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**Framework and Approach; Preliminary Position Paper  
for regulatory control period commencing 1 July 2024**  
CCP26 Advice to AER re Preliminary Position Paper

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**Consumer Challenge Panel (CCP) Sub-Panel CCP26**

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## **Acknowledgement of Country**

We recognise the traditional owners of the lands on which electricity network business operate. We respect the elders of these nations, past and present along with the emerging leaders.

## **Acknowledgements**

CCP26 wish to thank and acknowledge the stakeholders who attended the Framework and Approach Forum on 27 April 2022 and the electricity distribution network businesses in providing their insights into this process.

We also thank the AER staff for their support and guidance during this process.

## **Confidentiality**

We wish to advise that to the best of our knowledge this Advice neither presents any confidential information nor relies on confidential information for the comments.

## **The Consumer Challenge Panel sub-panel CCP26**

The AER established the Consumer Challenge Panel (CCP) in July 2013 as part of its Better Regulation reforms. These reforms aimed to deliver an improved regulatory framework focused on the long-term interests of consumers.

The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of the AER's decisions.

CCP26 is a sub-panel of the AER's Consumer Challenge Panel. The AER established the sub-panel to focus specifically on the AER's regulatory determinations for the NSW And ACT electricity distribution business for 2024-2029.

# 1 Executive Summary

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The AER is guided by the National Energy Objective (NEO): “to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy”.

## Key issues and Themes

This paper considers the four key issues raised by the AER in their Preliminary Position paper for Framework and Approach (F&A) considerations for businesses lodging their regulatory proposals within the next 12 months. The paper asks four main questions, relevant to the four future looking topics that are explored. The questions and our summary responses follow.

### Topic 1: Stand Alone Power Systems (SAPS)

*Position Paper Question 1: Is the provision of temporary SAPS more appropriate as an input to the common distribution service, and therefore need not be classified as a separate activity?*

We are satisfied that the AER's proposed approach of regarding temporary SAPS use as part of post emergency response is appropriately regarded as an aspect of the provision of a ‘common’ distribution service and so categorised as a standard control service.

### Topic 2: Leasing of excess battery capacity

*Position Paper Question 2: Do stakeholders consider that the classification of the leasing of excess battery capacity has already been dealt through the Ring-fencing Guideline? If not, please provide reasons.*

It is our opinion that the classification of the leasing of excess battery capacity has already been dealt with through the Ring-fencing Guideline, and this remains relevant.

*Position Paper Question 3: Should costs for the facilitation work to provide the unregulated battery leasing service be recovered from customers as a standard control service, if the full cost of the assets used to deliver those services are not part of the RAB?*

If the capital cost of assets used to provide a service are not a part of the regulated asset base (RAB), then customers, in aggregate, should not be charged for facilitation costs for a service that does not fully meet standard control classification criteria.

### Topic 3: System support services

*There was no Position Paper question for this topic*

CCP26 generally agrees with the AER's approach to System Support Services. However, this classification has the potential to change over time.

As a matter of predictable regulation, CCP26 considers that the scope of System Support Services should be clearly defined and exhaustive. This provides predictability for the regulated, consumers, and consumer advocates.

New services can be added to the scope of System Support Services using the ‘material change in circumstance’ provisions of the NER. CCP26 takes the view that regulated businesses, in proposing

such additional services, should ensure that there is consumer engagement in the process of making such a proposal.

#### Topic 4: Customer export services

*Position Paper Question 4: Are export services simply part of a distributor's normal network planning and operation? Or is there a need for export services to be recognised as a stand-alone activity within the common distribution service? Please provide reasons.*

CCP26 considers that inclusion of export services as a separate activity within the common distribution service would deliver precision and transparency for all stakeholders. We are not aware of any detrimental impacts as a result of explicitly listing export services as a separate activity.

*Position Paper Question 5: What do stakeholders consider to be the scope of the export services provided as part of the common distribution service? • Should there be any limit on the export services to be delivered under the common distribution service?*

Our view, in short, is that customers should be recognised as “small exporting customers” or “large exporting customers”. Access to export services delivered under the common distribution service should mirror the access available for consumption service customers.

