



19 January 2024

Mr Mark Feather
General Manager, Strategic Energy Policy and Energy Systems Innovation
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted via website: AERinquiry@aer.gov.au

Dear Mark,

Interim export limit guidance note – for consultation

CitiPower, Powercor and United Energy (CPU) welcome the opportunity to respond to the Australian Energy Regulator's (AER) consultation on its Interim export limit guidance note.

Executive summary

Our submission wishes to make the following points:

- We support the capacity allocation principles however there remains an unresolved conflict between fairness and efficiency. Greater emphasis must be placed on fairness, and further consideration whether an economic regulator is best placed to assess fairness. Consideration should be given whether binding capacity allocation principles are appropriate given the nascent nature of export markets and customer expectations. At this point, flexibility to change with customer needs would seem more appropriate.
- Distributors are best placed to determine capacity allocation methodologies. We do not support a single capacity allocation model to determine network capacity. We do support distributors being expected to consult with customers and stakeholders on their preferred capacity allocation methodology.
- It is important that customers and stakeholders are regularly re-engaged in the development of static and flexible export limits to ensure their preferences and needs are being met. This may involve annual revision of capacity allocation methodologies, particularly in the short to medium term.
- Future connection policy agreements and model standing offers (MSO) need to be agreed with customers rather than customer's representative, retailers or registered electrical contractors on behalf of the customer to demonstrate explicit informed consent.
- We believe that original equipment manufacturers (OEMs) should be responsible for technical compliance. We also recommend the AER undertake an impacts analysis of technical non-compliance to identify the costs of lack of compliance is imposing on customers and networks.

Should you have any queries, please do not hesitate to contact Brent Cleeve on [REDACTED] or [REDACTED]

Yours sincerely,

[REDACTED]
Renate Vogt

General Manager Regulation
CitiPower, Powercor and United Energy

Capacity allocation principles

We generally support the capacity allocation principles however; per our previous submission the inherent conflict between fairness and efficiency remains unresolved. The second principle continues to seek to maximise the use of network hosting capacity whilst including a fairness objective. A similar conflict arises in the fourth principle in allocating capacity to small customers irrespective of their size or type of their customer energy resources (CER). Our customers and stakeholders have demonstrated through our reset stakeholder engagement program a clear preference for fairness and equity. We therefore believe there needs to be greater emphasis on fairness and question whether an economic regulator is best placed to assess fairness.

We have undertaken extensive engagement to understand and explore customer perceptions of fairness and equity. We listened to customers feedback and focused on understanding what customers value most:

“It’s a ‘basic service’ inequity when a man in the city can subdivide a block and get three-phase for ‘tinkering in his shed’, when genuine businesses which are the fabric of the community, and employing so many, can’t get it.” (Powercor customer, 2023) deep and narrow.

“What about those people that are reliant on certain things?... like important health care devices... What about the elderly? You don’t want to see an elderly person suffer heat exhaustion because they are too frightened to put on their air conditioner...What about shift workers? They might need access to energy during the day because they are working at night” Community roundtables 2022.

We believe at this stage in the market, capacity allocation principles should not be binding. We do not believe the preferences and needs of customers, or the networks, have been fully explored and consider at least in the short to medium, a degree of flexibility should remain.

Capacity allocation methodology

Distributors are best placed to determine the capacity allocation methodology. Distributors being responsible will avoid the capacity allocation methodology unintentionally reducing network hosting capacity or resulting in misleading capacity limits being presented to customers.

Distributors should be expected to consult with customers and stakeholders on their preferred capacity allocation models. We do not agree a single capacity allocation model to allocate network capacity is appropriate, especially on a network as diverse as that of Powercor. The Interim export guidance note (guidance note) should be clear that multiple capacity allocation models based on individual networks, or parts of network’s needs, is appropriate. It maybe that hybrid approaches are appropriate to strike an optimal balance between customer equity and preferences, network need, and cost outcomes.

We agree it is appropriate the AER be responsible for approving capacity allocation methodologies. We note, though, the engagement requirements set by the AER for approval set a very high benchmark. Whilst we do not oppose this, the AER needs to be cognisant it involves substantial costs. Regular re-engagement in the development of static and flexible export limits will require calculations that will increasingly grow in complexity through time, making engagement challenging. Customers and stakeholders will need to be regularly provided information and engaged in decision making processes to ensure customer and stakeholder choice are being incorporated.

Capacity allocation methodologies may initially require annual revision due to the rapid growth in CER and improved network visibility. Whilst this will be a good thing from an efficiency standpoint, as noted, annual engagement is costly and resource onerous and risks a disconnect between the CER integration strategy, expenditure allowances and customer expectations identified through reset engagement. Given this context,

there should be a rigorous evidentiary threshold imposed on the distributor and the AER for any significant deviations from the CER integration strategy or reset engagement findings at the most recent regulatory reset. Any change in methodology should be supported by a cost benefit analysis.

