30 January 2022

Pat Devlin
A/g Director, Network Regulation
Australian Energy Regulator

By email: AERinquiry@aer.gov.au

Dear Mr Devlin

Incentivising and measuring export service performance draft decision

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft decision on incentivising and measuring export service performance. We commend the AER for the quality and depth of discussion included in the consultation paper.

We support the AER's draft decision to allow networks to design an optional bespoke incentive scheme to incentivise delivery of export services. This type of scheme can be designed differently by each network to account for the different circumstances they face, including customer preferences, base levels of export service and data availability.

Crucially, a bespoke scheme can be designed in collaboration with customers to maximise customer benefits. Our customer values research identified that enabling export services is important to our customers as it delivers flexibility in how they use their energy resources and reduces carbon emissions.

We support an increase to the incentive cap under the DMIS and allowance under the DMIAM to reflect that the scope of these schemes has expanded beyond the initial expectations that they were designed for. This approach would provide greater scope for customer value to be derived from trialling new approaches to managing export services, such as flexible export services.

Population and response timing for the proposed DER information request overlaps with the RIN population and submission deadline that occurs in October each year. Meeting the RIN deadline date of the 31st of October is becoming more challenging over time as more data is included in the RINs. Given population of the DER information request overlaps with the RIN timeline, we recommend that the RIN deadline date is extended to the 31st of November for all networks to ensure that distributors have sufficient time to populate and submit both the DER information request by September 2023 and meet an extended RIN deadline.

We agree with the AER that the impact of export services on the productivity scores of DNSPs is likely to be small at present. However, this impact may increase over time. Consequently, we support a holistic review of benchmarking by 2027, in particular when better exports information is available and when the materiality of export service impacts on benchmarking has become clearer.

Additional details to support our views are provided below in response to the AER's questions. Should you have any queries please do not hesitate to contact Chris Gilbert on [redacted] or [redacted]

Yours sincerely,

[redacted]

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

AER questions	Stakeholder feedback
Do you agree with our proposed timeline for a future review of incentive arrangements for export services? What factors may prompt an earlier or later review?	Yes, we agree with the AER's proposed timeline for a future review of incentive arrangements for export services. However, we also suggest that 2027 is a cut-off date for performing the future review, rather than a firm date, meaning the AER would have the ability to review the scheme earlier than 2027 if that was deemed appropriate. One such instance might be if broad standardised data becomes available for all DNSPs sooner than expected, then it might be prudent to undertake the review sooner.
Do you agree that developing a new small-scale incentive scheme is the best way to facilitate DNSPs proposing bespoke incentives?	Yes, we agree that developing a new (small-scale incentive scheme) SSIS is the best way to facilitate DNSPs proposing bespoke incentives. We also suggest that the SSIS is designed to have a similar 'principles based' approach akin to the customer service incentive scheme (CSIS) as that will provide flexibility for networks and customers to co-develop outcomes under the scheme.
What level of revenue at risk (rewards and penalties) is appropriate for a small-scale incentive scheme for export services?	We suggest that the revenue at risk for a bespoke export incentive SSIS should be 0.5%, in line with other incentive schemes proposed by networks in the past. This 0.5% should not displace the 0.5% applicable under the CSIS In principle, the power of an export services SSIS should not impact the ability for networks and customers to co-design and implement other targeted incentive schemes that could deliver value to customers. We do however recognise that the bespoke exports incentive scheme is optional, as are other SSIS, and on balance we believe the proposed power of the incentive is reasonable.
Do you consider that the benefits associated with a small-scale incentive scheme for export services will outweigh the costs of measuring performance and administering the scheme?	Yes, the benefits of a bespoke export services incentive scheme will outweigh the costs of measuring performance and administering the scheme. Our experience with the CSIS is that administrative costs are low relative to the benefits to customers of improved service outcomes. Export services are a common distribution service and are also important for customers who seek to derive value from their CER investments. There should an optional mechanism to incentivise strong performance and delivery of beneficial services to customers if these are services that customers value.

