



Rule change proposal – demand management and transmission networks

A. Executive summary

TRUenergy welcomes the opportunity to comment on the Rule proposal submitted by the Total Environmental Centre (TEC) which seeks to facilitate the increased use of demand management (DM). The Rule proposal aims to achieve this by placing requirements and incentives on supply side participants to investigate and undertake demand side solutions as the preferred primary option in applying the regulatory test. Whilst TRUenergy agrees that network service providers appear to favour network options over demand side options as an outcome of the regulatory test, the Rule proposal in its current form alters the requirement to consider investment options in a competitive neutral manner in favour of demand side. The principle of competitive neutrality requiring TNSP's consider investment options equally in a competitively neutral manner should be retained in the regulatory test. Accordingly, TRUenergy does not support the current Rule proposal.

B. Subject Context

The TEC submits this Rule proposal in its current form arguing DM is neglected in the National Electricity Market (NEM) and a pervasive problem in the National Electricity Rules (the Rules). It argues the Rules pay mere lip service to DM when compared to the massive incentives for inefficient supply side approaches. Accordingly, it submits this Rule proposal that seeks to ensure that when planning, network operators consider DM solutions before augmentation alternatives.

This paper responds to the amendments which make up the Rule proposal effectively arguing the current Rules allow network businesses to develop DM options within the current framework of the Rules. The paper rebuts each of the arguments put forward to justify the amendments included in the Rule proposal.

C. Key amendments to the Rules

The following amendments form the body of the Rule proposal submitted to the AEMC by the TEC as summarised by the AEMC. The amendments seek to facilitate the increased use of DM. TRUenergy's response to each amendment is provided below.

1. That when planning, network operators consider DM solutions before augmentation alternatives so that DM is implemented when it is a more cost effective solution

The proposal to implement a range of DM options before augmentation options in the planning process ignores the regulatory test obligation that requires TNSPs consider the efficiency of a range of alternative investment options equally before proceeding with an investment. Under this scenario, a DM option would always replace the option that was determined to be the most efficient under the regulatory test. This outcome is contrary to the competitive neutrality principles embedded in the regulatory test and therefore unacceptable.

2. Requiring transmission network owners to publish robust data on upcoming network constraints that are relevant and useful to DM service providers

The proposal that requires TNSPs publish robust data on upcoming network constraints that are relevant and useful to DM service providers is supported (in principle) because it improves the transparency of TNSP operations. However, the proposal should not be restricted to robust data that supports only DM activities. The proposal should include the obligation for TNSPs to publish robust data on upcoming network constraints which are both relevant and useful to all the investment options considered under the regulatory test. Providing this additional information to all the investment proponents in the regulatory test is competitive neutral and therefore supported.

3. Requiring the AER to design a demand management incentive scheme

The obligation on the AER to design a demand management scheme is unnecessary given TNSPs are currently required to review the efficiency of DM investment options in the regulatory test. Whilst we agree with the TEC that TNSPs do not have a great incentive to implement a DM investment option compared with augmenting the transmission system, the request for the AER to set up a DM scheme is premature. Greater consideration should be given to the costs and benefits of an expanded DM scheme before the AER is required to implement such a scheme.

4. Including a clear specification of the circumstances in which transmission network owners can recover expenditure on demand side activities

The requirement to include a clear specification of the circumstances in which transmission network owners can recover expenditure on demand side activities is pointless given the current arrangements provide for this. Currently, where a TNSP develops a DM investment option as a result of applying the regulatory test, the AER will provide the TNSP with an allowance in its operational expenditure to recover the costs of implementing the DM scheme, if it considers those costs to be "efficient." No evidence has been presented thus far to support an argument that the current cost recovery process is deficient.