The refinement of customer and stakeholder engagement methods will be a critical issue for distributors when attempting to explain, and receive, feedback on capacity allocation models, objective functions and metrics for comparing different option outcomes. We intend to incorporate new consultation sessions in 2024 as part of our reset stakeholder engagement program, to specifically address capacity allocation models, objective functions and metrics to align with customer expectations and circumstances.

Transparency is essential for community confidence in the operation of flexible export limits. We therefore agree the capacity allocation methodology should form part of the CER integration strategy. Integration of the capacity allocation methodology within the CER integration strategy will assist in ensuring a comprehensive approach is taken to investment assessment at future regulatory determinations.

We support publishing capacity allocation methodologies as it provides customers and stakeholders with confidence in making CER investment decisions.

Customer energy resource integration strategy

We support the changes required in the guidance note to address the issues identified with the CER integration strategy. It is important that distributors uplift their awareness and understanding of their capacity allocation methodologies and the interrelationship between flexible export limits and network pricing. This ensures that distributors can clearly communicate the service levels that customers can expect when acquiring flexible export products. As mentioned previously, engagement is costly and needs to be considered when setting expenditure allowances for future regulatory periods.

Developing flexible export limits business case

We agree that distributors should demonstrate how they have considered least cost measures for implementing flexible export limits, including how they have been informed by customer and stakeholder engagement. Customers should have a role in determining the metrics and data they consider are important for evaluating network hosting capacity. This should be an important engagement topic for engagement to ensure what is being proposed reflects the metric and reporting information that customers value most.

The guidance note requires a breakdown of the investments proposed and documentation of key assumptions underlying the flexible export limit cost benefit analysis for managing network capacity and integrating CER. This will be difficult as more granular information and credible assumptions are potentially needed than is available today, especially on the low voltage network. Whilst this information will become progressively available over the next 5-7 years, it needs to be recognised we are not there yet, and higher-level assumptions may be required to support business cases.

The guidance note requires provision of a level of network visibility necessary to implement flexible export limits. We are developing this capability however there are material costs in doing so. An important task for the next regulatory determination will be aligning the benefits of network data visibility with the costs. It is important to consider whether the costs of providing this network data visibility offset the benefits to customers.

Connection agreements and consumer participation

Connection policy

Connection policy should be the place for setting out the requirements for flexible export limits. We support the AER's recommendations of what the connection policy should show. We do however recommend in addition it describe the export capacity customers can expect to receive should they agree to a flexible or static export limit product. Although in many cases, it will be the customers representative agreeing to a connection agreement

on their behalf, it is important that are required to obtain active customer agreements and informed consent. Explicit informed customer consent fosters acceptance of flexible export limits and promotes active customer participation. Informed consent is also likely to increase the customers understanding of flexible export products.

Connection policies must be required to describe the circumstances in which the operation of flexible export limits will need to unavoidably curtail exports, including for example the Victorian minimum backstop measures. Customers should also be able to review and amend their connection agreement in accordance with their individual circumstances or installation of a new system. This will allow customers investing in CER to remain with their current or previous product when signing new connection agreements for new installations and upgrades.

Model standing offers

We support customers having choice. Customers should be able to identify the most suitable product for their needs. Therefore, model standing offers (MSO) moving forward need to be sufficiently flexible to accommodate changing customer preferences, locations and contract terms. For example, future MSOs must accommodate customers seeking higher levels of access to the network or changing preference as they move in and out of a premise or experience a changed circumstance.

We support MSO terms and conditions being well understood and incorporating plain English explanations of all legal terms and conditions. Further, there should be a clear and transparent setting of minimum standards of information that customers should expect to receive.

Consumer and industry engagement

Engaging with customers to uplift their awareness of distributors and their role is essential. It serves to promote trust and acceptability of flexible export limit products. It also allows customers an alternate avenue for assistance and advice in an increasingly complex and difficult market in which to navigate. This is something customers of our network have been seeking actively throughout our reset engagement program.

Most residential customers, particularly in metro areas have little understanding of who their distributor is and what they are responsible for. As a result, these customers will often conflate their distributor and retailer (2026-2031, reset engagement program).

Customers can change their retailer but cannot change their distributor. This means distributors are the only energy company that will remain consistent for customers through time. As such, it is important that distributors continue to foster strong 'social licence' to help customers responsibly maximise the benefits of their CER investments. This includes developing understanding and trust in flexible export limit products.

Our networks have undertaken extensive research into the application of flexible export limit products over the past two years. This research has included raising awareness, understanding customer perceptions and biases, customer preferences, interactions with tariffs and views on equity and fairness. We are committed to undertaking further research in 2024 and are commencing a practical, customer centric trial, to better understand how flexible service offerings can benefit our customers.

In addition to understanding flexible export limit products, we consider it important information is provided on why the export limit of a CER system may be limited and why the system may not always export to its full capacity. Customers need to understand the operation of jurisdictional schemes, such as Victoria's minimum backstop provisions, and how these schemes, at short notice, can curtail the export capacity of their CER system (and potentially self-consumption). Customers will also need to be informed of the importance of internet access to their inverter. We intend to encourage our customers to use our online resource, myEnergy. This will allow

customers to conveniently view their energy usage, receive SMS and email notifications for outages, and view when and why they are being curtailed.

