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Sara Stark

Director, DER – Network Regulation

Australian Energy Regulator

Submitted online: sara.stark@aer.gov.au

30 September 2022

Dear Ms Stark

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Incentivising and Measuring Export Service Performance, Consultation Paper (Paper), September 2022.

Any incentive and reporting scheme on export service performance should provide a clear framework on a distribution network service providers (DNSPs) obligation to provide export services to customers. The Australian Energy Market Commission's Access, Pricing and Incentive Arrangements rule change provided an important foundation for a package of subsequent reforms to improve access of CER. AGL considers that in setting out these obligations and determining how we evaluate export service performance levels will ensure that we continue to deliver energy market services in line with the National Electricity Objective.

Export services will play an important role in supporting the integration of customer energy resources (CER) into Australia's broader energy system by facilitating a more viable model to support CER market participation in the future. As the energy industry's transition accelerates with the uptake in CER and the scaling of business models such as orchestration, it will be critical that the AER's overarching incentive framework is aligned to support the policy direction articulated by the Energy Security Board in its Post-2025 Market Design, towards encouraging and enabling consumers to be rewarded for their flexible demand and generation.[1]

AGL supports the work being carried out by the AER to develop a regulatory framework that underpins and supports the effective integration of CER. Within this work there is an opportunity for the AER to provide clarity on how each piece of regulatory reform fits together with the broader policy direction of empowering consumer choice in how they engage with the energy sector. The construction of an overall narrative will provide assurance and a forward looking compass for energy market participants in how we can continue to collectively work together to ensure the long term interests of consumers remains at the forefront of reform. Notably this may encompass but not be limited to the current work underway by the AER on static zero export limits, network tariffs for the distributed future and incentivising and measuring export service performance.

If you have any queries about this submission please contact Emily Gadaleta, Regulatory Strategy Manager at egadaleta@agl.com.au.

Yours sincerely,

Chris Streets
General Manager (a/g), Policy, Markets Regulation and Sustainability

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[1] See ESB, Post-2025 Market Design Final advice to Energy Ministers Part A (27 July 2021), Available at https://esb-post2025-market-design.aemc.gov.au/32572/1629944958-post-2025-market-design-final-advice-to-energy-ministers-parta.pdf.

ATTACHMENT

Efficiency incentives

AGL supports that like other distribution services, export services should also be subject to incentives for efficient delivery. The incentive approach to regulation used in the National Electricity Rules (NER) is the foundation of the regulatory framework for DNSPs and provides DNSPs an incentive to become more efficient over time. The extension of the incentive-based approach to export services is likely to deliver long term benefits to customers in the form of reduced costs and better quality of service.

Currently there is little incentive for networks to invest in measures to reduce export constraints as the regulations do not currently impose a penalty for constraining CER exports. We believe that any incentives framework needs to be appropriately structured to provide simpler penalties/incentives to drive more efficient operation of hosting capacity. Appropriate incentives can encourage DNSPs to invest in an efficient amount of export capacity and design export tariffs that encourage retailers, aggregators, and consumers to purchase that capacity. Experience from the United Kingdom in their growth of flexible energy has seen a year-on-year increase of flexibility tendered and contracted from less than 500MW in 2018 to almost 3000MW of flexibility in 2021 to provide network services, leading to a deferral of costly capital expenditure and operational cost savings. For example, Scottish and Southern Electricity Networks (SSEN) states that:

> "*In RIIO-ED1, we have contracted in excess of 603MW of flexibility services for the management of network constraints and fault support. Our current CMZ contracts have been used to support our networks during extended fault scenarios, reducing the need for embedded or mobile diesel generation and across these services SSEN has secured 8GWhs of renewable energy which has delivered an operational cost saving of £251k and avoided 4,500tCO2. Flexible connections have also contributed significant benefits to customers in RIIO-ED1, already avoiding 90.6 years of connections delays and £60m of reinforcement spend, across 412MW of capacity*"[2].

The AER has an opportunity to look to how this growth was achieved in the UK as a guide in how we can develop the same growth in flexible energy in Australia. This consultation is pivotal in putting place the right regulatory framework to encourage Australian distribution networks to seek out similar solutions and penalise those who do not. As noted in the Paper, the current consultation process for the NSW/ACT/NT/Tas reset process has reached a final position that, excluding exceptional cases, export services will be considered a standard control service and therefore subject to a revenue cap. This means the AER's focus for incentivising export services should rely on a multifaceted approach of trying to find a balance among the various regulatory financial incentive mechanisms and reputational/non-financial incentives.

AGL supports the focus on aligning network incentives. In line with the current arrangements for consumption service reliability, an extended Service Target Performance Incentive Scheme (STPIS) would guide export service levels that DNSPs are expected to provide to customers. However, we anticipate that a range of operational challenges would impede the effectiveness of the STPIS scheme in driving improved customer outcomes in the immediate term, including:

- The difference between hosting capacity and other service attributes reflected in the STPIS (such as reliability), given that its value is derived from a range of market indicators that can vary irregularly (including wholesale market prices, feed-in tariffs, contract prices and FCAS payments);
- The current lack of robust data to establish appropriate benchmarking for distribution networks' performance in export services; and

[2] Page 21, A_11.1._DSO_Strategy_CLEANFINAL_REDACTED.docx (ssenfuture.co.uk)

- The need to define performance measures and a performance standard i.e., guaranteed service level outcome versus inconvenience payment.

We consider that other options may need to be considered in the short term to improve DNSPs disclosure of export service levels, for example reputational incentives for information disclosure or punitive measure for inadequate reporting.

Export services in AER reporting

AGL supports the AER's intent to promote greater transparency of DNSPs' export service performance. The AER's export performance reports will provide transparency for export service customers in understanding the services they are accessing and accountability for DNSPs in the quality of export service they are providing their customers. Additionally, updates to the AER's benchmarking reports will ensure that DNSPs continue to be appropriately benchmarked as the task of providing export services increases.