5. Requiring the DM activities are prioritised and properly integrated into revenue determinations

The requirement that DM activities be prioritised and properly integrated into revenue determinations is unnecessary. The current arrangements allow DM activities to be integrated into revenue determinations. Accordingly, the following parts of the Rule proposal are excessively heavy handed and avoidable including:

- (i) The requirement for TNSPs to reduce the demand for prescribed services in order to promote DM;¹
- (ii) The requirement for TNSPs to forecast capital or operating expenditure that is for demand side activities;²
- (iii) The requirement for TNSPs to provide a description of all demand side activities taken to reduce load growth.³

6. Including prudency reviews to assess the extent to which transmission network operators have implemented an adequate level of demand management

The re-optimisation of capital expenditure following a regulatory period is not supported without further analysis to justify a change to the current lock and roll forward approach applied under the Rules. Re-optimisation has been considered in previous reviews by the ACCC and the AEMC with both organisations deciding to abolish the practice. In 1995 the ACCC decided that there would be significant benefits to be gained in adopting a lock and roll forward approach to the determination of a TNSPs Regulated Asset Base (RAB) in its Statement of Regulatory Principles (SRP). Similarly, in its review of chapter 6 of the Rules, the AEMC took the view that giving the AER the right to re-optimise a TNSP's RAB would introduce a high degree of uncertainty. As a result, it decided a roll forward approach of the RAB was preferable. Given the serious consideration given to this matter by the ACCC and the AEMC recently, without further analysis to substantiate a change to the current policy, it is not supported.

7. Including specification, within the Regulatory Test, that DM options be investigated before augmentation options

The current Rule proposal to include a specification within the regulatory test that DM options be investigated before augmentation options is inappropriate. The Rule proposal in its current form impacts the competitive neutrality of the range of investment options to be considered equally in the regulatory test. Accordingly, supply side options should not be considered after demand side options have been exhausted. All investment options available to deal with a constraint need to be examined in a competitively neutral manner in accordance with the regulatory test to determine the most 'efficient' option. Any changes to the regulatory test that impact this are not supported.

8. Including a mechanism for setting the price of demand side response within the market pool

The proposal seeks to create a new market design principle regarding the specific fostering of DM. This would appear to contradict design principle (3) regarding technological neutrality. The proposed new principle describes promoting a "maximum level of efficiency in the use of electricity". This suggests a very different scope for the NEM through fostering a role in prescribing how customers use their electricity. At present the market only operates to balance given levels of supply and demand, and

¹ Insert after Section 6A.6.6(a)

² Insert after Section 6A.6.7 (b) (4)

³ Insert after 6A 1.1 (3)

presumes price will incentivise efficiencies. Such a new direction is too significant to be proposed through a rule change, and would require support from MCE policy and probably a commission review to propose what major initiatives and more detailed rule changes would be required to bring it about.

The proponent hopes to create a new DSR bidding mechanism. It should be noted that a facility to perform scheduled demand side bidding already exists in the NEM. This has been used by some DM operators, but since abandoned as they have found it more convenient to operate without the bidding. Unlike generators, there is no specific obligation for any DM to be scheduled. Scheduled and unscheduled DM is already accommodated in the pool as DM is able to reduce consumption at times when it is of most value. In that way, it is economically rewarded at the same value as the marginal generator's bid. This is an appropriate two-sided market operation.

It may be that the proponent seeks to implement a DSR bidding mechanism that protects a DM from the cost of any inflexibilities in its own technology. For example, some DM's require long notice and minimum exercise times. This can expose them to suboptimal timing in the use of DSR. This is exactly the same issue that confronts the supply side. Correct valuation requires the relevant participant to absorb the costs of these inflexibilities.

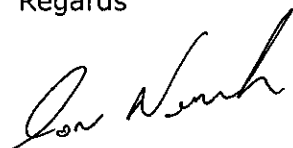
D. Conclusion

TRUenergy does not support the Rule proposal put forward by the TEC in its current form. The Rule proposal's attempts to correct the problems associated with the regulatory test which results in a bias towards augmentation options over demand side options is understandable. However, the solution proposed is inappropriate. In fact, if the solution were implemented it would probably create more problems in the future to both TNSPs and other market participants.

The problem identified by the TEC in seeking this Rule proposal where augmentation options are effectively overlooked compared with DM options can be better resolved through other solutions. For example, it might be the new arrangements to implement a National Transmission Planner (NTP) include an obligation on the NTP to scrutinise all TNSP applications of the regulatory test. TNSPs would then be under more pressure to apply the regulatory test in the manner it was originally intended.

TRUenergy supports the principle of technological neutrality that the original National Electricity Code were built around. Where policy makers feel that certain externalities (such as environmental impacts) should alter market outcomes, then these should be facilitated by means outside of the National Electricity Rules (Rules).

Regards



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