



20 May 2022

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Kris,

Re: framework and approach: preliminary position paper

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) framework and approach preliminary position paper.

The framework and approach defines the types of services that are regulated and how they are regulated, as well as incentive scheme application and approach to depreciation. Ensuring appropriate service classification is foundational to ensuring that the final regulatory determination delivers efficient outcomes for consumers.

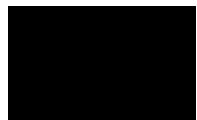
It is not practical or necessary to distinguish between expenditure to provide import or export services as distribution assets provide both consumption and export services. Expenditure to improve one service will also deliver improvements in the other service. Export services are therefore most appropriately classified as Standard Control Services (SCS). Development of export pricing via the Tariff Structure Statement (TSS) can be used to address potential cross subsidies between customers.

System support services such as under-frequency load shedding (UFLS) and minimum operational demand (MOD) services are already set out in the common distribution service and as a result do not require a separate classification.

We support the AER exploring Ausgrid's proposal to develop cost and revenue sharing arrangements for revenue obtained from leasing out spare capacity in batteries. Appropriate implementation of service classification and incentive arrangements that promote efficient use of battery assets are likely to optimise the value that batteries can deliver to customers.

Should you have any queries, please do not hesitate to contact Chris Gilbert [REDACTED]

Yours sincerely,



Megan Willcox
Head of Regulatory Performance and Analysis
CitiPower, Powercor and United Energy

1 Control mechanism

We support the AER maintaining the control mechanisms as they currently apply, including a revenue cap for SCS and a price cap for alternative control services (ACS), as they have functioned effectively for electricity distributors across the National Electricity Market.

We also support the introduction of a tax component for ACS provided on a quoted basis, as distributors will incur a tax liability for the provision of these services. Allowing recovery of this tax component is consistent with the revenue and pricing principles in the National Electricity Law (i.e. a regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control services), and would ensure consistency with tax approaches for SCS.

2 Customer export services

Following the AEMC's rule change to the National Electricity Rules to clarify that distribution services include export services, export services must be classified under the framework and approach to apply to distributors during their upcoming regulatory periods. For the following reasons, we consider that all export services should be treated as SCS, consistent with the AER's first option in its position paper:¹

- as distribution assets will be used to provide both consumption and export services, it is not practical or necessary to robustly allocate expenditure towards improvements in each service. For example, expenditure to improve consumption services may facilitate improvements in export services and vice versa, particularly in cases where both import service and export service peaks are similar in nature but do not coincide. Adopting separate regulated asset bases for consumption and export services would therefore be unduly complex, subjective and introduce cross-subsidies for either service
- treating export services as SCS will not result in all customers having unlimited access to export services on the shared network. Rather, where allowances are set on an ex-ante basis, distributors will have the responsibility (in consultation with their customers and subject to AER assessment) to determine a basic level of export services for customers they are entitled to receive at no extra cost by either setting direct operating limits for export services (either static or dynamic) or developing pricing signals that incentivise the indirect delivery of the same limits. This approach will target network expenditure to increase network utilisation and reduce costs for all customers
- to the extent they exist, reducing cross-subsidies between customers, and in particular from non-solar customers to solar customers, can be best achieved through the pricing of export services (rather than via separate asset bases). The pricing of export services will be explicitly considered by each distributor during the development of their TSS, which is necessarily guided by the export tariff guidelines that require distributors to ensure that the costs of future investments in export services are recovered through export charges
- classifying export services as ACS suggests that the user who pays for these services will benefit from the service. If feed-in tariffs become negative over the medium to long term during peak solar export times, then the customer would be unlikely to receive any benefit and refuse to pay. This may disincentivise renewable energy exports, and deliver outcomes that are inconsistent with government policies and customer expectations
- additionally, lower income households will be less able and willing to meet the customer contribution requirements under ACS classification, leading to enhanced disparity in export capability between high and low income households.

¹ AER, [Framework and approach; Preliminary position paper for the NSW, ACT, Tas and NT businesses](#), 2022, p.16

For clarity, we also consider that the delivery of export services is sufficiently captured within the ‘planning, design, repair, maintenance, construction and operation of the distribution network’.²

3 System support services

The under-frequency load shedding (UFLS) service is intended to deliver the automatic load shedding capability required to counteract a rapid decline in frequency and avoid a large-scale outage. The UFLS service is intended as a last resort measure and would only be used in circumstances where all other mechanisms have failed to counteract a rapid decline in frequency.

The minimum operational demand (MOD) service seeks to deliver the automatic generation shedding or load activation capability required to restore the supply-demand balance and avoid a system black incident on the distribution system and the broader power system, where all other options have been exhausted.

We consider that system support services such as UFLS and MOD services are already set out in the common distribution service and as a result do not require separate classification. That is, UFLS and MOD services are SCS because these services are consistent with the AER’s high-level definition of classification as standard control outlined in its preliminary positions paper, which is ‘suitable for services which are provided to all customers through the use of the shared network’.³

Additionally, UFLS and MOD services are both common distribution services because they are consistent with ‘use of the distribution network for the conveyance/flow of electricity (including the services relating to network integrity)’.⁴

4 RERT Services

Distributors should be able to continue to provide RERT services using existing network assets. Doing so delivers consumer benefits through revenue sharing arrangements under the shared asset guideline.

5 Leasing excess battery capacity

We consider that service classification of leasing excess battery capacity should be undertaken in a manner that maximises the potential customer value delivered by batteries. Consistent with this view, we support the AER exploring Ausgrid’s proposal to develop cost and revenue sharing arrangements for revenue obtained from leasing out spare capacity in batteries. An appropriate arrangement would balance cost and revenue sharing such that customer value from use and revenue derived from batteries would be maximised while distributors would be incentivised to consider batteries as an efficient alternative to traditional network augmentation.

6 Incentive schemes

We support the application of the incentive schemes described in the position paper. The current expenditure and reliability incentive schemes seek to balance the incentives to promote efficient investment in the distribution network at an efficient cost to customers. However, we consider there is opportunity for the AER to consider broadening the incentive regime to put greater emphasis on customer outcomes where it has the opportunity to do so.

We also note that we proposed the introduction of a new ‘Network Resilience Innovation Allowance’, similar in nature to the demand management innovation allowance (DMIA) funding mechanism, as part of the Victorian

² AER, [Draft proposed service classification of NSW distribution services 2024-29](#), 2022, p. 1.

³ AER, [Framework and approach; Preliminary position paper for the NSW, ACT, Tas and NT businesses](#), 2022, p.5

⁴ AER, [Draft proposed service classification of NSW distribution services 2024-29](#), 2022, p. 1.

Government's network resilience review. Such a mechanism could finance proactive resilience investments that may otherwise be too risky or uncertain to attract 'standard' regulatory funding approval.

7 Depreciation

We support maintaining the currently applied approach of using forecast depreciation to calculate the opening RAB for the 2029-34 period. If the AER maintains this approach, it should also retain an appropriate capex efficiency incentive that is independent of depreciation to maintain incentives on distributors to deliver cost savings for customers.

8 Stand-alone power systems (SAPS)

We support the AER's position to classify regulated stand-alone power systems as direct control and as SCS, as well as the addition of 'fault and emergency' to the description of the regulated SAPS service. This addition to the description will lead to better outcomes for customers as distributors are well placed to respond to faults and emergencies related to the distribution and generation elements of SAPS.