

7 October 2022

Mr Warwick Anderson
General Manager, Network Pricing
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Sent via email: aerpricing@aer.gov.au

Dear Mr Anderson *Warwick*

Network Tariffs for the Distributed Energy Future Consultation Paper

SA Power Networks welcomes the opportunity to comment on the AER Consultation Paper (the Paper) published in August 2022 which seeks to stimulate discussion on the future direction of network tariffs for batteries, in the context of ongoing tariff reform.

SA Power Networks is supportive of continued tariff reform to achieve the accepted general pricing principles for tariff setting including, but not limited to, cost reflectivity, technological and competitiveness neutrality, fairness, and simplicity of understanding.

We have been considering for many years now whether specific tariffs are required for batteries, electric vehicles and other customer energy resources (CER). As you would be aware, SA Power Networks was a key proponent of the AEMC's Access and Pricing rule change. We are strongly of the view that, with the enablement of pricing for export services, the current regulatory framework is now largely fit for purpose in providing efficient incentives for customer investment and operation of CER.

Further, we consider that pricing and tariffs, provided that they are cost reflective, should not distinguish between the specific technologies that customers may place behind the meter. Demand should be treated equally whether it is from a battery, electric vehicle, or 'traditional appliance'. Equally, exports of energy should be treated the same whether they are from a solar system, battery or vehicle-to-grid.

We also note that our customers have repeatedly expressed to us that they find our industry overly complex and difficult to navigate.

This being the case, our view is that the initial focus of the industry should be on transitioning toward increasingly cost reflective consumption and export pricing, enabled by an accelerated roll-out of interval meters, and new approaches such as dynamic operating envelopes (DOE) that, in combination with appropriate tariffs, reward customers for exhibiting flexibility. In our view, more complex and sophisticated approaches such as LUoS, flexible trading relationships and locational pricing should be given a lower priority until the basic cost reflective pricing foundations are secure.

Consistent with this perspective, below we outline our views on the following relevant concepts as presented in the Consultation Paper.

Section 2.0 Future tariff directions

The Paper notes that many distributors are moving away from volumetric charges to demand or capacity based charges that reflect more closely the underlying network cost drivers. SA Power Networks considers demand based charges a key component in Large and Major Business tariff classes. In the Residential and Small Business tariff classes, demand based charges do feature in some opt in tariffs¹ included in our current Tariff Structure Statement (TSS) 2020-2025 and will continue to be included in future regulatory control periods (RCP). SA Power Networks calculates Peak demand on the highest average on a 4 hour window, 5pm-9pm, statewide and a 6 hour window in the CBD, rather than the highest average in a 30 minute window. This is reflective of customer diversity and whilst remains a demand measure, could be considered a quasi-energy measure because of the wide time window periods.

When trialing small customer tariffs in the current RCP to inform our thinking for future TSS we have focused on volumetric charges. This direction incorporates feedback from Retailers that small customers can understand the concept of volumetric charging and therefore are more able to enact behavioral changes. Furthermore, within the Residential and Small Business tariff classes there is a high level of diversity between customers and if customers are able to respond to time of use signals then this will reduce Peak demand. With such high levels of diversity, a strong demand signal can over-signal the need for customer response and can prevent simpler, lower cost responses that have similar distribution network benefits. Our current Residential trial tariff Electrify, incorporates strong pricing signals in the Peak window of 5pm-9pm which could be avoided through customer behavioral change or with a behind the meter (BTM) battery. SA Power Networks does not create tariffs for one specific customer cohort, i.e. those customers with a BTM battery. It is important that tariff offerings could suit a variety of customer profiles.

Section 2.4 Dynamic tariffs reflective of cost savings

SA Power Networks aims to reward customers for helping to avoid distribution network augmentation through technology solutions and simple static tariffs, rather than complex dynamic tariffs which would typically be responded to only by more sophisticated customers. We consider that this type of solution will be most likely to be widely adopted. These types of solutions are also much simpler from a network billing process perspective and encourage customer behavioural change in a way which supports the distribution network. SA Power Networks seeks to have a symmetrical approach to flexible load and flexible generation including batteries. That is, if a customer can be flexible with their load or their generation in such a way that they will avoid driving long-run network costs, they will be incentivised through discounted network charges.

We note that the Paper describes a potential conflict between the outcome that distribution network businesses may seek from the operation of CER and that which the customer, or their agent, may seek. We consider that the DOE philosophy avoids this issue. The DOE published by distribution network businesses reflects the **technical bounds** within which the customer's connection point demand must comply, to maintain reliability, security and quality of supply, and **does not** seek to control the customers' equipment. Within those bounds, the customer, or their agent, is free to optimise whatever outcomes they seek. DOEs effectively represent guard rails beyond which the local distribution network or system could be placed at risk.

