NSW electricity distribution businesses - Public forum – follow-up questions

During the public forum, due to time constraints, a number of questions were taken on notice. The AER have now provided short responses to these questions, which are provided below.

AER Specific questions

1. *You've mentioned the 'indirect subsidy for embedded networks'. In what way does an embedded network National Metering Identifier represent greater costs to the DNSP compared to a single large customer? If the concern is the availability or profitability of the business model of embedded network operators, is that not a question for our regulators, not our regulated businesses.*

   AER's concern is whether the embedded network tariffs reflect the total efficient costs of serving the customers assigned to the tariff, inclusive of the broader context of whether one group of customers is being subsidised by another group. A number of network businesses have identified that recovery of residual costs from embedded networks leads to inequitable recovery of residual costs and their proposals of embedded network tariffs are aimed at addressing this in order to meet their obligations on tariffs under the National Electricity Rules (NER). AER will consider the proposed tariffs against the Network Pricing Objective and Pricing Principles of the NER, along with submissions on network businesses' proposed Tariff Structure Statements (TSS).

2. *Ausgrid's proposal in terms of EVs and other selling arrangements is unique in that it will have structural impacts on the market and on competition. Our concern is that the TSS is not the mechanism to change the market. There are processes in place, and the NEO for a reason. Will the AER examine the proposal from this perspective?*

   AER will consider Ausgrid's proposed TSS against the Network Pricing Objective and Pricing Principles of the National Electricity Rules, alongside submissions on its proposed TSS.

3. *A presentation - yesterday 4/4 - by AEMO Services Limited (ASL) et al on the NSW REZ and energy plan - outlined that they would be managing the process but any/all consumer cost recovery would be through DNSPs (much like TNSP charges are). There was no consideration by them what, how and who from those costs might be recovered. This seems to be a major flaw in the reset process and tariff setting. What will the AER do about this - and what engagement will the NSW DNSPs have in this?*

   - The NSW roadmap is a jurisdictional scheme under the NER. As such, its costs are included as jurisdictional scheme amounts in the pricing proposals from DNSPs under the NER.
   - The DNSPs need to include these amounts because the costs of the roadmap are recovered from the DNSPs through contribution orders issued by the scheme financial vehicle, for amounts determined via a yearly contribution determination by the AER (Part 7 of the Act).

- This contribution determination determines the amount needed to ensure that the scheme financial vehicle is able to meet its liabilities as they fall due.
- The costs of the NSW EII Act include network project costs (Part 5 of the Act), safeguard mechanism costs (Part 6 of the Act), administration costs of the scheme entities and any community payments.
- The revenues include access scheme amounts and safeguard mechanism revenues. These will initially be small during the setup of the REZs but may increase over time.
- The DNSPs are engaged in the contribution determination process through the provision of data and through process review consultations.

4. *The AEMC is currently undertaking a Review of the Power of Choice (Metering) Reform - though its largely through the lens of accelerating the rollout (with a new object of 100% by 2030). This seems to ignore that the biggest impediment to rollout is a lack of consumer benefits. The current control of metering data by financially responsible Market Participant (FRMPs) is totally unacceptable and blocks consumers access to their data Behind-the-meter BTM and networks to it so they can assist consumers. Does the AER, and the DNSPs, strongly support that customers should have unfettered access to their/all meter data in real time and that they can support real-time distribution of that data (using their broadband internet connections) to their agents (innovators) and to networks so that DOE and DSM technologies can maximise consumer/customer benefits?*

   The AEMC is currently exploring access to, and the cost of, data as a part of this review. We are guided by stakeholder input on this issue. We are concerned of the costs involved in providing access, and in particular the increased costs to vulnerable customers that are not going to benefit from such data access.

5. *The issue of Community Batteries seems a vexed issue for the AER. From a consumer perspective - being pushed by resellers (of PV/BESS) and retailers (packaging) to take up residential batteries is a very poor outcome. Having Community Batteries providing ESaaS (Energy Storage as a Service) is a much lower cost - individually and to the community! The view by Generators and/or Retailers that (Community) Batteries are exclusively a "generator" or "arbitrage system" (or both as a gentailer) is bluntly wrong - a battery is nothing more than a "buffer" - and consumers with PV should be able to spill and recover; and consumers without PV should be able to buffer cheap grid Variable renewable energy (VRE) energy at the grid edge for their own use a little later. Will the AER ensure that the NSW DNSPs will not be blocked from developing ESaaS (as a DSO service and agent of the consumer)?*

   The AER exists to ensure energy consumers are better off, now and in the future. Consistent with the National Electricity Rules, Ring-fencing objectives govern the extent to which a DNSP can provide contestable services. It is an important mechanism for promoting increased choice for consumers and more competitive outcomes in markets for energy services

   Where a DNSP was to engage in a contestable market, the Ring-fencing guideline aims to protect consumers by preventing issues such as cross-subsidisation and discriminatory behaviour. For further information on the objectives and controls of Ring-fencing can be found on the AER website.

