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CLEAN ENERGY COUNCIL

Sunday, 29 March 2015

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Lodged Electronically

Dear Mr Pierce,

RE: ERC0177 Demand Management Incentive Scheme Rule Change, Consultation Paper Submission

The Clean Energy Council (CEC) works with more than 450 renewable energy businesses across all technologies to accelerate the transformation of Australia's energy system into one that is smarter, cleaner and more consumer-focused. Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to improve energy efficiency and;
- work to reduce costs and remove all other barriers to accessing clean energy.

The CEC thanks the Commission for advancing both rule changes and the efforts of the COAG Energy Council and Total Environment Centre (TEC) in preparing their requests.

The CEC understands that through this consultation the Commission seeks to understand whether recent reforms have already addressed the possible regulatory gap which a reformed DMEGCIS would fill. The CEC does not believe that this is the case, and sets out the following reasons for this position, highlighting the criticality of securing an effective means from which distribution businesses can evolve through innovation.

The pace of technology

Embedded generation technologies are advancing far faster than regulatory frameworks can evolve. At the end of 2014 there was in excess of 3.5 GW of small scale solar PV installed in National Electricity Market (NEM) states[1]. Continued declines in cost are anticipated with the

[1] Sunwiz, 2014.

Clean Energy Regulator forecasting growth of around 800 MW per annum (nationally) that will continue for the foreseeable future[2].

Embedded storage solutions are already available on the market. While not currently economically viable for a large range of circumstances, growth of this market in overseas markets will be the key determinant of price and availability of these technologies domestically. All projections are expecting rapid cost decline and many solar PV retailers are already marketing 'storage ready' small scale PV systems.

The role of Distribution Network Service Providers

DNSPs will need to play a crucial role in capturing the benefits of new technologies. A regulatory framework which does not empower networks to consider, develop and adapt to new technologies will be unlikely to do so. It is difficult to envisage how this is consistent with market objectives in the long run.

DNSPs are becoming increasingly aware of the need to adapt to new technologies. For example, Energex's network in South East Queensland is edging towards 1 GW of small scale solar PV[3]. Under these conditions distribution feeder power flows frequently reverse under high generation / low demand scenarios.

The integration of solar PV is no longer a bespoke exercise and has already become a critical factor for Energex's business, as with most other DNSPs. However, innovation is required to access potential demand management benefits from this new condition and DNSPs need to understand how these benefits materialise. While there may be cases where only marginal, or even no, benefit arises, the ability to harness the demand management opportunities from embedded generation will be critical to decisions on efficient network investment in the future.

Given the continued rate of PV deployment and anticipated timeframe for commercially viable energy storage it is crucial that DNSPs are able to start the learning process now. An effective incentive scheme is required to facilitate this.

The scope of recent reforms

The CEC agrees that there has been extensive reform in relation to the economic regulation of DNSPs but strongly disagrees that any of these reforms have addressed the matter of innovation in demand management. The CEC is concerned that the Commission has identified rule changes which clearly do not share the objectives of the DMEGCIS or the current rule change requests. For example the rule changes in NER Chapters 5 and 5A relate to connection processes and information availability. These rule changes neither considered nor created economic incentives for a DNSP to innovate in demand management

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[2] Rick Brazzale, "*Target Aims for 808MW of small scale-solar in 2015*" Climate Spectator, 2nd March 2015, available: http://www.businessspectator.com.au/article/2015/3/2/solar-energy/target-aims-808mw-small-scale-solar-2015

[3] Energex, 2015, "*Energex Solar PV report to the end of February 2015*", email correspondence.

or embedded generator connections. Despite this, two significant reforms will influence demand management, without addressing the same issues as the DMEGCIS:

- Although tariff reform may simulate the uptake of demand management at a customer level the gradual implementation timeframe of this rule change, and more gradual pace of tariff changes, will likely lead to a significant time horizon for this to occur.
- While the RIT-D framework promotes the consideration of demand management proponents for capital investment on discreet network augmentation projects with a value above $5 million, these opportunities are infrequent. Further, given the nature of such augmentations, which can have a considerable impact on reliability a DNSP would be less likely to consider an innovative or untested solution.

Neither of these reforms implements the objectives of the DMEGCIS as they do not promote innovation in demand management or embedded generator connection. For example, while tariff design can create powerful incentives this should only be implemented after trial and analysis can determine the most reasonable measure to drive the outcome sought. Similarly, without experience being developed from small-scale demonstration projects, which the DMEGCIS is intended to promote, it remains unlikely that a DNSP would select a solution for an augmentation which falls within the scope of the RIT-D.

From this discussion it remains clear that there is an obvious regulatory gap created by an ineffective DMEGCIS. This is demonstrated in practice via the sheer scale of embedded generation projects now connected in the NEM as compared to the efforts to capture the potential demand management opportunities created by this asset.

Summary

In summary, the CEC supports the TEC's proposed reforms of the DMEGCIS. The role of DNSPs in the discovery and evolution of demand management opportunities is absolutely critical to meeting the national electricity objective under the future consumer expectation. The proposal from TEC would maximise the incentives made available to DNSPs while providing the greatest flexibility in potential demand management solutions to meet these changing expectations.

Please do not hesitate to make contact on the details below to discuss this submission.

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