



Submission by

Alternative Technology Association

on

**Demand Management Rule Change Proposal
Total Environment Centre**

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By email to: submissions@aemc.gov.au

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Rule Proposal on Demand Management

The Alternative Technology Association (ATA) welcomes the opportunity to provide input to the proposed *National Electricity Amendment (Demand Management) Rule 2007* proposal, as prepared by the Total Environment Centre (TEC).

ATA is a not-for-profit organisation established in 1980 to empower our community to develop and share sustainable solutions for the way we live and to promote the uptake of sustainable technologies in order to protect our environment. The organisation provides service to over 4000 members, who are actively promoting sustainability in their own homes by using good building design and implementing water conservation and renewable energy technologies. ATA advocates in both the government and industry arena for ease of access and continual improvement of these technologies, as well as the production and promotion of information and products needed to change the way we live.

ATA would like to offer our broad support for this Rule proposal. Australian consumers are increasingly under pressure from the rising costs of electricity, ever-increasing greenhouse gas emissions and the resultant impacts of climate change. There is an urgent need to transform the National Electricity Market's wasteful, supply-heavy system into one that prioritises efficiency, renewable energy and distributed forms of electricity generation. It therefore makes sense for electricity industry regulations and incentives to ensure that all efficiency gains have been exhausted before the building of expensive new infrastructure, the cost burden of which inevitably falls on consumers.

Demand Management and the NEM

The adoption of demand management solutions, including distributed renewable generation and cogeneration, offers the potential to reduce the need for network augmentation, electricity consumption and resultant greenhouse gas emissions, as well as improving the efficiency and the reliability of the network. However, at present a significant bias against demand management exists within the National Electricity Market (NEM).

As a result, ATA believes that extensive and significant changes need to be made to the National Electricity Rules in order to create an environment where demand management initiatives are considered a real alternative where network constraints exist. Failure to adopt significant changes to the Rules will result in the continuation of an inefficient NEM which fails to achieve the NEM Objective: "...to promote efficient investment in, and use of, electricity services for the term interests of consumers of electricity..."

Specific Comment on Rule Changes

ATA welcomes the broad range of rule changes proposed by the TEC and provides the following specific comment on a number of the proposals.

1. Transmission network planning

At present there is a strong bias towards the practice of network augmentation to address supply constraints in Chapter 5 of the Rules. ATA supports the proposals that ensure demand management options, are adequately prioritised in transmission network planning processes and network development.

2. Annual Planning Reports

The lack of *ex post* reporting by both transmission and distribution networks presents a significant barrier to proponents of demand management and embedded generation proponents. ATA welcomes TEC's proposed Rule changes requiring enhanced reporting and the provision of more robust data by network service providers with respect to both upcoming constraints and demand side opportunities that are relevant and

useful to demand management service providers. This would inform the demand management market of upcoming opportunities and enable it to respond to these in an effective and timely manner.

3. DM Incentive for Transmission

ATA believes that, in addition to the rule changes requiring network service providers to give greater consideration to demand management and provide more transparent reporting on demand management initiatives and opportunities, there needs to be a specific demand management incentive. Experience with the 'D-Factor' incentive scheme implemented in NSW demonstrates both the demand management opportunities which exist, and the broad range of benefits to be achieved by taking these opportunities¹.

As such, we support the proposal that there should be an explicit provision for the Australian Energy Regulator to develop and implement a demand side incentive scheme. This should address the chronic failure of transmission networks to invest in efficient demand management.

4. Financial cover for DM investments

It is essential that DM proponents and opportunities are clearly recognised in the NEM. At present, little clarity exists for network service providers as to the circumstances in which transmission networks can recover spending on demand management. ATA supports the proposed rule changes to 6A.2.2, 6A.4.2, 6A.5.3 and 6A.5.4 which aim to remove this ambiguity and create greater certainty for network service providers, creating more certainty for networks regarding their ability to investigate, implement and recover demand management expenditure.

5. Revenue determinations

ATA strongly supports the prioritisation of demand management alternatives to network augmentation and see the current regulatory approach to determining network revenues as a disincentive to these alternatives. As such, we support the proposal that revenue determinations for transmission networks ensure that demand management is prioritised ahead of the construction of more network infrastructure. Revenue determinations are an ideal time to facilitate demand management, as this process allows regulators to closely scrutinise and modify future spending by networks.

6. Acknowledgment of modest DM expenditure

ATA strongly and actively supports the adoption of energy efficiency, demand management and embedded renewable energy generation, raising awareness of not only the greenhouse and economic benefits of adopting these measures, but also the host of network benefits which arise from greater energy conservation, efficiency and embedded generation. It is patently clear that the present National Electricity Rules do little to promote these activities. The proposed rule change to 5.6.5A is a first step to ensure that the cumulative benefits of multiple small-scale activities will be recognised by network service providers.

We support the TEC proposal that small-scale demand side activities should be enabled even when unrelated to particular network constraints or when covering relatively modest amounts of load. Modest but widespread demand reductions can provide long-term benefits by reducing the need for a range of possible future network as well as generation augmentations.

7. Effective prudency reviews

ATA supports the proposal that prudency reviews by the regulator must assess past capital expenditure. These should specifically and thoroughly assess the extent to which transmission networks have

1. Institute for Sustainable Futures, Win, Win, Win: Regulating Electricity Distribution Networks for Reliability, Consumers and the Environment - Review of the NSW D-Factor and Alternative Mechanisms to Encourage Demand Management, Total Environment Centre, January 2008

implemented, and not ignored, an adequate level of demand management. Such reviews are critical to ensure that transmission networks do not ignore demand management solutions at the expense of electricity consumers.

8. Regulatory Test

Presently there exists a lack of condition in the Regulatory Test provision for networks to consider demand management as an alternative, rather presenting it as a vague option. ATA believes that networks should be actively encouraged to consider demand-side measures at all opportunities and the Regulatory Test provides an ideal opportunity to do so.

As such, ATA supports the proposal that the Rules should specify that the Regulatory Test require demand management options to be investigated *before* augmentation options. This is likely to ensure that a more appropriate level of transmission networks' resources and attention are directed to DM before augmentation planning is under way.

9. Short-term and long-term price for DM

Demand side response (DSR) activities provide an excellent alternative to network augmentation, and should be encouraged. However, at present there is no mechanism for setting the price of DSR activities within the NEM market pool –no bidding mechanism for demand-side aggregation businesses, effectively excluding such activity from the market.

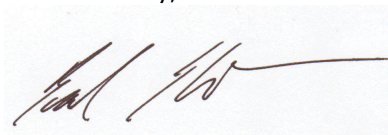
ATA supports the proposal that a price is set for demand management within the market pool. Setting a price for demand management will encourage greater investment in and facilitate growth of demand management aggregation as a market commodity. A market mechanism that provides the opportunity for proponents to bid into the market would encourage new demand management entrants and promote competition for existing demand management businesses.

Further Contact

ATA commends the TEC for proposing these progressive and long-overdue rule changes and encourages the AEMC to give careful consideration of the proposal in light of the NEM objective of the long-term interests of consumers.

We would welcome the opportunity to discuss any aspect of this submission further. Please direct any questions or further correspondence to Brad Shone, Energy Policy Manager, on 9631 5406 or Brad.Shone@ata.org.au

Yours sincerely,



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