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

Sent via email: [exportservicesreview@aer.com.au](mailto:exportservicesreview@aer.com.au)

Dear ~~Dr Funston~~ *Kris*

### Submission on Draft Export Service Incentive Scheme

SA Power Networks (SAPN) welcomes the opportunity to provide feedback on the Australian Energy Regulator's (AER's) Draft Export Incentive Scheme<sup>1</sup> (ESIS) released for consultation on 10 March 2023.

Incentives are a central component of the current regulatory regime for Distribution Network Service Providers (DNSPs), helping to align their priorities with those of customers and guiding them to refine their service offerings to meet customer needs and preferences. Effective incentives result in net benefits to customers through the efficient allocation of capital and improvements to productivity.

SAPN strongly supports the AER's proposed ESIS as a new small-scale incentive scheme<sup>2</sup> (SSIS), which will allow DNSPs to engage with their customers and design an export incentive mechanism that aligns with their needs and priorities. We consider the ESIS an important interim step to trialling different approaches and obtaining learnings that may later serve to inform the development of a nationally consistent and fully-fledged service performance incentive scheme.

Specific feedback on the AER's draft ESIS and our responses to questions posed in the explanatory statement are provided below.

#### Question 1. Do you agree that a principle based ESIS is preferable to a prescriptive one?

In the absence of a universally accepted method for measuring export service performance, we consider a principle based ESIS an appropriate solution. We agree with the AER's assessment that this approach will allow networks to engage with customers to identify the various aspects of service performance that are important to them and tailor appropriate incentive schemes with available data. We anticipate that over time, the industry's understanding of export service performance will improve, and a standardised approach to evaluate export service performance across the industry will become apparent. At such a time, it will likely become appropriate to incorporate an export service performance measure into the service target performance incentive scheme.

<sup>1</sup> AER, [Export service incentive scheme: Draft](#) March 2023, and  
AER, [Draft export service incentive scheme: Explanatory statement](#) March 2023

<sup>2</sup> Rule 6.6.4 of the NER

**Question 2. Do you agree with the principles for each of the ESIS elements?**

We broadly support the principles proposed, with refinements to the following methodology principles recommended:

1. Remove measurement methodology principle 2(b), which requires that the proposed measurement is sufficiently independent, either conducted by an independent third party or based on an independently developed methodology. Principle 2(b) risks disincentivising DNSPs from conducting their own research to develop an export service metric, as this may not be considered sufficiently independent. This would likely delay development of measurement methodologies, and inhibit DNSPs from utilising what in practice is their own industry leading expertise in CER integration. We consider that sufficient safeguards are in place to ensure any measurement methodologies are appropriate and robust, as the ESIS requires any scheme to be supported by stakeholders through evidenced engagement, auditable by an independent third party, and approved by the AER as part of the regulatory determination.
2. Refining assessment principle 3(a), which suggests that a baseline or neutral level of performance, in normal circumstances, should be at least equal to the historical performance of the DNSP. In the context of export services, future performance will be influenced by, among other things, the penetration and utilisation of customer energy resources (**CER**). As CER penetration increases, historical performance may no longer be appropriate as a network's intrinsic hosting capacity is exhausted and additional expenditure is required. We recommend that the AER remove the reference to historical performance, as an appropriate baseline of a scheme in normal circumstances will depend on each network's unique circumstances, ex-ante expenditure allowances and performance parameters used, which may not reflect historical performance.

**Question 3. Do you suggest any additional ESIS elements and/or principles?**

Except for the suggested refinements provided in response to question two above, we consider the elements and principles contained within the ESIS sufficient and appropriate.

**Question 4. Do you agree that 0.5% of revenue at risk is appropriate for the ESIS?**

We recommend allowing networks to propose up to 1 per cent of revenue at risk under the ESIS. This will be consistent with the maximum revenue at risk permitted under the SSIS and will afford the flexibility necessary to ensure proposed performance metrics have rewards commensurate with productivity gains achieved and customer value that is unlocked, particularly as the export service grows.

SA Power Networks also welcomes continued discussions with the AER to confirm the application of the revenue at risk when multiple SSISs operate concurrently.

**Question 5. Are there any circumstances where we would require DNSPs to participate in a trial of the ESIS?**

We do not anticipate potential situations where it is likely to be beneficial to require a DNSP to participate in a trial of the ESIS. DNSPs are themselves best placed to understand the services desired by their customers and their own data limitations.

Any requirement to participate in a trial of the ESIS should be subject to appropriate consultation with the affected DNSP and the DNSP's customers, and be shown to be likely in customers' best interests having regard to the likely implementation costs. These costs could be significant if the trial is not



purely paper-based and / or if it depended on differing datasets to those currently available to the DNSP, necessitating investment.

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

Yours sincerely

[REDACTED]

Mark Vincent

General Manager Strategy and Transformation

