28 April 2023

Public Interest Advocacy Centre

Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
Submitted electronically

Dear Dr. Funston,

PIAC submission to draft export service incentive scheme

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the draft export service incentive scheme (the Draft).

PIAC supports efforts to ensure consumer energy resources (CER) such as small-scale solar, batteries, and electric vehicles are efficiently integrated into the grid in a manner consistent with consumer preferences and in promotion of their interests.

We do not consider the export service incentive scheme (ESIS) necessary or beneficial to achieving this end.

In its review of incentive frameworks, the AEMC concluded that the existing framework, if left unchanged, could incentivise distribution network service providers (DNSPs) to avoid or defer the expenditure needed to deliver efficient levels of export service. We consider this outcome unlikely. In seeking to address this concern, the ESIS raises a more material and likely risk of incentivising DNSPs to maximise the size of the regulated asset base (RAB) above an efficient level, rather than seek efficient levels of curtailment that reflect consumers preferences particularly with respect to willingness to pay.

The Draft sets out reasons not to extend the service target performance incentive scheme (STPIS) to export services which apply equally to the ESIS. We question whether a bespoke incentive scheme is any better placed to overcome the 'lack of robust data' that undermines a standardised scheme.

Likewise, we are concerned that financial incentives could inappropriately reward DNSPs and exacerbate inequalities between CER and non-CER consumers while doing little to address the issues and services that consumers value most. The ESIS provides no assurance that investment in improving export services is efficient nor that those services are efficiently priced and are of benefit to all consumers (not just those with CER).

The introduction of financial incentives for export services is unwarranted at present given 'export tariffs and flexible export limits are at a nascent stage, and their impacts on export service quality are yet to be established'. Recent studies suggest that tripping and curtailment is not significant for most energy users[1]. On average, exporting customers were curtailed around 13 kWh of generation per year (less than 1% of their total generation)[2].

We recommend deferring the implementation of a financial incentivise for export service performance until export services are better established or evidence of a material problem arises. Reputational incentives using performance reporting is a more appropriate, if not sufficient, interim measure to address current concerns.

Our experience of the current regulatory reset process suggests DNSPs are well-aware of the potential network constraints that may arise in the future due to higher penetration of CER and are engaging with consumers on how to best balance export service quality against other considerations. DNSPs responding to the needs and preferences of their customers have no need for further financial incentive to provide export services.

We are concerned that financial incentives such as the ESIS will be duplicative as DNSPs are already able to fund improvements to export services through expenditure allowances. Many DNSPs are proposing significant uplifts in investment to deliver a level of export service that meets customers' expectations for the upcoming regulatory period.

As such, the AER should clarify how the Draft's proposed performance parameters ensure incentive design is not duplicative, given DNSPs are already encouraged to mitigate the risk of underinvestment in export services through the underlying incentive to grow their RAB.

The low materiality of concern with incentives and existing requirements for DNSPs to engage with consumers and provide export services in accordance with their preferences raises the question – what problem is the ESIS trying to solve? It does not serve to promote the long-term interest of consumers to introduce such a scheme in the absence of clear evidence of a problem.

Should the AER choose to introduce an ESIS we strongly advise that consumer engagement on incentive design take place as part of the regulatory reset process to maintain DNSP accountability and ensure alignment with Better Resets Handbook principles[3]. Furthermore, any approved scheme should be accompanied by a broadly symmetrical guaranteed service level (GSL) for export. If consumers are paying for an ESIS and network businesses are being rewarded to provide it, network businesses should be required to compensate consumers when export service falls below promised levels.

PIAC welcomes the opportunity to discuss these matters further with the AER and other stakeholders.

Yours sincerely

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1 HoustonKemp, Distributors' incentives to efficiently incur DER export expenditure, July 2020, p.11.

2 Heslop, S. et al. (UNSW), Voltage Analysis of the LV Distribution Network in the Australian National Electricity Market, May 2020, p 161. This estimate assumes that the sample of households and the 24 clear sky days used are representative.

3 See AER Better Resets Handbook: Towards consumer centric network proposals, December 2021.

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