#### Dealing with uncertainty

We also observe that uncertainty is a significant aspect of current energy markets and that an F&A can no longer realistically project 7 years into the future, to 2029, the end of the regulatory periods for which the F&As are being considered. This means that some flexibility and responsiveness to change need to be a part of future practice.

Consequently, whatever the outcomes of the consideration of the 4 main topics raised in the F&A preliminary position paper, it is important that the final F&A acknowledges the debates about these issues and signals an understanding that circumstances will have changed by 2029, meaning that further discussion on related impacts of distributed energy resources (DER), future networks and climate change implications of ‘disasters’ (including resilience) will need to occur. All such considerations will need to involve consumer and consumer advocate perspectives. Decisions should then be made on a ‘no regrets’ basis.

## 2 Context

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### 2.1 Why this F&A is different

The Framework and Approach mechanism has historically been a standard process that signals the start of the 5 year regulatory cycle for an electricity network business in Australia. A couple of decades ago, a regulatory proposal was generally developed by a network business with an expectation of moderate growth in demand and relatively predictable capital requirement and operating cost settings. The context now is of dramatic and ongoing change in energy markets with uncertainty at the core of consideration of just about every aspect of a network's regulatory proposal. Significant change and growing complexity are not new to energy markets, but we contend that the rate of change of uncertainty has accelerated over the last decade or so.

The major aspects of this future uncertainty are well known and widely discussed, so we do not discuss them, but we do note some of the key drivers of uncertainty as context, including:

- Climate change and the shift to renewable generation
- Decentralisation of electricity generation including distributed energy resources (DER)
- Cost of living pressure on customers, including highly likely interest rate rises
- Increasing likelihood of adverse weather events, likely to cause damage to parts of a network and require immediate crisis responses and longer term risk mitigation
- Digitisation of everything including energy supply
- Substantial research and technological innovation in most aspects of energy supply and use, with new technology breakthroughs imminent, but for what and when unknown
- The electrification of energy, including replacing gas (and at an extent and rate that is highly uncertain) and electrification of transport – both public transport and electric vehicles
- Active political engagement in energy issues accompanied by a lack of significant policy and policy direction.

The reality is that the uncertainty associated with this range of factors means that looking 7 years into the future for electricity networks is impossible and so the issues associated with the F&A are liable to change. The F&A for the businesses lodging regulatory proposals over the next 12 months (and beyond) need to be the best that can be considered at this point of time and take a 'no regrets' attitude.

### 2.2 Responding to uncertainty

In responding to the uncertainty outlined above, we suggest that the key elements to responding are:

1. Network businesses need to keep engaging with customers and consumer advocate groups on an ongoing basis to collaboratively explore challenges and options for responses.
2. Make decisions on a 'no regrets' basis
3. Apply a principles-based approach to regulation including the classification assessment approach described on pages 5 and 6 of the preliminary position paper, which quotes the NER, clause 6.2.2. Central to the principle is the classification of the service, rather than the asset.

We suggest that this approach is very much in line with the Better Resets Handbook<sup>1</sup> that, amongst other regulatory process improvements, encourages consumer engagement to be embedded in network 'business as usual' methodology.

We also encourage a principles-based approach as the most appropriate classification option for export services, see section 3.5, page 14 for discussion of some aspects of this approach.

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<sup>1</sup> [Better Reset Handbook - December 2021.pdf \(aer.gov.au\)](#)

## 3 Service Classification Issues

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### 3.1 Classification Approach

We recognise that service classification is a central aspect of the F&A since service classification determines the approach to regulating that service, and that in turn determines who pays for the service, all customers of a network sharing the costs for standard control services or through competitive markets for alternative control services. The Position Paper summarises the approach that the rules specify that the AER applies.

*“When considering whether a direct control service should be classified as a standard control service (SCS) or an ACS, under the NER21 we must also have regard to:*

- *the potential for development of competition in the relevant market and how the classification might influence that potential*
- *the possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users of the relevant service*
- *the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made*
- *the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)*
- *the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided*
- *any other relevant factor”*

The Position Paper then identifies 4 new or emerging services where the classification may not be clear cut, these being:

- Stand Alone Power Systems
- Leasing of battery (storage) capacity
- System support services
- Customer Export Services

These are considered in turn.

