SUBMISSION

DISTRIBUTED ENERGY RESOURCES INTEGRATION | 10 SEPT 2020

EUAA
Energy Users Association of Australia

INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, food and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

We agree with the Commission's, and the rule change proposers' views that the current regulatory framework needs to be continually updated to promote the efficient investment in, and operation of energy services. The EUAA congratulates the proponents of the three rule change proposals for addressing what is becoming a major issue in electricity markets. The extensive consultation they have undertaken is reflected in the three comprehensive proposals that have been submitted.

The views set out in this submission are at a high level and there is much detailed analysis to be done on how the current rules can be applied and what changes are required. Therefore, in addition to providing in principle support we are also providing a suggested framework for further discussion.

In summary the EUAA supports:

- the principle of networks charging a price for the export of DER where a network is constrained
- a change to the regulatory framework to include export as a service
- the St Vincent de Paul (SVDP) and SA Power Networks (SAPN) proposal to delete NER clause 6.1.4 that prevents network charging for exports

We see the principle of paying for the export of generation as an important principle as it recognises that with the changing nature of our energy system comes a range of new participants who benefit from it. It also recognises there are those who can't take advantage of new technology to reduce their exposure to network costs who may end up paying a disproportionate amount of these costs leading to unfair and in equitable outcomes.

This principle not only applies to DER but should also be considered as part of reform of the transmission/distribution pricing rules where the EUAA and others have been calling for a more equitable allocation of costs and risks associated with significant network upgrades like that which is contemplated by the AEMO 2020 ISP.

As the three rule change proposals indicate, while it is straightforward to express a principle of charging for exports, implementation will be very complex. Given this we encourage the Commission to consider implementation in two parallel stages:

Stage 1

Applying the SVDP proposal that the networks publish both the size of the constraint by location (we recognise this may be easier in Victoria given its smart meters) within its network and provides a c/kWh price for removing that constraint where it exists, all part of a negotiated service. The price would be unregulated. This information would provide an incentive for energy management services companies to engage with DER producers to provide innovative non-network solutions.

Stage 2

This would involve the establishment of a regulation framework for the development of regulated services and prices that would be subject to the various incentive schemes. Pricing would reflect the SAPN proposal that the export price should include the benefits of delayed or avoided network augmentation as a result of increased DER, but not the TEC/ACOSS proposed net benefits test. Locational prices would continue as we consider postage stamp prices to be inefficient and inequitable for export services. The transition to full cost reflective export tariffs should be implemented as quickly as possible to limit any further increase in the current level of cross subsidy from those who do not have DER capability to those who do.

We see Stage 1 as having two significant advantages:

- its simplicity means it can be quickly implemented compared with the other proposals that will require significant time and resources to develop regulatory frameworks e.g. service standards and STPIS
- it focusses on the efficiency and productivity of the whole electricity supply chain, not simply as a method to increase the level of a network's hosting capacity to facilitate an expansion in DER.

The EUAA considers that the aim of charging for exports should not be a narrow focus on increasing network hosting capacity to maximise DER just because prosumers like to get the export income. Further, we are not against reducing the carbon intensity of the grid – but we want to ensure it is achieved efficiently. We are not convinced that increasing DER hosting capacity for rooftop solar is the most efficient pathway. A narrow focus on hosting capacity risks overbuild of the network, stranded asset risk, inequitable cross subsidies and higher costs of ancillary services to ensure reliability and security.

We consider that the aim should be much wider - to provide opportunities to the market that leads to optimisation of the export capacity, provides the efficient mix of network and non-network solutions and contributes to improved productivity of the whole supply chain. Stage 1 could lead to many innovative ideas that delay or remove the requirement for augmentation.

This improved productivity would be facilitated by networks proposing a negotiated service option by offering a locational price and service. It would be up to the network to decide what level of granularity it provides in its locational pricing (e.g. how many different locational prices) and how often those prices change.

Where there are no constraints, the price would be zero and prosumers would be able to install DER and not pay for exports. Where there is a constraint, prosumers would have the option, as they do now, of accepting the constraint and doing nothing, or they can pay the export price and seek value from unconstrained exporting.

The existence of the export price would provide a signal to market players to offer a range of non-network services to prosumers to get them to sign-up for their exports with the service provider doing the negotiation with the network. This may be a private provider of a community battery that members can use for storage and withdrawal or it may be more complex offering where the aggregator is in the ancillary services market and agrees to share the

income with the DER prosumers. This approach seems to fit in well with the objectives around a post 2025 market design that lets the market work where possible.

The key here is that implementing Stage 1 does not require a detailed and lengthy regulatory process to develop service standards. A range of services are developed by the private market and can be put in place very quickly. For example, an EUAA member with a large solar PV capacity on their roof could negotiate an agreement to provide power to the local community. Alternatively, they could negotiate an agreement with an aggregator to buy the exports for their diverse portfolio of roof top solar generation across different locations. The aggregator then participates in the ancillary services market with an agreed revenue sharing.

