

8 March 2022

Mr Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Sent via email: tariffguideline@aer.gov.au

Dear Mr Anderson *Warwick*

Draft Export Tariff Guidelines

SA Power Networks welcomes the opportunity to comment on the AER Draft Export Tariff Guidelines published in January 2022.

SA Power Networks supports the predominantly principles-based approach in 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 Draft Guideline. It should be noted that whilst several matters have been identified, SA Power Networks considers the concept of sunk costs of past distribution network investments that were primarily driven by an 'identified need' associated with the enablement of export services to be the most material issue.

3.1 Two-way pricing in tariff structure statement proposals

Information that should be included in the export tariff transition strategy

SA Power Networks supports the inclusion of an export tariff transition strategy as part of the Tariff Structure Statement (TSS) process however we seek clarification on expectations with respect to the inclusion of learnings from export trial tariffs to inform an equitable transition strategy. We understand that DNSPs are encouraged to learn from each other's trials, however trial tariffs are not required to be conducted by every DNSP. As there is no mandatory requirement for trials to be conducted, we do not consider that it should be mandatory to explain how trial tariffs have informed our thinking in the transition strategy.

Furthermore, the concept of equity is one which SA Power Networks is supportive of and is supported by our stakeholders and advocates. The Customer Impact Principles which we developed as part of our first TSS included Fairness and Equity as important principles to consider when assessing the impact of various pricing structures on customers. We note however, that equity is not a defined term in the National Electricity Rules and if the AER is to refer to this term in the Guideline, we would welcome greater clarity on its interpretation of this term noting it can be interpreted very differently by different DNSPs and stakeholders.

SA Power Networks has typically viewed the concept of equity within tariff decisions, as going to questions such as ensuring that tariffs structures reflect the value that customers see in the service, and the network costs driven by how customers use the service - therefore, equity is linked to willingness to pay (broadly speaking) as well as cost reflectivity. However, we would welcome broad engagement on this point.

4. Stakeholder engagement in relation to proposed export tariffs

SA Power Networks recognises the importance of stakeholder engagement and welcomes the principles-based approach in the Guideline. Engaging deeply with stakeholders, customers and customer advocates will be critical to the development of the TSS and export tariff implementation and pricing will be a key topic for discussion throughout this engagement. We support the need for engagement to be tailored to ensure that a variety of stakeholders' viewpoints are captured and considered during the engagement process.

5. Approach to applying the network pricing objective and pricing principles in relation to export tariffs

5.1 Two-way pricing to reflect long run marginal cost and the efficient cost

In our view, it is unclear how the expectations set out in the Guideline, as to which costs are to be recovered via tariffs for export services, give effect to the Distribution Pricing Rules in the NER. Our interpretation of these Rules in the context of export services is that:

- The costs of the distribution network's existing intrinsic hosting capacity to provide export services, should not be allocated to export services. This existing hosting capacity arises as a product of the primary consumption service, and these costs need to continue to be recovered from tariffs for consumption services – as required by the Rules.
- The forward-looking costs of enabling additional hosting capacity for export services (i.e. in addition to the intrinsic hosting capacity) should be recovered from the long run marginal costs (LRMC) component of tariffs for export services.
- The sunk costs of past distribution network investments that were primarily driven by an 'identified need' associated with the enablement of export services (noting that not all DNSPs have to date made any such investments) should also be recovered via tariffs for export services, in this case, via the non-LRMC component of these tariffs. These 'residual costs' together with the LRMC, comprise the total efficient costs that the Rules enable DNSPs to recover from their tariffs.

We understand that we are aligned with the AER on the first two of these points, but we consider that the third is a material issue that needs to be addressed. SA Power Networks appreciates that there is some complexity in determining the allocation of sunk costs associated with the export service, particularly where the driver of past investments may have been described / understood differently by each DNSP. However, we consider that having regard to the nature of the 'identified need' may be useful in ensuring that export tariffs ultimately give effect to the Network Pricing Objective in the NER, that is, that tariffs for the export service reflect the costs of providing the export service (after accounting for intrinsic hosting capacity).



5.2 Consider the impact on customers of changes in tariffs

SA Power Networks supports the principles-based approach in this Guideline to undertake bill impact analysis and welcomes the clarification of who is considered to be the customer. We note the Guideline allows for broad analysis to be developed and different customer types to be considered which will be important for guiding stakeholders in their consideration of different transition strategies to manage the effects of changes in tariffs.

5.3 Two-way pricing must be understood or incorporated

SA Power Networks welcomes the clarification on tariffs needing to be either understandable by customers, or capable of being integrated by retailers and aggregators. We consider this statement is aligned with the intent of the amended Rules.

6. Basic export levels

SA Power Networks welcomes the Guideline clarification of the 10 year (two regulatory control periods) basic export levels period. The Guideline allows flexibility for the DNSP to adjust this basic export level within a regulatory control period if required. The Guideline also upholds its principles-based approach by requiring only a description of how the DNSP determined the basic export level for the proposed export tariff. SA Power Networks is supportive of each DNSP outlining 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
Executive General Manager Strategy and Transformation