### 3.2 Regulated Stand Alone Power Systems (SAPS)

#### 3.2.1 The issues

SAPS are attracting increasing attention as an efficient network response to edge of grid and more remote locations. There is also increasing interest (we suggest) in application of SAPS to network hardening and for use in responses to major outages from storms, bushfires, floods and related bad weather events.

This means that there are two applications of SAPS:

- ongoing use SAPS, operated by the NSP as part of the network; and
- Emergency use SAPS to provide a temporary solution to providing network services during the recovery phase after an emergency.

The AER says that in both circumstances, SAPS are supporting the network, be it in an ongoing or temporary application. As such they are a part of the operation of the network and consequently categorised as Standard Control Services, and so not subject to Ring-fencing Guidelines and nor are they considered to be Alternate Control Services.

Position Paper Question 1: Is the provision of temporary SAPS more appropriate as an input to the common distribution service, and therefore need not be classified as a separate activity?

### 3.2.2 Discussion

The central question for the SAPS discussion is whether temporary SAPS serve any purpose other than what could be regarded as 'core' network functionality?

With the understanding that the consideration here is for the use of SAPS in recovery from an emergency event, we find it difficult to identify post emergency situations where a reputable Australian network business could benefit financially from using a SAPS to generate revenue outside of its regulated role.

Maybe it is feasible to imagine that a network business could give an accelerated re-energising to a business using SAPS infrastructure for an additional fee. Exceedingly unlikely we suggest and also covered by National Energy Law.

The Ring-fencing Guideline provides specific reference to SAPS, in particular:

*Ring Fencing Guideline v3 Nov 2021*<sup>2</sup>

#### 3.1 Legal separation

*A DNSP must be a legal entity.*

*Subject to this clause 3.1, a DNSP may provide distribution services and transmission services, but must not provide other services.*

*This clause 3.1 does not prevent:*

- i. an affiliated entity of a DNSP from providing other services;*
- ii. a DNSP and a TNSP from being the same legal entity.*

*This clause 3.1 does not prevent a DNSP:*

.....

*viii. supplying other services as a SAPS Resource Provider, using a particular regulated stand-alone power system, where:*

- a. the DNSP was previously permitted to do so under clause 3.1(d)vii. of this Guideline; but*
- b. a change in the DNSP's annual revenue requirement, and / or in the revenue the DNSP receives as a SAPS Resource Provider for using one or more regulated stand-alone power systems, and / or in the number of regulated stand-alone power systems used by the DNSP to*

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<sup>2</sup> <https://www.aer.gov.au/system/files/AER%20-%20Ring-fencing%20Guideline%20Version%203%20-%20%28electricity%20distribution%29%20%20-%203%20November%202021.pdf>

*supply other services as a SAPS Resource Provider, means that the DNSP is no longer permitted to do so under clause 3.1(d)vii. of this Guideline;”*

We continue to believe that where SAPS are a prudent and efficient component of network infrastructure, for shorter or longer term application, then consumers, in aggregate, benefit. We also consider that this perspective is consistent with the Ring-fencing Guideline.

### 3.2.3 CCP26 Observations / Comments

In response to question 1 from the position paper, we are satisfied that the AER's proposed approach of regarding temporary SAPS use as part of post emergency response is appropriately regarded as an aspect of the provision of a 'common' distribution service and so categorised as a standard control service

## 3.3 Leasing of Excess Battery Capacity

### 3.3.1 The issues

Ausgrid and Endeavour Energy have indicated that it is their intention to install batteries to help them to manage network constraints, as an alternative to further capital augmentation of their networks. This is a reasonable approach and one that has been anticipated in the most recent version of the “Ring-fencing Guideline,” version 3, released in November 2021 following consultation, particularly with network businesses.

