Clean Energy Council submission to the AER Draft: Export Service Incentive Scheme

Executive summary

The Clean Energy Council (CEC) welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) *Draft Export Service Incentive Scheme*.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with Australia's leading renewable energy and energy storage businesses, as well as a range of stakeholders in the National Electricity Market (NEM), to further the development of clean energy in Australia. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The Australian Energy Regulator's latest Wholesale Markets Quarterly Report[1] confirmed that increasing amounts of rooftop solar are helping to reduce wholesale market prices to the benefit of all consumers. We have a number of concerns about the ESIS that may artificially constrain the amount of rooftop solar that can be exported and therefore the potential for reducing consumer energy costs.

Given that the recent Access, Pricing and Incentive Arrangements for Distributed Energy Resources (ECR0311) placed a clear obligation on Distribution Networks Service Providers (DNSPs) to support the increased connection of Consumer Energy Resources (CER) and clarified that export services are part of the core services to be provided by DNSP. As such, the performance of DNSP in their delivery of export services should certainly be monitored and assessed by the AER.

The CEC is concerned that the Export Service Incentive Scheme (ESIS) has been developed ahead of setting out mandatory minimum export service performance levels, other than a bar on the application of static zero export limits, and before developing arrangements to ensure that DNSPs provide customers, wanting to install CER, clarity on how export services are being delivered and how export limits are applied.

The CEC is also concerned that DNSPs are 1) considering applying export tariffs before a nationally consistent approach to determining hosting capacity has been developed, and 2) before applying those tariffs, clearly demonstrating that specific parts of the network are experiencing constraints due to export. To enable this, there is a need for DNSPs to have access to relevant data that enables DNSPs to determine hosting capacity, to understand their performance and for customer experience. Furthermore, for any remote flexible export limits or static control to be implemented, there needs to be a nationally consistent communication protocol implemented that also meets the, to be developed/defined, cyber security requirements.

[1] https://www.aer.gov.au/system/files/Wholesale%20Markets%20Quarterly%20Q1%202023_0.pdf

Phone: +61 3 9929 4146
Fax: +61 3 9929 4101
info@cleanenergycouncil.org.au

Level 20, 180 Lonsdale Street, Melbourne, VIC 3000, Australia

cleanenergycouncil.org.au

ABN: 84 127 102 443

Given the DNSPs that are currently undertaking their regulatory reset for the 2024-29 period and proposing export tariffs will not likely need to participate in any ESIS until the subsequent regulatory period, this means the customers of these DNSPs will not have the assurance that the treatment of export is fair and appropriate.

Understandably, there is an argument for managing the grid and ensuring for its stability, however there are different ways to achieve this whilst also achieving best customer outcomes. It is key to acknowledge that solar exports from rooftops are driving down wholesale pricing, and so to limit exports is essentially reducing the supply of the cheapest form of electricity from the market.

Notionally, any export tariff should only be applied where a DNSP can demonstrate a "harm" to the network, that is, an export tariff should not be applied to all export use of system, but to export use of system that results in a constraint. The application of an export tariff to "just use the system", regardless of the capacity exported is purely income generation for the DNSP and provides no signal on where and when investment is needed to improve export services. For instance, a fixed non-zero static export limit implies that the network can accommodate an export up to that static limit. Any export beyond that limit, may attract an export tariff. This would then signal when and where network investment was needed to maintain the export service.

With this logic, where flexible or dynamic export limits are being applied, any export below the (dynamic) limit should not attract an export tariff, but should export exceed the limit, then a tariff should be applied.

We recognise that this treats export differently to import, since all import attracts a tariff, however there are already inconsistencies in the Rules that sees large-scale generation pay no export use of system tariff (generator transmission use of system), using the system for free because of the benefit that accrues to customers. While at the small-scale, generators are penalised for using the system, even though rooftop solar PV represents a significant source of low carbon electricity, of greater than 25 % of the total clean electricity generated,[2] and is also a benefit to the wider community.

It is important to monitor CER generation curtailed as this provides a critical indication of how well CER is contributing to wider carbon emission reduction goals. Constraining rooftop solar PV, through the imposition of dynamic limits, may result in the need for increased investment in large-scale renewables and transmission, when investment in the distribution network has the potential to release more clean energy onto the system.

Given there is no definition for what encompasses a "good" export service, it is perhaps too early to be developing an incentive scheme for export service delivery performance. While at the same time asking DNSPs to engage with customers to determine that definition appears to present an unacceptable level of risk to all customers, since the ESIS does not appear to be explicitly funded by customers with CER.

We suggest that an incentive scheme should not be a priority until the definition of export services is determined. We strongly endorse the need for AER to monitor export services, the treatment of export, the facilitation of CER connections and export tariffs, now is not the time to introduce a new incentive.

Responses to Questions

1. Do you agree that a principles based ESIS is preferable to a prescriptive one?

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[2] Clean Energy Australia Report 2023, page 54.

There are not sufficient customer protections with regard to export service performance and delivery through a principles-only based ESIS. From a framework perspective, to enhance evaluation and reduce perverse policy outcomes, we suggest a layer underneath Principles that are "Functional" requirements. Specifically, a consideration of key measurables (KPIs or parameters against objectives - but which are not prescriptive). This could be an established set of (quantitative or qualitative) mandated parameters which could be monitored and reported on to allow the AER to better compare and contrast the performance of DNSP in this developing area.

For instance, the number of customers and generation capacity curtailed through zero and non-zero static export limits. The number of customers and generation capacity curtailed through dynamic (flexible) export limits and the changes in both with time should be monitored.

Additionally, the amount of income (raw) collected through an export tariff should also be monitored.

2. **Do you agree with the principles for each of the ESIS elements?**
   No comment

3. **Do you suggest any additional ESIS elements and/or principles?**
   No Comment

4. **Do you agree that 0.5% of revenue at risk is appropriate for the ESIS?**
   0.5% of revenue at risk is the minimum revenue at risk a DNSP can offer under the ESIS. Where a DNSP is exposing customers to export tariffs, a greater proportion of revenue should be at risk, given the revenue being generated by the export tariff.

   Some of our CEC members argue that the revenue risk proposed is too low to realistically affect behaviour change. Further, for successful ESIS implementation a more ambitious risk level should be set, particularly given that DNSPs enjoy a stable regulated monopoly operating environment and so can provide flexibility to invest in innovation in this regard.

5. **Are there any circumstances where we should require DNSPs to participate in a trial of the ESIS?**
   DNSP should be required to have an ESIS where:
   - an export tariff is being levied;
   - a static zero export limit is being imposed;
   - a non-zero static export limit is being imposed;
   - a flexible export limit is being imposed (to ensure that dynamic export capacity has not eroded with time); and
   - a DNSP has been obliged to address voltage issues (for instance, by a jurisdictional regulator) and where managing voltage has the potential to restrict export.

Thank you for the opportunity to respond, we would be very happy to discuss these issues in further detail with AER and to facilitate engagement with CEC members. If you would like to discuss any of the issues raised in this submission, please contact Emily Perrin via email at eperrin@cleanenergycouncil.org.au.

We look forward to contributing further to this important area.