



Part of Energy Queensland

7 October 2022

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Warwick

Battery Tariffs – Network Tariffs for the DER Future

Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) welcome the opportunity to provide feedback to the Australian Energy Regulator (AER) on the paper prepared by Argyle Consulting and Endgame Economics on *Network Tariffs for the DER Future*.

This submission is provided by Energex and Ergon Energy, operating as distribution network service providers (DNSPs) in Queensland.

Queensland is at the forefront of the technology driven and customer-led transformation of the energy market. Energex and Ergon Energy have approximately, with 43% and 32% residential customers having installed rooftop solar PV. Rapid growth in the take-up of batteries and electric vehicles is also forecast over the next decade. Against this backdrop, Energex and Ergon Energy suggest there is a critical need for continued network tariff reform to ensure customers make efficient investment and network usage decisions in regard to Distributed Energy Resources (DER).

It is important to note that there are two fundamental drivers of tariff reform. The first driver is to, reform network tariffs for the purpose of improving the efficiency of price signals for both export and import. The second driver is to, reform network tariffs for the purpose of ensuring that customers contribute equitably towards the residual (sunk) costs of owning and operating the electricity distribution network.

In terms of improving the cost reflectivity of price signals, we believe that the long-term interests of electricity users are best served by continuing to base network tariffs on Long Run Marginal Cost (LRMC) for both import and export. To the extent that it is economically desirable to alleviate localised network constraints, we believe that non-tariff solutions, such as traditional demand management approaches, and dynamic operating envelopes (DOE) will be more effective and

acceptable to our customers than Short Run Marginal Cost (SRMC) based peak price signals of a locational and dynamic nature.

In terms of tariff reforms aimed at improving residual cost recovery, we agree with the consultant's comments on the importance of capacity charges:

*"The capacity charge deserves a special role in tariff design. Because it scales with the size of the customer (their maximum demand), the capacity charge can replace the fixed charge in its role to recover residual cost without creating distortions at the margin. Recovering more residual cost via capacity charge as opposed to increasing the fixed charge alleviates concerns about equity, with small customers contributing less to the total network costs."*¹

Moving to a capacity-based approach which focuses residual cost recovery is critical to ensure the equitable and efficient recovery of these costs in an environment of rapid DER uptake. Equally, it is important to base the design of a capacity charge on empirical insights on customer acceptance and response. It is for this reason that we are currently undertaking a residential capacity tariff trial to inform our next Tariff Structure Statement (TSS).² Similarly, we also intend to undertake a grid-scale battery tariff trial in 2023-24 to provide empirical insights into the extent that these customers are willing and able to respond to cost reflective price signals, from both an import and export perspective.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact me on [REDACTED] or Michael MacNamara on [REDACTED].

Yours sincerely

[REDACTED]

Bob Telford
Manager Network Pricing and Tariffs

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¹ Argyle Consulting and Endgame Economics 2022, *Network tariffs for the distributed energy future*, A paper commissioned by the Australian Energy Regulator, June, page 28.

² For more information on these trials, see links below:

<https://www.energex.com.au/home/our-services/pricing-And-tariffs/residential-tariffs-and-prices/residential-network-tariff-trials>

<https://www.ergon.com.au/retail/residential/tariffs-and-prices/2022-23-tariff-trial>