



Mr John Pierce AO
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC's) consultation paper, the *National Electricity Amendment (Demand Management Incentive Scheme and Innovation Allowance for TNSPs) Rule*, which was published on 23 May 2019.

While the Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining recognises the potential for efficient non-network solutions to provide benefits for consumers, we do not consider the Energy Networks Australia (ENA) rule change request has adequately established the case that applying a Demand Management Incentive Scheme (DMIS) and a Demand Management Innovation Allowance (DMIA) for Transmission Network Service Providers (TNSPs) is a preferred mechanism to incentivise efficient non-network solutions.

The proposal should clarify how the existing DMIS and DMIA for Distribution Network Service Providers (DNSPs) is providing benefits for consumers, and the advantages of expanding these mechanisms to TNSPs. The Division notes the DMIS and DMIA were made in a period of broader reform to incentive non-network options for distribution networks. Changes included new requirements for network prices that reflect the efficient cost of providing network services to individual consumers, which are still in the process of being implemented. The Division notes that a significant driver of the AER applying the DMIS and DMIA is to form a bridge to a framework more focussed on efficient pricing of distribution network services. This driver does not appear to exist for transmission network services, noting efficient prices have not been identified as an issue for transmission connected customers and for distribution connected customers the issue is addressed through the DMIS and DMIA. The view of the Australian Energy Regulator would be valuable on these specific issues.

The proposal has also not fully explained why non-network solutions are not adequately incentivised through existing business practices, market mechanisms and trial support mechanism such as:

- Regulatory Investment Test for Transmission;
- Network Support and Control Ancillary Services; and
- Trial support mechanisms such as ARENA funding.

There is evidence that existing incentives and mechanisms are supporting TNSPs to investigate and implement non-network solutions such as generation, energy storage and demand response. Examples of South Australian implemented projects include the Dalrymple Battery Project and Port Lincoln generation network support arrangements.



The proposal is therefore unclear regarding the types of solutions that require further incentivisation at the transmission level.

The Division's view is that matters such as those outlined above would need to be investigated and clarified before progressing this rule change proposal.

Should you require any further information or have any questions, please contact me on (08) 8204 1715 or Rebecca.Knights@sa.gov.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'RKN'.

**REBECCA KNIGHTS
A/EXECUTIVE DIRECTOR,
ENERGY AND TECHNICAL REGULATION
DEPARTMENT FOR ENERGY AND MINING**

12 / 07 / 2019