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AER Issues Paper – Customer Export Curtailment Value Methodology

Essential Energy welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on its *Issues Paper – Customer Export Curtailment Value Methodology* (the issues paper), and we appreciate the collaborative approach undertaken by the AER to date. Energy Networks Australia has also produced a submission which Essential Energy supports.

The electricity supply chain is currently undergoing a fundamental transformation. Distributed Energy Resources (DER) will impact security, reliability, equity and affordability outcomes for consumers across Australia's many networks. As such, Essential Energy strongly supported the AEMC's *Access, Pricing and Incentive Arrangements for Distributed Energy Resources* final rule change that explicitly recognises (but does not mandate) export services being offered as part of the 'distribution services' provided by distribution network services providers (DNSPs) to customers.

As part of the final rule change package, we welcome the AER's development of Customer Export Curtailment Values (CECV). The development of the CECVs is an important step in unlocking benefits for consumers as part of the energy sector transition.

To that end, we offer the follow observations for further consideration:

- **NSW 2024-29 regulatory proposal timings** - Essential Energy and other NSW DNSPs are currently forming their respective 2024-29 draft regulatory proposals. A key input for this year's regulatory proposal will be the CECV values and how they feed into the development of future network business case activities. We note from the CECV consultation paper that the AER is required to publish initial CECV estimates by 1 July 2022, which is very close to the time NSW draft reg proposals are being prepared. Given the tight timeframe of the initial CECV values, there is a risk that potential conflicts could emerge if materially different values are produced quite late into the draft regulatory proposal planning, relative to the interim values DNSPs are forming themselves.

  Given these concerns, early engagement with the AER at the staff level indicates that the AER will endeavour to publish draft CECV values when the draft methodology is published in April to assist the timing of the NSW, ACT, NT and Tasmanian regulatory proposals. Essential Energy strongly supports this approach and thanks the AER for their constructive assistance.

- **CECV methodology –** Once produced, CECVs are expected to play a comparable role to the Value of Customer Reliability under the current framework and will help guide the efficient levels of network expenditure related to export services and will act as an essential input into existing and new network planning, investment and incentive schemes.

  We note that in the AER's recent *Draft DER Integration Expenditure Guidance Note* that the AER's initial position is that CECVs will only capture the wholesale market benefits to customers (as measured by changes in generator dispatch costs). Arguably this approach under-values the loss that DER customers experience if their energy exports are curtailed.

  As such, if this methodology is to be taken forward within CECVs, we believe that CECVs should be recognised as one value stream in the overall value stack. We believe DNSPs should be permitted to consider all value streams, including wholesale market benefits, environmental benefits and customer benefits when contemplating investments relating to exports. Following which, DNSPs can analyse and test with customers their willingness to pay for additional higher levels of DER hosting capacity.

- **Estimating CECVs** – Essential Energy supports CECVs to be estimated using full electricity market modelling via the longhand approach which will produce more accurate and comprehensive values. As outlined within the issues paper, utilising the longhand modelling approach will serve to minimise errors and provide more robust forecasts.

  Essential Energy considers flexibility is important to account for the unique network characteristics and circumstances which may differ across DNSPs subject to their unique customer bases and geographic areas serviced. As such, we do not consider a broad based NEM-wide CECV would accurately reflect the value customers place on their exports. For this reason, we support the AER's proposed development of CECV estimates for each National Electricity Market State jurisdiction.

If you have any questions in relation to this submission, please contact Mr Anders Sangkuhl, Regulatory Strategy Manager via [redacted] or via phone on [redacted]

Yours sincerely

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