We also see this approach as a way of encouraging a range of different business models could develop that reduce the risk of network overbuild and inequitable cross subsidies form postage stamp pricing.

This stage 1 process could proceed while the more regulated approach in Stage 2 would be evaluated and implemented. This approach allows for a combination of regulated and unregulated services to co-exist – and compete with each other in the future.

In regard to Stage 2, we are also concerned about a high level of direction in the rules proposed by TEC/ACOSS and, to a lesser extent, SAPN. Our experience across many network reset engagements is that this direction may provide an incentive for networks to use positive feedback from their consumer engagement as an indicator of willingness to pay and hence a justification for large capital investment to expand DER hosting capacity. It is consumers who then take the stranded asset risk and non DER consumers who have to pay for it in a slow transition to cost reflective export tariffs that SAPN and TEC/ACOSS appear to be advocating.

We are also concerned by the TEC/ACOSS proposed net benefits test that suggests that the benefits of solar exports providing lower spot prices means they should not be charged for exporting surplus DER. We do not support this test. Solar exporters receive this market benefit through their feed-in tariff. Giving them a discount would mean double payment – as well as require a continuation of inefficient and inequitable cross-subsidies from those who do not produce DER for export. The efficient way for consumers who are not prosumers to benefit from increased DER is through lower retail prices, not through subsidising greater DER exports.

RESPONSES TO SPECIFIC QUESTIONS

Question 1: Approach to Rule Change Assessment
We agree with the proposed approach.

Question 2: Definitional Issues
Rules need to be flexible to cope with changing technologies and the changing way consumers are using the grid. We agree with explicitly recognising 'export services' in the rules so that the existing regulatory framework, including for example incentive mechanisms, can potentially apply to these services. The SAPN proposal seems a reasonable approach to how the definitional change might be implemented.

Question 3: Proposed Changes to Definitions
SAPN is proposing that the export service be a standard control service. Our understanding of the rules around standard control services is that locational pricing is difficult with postage stamp pricing the norm. To the extent that the current rules allow or can be amended to allow locational pricing we support it being considered as a standard control service.

Question 4: Obligation on DNSPs

We are not convinced by the TEC/ACOSS proposal to create a positive obligation on networks to provide export services and do not support the net benefits test. We do not support their proposal for networks to provide a base level of service nor their proposed pricing principle. On the former, there should not be a guarantee of access on a constrained part of the network.

On the latter there is not enough detail of what the proposed amendment to NER clause 6.18.5 to ensure DER export capacity is allocated 'fairly', actually means. We know it does not mean 'first come, first served' or by auctioning it off to the highest bidder. There are many legitimate definitions of 'fair' and it is difficult to express a view in the absence of a clear definition. We are concerned that one view, among many, of 'equity' and 'fairness' will hinder efficient network investment and DER expansion.

Question 5: Efficiency Incentives

Subject to our comments above on locational pricing for a standard control service, we support the application of existing incentive schemes to export prices. We presume this may require separate 'buckets' for capex and opex costs for the incentives to apply to.

Question 6: Pricing Arrangements

Our principles for the provision of regulated export services are:

- an AER assessment under the existing rules of the prudent and efficient level of capex/opex to be spent,
- cost reflective pricing (Chapter 6 of the NER) for export services that provide for the full recovery of the additional AER approved capex/opex solely from those that are utilising the export service with no cross-subsidisation from other consumers who are not utilising the export service,
- this cost reflective pricing would include the network passing on the savings e.g. augmentation that is delayed or no longer required because of increased DER production , and
- any transition to this export pricing should be as fast as possible as the longer the delay the longer the continuation of an inequitable cross-subsidy from those customers without DER.

We support the SVDP/SAPN proposal to remove NER clause 6.1.4. This will provide networks with the flexibility to create different pricing structures to meet the varying needs of potential customers. This can include a combination of connection, volumetric and other charges that for example, vary in a non-linear way with export capacity and time of day when exports are being made. Customers will then have a direct and efficient signal that they can use to decide their individual efficient level of exports. Part of that decision will be to decide whether to increase self-consumption at particular times of the day and use a battery to delay export to a higher value time of the day.

We are concerned that a postage stamp export price across a network would be inefficient and perpetuate the inequitable cross-subsidies. There are obvious efficiency and equity benefits in having a locational export price that reflects the varying levels of spare export capacity at different points in the network. Networks should have the flexibility to define regional export prices based on their level of knowledge of particular regional differences in costs of augmentation and benefits of additional DER.

There would need to be rules around grandfathering e.g. where a location moves from unconstrained to constrained, those who connected when unconstrained would continue to not be charged for their existing level of exports but they would be charged for any expansion in their exports when the location is constrained, as would new exporters in that now constrained location.

The price should apply to all exports above the grandfathered volume and not be 'opt-in'.

These proposed changes should not be limited to residential customers but also apply to commercial and industrial sites that also export surplus DER to the grid.

Thank you for the opportunity to provide feedback. Do not hesitate to be in contact should you require any clarification.

Sincerely,

Andrew Richards
Chief Executive Officer