

Our Ref: 43313
Contact Officer: Bruno Coelho
Contact Phone: 08 8213 3435

17 October 2011

Zaeen Khan
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Dear Mr Khan,

Rule change: Efficiency Benefits Sharing Scheme and demand management expenditure by transmission businesses

The AER welcomes the opportunity to comment on the AEMC's draft determination on the rule change concerning the treatment of demand management expenditure within the efficiency benefits sharing scheme (EBSS) applicable to transmission network service providers (TNSPs).

The AER supports the draft rule change which applies to TNSPs, the formal requirements that currently exist in the national electricity rules in considering the design and application of the EBSS to distribution businesses. As identified in the draft determination, these requirements will also formalise what has to date been the AER's practice, in applying the EBSS in both transmission and distribution determinations.

The AER recognises that where demand management expenditure (i.e. expenditure incurred on non-network alternatives) is operational in nature, applying an efficiency scheme such as the EBSS that rewards or penalises a TNSP, depending on performance against a regulatory allowance, can reduce incentives for pursuing demand management. This reduction in incentives to pursue demand management initiatives is exacerbated by the fact that the EBSS is not applied to capex. However, by excluding operating expenditure for demand management expenditure from the EBSS, the impact on the incentive to pursue traditional network augmentation rather than non-network alternatives will be neutralised in applying the EBSS. In that way demand management efforts will not be actively discouraged.

The nature of projects that regulated businesses submit for approval under the AER's determinations, reflect to some extent technological innovation. The AER will continue to examine on a case by case basis, expenditures proposed by regulated businesses to be demand management related, and therefore to be excluded from the EBSS. To this end, the AER also supports the AEMC's approach to not be prescriptive or explicit in this regard, in its drafting of the rule change.

If you would like to discuss further, please contact Mr Bruno Coelho on bruno.coelho@aer.gov.au or by telephone on (08) 8213 3435

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Pattas', written in a cursive style.

Chris Pattas
General Manager
Australian Energy Regulator