There is no conflict between network business and customer or third party control under this framework.

¹ Small Business with demand >120kVA, a tariff including demand is required.



There are additional use cases where a distribution network business may seek a service from a customer or their agent to provide network support. In these cases, where they arise, this would be mediated by way of a specific contract with the customer or their agent which specifies the priority of the various services provided.

Section 2.5 Local Use of System pricing (LUoS)

SA Power Networks acknowledges that standard network tariffs presume that all energy travels through the transmission network and through the entire distribution network – high voltage through to the local voltage network.

In circumstances where there is a single customer with multiple connections located on the same or adjacent site which is being supplied from the same part of the distribution network, SA Power Networks will accommodate this in the calculation of the distribution network charges. We consider this approach to deliver an equitable customer outcome.

In circumstances where network charges are for multiple customers or multiple properties within a local area SA Power Networks is not supportive of a wider application of LUoS pricing. We consider the current tariff structure and pricing mechanisms we have in place ensures that distributed energy resources (DER) are appropriately contributing to the efficient use of the distribution network and a cost reflective outcome:

- The fixed supply charge on SA Power Networks' Residential and Small Business tariffs are increasing each year in the current RCP and will be proposed to continue in 2025-2030. This annual fixed supply charge increase is considered more cost reflective and equitable between customers with and without DER such as solar, noting that the average residential customer in South Australia has annual consumption of 4,000 kWh. This is approximately 20% less consumption than from 10 years ago.
- All new solar installations are required to install an interval meter.
- All interval meters are assigned to a time of use network tariff. Retailers cannot opt out to a flat rate tariff with an interval meter. Retail price offer structures to customers depend on the Retailer – they can be time of use or flat rate.

These pricing mechanisms coupled with the limited demand growth in South Australia over recent years mean that the tariff structures currently in place are fit for purpose and we don't deem LUoS as a required solution in the period to 2030.

The Paper suggests that LUoS pricing could be considered an appropriate tariff solution for community batteries. SA Power Networks considers and treats all batteries equally, that is, there is no distinction between a community battery and a battery connected to a higher voltage step in the network, all grid based batteries are considered homogenous.

SA Power Networks currently have tariff structures for generation customers at both the Low and High Voltage parts of the distribution network. As a result of increased interest in large batteries connecting to the distribution network SA Power Networks will be proposing generation tariffs at additional voltage steps in our next TSS. The generation tariff structures include an Anytime and Peak demand pricing signal with the time windows aligning to our consumption tariff structures. The Peak demand window incentivises generators to avoid network demand at these times. There are no usage charges in our generation tariffs and therefore generators can charge during times of high penetration of solar in the network. As part of our next TSS, export pricing discussions will consider the concept of incentives to export into the grid at certain times for generators.



At this stage, SA Power Networks considers these existing tariff structures as fit for purpose and that they provide an adequate pricing solution for batteries without requiring the complexity of LUoS pricing.

Section 3.2 The availability of metering

SA Power Networks is supportive of an expedited interval meter roll out and has submitted its views via the AEMC Review of the regulatory framework for metering services. Increased penetration of interval meters supports the pathway to tariff cost reflectivity and promotes efficient behaviour. We consider that customers would benefit from a target to complete (or substantially complete) the roll out by 2030, with all interval meters being assigned to a time of use network tariff, with no ability for the Retailer to opt out to a flat rate tariff. This is SA Power Networks' current tariff assignment policy. In South Australia a customer with an interval meter has the opportunity to benefit from the high penetration of roof top solar in the State without having to invest in their own solar system due to the Solar Sponge time window in the default Residential time of use tariff. This tariff pricing signal encourages load during 10am-3pm at a discounted price of 25% of the Residential single rate tariff. Accumulation meters can only provide flat rate tariff structures and therefore cannot promote efficient behaviour.

We note that Retailers are not obliged to pass on the network pricing signals into a retail offer however the SA Government has reinforced the importance of cost reflectivity by requiring all Retailers in South Australia to have a Residential and Small Business time of use and/or demand retail offer as part of the *National Energy Retail Law Regulations*. SA Power Networks considers this to be an important mechanism to ensure everyone can have the opportunity to be rewarded by changing their behaviour once they have access to an interval meter.

If you have any queries or require further information in relation to our submission, please contact Helen White on [REDACTED] or [REDACTED].

Yours sincerely

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Mark Vincent
General Manager Strategy and Transformation