The AER, at the public forum on 27<sup>th</sup> April 2022 said, in their presentation slides<sup>3</sup> *Networks raised an intention install batteries, with the possibility of leasing excess battery capacity as an unregulated distribution service.*

- *Our proposed approach: We agree that leasing of excess battery capacity is an unregulated service and is most appropriately dealt with under the Ring-fencing Guideline.*
- *Further question for stakeholders: Do you consider that the classification of the leasing of excess battery capacity has already been dealt through the Ring-fencing Guideline?*

#### *Facilitation services for battery leasing (NSW)*

- *Networks proposed that the facilitation work needed to lease out excess battery capacity be recognised as a distribution service and be classified as standard control as part of the common distribution service.*

The AER presented that *“Our proposed approach: The activity needs no further recognition in the list of classified services because of the close relationship with an existing activity within the same service grouping.”*

We also note that *“Facilitation services already exist for unregulated revenue that is generated by RAB assets.”*

The AER’s preliminary position is that *“ ... we consider that we have no role in the classification of unregulated services and consequently need not have a role in recognising a request for the leasing of*

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<sup>3</sup> <https://www.aer.gov.au/system/files/AER%20-%20NSW%20Framework%20and%20Approach%20Forum%20Presentation%20-%20April%202022.pdf>

*excess battery capacity as an unregulated distribution service. .... The regulatory treatment of the service has already been addressed through the update to the Ring-fencing Guideline.”*

### 3.3.2 Discussion

Page 9 of the ‘Electricity distribution Ring-fencing Guideline Explanatory statement – Version 3’, under the section ‘1.4 Contestable Services using Batteries’ concludes with *“Given the speed and scope of energy transition, there are likely to be further regulatory developments in the future. We will re-examine our approach as needed to respond to developments, such as implementing the Energy Security Board’s (ESB) post–2025 Market Design Project.”*

This also leads to the question as to whether leasing of excess battery capacity issues have emerged since the release of the Ring-fencing Guideline V3? Given the recency of version 3 of the Ring-fencing Guideline (November 2021), we do not think that the leasing of excess battery capacity has emerged since the Guideline’s release and so has been considered, or ought to reasonably have been considered, in developing the Guideline.

We observe that there is a language of “community batteries” being applied in battery capacity leasing considerations. This term maybe misleading as the term is not necessarily used to mean community owned battery storage but refers to batteries that are bigger than individual household scale batteries. There may be benefit in applying a moderately ‘tight’ description of what the term ‘community battery’ means, as part of the F&A. This may assist with this aspect of service classification.

In a similar vein, we note that there was some discussion at the public forum about whether there is value in specifying the meaning of ‘excess capacity.’ At this stage we think that this is relevant to waiver applications and so it is a DNSP’s role to specify excess capacity in such applications.

Increased battery capacity has ‘public good’ elements, in particular when considering climate change impacts as well as potentially in improved reliability at lower costs at community level for some communities. We note that the rules do not specifically consider public good (or merit good) benefits of any investment, beyond the generic ‘long term benefits to consumers’ test. Consequently, we do not consider this aspect of battery capacity and leasing in this response.

### 3.3.3 CCP26 Observations / Comments

Position Paper Question 2: Do stakeholders consider that the classification of the leasing of excess battery capacity has already been dealt through the Ring-fencing Guideline? If not, please provide reasons.

Leasing of any network service, be it vegetation management, consumer engagement facilitation or grid scale battery capacity from a competitive market (that is, there are multiple providers) is an unregulated activity for the purposes of network regulation.

The question then is whether there is anything different about grid scale battery leasing that might warrant further consideration.

We note the following likely conditions to apply for a waiver given as a link on the AER’s ring fencing guideline web page.<sup>4</sup>

We note that, if approved, the following conditions are likely to apply:

- Ex-post public sharing of information about the battery (e.g., location(s), size, status of the project (trial or full scale roll out), intended purposes and uses, approved cost allocation method, and a key contact for external stakeholders if they wish to discuss the project further) and any useful learnings from the battery usage that will support the battery market.
- Provide on an annual basis a comparison of the uses (volume and frequency) of the battery that confirms the different uses of the battery (e.g., that was provided in the application), and an explanation of any differences between the two. The independent assessor, as part of annual ring-fencing compliance assessment to confirm the comparison is accurate.
- If some of the cost of the battery is included in the RAB, as part of annual ring-fencing compliance assessment, the independent assessor to verify that the cost allocation method in the waiver has been applied between the services/uses.

In considering question 2, It is our opinion that the classification of the leasing of excess battery capacity has already been dealt through the Ring-fencing Guideline.

