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Sara Stark
Director, Network Regulation
Australian Energy Regulator

Emailed to AERInquiry@aer.gov.au

Dear Ms Stark

RE Incentivising and Measuring Export Services Performance

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on the Incentivising and Measuring Export Services Performance consultation paper.

TasNetworks, as the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and Jurisdictional Planner for Tasmania is focussed on delivering safe, secure and reliable electricity network services to its customers at the lowest sustainable prices. As such, TasNetworks is committed to ensuring customers can maximise the benefit of their investment in the various customer energy resources (**CER**). TasNetworks is supportive of the AER's investigation into ways to provide meaningful and targeted incentives in the area of export services.

Regulatory intervention should only occur where there is either actual or a strong likelihood of poor customer outcomes. Given the current level of CER penetration in Tasmania (for example, less than 15 per cent of customers have installed photovoltaic cells), the lack of a strong correlation between CER penetration and constraints (influenced by Tasmania having a winter morning peak demand) and only limited concerns about poor customer outcomes being presented to TasNetworks, it is questionable whether regulatory intervention is required in the next regulatory period (2024-29). Until intervention is required, TasNetworks is satisfied that the current inherent reputational incentives are sufficient to ensure good customer outcomes and more targeted incentives should only be considered once the level of CER penetration plateaus.

As indicated in the consultation paper, the amount of time export services are curtailed on average is very low, especially in Tasmania. For the few customers whose experience is poor, network businesses are usually aware and are addressing these concerns with network upgrades. There is already a material level of investment in increasing export capacity across networks, as exemplified in regulatory proposals, and this is only likely to grow. This indicates that at present, incentives to influence a less targeted response to the issue are not required and reputational incentives for networks to make the investments proposed in regulatory proposals should be sufficient.

Even if there was a fear of poor outcomes for customers leading to sizeable losses then there are considerable challenges in finding effective measures of these losses. While it is possible to measure the level of export, changes in export can arise for numerous reasons, many of which are the direct result of the customer's own actions (turning on devices or charging up batteries/electric vehicles) or the result of external forces (clouds passing over the sun) and not due to under investment in the network. Using the data to monitor export levels comes at a cost (both in obtaining the data as well as analysis) which will need to be outweighed by the benefits. The alternative, of using approximated or modelled inputs, faces the risk of biases being embedded in the model. Given the lack of evidence that there is a material issue in Tasmania, there is a risk that a poorly defined scheme based on poor approximations or assumptions will drive perverse outcomes poorly aligned to the real issues.

The proposal to use the Customer Export Curtailment Value (**CECV**) has some limitations, in that it only considers wholesale market benefits by using marginal cost of the marginal generator. The CECV does not consider generator investment cost, network investment savings/deferrals and other benefits (e.g. environmental benefits). It is a useful tool for testing various proposed schemes to ensure incentivised expenditure remains below current customer losses but should not be used in isolation.

Whilst there may be value in a Guarantee Service Level (**GSL**) for export services, relating it to a basic export level assumes that DNSPs are progressing with an export tariff. TasNetworks is not proposing an export tariff before 2029 and therefore is not proposing a basic export level. This would preclude the adoption of a GSL for export services until at least the 2029-34 regulatory period.

TasNetworks is also concerned that any financial impacts from an incentive scheme will impact the broader customer base when currently, in Tasmania, the beneficiaries are in the minority. A minority that currently do not pay extra for export services through a specific tariff; a situation that TasNetworks does not intend to change before the end of the next regulatory period in 2029. It is also important that financial incentives to expand network capacity do not counteract network tariff reforms that are targeted to encourage customers to use their CER, especially electric vehicles, in ways that reduce the impact on the network and consequential network investment.

Given the issues detailed above, the preference would be for a period of monitoring and review to test what data can easily, cheaply and consistently be collected to determine how to establish an effective incentive scheme with a review to occur as to the suitability of scheme being applied in Tasmania for the 2029-34 regulatory period.

On the issue of benchmarking, TasNetworks agrees that improvements to benchmarking techniques will be required as export services increase. However, we urge caution in attempting to develop benchmarks in the short term. Currently there is a wide range of CER penetration across the National Electricity Market (**NEM**). With each DNSP facing different drivers, whether they be state government incentives, local economics or geography, attempts at ascertaining measures that accurately reflect the maturity of the DNSP's delivery of export services that are comparable across the NEM will be virtually impossible. Instead, the AER should continue to monitor developments and wait for international data to mature before making changes to current benchmarking techniques.

Should you have any questions, please contact Chantal Hopwood, Head of Regulation, via email [redacted] or by phone on [redacted]

Yours sincerely

[redacted]

Michael Ash

Executive Stakeholder