

19 March 2015

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235  
Email: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

Dear Mr Pierce

### **Demand Management Incentive Scheme (DMIS) rule change**

Thank you for the opportunity to comment on the AEMC's consultation paper on the changes to the National Electricity Rules (the Rules) proposed by the COAG Energy Council and the Total Environment Centre (TEC).

ActewAGL Distribution is supportive of the proposed reforms which seek to strengthen arrangements in the Rules to incentivise DNSPs to undertake efficient demand management activities and projects, and support high risk innovation projects that have the potential to deliver significant consumer benefits in the long term.

As the Energy Networks Association (ENA)'s submission notes it is important that the that the AEMC undertakes targeted workshops as part of the rule change process to consider more detailed design and implementation choices and align stakeholder expectations around any changed arrangements.

ActewAGL Distribution supports the ENA's submission. In addition, ActewAGL Distribution has the following points to make in relation to the Demand Management Incentive Allowance (DMIA) and the Demand Management Incentive Scheme (DMIS).

#### ***Demand Management Incentive Allowance***

ActewAGL Distribution supports the increased prescription regarding the development and implementation of any Demand Management Incentive Allowance by the AER in the Rules. Whilst the Commission suggests the proposed amendments are largely reflective of existing AER practice, ActewAGL Distribution considers that embedding them in the Rules will increase regulatory certainty thereby increasing incentives for DNSPs to undertake innovation projects that might otherwise not occur.

ActewAGL Distribution was provided a DMIA of \$100,000 per year for the 2009-14 regulatory period. In its regulatory proposal for the 2015-19 regulatory period AAD proposed that this be adjusted to account for inflation however, this was rejected by the AER resulting in a real decrease to the DMIA. Whilst the size of the DMIA is not a matter for rule specification, ActewAGL Distribution notes that the AER and AEMC should take seriously the concerns raised by DNSPs to date about the size of innovation allowances currently allocated to DNSPs. This should be the subject of stakeholder consultation and targeted workshops that would occur throughout the rule change process.

### ***Demand Management Incentive Scheme***

ActewAGL Distribution strongly supports the proposed amendment that would see DNSPs sharing in the additional market benefits being created by a demand management incentive project. This will positively impact investment in demand management projects to the long term benefit of consumers. ActewAGL Distribution considers that the mechanism for sharing market benefits would necessarily be the subject of targeted workshops and stakeholder consultation undertaken as part of the rule change process.

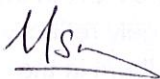
ActewAGL Distribution strongly supports and has previously argued for the inclusion of both tariff and non-tariff based demand management projects within the scheme. ActewAGL Distribution's pricing reform strategy has been an important focus of its demand side management for some time and has yielded significant customer responses. In response to the AEMC's recent network tariff rule changes, ActewAGL Distribution plans to work closely with its customers to further develop its range of innovative tariff offerings with the aim of reducing overall network costs in the long-term.

ActewAGL Distribution supports an amendment to the Rules to explicitly require the inclusion of a payment for any foregone revenue resulting from implementing a demand management project approved under the innovation allowance. Whereas the AEMC suggests this may not be necessary given the majority of DNSPs are expected to be regulated under a revenue cap in the near future, it is ActewAGL Distribution's view that the provision should exist in the Rules. ActewAGL Distribution is currently subject to an average revenue cap, meaning that demand management projects may have a direct impact on revenue.

Finally, as a DNSP with dual function assets ActewAGL Distribution supports the AEMC's proposal to broaden the application of the proposed amendments to the electricity transmission sector. This will increase the opportunities for ActewAGL Distribution to undertake a greater level of investment in demand management activities and projects.

Please contact me on (02) 6248 3806 if you have any queries.

Yours sincerely



Usman Saadat

Manager Regulatory Affairs