

28 March 2007

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn

**Review of Demand Side Participation in the National Electricity Market**

SP AusNet understands that the AEMC has initiated a review of demand side participation (DSP) in the National Electricity Market (NEM). The AEMC has released the following two documents to commence the review, and invited submissions from interested parties:

- A Statement of Approach for the review, together with a Terms of Reference; and
- A draft report produced by NERA<sup>1</sup>, which commences Stage 1 of the review.

As you are aware, SP AusNet is one of few Australian energy market participants with substantial network facilities in more than one energy sector category. The company owns the Victorian electricity transmission network, one of five electricity distribution businesses in Victoria, and one of three gas distribution businesses in Victoria. SP AusNet is keenly aware of the need to facilitate DSP, especially in light of the global environmental challenges.

As a transmission network owner, SP AusNet is a member of ETNOF and we fully support ETNOF's submission to the AEMC's present review. Rather than reiterating the matters raised by ETNOF, this letter briefly highlights two matters that are of particular interest to SP AusNet. These matters are as follows:

1. The most significant development in terms of DSP is the prospective roll out of smart meters. This initiative will provide a very material step-change in the information flow to all customers, and could create an environment in which customers are much more responsive to electricity prices. SP AusNet's view is that the NERA paper is too focused on fine-tuning network investment and pricing issues, at the expense of looking at the likely impact of smart meters on DSP.
2. The NERA paper focuses extensively on network pricing issues and the need to send marginal cost signals to users. This conclusion, whilst reasonable in theory, lacks a practical appreciation of the recent lengthy debates on transmission pricing as well as the real-world constraints that arise in distribution pricing. For example, SP AusNet does not believe that there is any appetite in Victoria for geographically diverse distribution network pricing.

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<sup>1</sup> NERA Economic Consulting, *Review of the role of demand side participation in the National Electricity Market: Draft Report*, 20 February 2008.

Furthermore, it is highly doubtful that de-averaging network prices will strongly facilitate new demand-side solutions. It is much more likely to impact on investment decisions already made by customers, and lead to significant customer complaints.

In terms of the AEMC's Statement of Approach, SP AusNet notes that the AEMC states that it "intends to co-ordinate its assessment of the issues which are relevant to the review and the Rule proposal to ensure analysis and outcomes are considered in an integrated manner." SP AusNet strongly supports this objective, but notes that it may prove challenging. SP AusNet suggests that the AEMC should carefully consider how the integration of these tasks can best be achieved.

We look forward to further opportunities to engage with the AEMC in the subsequent stages of this important review, and we would be pleased to respond to any queries you may have on our submission.

Yours Sincerely

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**General Manager Regulatory and Business Strategy**

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