6. *NSW has a unique environment with Accredited Service Providers (ASP) building the overwhelming majority of assets for new and upgraded customer connections. The ASP fraternity need to be included as a specific specialised partner in the delivery of new customer connections. Will the AER and/or DNSPs work directly with ASPs and their member associations to help them better understand what the impacts of these Reg Resets will have on costs to do business and to connect customers, transition*

arrangements to allow existing projects to proceed without being impacts by cost increases.

In preparing their regulatory proposals for the 2024-29 distribution determination, the NSW DNSPs engaged with stakeholders through multiple avenues of stakeholder engagement including (but not limited to):

- Regular reference group meetings
- Information forums
- Customer satisfaction surveys

All three NSW DNSPs have consulted with ASPs during this engagement.

AER staff further encourage ASPs to get involved in the distribution determination process by making submissions and attending forums. We would like to know ASPs' thoughts on a DNPS' proposal and its engagement process – whether these are concerns and/or positive feedback. Stakeholder submissions and comments are an important consideration when the AER makes its draft and final decisions.

Once we make our final decision, we expect DNSPs would engage with ASPs to discuss issues such as costs to connect customers and transition arrangements to allow existing projects to proceed without being impacts by cost increases as part of their business-as-usual activities. AER staff are interested to hear from stakeholders where this is not the case.

7. *If the AER and networks are genuine in their desire to encourage consumers to support the grid at peak times, these proposals need to offer rewards to exporting customers who offset peak usage that are much closer aligned to the additional charges importing customers face at peak times.*
    a. *How can this notion be discussed and recognised in these and other network proposals going forward?*
    b. *Here is more context on the issue ...*
        i. *Currently we see TOU peak network usage charges in Endeavour Energy and Ausgrid networks that are 12 and 19 cents per kWh higher than the network usage charges that apply to anytime/flat tariffs. Presumably these peak rates are designed to reflect the cost of building networks to support peak usage periods and to send a price signal for consumers to reduce their peak time usage.*
    c. *However, the 2024-29 proposals for Ausgrid and Endeavour Energy are proposing to offer "rewards" for consumers exporting at peak times in the order of 2-3c per kWh. That's an insufficient incentive for consumers to shift exports or discharge their storage assets to reduce network peaks (in the unlikely event that retailers bother to pass through such a small price signal).*

The level of reward offered is up to the DNSP. It generally reflects the value the DNSP attributes to additional locally generated supply being provided to the network at times of peak load. This will be network specific and is typically balanced against a number of factors to avoid creating a cross-subsidy from non-exporting customers to the benefit of exporting customers. These factors include that DNSPs are required to offer a free basic export level for all two-way pricing proposals which means a portion of exports is provided without charge, that DNSPs cannot recover historical costs associated with provision of export services, and that the network benefit will likely vary significantly across the network but is typically rewarded on a postage stamp basis. Over the regulatory period automated and aggregator managed exports are anticipated to increase which would likely see responses to price signals even if they are not sharp. We

expect competitive pressures faced by retailers in this environment will result in at least some retail offers that pass these signals through.

8. *What is the view of the AER - and the DNSPs - on making Network Tariffs mandatory pass- through and transparent (and retailers adding a margin if they want)?*

   Retailers operate in a competitive market and mandatory network tariff pass-through would undermine that, reducing the scope for competition between retailers. Allowing retailers freedom in how they incorporate network costs into their retailer tariffs allows for innovation in the retail tariff offerings that supports competition between retailers.

9. *What flexibility is being considered during the 5-year period. While 5 year reg periods made sense in a one-way energy system (esp. for distribution) - but this is not the case anymore. We need to have the ability to be dynamic - especially if we are to gain the benefits of developing technologies like Dynamic Operation Envelopes (DOE) and the rapidly developing IoT/Matter, Home Energy Management Systems (HEMS) that enable Demand Management and consumers/customers to truly participate for their, and the Community's benefit.*

   The AER's primary role is setting the maximum revenue and prices that network businesses can recover from users of their networks. We use an ex-ante 'incentive-based' approach, which sets an overall revenue allowance that network businesses can recover from consumers to provide safe and reliable services—that allowance is based on an assessment of efficient costs.

   An ex-ante incentive-based approach also incorporates flexibility to allow businesses to adapt to a changing environment. A network business has discretion as to how it runs its business within the overall allowance.

   Businesses have incentives to continually look for innovative ways to deliver energy services and make efficiency savings. This flexibility is essential in a rapidly evolving environment where the ability to successfully adapt to constant technological change and obsolescence while avoiding asset stranding provides value for all stakeholders.