



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

### **Response to report by NERA Economic Consulting**

#### **A. Executive Summary**

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TRUenergy welcomes the opportunity to comment on the NERA Economic Consulting Report that considers Demand Side Participation (DSP) in the context of the Australian Energy Market Commission's (Commission) current work program. The Commission has initiated a 'Review' of DSP with the intent of reporting the outcomes of the 'Review' to the MCE and making recommendations on potential changes to the National Electricity Rules (Rules) to facilitate DSP.

TRUenergy believes the Rules must change to facilitate DSP. In this regard, it supports the recommendations of the NERA Economic Consulting Report (NERA Report) on DSP. This includes enhancements to network charges, improved availability of information to the market, changes in network planning to facilitate DSP and changes to the regulatory investment test. These combined changes will improve DSP, an outcome consistent with the NEM Objective.

#### **B. Subject Context**

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The Commission seeks feedback to address the issue of determining whether there exist measures to facilitate DSP in the National Electricity Market (NEM), identifying any obstacles and disincentives to efficient DSP and determining how best to remove these obstacles. In addition, the Commission has engaged NERA Economic Consulting to undertake a review of the role of DSP in the NEM. In response to this, TRUenergy submits the following general comments to the NERA Report.

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## C. General comments

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### **1. The requirement for marginal cost reflective network charges to encourage demand side participation**

We agree that in theory marginal cost pricing should encourage an optimal DSP response and that the common NEM practice of postage stamp network usage charges do not reflect the marginal locational costs. The Rules allow TNSPs to alternatively apply "cost reflective network pricing" (CRNP) when constructing their tariffs at rate reviews. CRNP is a process of identifying location specific regulated asset bases and recovering those costs only from the customers using those assets. However we believe CRNP also fails to reflect the marginal cost of providing network services: It is only a method to recover sunk costs and does not consider whether the location is approaching capacity. In fact its outcome can be quite perverse: connection points with the greatest spare capacity tend to have the highest CRNP. For regional Australian transmission points, CRNP can be even further from marginal cost than postage stamp tariffs.

The review could look into whether a new mechanism of marginal network cost pricing could be developed to achieve the genuine marginal price signal. However, we suspect that within a very complex and fully regulated monopoly network (where sunk costs must be recovered) this may never be workable. Instead the review's focus is likely to be more productive in the regulatory investment test where compensation to DSP can be made where it has demonstrably deferred a specific network investment.

### **2. The significance of improved information provision**

An improvement in the type and timing of publicly available information on network investments requirements is likely to improve the likelihood that demand side options will be available as a viable substitute. TRUenergy supports the recommendations in the NERA Report that advocate strengthening the information requirements within the current regulatory planning regime to encourage demand side participation.<sup>1</sup> In light of this information, TRUenergy suggests that the current Rule change proposal submitted by ETNOF which seeks to increase the augmentation asset thresholds applied under the Regulatory Investment Test (RIT) be disallowed on the basis it is inconsistent with the recommendations published in the NERA report. The Rule change as proposed would reduce the information available to demand side proponents in the NEM, in contrast to the recommendations in the NERA Report.

### **3. The requirement for the National Transmission Planner (NTP) to develop a robust methodology for the incorporation of demand side response for the purposed of network planning**

The NTP potentially represents the most critical link in the process of providing improved information to the market on opportunities available to Demand Side Participants.

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<sup>1</sup> NERA Economic Consulting – Review of the role of demand side participation in the national Electricity Market P.30. "In our view there would be merit in strengthening the information requirements within the current regulatory planning regime. These should include:

- requiring network service providers to invite demand side proponents on an annual basis to provide information on potential non network solutions to satisfy emerging network constraints that have been identified, say, up to five years in advance;
- requiring network service providers to provide guidance in the annual planning report on the likely cost of anticipated network investment projects, to provide a basis for estimating the likely benefits from demand side alternatives by demand side proponents;
- publishing on annual basis demand forecast by connection point to distribution networks; and
- identifying the existing network assets used to satisfy a connection point."

TRUenergy supports the NERA Report's recommendation that the NTP proactively identify and pre-approve demand side options within the planning framework. Accordingly, we support the key recommendations on demand side participation on p.30 of the NERA Report.<sup>2</sup> In addition, TRUenergy believes that a broader based role for the NTP that requires it to coordinate and oversee the application of the RIT would be beneficial to DSP. Accordingly, TRUenergy supports the National Generator Forum's (NGF) submission on the NTP that recommends the NTP take a more active role in administering the RIT. This includes conducting a preliminary application of the RIT, monitoring compliance of TNSP application of the RIT and publishing these results for the benefit of all market participants. The independent application of the RIT by the NTP would ensure non-network alternatives are considered in accordance with the spirit of the test. Both the improved availability of information for DSP & combined with the revised arrangements for applying the RIT improve the opportunities for DSP.

**4. The revised regulatory investment test (RIT) proposed by the Commission should take the form of a full cost benefit; this combined with other complimentary changes to the RIT will facilitate demand side management**

TRUenergy supports a full cost benefit approach for the form of the RIT because it is likely to facilitate investment in demand side participation consistent with the recommendations in the NERA Report.<sup>3</sup> In addition, we believe:

- The time frame over which market based DSP options are presented as alternatives to a network option must be sufficient to allow these options to be considered viable. In the past, the regulatory investment test required a 12 month period for market options to present themselves before any network augmentation option was able to be approved. This ACCC removed this requirement from the RIT a few years ago. TRUenergy supports the reinstatement of this provision on the basis it is consistent with NERA's recommendations.
- An economic value can be readily assigned to reliability such that it can then be appropriately recognised in a cost benefit regulatory test.
- Agrees there is an option value associated with the deferral of a network investment. We agree that improved information, say actual demand as compared with forecast demand, allows a network investment to be more appropriately specified, which can lead to cost savings in the future.

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<sup>2</sup> NERA Economic Consulting – Review of the role of demand side participation in the national Electricity Market P.30. "Somewhere between these extremes, the NTP could more pro-actively identify and pre-approve demand side options within the planning framework. This might involve:

- requesting information on demand side options to address identified network constraints up to five years into the future, on an annual basis;
- evaluating the viability of the demand side option against a set of criteria designed to ensure that the demand side option could act as a viable substitute, including identifying any wider market benefits; and
- providing detailed information on the demand side options that have been considered to network service providers for consideration within their network investment planning processes."

<sup>3</sup> NERA Economic Consulting – Review of the role of demand side participation in the National Electricity Market p.37 "In principle therefore, a full economic cost benefit decision making criteria is likely to facilitate investment in demand side participation."

## **D. Conclusion**

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TRUenergy supports the general recommendations in the NERA Report on DSP. This includes key suggestions that apply to network planning, information provision and changes to the RIT. Given Stage 1 of the Commission's DSP Review requires the Commission to consider DSM in the current work program and develop recommendations to be considered in the context of relevant Rule changes, we conclude:

- The ETNOF Rule proposal that seeks to increase the asset augmentation thresholds applied under the RIT are contrary to the recommendations in the NERA Report;
- The NTP must play a more active role in facilitating DSP in the NEM consistent with the recommendations of the NERA Report. This factor should be given due consideration in terms of finalising the outcome of the NTP Review.

Finally, TRUenergy believes the 'Terms of Reference' for this Review is interpreted as guidance rather than a constraint. This will give the Commission added flexibility to implement a broader range of sensible solutions.

Regards



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Manager Regulation (Access)