Position Paper Question 3: Should costs for the facilitation work to provide the unregulated battery leasing service be recovered from customers as a standard control service, if the full cost of the assets used to deliver those services are not part of the RAB?

This is a complex question with five variables in play and is a good reflection of the many interrelated aspects of some new and emerging energy services.

In essence, this question is about facilitation work. The focus is on “Who pays?”

As a principle, customers share the cost of any standard control service, since these services are for the benefit of all customers (in general). The capital value of services classified as standard control are added to the RAB.

Consequently, we argue that if the capital cost of assets used to provide a service are not a part of the RAB, then customers, in aggregate, should not be charged for facilitation costs for a service that does not fully meet standard control classification criteria.

### 3.4 System Support Services

#### 3.4.1 The issues

Unlike many of the other services which are examined in this Advice, the request for System Support Services was driven by two DNSPs, Ausgrid and Endeavour Energy. Broadly, these services are required as part of the transition by DNSPs to the role of being distributed energy resources (DER) platforms. The AER points out that that such a transition is consistent with the implementation of a Distribution

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<sup>4</sup> <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/ring-fencing-guideline-electricity-distribution-review>

System Operator (DSO) model. However, as the AER also points out, such a DSO model is only “formative” in Australia currently.

The System Support Services are expressed to be a non-exhaustive list of services. The fact that the list is incomplete reflects the uncertainties associated with the implementation of DER platforms. This uncertainty is a theme that recurs in CCP26's analysis of the Preliminary Position Paper on Framework and Approach.

Some of the identified System Support Services are directed to AEMO support. These include market verification, compliance and forecasting for DER and dealing with contingency events. Examples of the contingency events are lack of reserve and minimum system load. In these cases, the System Support Services would provide:

- (a) changes in dynamic network operating envelopes;
- (b) direct load and/or generation shedding; and
- (c) under/over frequency protection.

That is, the types of support services that have more traditionally been associated with TNSPs.

In addition, the System Support Services would include services provided directly to TNSPs, such as locational system strength services in support of system stability.

A further System Support Service would establish ‘Local Use of System’(LUOS) arrangements for communities.

### 3.4.2 Discussion

The AER notes that the proposed System Support Services are responsive to the ESB’s post–2025 market design project recommendations for reform. In that context, the AER considers that the services are likely to fall into one of three categories, being:

- (a) Inputs to the “common distribution service”;
- (b) Already set out in the common distribution service and as a result do not require separate classification; or
- (c) A range of ‘billable’ services to be provided as either alternative control classified or unregulated.

The AER notes the service classification framework is based on classifying distribution services that are provided to customers or third parties. It is not the classification of assets.

The AER takes the view that some services, such as load shedding, voltage control and local use of system arrangements are already captured in the common distribution service grouping.

The AER is proposing to settle the classification of other services through the current process, including the proposed roundtables and workshops on any outstanding issues.

### 3.4.3 CCP26 Observations / Comments

CCP26 generally takes the view that the System Support Services that have currently been identified are likely to be inputs to the common distribution service or set out in the common distribution service. An example is load shedding where CCP26 agrees with the AER that it is a common distribution service.

CCP26 generally agrees with the AER that voltage control and local use of system arrangements are currently common distribution services. However, as set out below, this classification has the potential to change over time.

The AER has noted that “Distributors have provided assurances that they would only provide system support services that are not, and are not likely to become, competitively available.” CCP26 has no reason to take a view that this is not the case. However, there are two concerns that flow from this assurance.

First, as the list of System Support Services is non-exhaustive there is a risk that services which have yet to be identified may be supplied by the DNSP and, as a result of that supply, potential competitive supply is foreclosed. Although this risk is relatively low, the AER may wish to consider a mechanism to deal with it. An example might be a frequency protection service. In the transmission sector, such services can be constructed by capital expenditure on a synchronous condenser or acquiring access to a synchronous condenser from a third party as an operational expenditure. Of course, synchronous condensers are unlikely to be deployed by DNSPs, but acquiring frequency protection services from others might be an option.

