis undertaken, and how genuine the engagement is.

To that end, any report on customer impact must be presented in a non-technical manner so that it is easily understood. A genuine assessment of consumer impact would include a wide range of scenarios, with detail on specific outcomes achieved under those scenarios.

Question 6: How should distributors define basic export level thresholds? What matters should be taken into account when defining basic export level thresholds?

Red and Lumo acknowledge that the requirement for a 'basic export level' has been included in the Rules with the AER required to introduce this reform. Currently it remains unclear in what shape or form that the 'basic export level' will take. We have some concerns, outlined below, for the AER's consideration as it progresses to operationalising this reform.

Coordinated 'export levels' that include a 'basic export level' combined with a 'static' or 'dynamic' export charge that only applies when a customer exceeds its basic export level introduces a layer of complexity that is beyond consumers. In general terms, we believe that the 'access level' that a consumer with rooftop solar (or DER) receives or pays for must be as simple as possible.

We note that retailers do not have any direct involvement in negotiating coordinated 'export levels' on the network. In fact, a consumer will usually negotiate directly with their network on the level of access that they receive when they connect rooftop solar (or DER). In our view, these arrangements should be maintained.

Retailers should not be required to take on any additional responsibility for delivering 'export levels' when any new arrangements are implemented. The level of access available for a consumer with rooftop solar (or DER) is an issue between the network and the consumer. Therefore, any new arrangements that apply to the level of access for a rooftop solar (or DER) customer should not mandate any responsibility for delivering this service level to retailers.

Finally, we are specifically concerned that there will need to be major changes to the metering arrangements in order to deliver the different service levels to the grid that are being proposed for rooftop solar and DER customers. If this eventuates, there could be additional costs involved to implement a solution. To the extent possible, we prefer that any solution progressed by the AER avoid this.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in South Australia, Victoria, New South Wales, Queensland and the ACT to over 1.1 million customers.

Red and Lumo thank the AER for the opportunity to comment on the issues paper. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on [redacted].

Yours sincerely

[redacted]

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
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