	By design, if a DNSP does not propose any bespoke incentive scheme, then there are no measurement or administration costs for the AER.
Do you agree that no amendments to the DMIAM and DMIS are necessary?	The DMIAM and DMIS were designed historically to apply to consumption services, typically to be used during maximum demand periods to avoid the need for network investment. Use of the DMIAM and DMIS for consumption services is likely to continue as electrification of transport and gas increase peak demand. As export services have been classified as part of the common distribution service, the DMIAM and DMIS can now apply to export services. These schemes will typically be used during minimum demand periods to avoid the need for network investment. The frequency and scale of minimum demand periods is also expected to increase as more rooftop solar is exported onto our networks in the middle of the day. However, the DMIAM and DMIS were only designed with consumption services in mind, and in particular the incentive cap under the DMIS and allowance under the DMIAM. We believe it is appropriate to increase the current incentive cap under the DMIS and allowance under the DMIAM to reflect that their scope has now expanded beyond initial expectations. Doing so would allow more customer value to be derived from innovations and non-network investments, particularly in electrification of transport and rooftop solar exports. Maintaining the current incentive cap and allowance reduces the scope for networks to implement innovative technologies to manage both maximum and minimum demand, which will unduly limit the amount of value networks can deliver to customers under the schemes, particularly as innovative approaches such as flexible export services are an emerging solution but are not yet scalable.
Do you foresee any challenges in collecting the new data for the key metrics? Can you identify any additional costs associated with data collection?	Yes, there will be challenges in collecting the new data proposed for performance reporting. We also anticipate that our businesses, and other distribution businesses, will not be able to collect and submit data for the DER information request prior to its proposed due date in September 2023. Population and response timing for the DER information request overlaps with the RIN population and submission deadline that occurs in October each year. Meeting the RIN deadline date of October 31 is becoming more challenging over time as more data is included in the RINs. Additional data requirements culminated last year in our businesses only just being able to submit our 2021-22 RINs by

	the legally required date, with significant time pressures and staffing resource allocation throughout the period. Our technical experts who would be responsible for populating the DER information request are the same experts who are responsible for populating the RINs, which will further reduce our ability to meet both deadlines. To manage the additional time constraints that the DER information request will have on our businesses, we recommend that the RIN deadline date should be extended to the 31st of November for all networks. This will allow networks sufficient time to populate and submit the DER information request by September 2023 and still enable the extended RIN deadlines to be met. Maintaining the current due date for RINs would likely result in our inability to populate the export services information request as while this outcome is not ideal, we would prioritise RIN data population as a legal statutory requirement.
Do you agree with the proposed base year for 2020-21 for most metrics and 2022-23 for metrics where data may be less available? Please suggest an achievable timeframe for metrics where the proposed reporting date is not feasible.	Our view is that the most appropriate base year for data collection should be the year where data was initially collected and of sufficient quality that it can be relied upon. For most metrics and across most networks, this year is likely to be 2020-21. Notably, the base year for different metrics and across different distributors may vary from 2020-21, but given these metrics are not intended to be used for benchmarking purposes where a 'full' dataset would be required, varying base years should not be an issue.
Do you agree with the level of data disaggregation in the strawman information request (typically disaggregated by customer type and feeder classification, with some exceptions)? Please provide your views and reasons if you consider specific data should be disaggregated at a different level to that proposed.	We somewhat agree with disaggregation in the strawman information request by customer type and by feeder classification, partly because the AER does not yet know what measures are most valuable to report in performance reporting. While we recognise the potential value that disaggregations for most data could have to customers, there are time and administrative costs associated with populating different disaggregations. If certain metrics are underutilised in the future, it could be more costly to produce than the benefits ultimately derived from reporting. Once the AER has a clearer understanding of what data is most valuable for reporting, and what data is comparatively less valuable, we support excluding disaggregations for metrics that are less valuable to balance administrative data reporting costs with the benefits of data reporting itself.
Is any of the proposed data ambiguous? If the information request would	11.0.2 – Duration of full export access and 11.0.3 – duration of no export access, would both benefit from clarification in the information request.

benefit from additional definitions or specification, please provide your suggestions.	We believe these measures refer only to customers who are on static limits, and it would be beneficial to clarify if this is the case or if this measure also applies to customers on flexible limits.
Do you agree that we should not proceed with developing an export services OEF at this time?	Yes, we support the AER's draft decision to not proceed with developing an export services OEF. In addition to the likely shortfall of data required to effectively support an OEF and the expected low materiality of an OEF: • OEF adjustments derived over time in a staggered manner do not effectively account for the interrelationships between inputs and outputs and result in benchmarking that is less accurate in comparison to directly factoring export service performance into benchmarking analysis. • We understand an OEF adjustment would be derived using historical exports expenditure, which not all networks can report. For networks who do have historical data, this data will only be recent, may not be reported on the same basis and may not be high quality. • Applying a standalone OEF adjustment for export services would not account for the role of export services within the AER's assessment of network allowances. Implementing an ex-post OEF adjustment will only impact the comparative benchmarking analysis, while the other roles of the benchmarking models, including assessing industry productivity and opex output growth, would not be adjusted.
Do you agree with our draft views summarised in Table 2, including on: **• the potential impacts of export services on the benchmarking models?** **• the possible options for addressing these impacts?** **• the early 'indicative' views of the materiality of changes to the productivity results of implementing these options?** **• key issues that would need to be resolved before changes to the models could be implemented?** **In providing your comments on each issue, please include**	We agree that if the benchmarking models appropriately account for export services inputs but not outputs, DNSPs with materially higher levels of export service inputs can be disadvantaged relative to DNSPs with lower levels of export services. However, removing only inputs would step away from the holistic nature of the benchmarking models, and would be challenging in practice as consumption and export services are both now classified as a common distribution service. For the potential changes to energy throughput and ratcheted maximum demand, a key consideration is whether the ability to self-consume should be considered a DNSP service. On the one hand, without a DNSP connection, customers are unable to self-consume electricity unless they have specialised solar PV systems. On the other hand, DNSPs have no ability to measure the self-consumption of customers, and self-consumption is not a driver of investment (unlike maximum and minimum demands). On balance we believe that benchmarking models should not be adjusted based on customer self-consumption due to the challenges in accurately identifying self-consumption and