A further communication consideration is the need for a communication method for notifying customers, retailers, aggregators and other investment parties regarding up-to-date flexible export limit schedules.

Compliance with technical standards

There is a clear expectation we take practical steps to improve rates of CER with relevant technical standards. Improving CER compliance is something that we have worked very hard to improve over the last three years, however we have been hampered by the absence of powers and resources to manage the issue.

Whilst we agree distributors are best placed to monitor inverter compliance, we do not possess powers to compel customers, solar installers or equipment manufacturers (OEM) to rectify non-compliance. We further note that many of the parties being discussed such as solar installers and OEMs are not parties to the National Electricity Rules. This could also be said of aggregators whose actions may result in a customer being in contravention of their technical standards or flexible export limit. We have raised this issue in multiple Australian Energy Market Commission (AEMC) and AER reviews, but the issue remains unresolved.

In the absence of responsibility being assigned for technical compliance, we believe OEMs and technology providers should be responsible for ensuring equipment is compliant with relevant technical standards, including compliance with ongoing capacity requirements and application of software upgrades.

We recommend the AER invest in an impact analysis of technical non-compliance, identifying the costs and vulnerabilities that the lack of compliance and enforcement is imposing on customers and networks. We also support the creation of powers for a party to have clearly defined responsibility for compliance and enforcement of technical standards. This is a pressing issue given the on-going challenges with technical compliance and enforcement, and the impact that non-compliance is having on customers and the network.

Given the above, we do not consider it appropriate that we are required to show steps at improving the level of technical compliance of CER. Improved compliance adherence for CER can never be achieved until a regulatory body is provided with powers to enforce compliance on CER providers, installers and customers.

When non-compliance occurs, do distributors have a position on communications compliance and if so, are we best to contact customers or retailers?

When non-compliance occurs on an operational level, we recommend targeting CER retailers and traders as they are best placed to rectify these issues. When an individual customer is non-compliant with flexible export limits, local voltage issues can be exacerbated to negatively impact nearby customers. A potential suggestion to incentivise customer compliance, may be to reduce their level of allowed solar credits to encourage behavioural change. Alternatively, non-compliance could be referred to a national regulatory body who hold the resources and necessary powers to deal with the issue. Distributors can have a role in managing solar installers through the establishment of a commissioning framework for new CER to identify and remove non-compliant installers who are not meeting the compliance benchmark from accessing our systems. This would assist customers whilst at the same reducing non-compliance.

Distributors can establish an industry outreach program to raise awareness and build industry understanding of compliance obligations, roles and responsibilities across various channels. These channels would include training programs, online material, in-person industry events and road shows, webinars and a new online portal for the CER approval process. This will ensure that required installation procedures for solar and battery systems are facilitated to ensure correct commissioning of inverters. Distributors can also develop an approach for customer awareness to avoid low levels of compliance literacy.

Complaint handling and dispute resolution

We support a clear, transparent process for handling customer complaints and resolving disputes. We recognise that building and maintaining customer trust in the uptake of flexible export limits requires an effective and efficient complaint and dispute handling process.

We are committed to providing good customer service to all customers regardless of whether a customer selects a static or flexible export offer. Where a customer is unhappy with the product they have selected, it is our policy that the issue is first discussed with our internal connections team. If customers are still not satisfied with how their concern was handled by the Connection team, customers are entitled to a further review by our Head of Customer Connections and Requests.

If a dispute is not satisfactorily resolved through senior management intervention, our internal procedures offer the customer the right to contact the Energy and Water Ombudsman of Victoria or the Essential Services Commission (ESC). As Victoria is not a National Energy Customer Framework jurisdiction, we don't expect the AER to play a role.

The interim export limit guidance note however, extends the distributor's role to resolving flexible export limit dispute between customers and other market participants. This is not a role we are able to fulfill as we lack the appropriate resources, expertise and lack of visibility downstream from a customer's connection point.

Dispute resolution rightly belongs with regulators/jurisdictional bodies who are better resourced and trained to effectively address customer expectations through dispute resolution processes. We consider it desirable that third parties operating behind the connection point be subject to dispute resolution schemes such as an ombudsman scheme.

Reporting

Distributors are expected to create an inclusive environment for customers and stakeholders to access export service data. These should include for example, measuring services that customers value, practicality, cost-effectiveness, and behaviour potential for unintended perverse incentives/ outcomes. The AER has assessed a good export service quality as a series of metric assessment criteria such as those developed by RACE 2030.

We support this decision; however, it is difficult to report on data by technology type as proposed (e.g. rooftop solar, energy storage, electric vehicles). We have a challenge in classifying and reporting data due to a lack of standard classification and definitions. For example, curtailment and export limits need to be formally defined. Finally, many of the metrics used for understanding and communicating the quality of network export services received by customers cannot be calculated for the entire customer base. To do so would require more sophisticated data capture and analysis that will likely be developed over time.

Where we are offering flexible export limits, we will include relevant details as part of our Distribution Annual Planning Report (DAPR).