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Australian Energy Regulator

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By email: [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au)

### **Draft decision – customer export curtailment value methodology**

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft decision – customer export curtailment value (CECV) methodology.

We recognise the importance of our role to enable an efficient level of export services for customers on our network. Customers expect that part of this role in a distributed energy future is to collaborate with them to better understand and deliver on their preferences, especially when it comes to enabling DER exports and the surrounding frameworks, including the CECV methodology.

The CECVs will be a critical input into our future distributed energy resources (DER) investment planning because they will drive the strength of any export service incentive scheme, the benefits case of proposed network investments to enable export services and the value of export tariffs.

We consider that the AER's CECV methodology could be improved by ensuring that quantifiable and evidence-based value streams, particularly those relating to customer preferences, are included in the CECV methodology. Including value streams for customer preferences will lead to more customer-centric investment signals for the delivery of export services and ultimately a more efficient level of export service delivery.

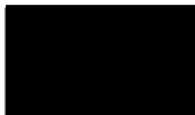
The AER's better resets handbook expresses sentiments that customer preferences should drive outcomes and that customers should not have to wait for regulatory proposals to be heard. It would be contradictory for the AER to then exclude quantifiable customer preferences within decision making frameworks, including the CECV methodology.

The ENA has raised concerns about the internal consistency of CECVs with AEMO's ISP step change assumptions. Leaving these concerns unaddressed risks inefficient levels of investment to enable DER exports, resulting in an overall loss of value for customers.

We would support an industry workshop as the AER continues to develop its final determination.

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

Yours sincerely,



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**CitiPower, Powercor and United Energy**

## **We recommend that the principle of customer preferences should be considered in the methodology to quantify customer values of export curtailment**

In our submission to the issues paper, we proposed a more holistic approach to understanding and quantifying customer value of export curtailment, including incorporating the intrinsic customer value of choice and control of enabling exports, and the customer value of environmental benefits of enabling exports. Our submission was supported by the findings of our customer research with the NTF Group, and the subsequent quantification of customer values.

### ***We have undertaken research to understand and quantify customer value***

*We have engaged external consultants, the NTF Group, to undertake a customer values project, aimed at assisting our understanding of customer willingness to pay on a range of services improvements.*

*Understanding and recognising how customers value the services we provide today, or may provide in the future, is important to better understand the competing tensions of delivery and affordability and help shape the future of the services we provide*

*NTF Group completed three phases of research, including two rounds of quantitative customer surveys to conduct contingent valuation and choice modelling to estimate customer value on a range of topics, including customer value (dollar per kWh) for solar export flexibility and customer value (dollar per tonne reduction in CO2 emissions) of environment.*

It is disappointing that the AER's draft position is to not incorporate customer values and instead limit the CECV methodology to include only wholesale market production cost, frequency control ancillary services (FCAS) and distribution losses as these value streams capture the most material wholesale market costs and benefits.

While we agree that the wholesale value streams are likely to be the most material DER value streams, the draft CECV methodology will undervalue the CECV if it does not capture other customer value streams that are important and meaningful to customers. Including additional value streams, so long as they are quantifiable, evidence-based and valued by customers, would more accurately reflect the value that customers place on export services and is likely to result in a more efficient level of export service delivery.

For example, our research with the NTF Group found that the electricity network is seen by customers as a community asset, referencing 'energy equity' and placing a materially high value on improving reliability for customers experiencing below average supply reliability. These findings support the premise that customer preferences extend beyond just the wholesale market and including quantifiable customer preferences within the CECV is appropriate.

Our customer research also produced several quantitative measures that reflect customer preferences, and these values are now incorporated within our capital expenditure approval processes to ensure investments are efficient for customers.

Further, given the significant push from customers, industry and the AER to put customers at the heart of decision making, quantifiable customer preferences should be included within the CECV methodology. This is evident in the AER's better resets handbook – towards consumer-centric network proposals, that states the following:

*'it is more important than ever to ensure customer preferences drives outcomes'*

and

*'[consumers] should not have to wait for a once-in-5-year regulatory proposal to be heard'.<sup>1</sup>*

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<sup>1</sup> AER, *Better Resets Handbook – Towards Consumer Centric Network Proposals*, 2021, p. 2 and p. 13.

Given these sentiments, it would be contradictory for the AER to exclude quantifiable customer preferences within decision making frameworks, including the CECV methodology.

The AER has not precluded businesses from quantifying other value streams that are identified in the AER's final DER integration expenditure guidance note. While we acknowledge this option, a first-best approach is to include quantifiable measures of customer preferences within the CECV methodology. This approach is consistent with the AER's interpretation of the CECV's remit, which is to represent the detriment to all customers from the curtailment of DER exports.

If the AER does not include customer values in the CECV, then it should at a minimum explicitly allow networks to include customer preferences within the benefits case under its DER integration guideline if these can be demonstrated to reflect the views of the DNSPs' customer base through customer research. This second-best approach is likely to support an efficient level of investment to meet customer preferences and would allow DNSPs to deliver on customer expectations for network services. However, this approach is second-best to direct inclusion within the CECV methodology because customer preferences are directly linked to how customers value services, in this case export services.

## **CECV modelling assumptions risk an overall loss of value for customers**

Independent analysis undertaken by HoustonKemp on behalf of ENA has raised concerns around the appropriateness of the modelling assumptions and their potential to lead to inefficient investment and poor long-term customer outcomes. In particular, the internal consistency of CECVs relative to AEMO's levelised cost of large-scale solar PV and capacity mix assumptions in the ISP step change scenario. We encourage the AER to consider the issues raised in ENA's submission and ensure that the CECV methodology assumptions are updated accordingly.

It is in customers' interest to ensure that the CECV methodology reasonably produces CECVs that deliver efficient levels of investment to enable DER exports. A CECV methodology that systematically undervalues CECVs would lead to inefficient levels of investment to enable DER exports, resulting in an overall loss of value for customers.

## **We recommend that the AER allow flexibility with the use of prior year's CECVs in some circumstances**

The AER plans to re-estimate CECVs annually and update the DNSP model accordingly if there are material changes to the integrated system plan (ISP) step change scenario assumptions. We support the principle of regularly updating the CECVs to ensure that they reflect the most up to date and accurate assumptions.

However, the AER should support a pragmatic approach to application of updates to the CECVs in circumstances where proposed investments have been thoroughly consulted on and are supported by stakeholders, for instance during regulatory determinations. Revising investment decisions in these circumstances following a change in CECVs will reduce the credibility of our stakeholder engagement processes, and may not be in the long-term interests of customers.

## **Additional guidance on what constitutes as 'material' would improve investment certainty**

It is unclear in the AER's draft CECV methodology paper what would constitute as a 'material' change to assumptions in the ISP's step change scenario, and subsequently when updates to the CECVs would be triggered. We would appreciate if the AER were able to provide additional guidance on what it constitutes as 'material' to improve industry and stakeholder understanding of when updates to CECVs would be likely.