any rationales and evidence in support of your views.	the likely low materiality on energy throughput and ratcheted maximum demand. We agree with the AER's assessment that the customer minutes off supply reliability input is unlikely to be improved materially with expenditure to enable exports as this expenditure typically targets improving power quality and voltage compliance. We also agree that a new specific export services output is likely to have a small impact on productivity results currently. However, the impact on productivity results is likely to increase in future as more solar exports are enabled.
Do you agree with our revised approach for reviewing if and how benchmarking models can be adjusted to better account for export service, including: **• not further considering the option of excluding exports service inputs from the benchmarking inputs?** **• the materiality checks in Table 2 (column 2) proposed to establish the benefit of options to adjust the benchmarking models?** **• the final assessment criteria in Table 2 (column 3) proposed to decide whether to proceed with an update or not?** **• initiating a full review of the benchmarking models by 2027 to determine the materiality of export service impacts, the best combination of changes to appropriately account for export services, and the feasibility of successfully implementing these changes ?**	We support the AER's view to not further consider the option of excluding exports service inputs from the benchmarking models. Doing so would step away from the holistic nature of benchmarking and reduce the AER's ability to efficiently assess expenditure. We agree with the AER that the impact of export services on the productivity scores of DNSPs is likely to be small at present. However, this impact may increase over time. We somewhat support the AER's materiality checks, but note that with the AER revisiting benchmarking adjustments in, or prior to, 2027, that these materiality checks should be revisited and reassessed at a later date when better information on exports is available. We support a more holistic review of benchmarking when better exports information is available by 2027, noting that if sufficient data is available sooner, we also support an earlier review.
For the list of export services data in Box 1 needed to	Regarding the list of export services data in Box 1:

assess materiality of potential export service impacts, and implement possible adjustments to the benchmarking models, considering the uncertainty around which adjustments, if any, may be required and the costs to business of collecting the data: **• what data should we start collecting?** **• what data are you able to / not able to begin reporting?** **• what data may be feasible to report on in the future?**	• We do not have data on the quantity of energy self-consumed for any year because this data is not measured by our smart meters. We also recommend against estimating this data, as estimations are likely to be inherently unreliable and adjusting benchmarking models based on unreliable data is likely to reduce the accuracy of benchmarking and reduce stakeholder confidence in the effectiveness of benchmarking. • We are able to provide the average quantity of energy exported and export customer numbers back to Q2 2014, which is the start of our smart meter data set. Estimating the number of solar customers and solar exports prior to this would be unreliable, and likely unrequired because of the relatively low uptake of solar PV. We would be comfortable with assuming zero solar exports and customers for all DNSPs prior to Q2 2014. • It is unclear what data would be required to inform an engineering assessment of network expenditures undertaken to provide export services. We have not yet formed a view as to what data would support an engineering assessment, or if such data is readily available. • We have estimated export services costs back to 2014-15 to populate previous AER data requests seeking this information. Estimating export services costs prior to 2014-15 will be unreliable due to our lack of smart meter data prior to Q2 2014.
For the Canadian and New Zealand DNSPs currently used in the econometric benchmarking, what are the key issues that would need to be resolved to determine if it were appropriate to continue to use these jurisdictions to update the econometric models for export service impacts? What data and information could we begin to collect to resolve these issues? What alternatives to the Canadian and New Zealand DNSPs could we consider, if their use was not appropriate?	Our view is that the econometric models have significant value over the MTFP models because they apply statistical robustness and account for interdependencies between variables, producing generally more reliable results. The requirement to reconsider use of the Canadian and New Zealand DNSP data is dependent on the finding that export services are materially impacting the benchmarking models. Until that time, no adjustments to the international data are required. Even if the impact of exports is found to be material, the econometric models are still likely to be more statistically accurate than the MTFP models because of their superior statistical properties. We therefore recommend that regardless of the impact of export services on benchmarking, that the AER continue to use the econometric models as the primary measures of efficiency.