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Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Lodged via email

Dear Kris,

AER's preliminary framework and approach (F&A) position paper (NSW / ACT / TAS / NT) for the 2024-29 regulatory control period

Jemena Electricity Networks (**JEN**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) preliminary framework and approach (**F&A**) position paper for the distribution network service providers (**DNSPs**) in New South Wales, the Australian Capital Territory, Tasmania and the Northern Territory for the regulatory control period commencing 1 July 2024. Our submission relates to *section 2.2.4—Customer export services* of the F&A position paper, where the AER discusses the classification of export services.

The National Electricity Rules (**NER**) outline the factors the AER must have regard to in classifying a direct control service as a standard control service (**SCS**) or an alternative control service (**ACS**).[1] Fundamentally, we consider that export services should be treated no differently to import services from a service classification perspective and therefore that all export services should be treated as standard control services (**SCS**). Network assets are not separable and are inextricably linked to providing both import and export services. Given there is no competition for import services, it follows that competition is also not possible for export services. Therefore, we consider that NER clause 6.2.2(c)(1) supports classifying export services as SCS.

Classifying export services as ACS would also present significant practical difficulties, including how assets that provide both import and export services would be distinguished and valued to create separate regulatory asset bases. These practical difficulties would increase the administrative costs of DNSPs and the AER. Therefore, NER clause 6.2.2(c)(2) also supports classifying export services as SCS.

Further, the AER's capital expenditure (**capex**) draft[2] decision for Powercor's 2021-26 regulatory control period agreed with our preferred approach, noting that "we think capex required to increase DER export capacity can be considered standard control services and is consistent with the capex objectives".[3] The AER has also previously accepted forecast expenditure to enhance DNSPs' export capacity being treated as SCS during recent price resets, notably for SA Power Networks[4] in the 2020-25 period and the Victorian DNSPs[5] in the 2021-26 period. Considering previous regulatory approaches and maintaining regulatory consistency, per NER clauses 6.2.2(c)(3) and (4), further supports classifying export services as SCS.

1 NER, cl. 6.2.2(c).

2 Powercor accepted this aspect of the draft decision and the decision became final by virtue of this acceptance.

3 AER, *Draft decision, Powercor distribution determination 2021 to 2026, Attachment 5 capital expenditure,* September 2020, p. 48.

4 AER, *Final decision, SA Power Networks distribution determination 2020 to 2025, Attachment 5 capital expenditure,* June 2020, p. 10.

5 AER, *Final decision, Jemena distribution determination 2021 to 2026, Attachment 5 capital expenditure,* April 2021, p. 13.

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

This section of the F&A position paper states:

> *"One view form (sic) our consultation with distributors is that export services already form part of the common distribution service since it (sic) represents the bundle of distribution activities relating to use of the network for flows of energy (whether that be to or from customers). This would be consistent with our approach to service classification, which is to classify services within groups and with activities that are similar in nature, requiring the same regulatory treatment."*[6]

We agree that export services currently form part of the common distribution service since they are a component of the bundle of distribution activities that relate to network use, whether energy is flowing to or from customers. Providing export services is part of DNSPs' normal planning and operations that are currently undertaken to provide SCS.

Scope of basic and additional export services

This section of the F&A position paper states:

> *"Depending on how distributors might set the parameters to define what constitutes a "basic export level" and the capacity for the local network to host export capacity above this level, we envision three non-mutually exclusive options for classification for export services above that certain level:*
>
> 1. *An SCS classification for a single export service that covers all export services. This assumes that, because all customers pay for standard control services, that all customers also benefit from any network augmentation to needed to provide export capacity that exceeds the "basic export level".*
>
> 2. *SCS classification that covers some 'standard export services' that may provide a service equivalent to the "basic export level", with an ACS classification for 'additional exports'. An ACS classification is suitable for services for which the costs of provision can be directly attributable to the person requesting them.*
>
> 3. *A customer request for an export service beyond a threshold set by the distributor, classified as ACS – where the costs of provision for that extra service level are directly attributable to the person requesting the service."*[7]

The AER's customer export curtailment value (**CECV**) draft decision outlines that the AER has interpreted CECVs to represent the detriment to all customers from the curtailment of DER exports.[8] Put another way, the draft decision has acknowledged that all customers will benefit from DNSPs alleviating export constraints. It follows that all customers of the shared distribution network should also pay for the costs associated with alleviating these export constraints. Given that the costs are not directly attributable to the person to whom the service is provided, NER clause 6.2.2(c)(5) also supports classifying export services as SCS.

We strongly support the classification provided in point one above; that is, all export services should be treated as SCS. Adopting either of the classifications listed in options two and three as noted in the F&A position paper would be fundamentally inconsistent with the AER's CECV draft decision and CSIRO and CutlerMerz's value of DER (**VaDER**) methodology study[9] and, therefore, would require revisiting these methodologies.

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6 AER, *Preliminary F&A position paper, NSW, ACT, TAS and NT businesses, Regulatory control period commencing 1 July 2024,* April 2022, p. 15.

7 AER, *Preliminary F&A approach position paper, NSW, ACT, TAS and NT businesses, Regulatory control period commencing 1 July 2024,* April 2022, p. 16.

8 AER, *Draft CECV methodology,* April 2022, p. 5.

9 CSIRO and CutlerMerz, *VaDER methodology study, Final report,* October 2020.

Finally, we consider the AER's export tariff guideline[10] is another relevant factor[11] in considering how to classify export services. In this case, an export tariff would not be required for all customers if 'additional' export services were classified as ACS. This is because the costs of funding these additional services would be recovered directly from the requesting customer. An export tariff would also not be required for 'basic' export services because these services are provided as a result of a DNSP's intrinsic hosting capacity (i.e. the export capacity available due to the DNSP providing import services) and paid for by all customers.

Overall, there is a clear case for classifying export services (whether that is 'basic' or 'additional') as standard control services, particularly based on the service classification criteria specified in the NER. If you have any questions regarding this letter, please contact me on [redacted]

Kind regards,

[Signed]

Matthew Serpell
Manager Electricity Regulation
Jemena Electricity Networks

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10 AER, *Export tariff guideline*, May 2022.

11 NER, cl. 6.2.2(c)(6).