30 September 2022

Sara Stark
Director, DER – Network Regulation
Australian Energy Regulator

Submitted electronically

Dear Ms. Stark,

PIAC submission to Incentivising and measuring export service performance – Consultation paper

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to consultation paper on incentivising and measuring export service performance.

PIAC supports the review's aim of promoting efficient investment in, operation and use of networks for export services in the long-term interests of consumers.

We acknowledge that network constraints may increase in the future due to higher penetration of customer energy resources (CER). If left unchanged existing frameworks may incentivise Distribution Network Service Providers (DNSPs) to reduce costs at the expense of service quality.

While this may result in DNSPs avoiding or deferring the expenditure needed to deliver efficient levels of export service, we are concerned by the more material and likely possibility that DNSPs will maximise the size of their regulated asset base (RAB) rather than seek efficient levels of curtailment.

Given the low materiality of concern with incentives, we see no compelling evidence to recommend the use of financial incentives to promote the delivery of export services. Financial incentives could inappropriately reward DNSPs while doing little to address the issues and services that consumers value most.

DNSPs responding to the needs and preferences of their customers have no need for further incentive to provide export services. We recommend that investigations into financial mechanisms be deferred until export services are better established and evidence of a material problem arises. In the meantime, PIAC supports the use of reputational incentives to

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establish greater consistency in reporting and increase transparency for stakeholders. We encourage the AER to continue monitoring for risks as service quality metrics improve.

We expand on our concerns relating to the proposed export service incentive schemes and provide recommendations on the implementation of appropriate measures below.

Incentive review for export services

The objective of the proposed amendment to the Service Target Performance Incentive Scheme (STPIS) is to better align the commercial incentives of DNSPs with the interests of consumers through promoting the efficient delivery of export services. This could include a financial reward and/or penalty:

- to increase export capacity
- around a target level of headroom
- to ensure that export capacity is highly utilised
- responsiveness to customer complaints about export service quality
- related to a failure to meet a threshold level of export service

While a STPIS amendment may encourage DNSPs to enhance provision of export services across the network, we are concerned that this broad approach to export service performance assessment does not reflect the reality of service issues. We note that ‘constraints are felt disproportionately by a small number of exporting customers’ meaning the average quality of service measures within a STPIS are unlikely to target improvements in the quality of export services where they are most needed.

Should the AER choose to narrow the amendment to STPIS to only include a guaranteed service level (GSL) component we note that it should aim to support an efficient level of curtailment rather than to incentivise export services. A GSL mechanism should also reflect that export is not an essential service and should therefore be set at a lower level of access than customers receive for essential consumption services.

Allowance and margin mechanisms like the Demand Management Innovation Allowance (DMIA) and the Demand Management Incentive Scheme (DMIS) are able to better target specific export service concerns than a STPIS adjustment approach but face similar data metric challenges.

The AER states that ‘given the ad-hoc and selective nature of [allowance and margin mechanisms], the costs in establishing these sorts of mechanisms are unlikely to be outweighed by the benefits they provide to consumers.’ PIAC agrees with this position, particularly given the need for bespoke assessments for these types of projects.

PIAC is concerned that financial incentives such as STPIS, DMIA, and DMIS will be duplicative as DNSPs are already able to fund improvements to export services through expenditure allowances. The current regulatory reset process suggests that further financial incentives for export services are unnecessary given that many DNSPs are proposing significant uplifts in investment to deliver a level of export service that meets customers’ expectations.

We consider the underlying incentive for DNSPs to increase their RAB sufficient to mitigate the risk of underinvestment in export services. Likewise, the revenue proposal stage of the reset process remains an appropriate mechanism to assess whether the proposed expenditure is efficient and reflective of consumer preferences.

PIAC supports the use of a reputational incentive in order to facilitate the development of robust performance measures and avoid putting revenue at risk or inappropriately rewarding DNSPs. Given the low materiality of current network export curtailment a reputational incentive alone may be a sufficient response to concerns about DNSP export service performance.

A reputational incentive could be delivered through the AER's annual reporting requirement on export service performance. PIAC encourages the AER to develop its report with a view to informing customers on the presence and location of export constraints and increasing transparency on system limitations and their impact on the availability or use of distribution services.

Export service performance reports

PIAC considers network export curtailment per exporting customer an appropriate long-term service performance metric. We acknowledge that some key challenges undermine the feasibility of this metric in the short-term and support the use of interim performance and contextual metrics.

We encourage the AER to draw on publicly available data to help overcome these challenges, particularly in matters of access to smart meter and inverter data. For example, services like PVOutput.org that facilitate sharing of solar panel output data could serve as a basis to identify areas of the network experiencing export curtailment issues. While this data may have some biases towards larger and newer photovoltaic systems with consumers that are more active in managing their generation output, these could be mitigated through careful sampling.

PIAC welcomes the opportunity to discuss design and implementation options for both an interim and long-term service performance metric in more detail with the AER.

Yours sincerely

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