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Warwick Anderson

General Manager, Network Pricing
Australian Energy Regulator

Submitted by email to: tariffguideline@aer.gov.au

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Dear Warwick

AER Export tariff guidelines for distribution network export tariffs, Consultation Paper

AGL Energy (**AGL**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) Export tariff guidelines for distribution network export tariffs, Consultation Paper, September 2021 (**Export tariff guidelines**).

Strategic direction

AGL considers that two-way pricing will play an important role in supporting the integration of customers' distributed energy resources (**DER**) into Australia's broader energy market system, by facilitating a more viable network revenue model to support DER market participation into the future.

We support the AER's development of the Export tariff guidelines as a crucial regulatory safeguard to support electricity distribution networks' development of two-way pricing options that facilitate positive consumer outcomes.

As the energy industry's transition accelerates with the uptake in DER and the scaling of business models such as orchestration, it will be critical that the AER's overarching network expenditure assessment framework and Export pricing guidelines are aligned to support the policy direction articulated by the Energy Security Board (**ESB**) in its Post-2025 Market Design, towards encouraging and enabling consumers to be rewarded for their flexible demand and generation.¹

We believe there is strong potential for whole-of-system cost savings to be realised through the integration of DER and the associated value streams that can be provided by the orchestration of DER assets. By establishing effective competitive arrangements for the procurement of system security and network services, DER has potential to substitute expensive network build, deliver value to owners and broader consumers, and provide alternative ways of meeting system security requirements.

Over the longer term, consumers and communities will increasingly expect greater autonomy, with different options for participation and aggregation in the market, and network connection. Putting in place the right

¹ See Energy Security Board, 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-part-a.pdf>.



market arrangements and institutions now will open the way for innovation to support customer value while maintaining system reliability and security.

Recommendations

AGL is supportive of the proposed content of the AER's Export tariff guidelines and we offer the following to further to complement the AER content.

To ensure that distribution networks develop pricing options that best facilitate customers' ability to realise value from their DER investments, we would recommend the Export tariff guidelines clarify that:

- Load and export tariffs should be developed holistically to ensure two-way pricing options produce the most efficient outcomes for customers.
- Two-way pricing options should be cost-reflective and not create any barriers to innovative competitive-based solutions (such as solar or battery orchestration) to the provision of network services.
- As retailers have the customer facing relationship and will need to inform and educate consumers of export pricing, distribution networks should engage with retailers in the development of two-way pricing options prior to lodging them for AER review and approval. This will best support innovation and simplicity of retail product and service offerings and facilitate consumer engagement.

We have carefully considered the AER's Consultation Paper and elaborate our views in the **Attachment**.

Should you have any questions in relation to this submission, please contact Kurt Winter, Regulatory Strategy Manager, on 03 8633 7204 or KWinter@agl.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux

GM Policy and Markets Regulation

ATTACHMENT

1. Applying the network pricing objective and pricing principle in relation to export tariffs

AGL supports the AER's proposed principle-based approach to networks' development of export tariffs against the regulated pricing principles articulated in the National Electricity Rules,

We also support the AER's proposed guidance that:

- Long-run marginal cost calculations need to consider the implications of the two-way flow of energy, including voltage constraints, thermal constraints and low voltage visibility needs.
- Export tariffs will predominantly or solely reflect the incremental cost of providing additional export capacity and should not be used to recover network costs associated with consumption services nor reflect the cost of providing intrinsic hosting capacity (without additional investment).
- Export tariff should reflect the efficient cost of providing export services and should not distort customers' ability to respond to the cost-reflective component of tariffs.

We note the broadened scope of the pricing principle, following the Australian Energy Market Commission's (AEMC) Rule determination on access, pricing and incentive arrangements for DER,² that the structure of each tariff must be reasonably capable of being understood by retailers' customers *or being directly or indirectly incorporated by retailers or Market Small Generation Aggregators in contract terms offered to those customers*. We supported this reform on the basis that it could facilitate greater retail market innovation to support the continued uptake and market participation of DER.

By way of example, we would encourage further consideration of the bulk wholesale network tariff model. Under this model, distribution networks charge cost reflective network tariffs to retailers based on an aggregated load profile of the retailers' customers. This approach could better incentivise retailers to manage the risks associated with network costs thereby promoting greater innovation in the development of products and service and investment.

Nevertheless, the development of innovation retail product and service offerings that facilitate value to customers will depend upon distribution networks facilitating visibility to the market of opportunities to provide non-network solutions, through tariff and non-tariff avenues.

To ensure two-way pricing solutions deliver the most efficient outcomes for customers, we would recommend the Export tariff Guideline clarify that:

- Load and export tariffs should be developed holistically in two-way pricing options.
- Two-way pricing options should be cost-reflective and not create any barriers to innovative competitive-based solutions (such as solar or battery orchestration) to the provision of network services. Network tariff structures should facilitate transparency on network service value to support the competitive market's ability to provide innovative product and service solutions that reduce overall network expenditure.

² See AEMC, Access, pricing and incentive arrangements for distributed energy resources, Rule determination (12 August 2021), Available at <https://www.aemc.gov.au/sites/default/files/2021-08/Final%20determination%20-%20Access%2C%20pricing%20and%20incentive%20arrangements%20for%20DER.pdf>.



2. Provision of a basic export level

AGL supports the AER's proposed guidance that the basic export level constitutes the threshold below which a customer will not pay to export to distribution network. We appreciate that this threshold may vary between distribution networks and support the AER's proposed considerations to be taken into account when assessing distribution networks proposals.

3. Stakeholder engagement

AGL supports the AER's proposed approach to stakeholder engagement that emphasises engagement to reflect customer preferences and develop customer-centric options but does not prescribe the form or model.

Given the central role that retailers play in developing customer-centric retail offerings that bridge the gap between complex network tariffs and customers, we would recommend the Export tariff guidelines clarify that distribution networks should engage with retailers in the development of two-way pricing options, to best support innovation and simplicity of retail product and service offerings and facilitate consumer engagement.

We also support the AER's proposed guidance on:

- Expectations on information to be provided to AER about distribution networks' management of stakeholder concerns.
- Information and commentary to be included in any pricing proposals.

4. How two-way pricing interacts with non-network circumstances

AGL supports the AER's proposed guidance on how distributors should provide information on the interaction between non-network options and export tariffs. We believe transparency on the relationship between networks' broader expenditure proposals and export pricing strategy will be critical to ensuring that networks' infrastructure investment models continues to support DER integration in a way that aligns with the ESB's Post-2025 Market Design, towards encouraging and enabling consumers to be rewarded for their flexible demand and generation. As distribution networks introduce a range of technical DER management strategies through customers' connection agreements (such as dynamic exports), transparency on the impact of these strategies on network tariffs would enable customers to understand the impact on the pay-back period for DER investments. As a result, customers would be better positioned to make an informed decision about their investment in DER assets and the terms of their network connection if they choose.

We support the AER's view that distribution networks' proposals should contemplate:

- DER-related expenditure.
- Proposed connection policy and capital expenditure or operating expenditure.
- Demand management.
- Any jurisdictional policy on two-way pricing.

5. How two-way pricing will be presented in networks' overview paper

AGL supports the AER's proposed guidance on the elements that should be presented in networks' 'plain language' overview paper to support a holistic understanding of distribution networks approach to two-way pricing.