

4 November 2021

Mr Warrick Anderson
General Manager, Network Pricing
Australian Energy Regulator
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Sent via email: tariffguideline@aer.gov.au

Dear Mr Anderson

Warrick

Export Tariff Guidelines for Distribution Network Export Tariffs Consultation Paper

SA Power Networks welcomes the opportunity to comment on the AER Consultation Paper published in September 2021 which seeks to develop Export Tariff Guidelines for Distribution Network Export Tariffs.

SA Power Networks supports a principles-based approach when developing this Guideline. Such an approach will ensure the flexibility necessary to accommodate Distribution Network Service Providers' (DNSPs) individual customer and network requirements and adapt in a timely manner as the distributed energy resource (DER) space evolves.

Outlined below are our views on the following concepts as presented in the Consultation Paper.

Section 3.1 Stakeholder engagement in relation to proposed export tariffs

SA Power Networks considers stakeholder engagement a cornerstone of tariff development for both import and export tariffs. We consider the expectations set out in the Consultation Paper for stakeholder engagement including the nature, breadth and depth and clearly evidenced impact, to be reasonable. SA Power Networks also considers export tariff stakeholder engagement will require stakeholder consideration on what levels of service should be incorporated into the export tariff offering.

Section 3.2 The provision of information about stakeholder concerns and how they have been taken into account

SA Power Networks considers the expectation of DNSPs to consider stakeholder concerns and demonstrate how feedback has been taken into account as reasonable. Whilst we appreciate the need for the AER to have some degree of transparency as to the stakeholder engagement process that the DNSP undertakes, SA Power Networks would caution the AER against prescribing the specifics of how this is undertaken in order to minimise the reporting burden. Some of the information specified in the Consultation Paper appears to involve detailed descriptions of paper trails between us and customers and/or stakeholders. There should be flexibility as to how DNSPs aggregate this information in an efficient yet transparent manner. Such analysis will be incorporated into the Tariff Structure Statement (TSS).

Section 3.3 The AER's approach to applying the network pricing objective and pricing principles in relation to export tariffs

SA Power Networks considers that the Guideline should provide clarification about the comprehension of two-way pricing in Section 3.3.1. It is not clear to us why the AER is intending to require DNSPs to have tested customers' understanding of tariffs, when the Rules have been amended to provide greater flexibility in future, that is, tariffs need to be either understandable by customers, or capable of being integrated by retailers and aggregators. This requirement seems to run counter to the intent of the Rules.

The drivers of the costs outlined in Section 3.3.2 are considered to be reasonable, noting that there may be additional drivers, e.g. in relation to new operational systems or processes to more dynamically manage export service capacity. SA Power Networks will identify our cost drivers as part of the TSS, including the application of these cost drivers to different levels of export.

In reference to Section 3.3.3, SA Power Networks considers a key difference between the efficient cost of providing a consumption service versus an export service is that the sunk costs incurred pre 2020 for our export service are immaterial. Consequently, for export tariffs, we do not expect to encounter the same complexities that we have had for consumption services, where sunk costs (i.e. residual costs) are generally materially higher than long-run marginal costs, and therefore a key issue for DNSPs has been how to recover these sunk costs (e.g. via a combination of fixed vs variable charges) in a way that does not distort the efficient price/long-run marginal cost component of the tariff structures (typically via a variable charge).

SA Power Networks is supportive of customer impact analysis as outlined in Section 3.3.4 and concurs with the Guideline that it forms a central component to the TSS. Impact analysis is complex and as such we consider it imperative for the Guideline to be principles-based and not overly prescriptive to ensure that broad analysis can be developed. We believe that a number of scenarios will need to be developed to recognise the complexity of questions such as:

- Who is considered the customer? Is it the Retailer who pays the network charges or is it the end customer who pays the retail bill?
- Each Retailer has a different feed in tariff, some fixed and others variable based on the pool price. These can vary widely and therefore significantly impact outcomes of the customer analysis.
- A customer that is part of the South Australian jurisdictional scheme would have different considerations to a customer who is not part of the scheme.
- What is considered a reasonable payback period for the investment in a battery?

As we note with consumption tariff impact analysis, there is no precise figure, over or under, which an impact is deemed to be supportable by stakeholders or not. SA Power Networks considers the main intent of customer impact analysis is to help guide considerations as to different transition strategies that may be required in order to manage effects on customers from changes in tariffs. That is, rather than being used to inform customers' purchasing decisions on DER directly.



Section 3.6 Provision of basic export level and export level guidelines

SA Power Networks considers that the Guideline should provide clarification on the 10 year (two regulatory control periods) basic export levels period. Our interpretation of the Rule is that DNSPs are not required to have the same level of basic export prescribed for the 10 year period, but rather that DNSPs must have a level of basic export for the 10 year period. This flexibility is welcomed should it be required. The methodology for these basic export levels would be outlined within the TSS. This methodology would be supported with the appropriate stakeholder engagement.

We consider that the AER's Guideline should not be prescriptive about the methodologies used to determine basic export levels. DNSPs will differ in their capabilities to apply different methods according to the systems and tools they use and their level of network visibility, and furthermore these capabilities will change over time. Prescribing a specific method, or even a set of allowed methods, may drive unnecessary compliance costs for DNSPs and lead to poorer outcomes where the available methods are not a good fit to the input data and tools a DNSP has available. The AER Guidelines should require DNSPs to describe their methodology as part of the TSS process and demonstrate how it satisfies the requirements of NER 11.141.13 (b). Each DNSP will be best placed to determine an appropriate methodology for its network according to its specific circumstances.

If you have any queries or require further information in relation to our submission, please contact Helen White on [REDACTED] or [REDACTED].

Yours sincerely

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Mark Vincent
General Manager Strategy and Transformation