Secondly, there is an issue with the rapid evolution of the DER sector, on a global basis. The effect of this is that the scope of System Support Services is likely to change over time. The network adaptations that are today’s solutions may not be appropriate in 2029. Looking back seven years, many of the issues that create a requirement for System Support Services were not foreseen and were arguably not foreseeable. The effect of the rapid network evolution in Australia is that there is a high probability that there will be a need for changes to the regulatory Framework and Approach during the course of the relevant reset periods.

As the list of System Support Services is non-exhaustive, CCP26 would welcome the opportunity to take part in the roundtable that will finalise the scope of System Support Services to be used in the regulatory Framework and Approach.

As a matter of predictable regulation, CCP26 considers that the scope of System Support Services should be clearly defined and exhaustive. This provides predictability for DNSPs, consumers, and consumer advocates.

The DNSPs which have identified the need for the current proposed System Support Services are likely to identify further such services as their experience of the transition to increased DER (including V2G) highlights specific network support requirements. Similarly, the balance of the provision of network stability services between TNSPs and DNSPs is likely to depend on the nature of the DNSP network.

CCP26 takes the view that there will need to be a degree of flexibility in the scope of System Support Services over the relevant reset period. This is reflected in the issues raised by the AER in the Preliminary Proposal, especially given uncertainty over the DER implementation plan. However, that flexibility will need to ensure that customer outcomes are not adversely affected by changes in that scope.

The AER highlights that new services can be added to the regulatory Framework and Approach using the ‘material change in circumstance’ provisions of the NER. CCP26 takes the view that DNSPs, in proposing such additional services, should ensure that there is consumer engagement in the process of making such a proposal.

## 3.5 Customer Export Services

### 3.5.1 The issues

In August 2021 the AEMC made a rule change that:

- Sets clear obligations on DNSPs to provide export services;
- Enables new network tariff options that reward customers; and
- Strengthens consumer protections and regulatory oversight.<sup>5</sup>

Distributors have provided export services for many years through the shared network without export services being explicitly recognised as a distribution service under the NER. This is because customer export of surplus generation has utilised the distribution network's intrinsic ability to host a level of export capacity incidental to the consumption service. The rule change makes explicit that export services are part of the core distribution services expected to be provided by distributors going forward.<sup>6</sup>

The rule change introduces measures to:

- Remove the existing prohibition on businesses including export charges within DUoS.
- Introduce a transitional (10-year) requirement on the business' tariff structures to require each export tariff to prescribe a "basic export level", below which distributors cannot charge. In setting the basic export level, distributors are to have regard to the network's hosting capacity. The basic export level recognises that network assets constructed to supply load have an inherent capacity to support some reverse power flow without requiring additional investment.<sup>7</sup>

Both Ausgrid and Endeavour Energy have requested revisions to their Framework and Approach Papers for the regulatory control period commencing in 1 July 2024 and ending 30 June 2029, with respect to customer export services.<sup>8</sup>

Ausgrid and Endeavour propose adding "Customer export services back to the distribution network, including 'basic' and 'additional' export services" to the definition of common distribution services.

While "basic export level" is defined in the NER, the term "additional exports" is not.

In the Preliminary Position Paper, the AER is consulting on two key issues, which are the classification and scope of basic and additional export services.

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<sup>5</sup> AEMC, National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination, 12 August 2021.

<sup>6</sup> AER, Framework and approach; Preliminary position paper, NSW, ACT, TAS and NT businesses, regulatory control period commencing 1 July 2024, p. 14

<sup>7</sup> Ibid, p. 15

<sup>8</sup> Ausgrid, Request to Replace the AER's Framework and Approach Paper, October 2021, p. 16 and Endeavour Energy, Request to replace the Framework and Approach papers for the 2024-29 regulatory control period, October 2021, p. 7

### 3.5.2 Classification of export services as part of the common distribution service grouping

Position paper question 4: Are export services simply part of a distributor’s normal network planning and operation? Or is there a need for export services to be recognised as a stand-alone activity within the common distribution service? Please provide reasons.

#### Discussion

The new rule imposes obligations on distribution networks to deliver both consumption and export services for customers. The Preliminary position paper questions whether export services should be listed as a separate activity as part of the common distribution service, or whether no change is required, assuming that export services already form part of the common distribution service.

