



Government
of South Australia

Department for
Energy and Mining

Our Ref: F2022/000205

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601


Dear Mr Anderson

Draft Export Tariff Guidelines and explanatory statement

Thank you for the opportunity to comment on the Australian Energy Regulator's (the regulator's) draft Export Tariff Guidelines and explanatory statement.

This submission does not represent the views of the South Australian Government, which has entered a caretaker period. The views and opinions expressed in this submission may be amended in the future to reflect the priorities and positions of the incoming government.

As outlined in its June 2021 submission on the Australian Energy Market Commission's draft determination for the *Access, pricing and incentive arrangements for distributed energy resources* rule change request, the Energy and Technical Regulation Division (the Division) acknowledged that clearly recognising the provision of export services by Distribution Network Service Providers (DNSPs) allows for the more efficient provision and use of those services as well as for more equitable allocation of costs and benefits.

The Division supports the principles-based approach the regulator has adopted for the Guidelines. This approach enables some degree of DNSP pricing flexibility, which appears appropriate given the objective of the rules for collaboration between the businesses and customers on the pricing and incentive arrangements.

The Division accordingly supports the emphasis the regulator places on active and sincere stakeholder consultation to promote the incorporation of consumer preferences and behaviours in the design of two-way pricing options. To effectively engage customers, we agree that DNSPs should consult with related stakeholders including aggregators, community groups, retailers, industry associations, and government. It is essential that a wide variety of



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views are captured, so this should include engagement with vulnerable customers, customers with and without distributed energy resources (DER), small businesses as well as commercial and industrial customers.

Transitioning to new export charging arrangements is likely to be challenging and the structured consumer engagement process will be a vital component. The export tariff transition strategy and overview paper will assist consumers to understand how options for pricing, expenditure and other strategies can be brought to bear on the DER challenges and drivers of network costs.

The proposal that DNSPs should share with stakeholders any insights into the impact on customers resulting from any two-way pricing proposals is also supported by the Division. We agree that this customer impact analysis should include the impact on a range of different customer groups, including customers with and without rooftop solar, with electric vehicles, who are considered vulnerable, in metropolitan, regional and remote areas.

We note the regulator's view that costs incurred in providing consumption services should not be recovered through export charges and that export charges should only recover costs associated with providing the export service.

The Division expects that the recovery of export service costs should be set to reflect efficient costs and long-run marginal costs, in line with the pricing principles described in the National Electricity Rules (NER). The Division considers that retrospective costs, such as those associated with providing a network's intrinsic hosting capacity, should not be recovered through export charges, as consumers have already been paying for these assets through consumption charges. However, residual historic costs related to network investments that enabled export services could be recovered if able to be accurately identified by DNSPs.

The Division expects that the Guidelines, when complemented with the regulator's subsequent assessment of DNSP revenue proposals, will help ensure robust pricing models and methodologies are adopted by DNSPs when developing their pricing options. Nevertheless, the Division considers that challenges exist that may impede the success of two-way pricing proposals:

Consumer understanding of retail market offerings

Even without the introduction of two-way tariffs as part of retailer pricing arrangements, the transition to cost reflective retail tariffs has been slow. Advice from market bodies suggests that retailers are not adequately encouraging and facilitating customers adoption of these new products¹, and informal advice from retailers, suggests the consumer appetite for these

¹ For example, Australian Energy Regulator, State of the Energy Market 2021, July 2021, pp 55-56.





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products is limited to date. This has been the experience in South Australia, despite the recent introduction of cost-reflective network tariffs by SA Power Networks.

The introduction of export tariffs may further challenge retailers and third parties' ability to develop pricing options that consumers can comprehend, evaluate and embrace. The Division supports the regulator's expectation that DNSPs should engage with customers and retailers to explain their two-way pricing proposals with appropriate clarity.

We suggest that the regulator consider any "lessons learned" from previous cost-reflective tariff reform that may have contributed to sub-optimal levels of take-up of cost reflective tariffs by consumers. We also see benefit in ensuring DNSPs leverage the outcomes of their trial tariffs and transitional strategies for the development of higher quality two-way pricing options.

Increased complexity for DNSP tariff design

The introduction of two-way pricing will materially increase the number of factors that DNSPs must consider when both complying with the network pricing objective and pricing principles and developing their tariff structure statement (TSS). Accurately determining long run marginal costs and efficient costs will be complicated by a new range of factors, including the need for DNSPs to forecast both the growth in different DER customers and their future demand for export services. The need to objectively determine basic export levels and each network's intrinsic hosting capacity will likely further complicate tariff design.

The regular should insist on transparency from DNSPs around how cost components are allocated to export services and how their revenue proposals and TSS proposals are interrelated to provide visibility for stakeholders and aid customer understanding of tariffs. The Division supports the balancing of simplicity and efficiency around two-way tariff design by DNSPs, particularly while consumer responses to these new tariffs are still to be understood.

Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director, Energy Policy and Projects, Department for Energy and Mining on [REDACTED]

Yours sincerely

[REDACTED]

/ Vince Duffy /

EXECUTIVE DIRECTOR, ENERGY AND TECHNICAL REGULATION DIVISION

8/03/22





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