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Submitted via email to: AERinquiry@aer.gov.au

Re: Draft export limit interim guidance note - November 2023

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the Australian Energy Regulator's (AER) draft export limit interim guidance note (guidance note) published in November 2023.

Flexible export limits will likely be a complex and counterintuitive concept for many consumers. In general, our view is that the proposed guidance note will bring an additional element of clarity about the use of flexible export limits to manage congestion on the distribution network that many consumers will require. A more fundamental issue is how the framework will support the energy transition. It will need to offer a viable option for owners of consumer energy resources (CER) that allows them to participate in the market in a way that meets their needs, while encouraging efficient network utilisation and avoiding excessive network investment. Therefore, we look forward to participating in the formal rule consultation process when the AER lodges its rule change proposal.

In the interim, the guidance note should have a clear focus on the requirements of the key stakeholders, namely, consumers, networks and retailers. In practice, this means consumers must understand what the reform is trying to achieve, what it means for them, and how they can maximise the returns on their investments. Obligations on distribution network service providers (DNSPs) to provide timely, clear and accessible information to consumers on flexible export limits are vital.

Retailers also require clear information from the DNSPs as they develop competitive retail products that relate to energy supply and to the use of CER, and to comply with regulatory obligations to explain the nature of their services offerings. The importance of clear and accessible information is a common theme of this submission as we comment further on each of the key aspects of the guidance note.

Capacity allocation methodology

Red and Lumo support an equal allocation network policy on the network even though some of the other models that the AER contemplates could result in fewer instances or a lower level of exports being constrained off over time. We view this as the fairest and easiest model for consumers to understand at this point in the transition.

We appreciate that equal allocation does not mean all consumers across the NEM will receive equal capacity as constraints will be dynamic according to network capacity, which may vary by feeder. This means it is vital that the DNSPs provide clear information to consumers connecting to a feeder about the historical constraints that have been observed and what it may mean for their operating envelope going forward.

CER integration strategy

Red and Lumo recommend that a DNSP's CER integration strategy must clearly explain how it incorporates a flexible export limits policy. This will help consumers to understand how it aligns with other elements of a DNSP's operations, including its pricing and tariff assignment policies. At a minimum, we expect the strategy to include:

- a description of the work that a DNSP is doing to support the efficient integration of CER (including the manner in which it intends to educate consumers on the reform)
- the DNSP's approach to setting export limits (basic export limit, static and flexible limits)
- how two way pricing has been used to set export limits.

Developing Flexible Export Limits business case

Network investments to accommodate flexible export limits must satisfy the RIT-D. Under the RIT-D, the benefits associated with flexible export limits would be captured under the AER's DER integration expenditure guidance note using the published customer export curtailment values (CECVs).

When capturing wholesale benefits, DNSPs must ensure they do not attempt to capture any economic losses to justify a proposed augmentation from DER exports during negative price periods. This is because DER exports during negative price periods do not create any economic value. On this basis, they should not form part of the economic loss calculation to customers and the broader market.

Connection policy

DNSPs must be transparent about their approach to calculating available network capacity and how subsequent export limits are then applied to consumer connections. This is particularly important because consumers who connect to the network with CER will need this information to understand what value they can actually extract from their CER. To satisfy this objective, DNSP connection policies should cover the following:

- the manner that static export limits will be imposed
- the approach to apportioning available network hosting capacity between static and flexible export limits
- the circumstances in which consumers will have their flexible export limit reverted to static export limits
- the DNSP's approach for notifying consumers currently on static exports of their ability to apply to have their limit changed to a flexible export limit.

Connection agreements

DNSPs must provide consumers with clear information about their connection agreements. To this point, our consumers have found these agreements complicated and are at risk of unintended consequences and poor financial outcomes as a result. Below, we outline our preferred approach to rolling out these connection agreements for consumers.

- Flexible export limits should apply on an opt-in basis at this stage of the transition. Very few consumers are aware of or understand the rationale for this measure and it would not have been a factor in their investment decisions. As such, DNSPs should provide customers with both flexible and static limit options, explaining the differences between them when connecting a consumer with CER under a Model Standing Offer so they can make an informed decision.
- Information should be in plain English and avoid technical jargon as far as possible.
- DNSPs must also take steps to explain the operation of flexible export limits to retailers.
- DNSPs must explain how they will treat consumers who exceed both their static and flexible export limits. We do not want a large number of customers breaching their limits to earn additional revenue only to create system reliability issues. Furthermore, it is not clear how a consumer who was constrained off when another consumer exceeds their capacity would be compensated.

Industry engagement on flexible export limits

DNSPs should work closely with retailers and other key industry stakeholders to facilitate the smooth introduction of flexible export limits. This is particularly important to the overall success of the reform because stakeholders, including retailers, will need to understand what networks are trying to achieve and what type of action they expect from consumers.

Our expectation is that DNSPs will implement an operational plan for introducing flexible export limits that will include an explanation of the manner in which the reform will be introduced and the educational plan that will be used for consumers. At the same time, we expect the DNSPs to provide an effective leadership and coordination plan between the key stakeholders. By doing this, DNSPs will facilitate the successful roll out of the reform.

Compliance with technical standards

Red and Lumo support DNSPs including a commissioning process to better standardise the process across the NEM for verifying correct device installation before connecting new CER devices to the grid. However, in undertaking this process, our view is DNSPs should communicate changes to any inverter standards to industry stakeholders, particularly installers and technology providers, ahead of time.

Complaints and dispute resolution

DNSPs should develop and implement a standard approach to handling any complaints or resolving any disputes with customers about the implementation of flexible export limits. It is important that consumers have a viable avenue to resolve any disputes should they arise. DNSPs should then provide information on how issues and disputes about flexible export limits can be raised and resolved as part of the connection process.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and the Australian Capital Territory to over 1.3 million customers. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on [redacted].

Yours sincerely

[redacted]

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