#### CCP26 Observations / Comments

Formal recognition of export services is a fundamental and important step in the transition to the new energy market. Because associated export charges are potentially contentious, clarity of intent and direction in the regulatory framework are critical. CCP26 considers that inclusion of export services as a separate activity within the common distribution service would deliver precision and transparency for all stakeholders. We are not aware of any detrimental impacts as a result of explicitly listing export services as a separate activity.

### 3.5.3 Scope of basic and additional export services

#### Discussion

The Preliminary position paper identifies three options for classifying “additional export services”:

1. A Standard Control Service (SCS) classification for a single export service that covers all export services
2. SCS classification that covers “basic export services” with an Alternative Control Service (ACS) classification for “additional exports”
3. A customer request for an export service beyond a threshold set by the distributor, classified as ACS

The Preliminary position paper references the Farrierswier report provided to the AEMC with respect to the August 2021 rule change investigation,<sup>9</sup> and seeks stakeholder views on the options for classification outlined in the report. It also seeks the following information from stakeholders:

- What do stakeholders consider to be the scope of the export services provided as part of the common distribution service?
- Should there be any limit on the export services to be delivered under the common distribution service?

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<sup>9</sup> Farrierswier, Insights report: Effectiveness of the TSS process and options for implementing export charges, March 2021

## [CCP26 Observations / Comments](#)

### Classification

While we understand that further information on the nature of the export service(s) is required to enable an assessment of the most appropriate classification option, CCP26 considers that it would be helpful to develop a set of principles which could be adopted to guide this decision.

The following (non-exhaustive) set of principles is suggested for consideration:

1. **Causer pays** – customers requiring a level of export service beyond the distribution network’s intrinsic ability to host a level of export capacity incidental to the consumption service face the cost of provision of that additional service. Importantly, customers who do not require export services should not face costs associated with the provision of services they do not use.
2. **Understandable** – the arrangements for acquiring and using additional export services, and any associated costs, are readily understood by residential and small business consumers.
3. **Cost-effective** - the approach should minimise complexity and the cost to establish and maintain charges for the export services.
4. **No unintended consequences** – the arrangements should not lead to perverse outcomes for either exporting or non-exporting customers.

Our initial assessment of the three classification options against these principles is as follows:

- All three options are capable of satisfying the **Causer pays** principle. Option 1 can achieve this outcome through the addition of export charging parameters to existing tariffs. Options 2 and 3 achieve this outcome through implementation of an ACS classification for additional export services whereby the cost of provision of the service is met by the person requesting it.
- Option 1 is the most straightforward and **understandable** for residential and small business consumers as it represents a minor extension to a classification and charging arrangement with which they are already familiar.
- We question the **cost-effectiveness** of options 2 and 3. For these options, we understand that it would be necessary to separate the costs of providing “additional” export services from the costs of providing existing consumption-based DUoS services and the “basic” export service. It is not clear then how these costs would be apportioned to individual customers. This would add complexity and cost to the process, with no clear offsetting benefits.
- Under options 2 and 3, the “alternative” export services would operate under a price cap. Network businesses may face an incentive to increase sales of these services beyond what was forecast in the reset process, including in the peak period, which could have the **unintended consequence** of undermining the tariff reform process.

Based on the information available to date, CCP26 concurs with the findings of Farrierswier that “augmenting the existing SCS DUoS service ... has the most straight forward pathway to implementation”.<sup>10</sup>

## Scope

The NER (Chapter 10) defines a ‘retail customer’ as “a small customer or a large customer” and these customers are defined according to the NERL or jurisdictional electricity legislation. CCP26 suggests that a similar categorisation should apply to customers with respect to export services. That is, “small exporting customers and large exporting customers”. These categorisations may differ from consumption categorisations. Access to export services delivered under the common distribution service should mirror the access available for consumption service customers.

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<sup>10</sup> Farrierswier, Insights report: Effectiveness of the TSS process and options for implementing export charges, March 2021, p. 38

## 4 Other F&A Topics

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This paper has focused on the 4 major topics that are discussed in the Position Paper and so we do not consider other, more standard aspects of the Framework and Approach, since they are in line with past F&A approaches.

CCP26 is happy to further discuss any aspect of the Framework and Approach.