

9 July 2015

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235



positive energy

Dear Mr Pierce

**Draft Rule Determination: National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015 (ERC0177)**

Energex Limited (Energex) appreciates the opportunity to provide a submission to the Australian Energy Market Commission (AEMC) on the draft rule determination in relation to rule change requests proposed by the COAG Energy Council and the Total Environment Centre.

Energex generally supports the measures outlined in the AEMC's draft rule determination and the objective of establishing a new framework that provides greater clarity and certainty with respect to the purpose and operation of the demand management incentive mechanism and strengthen incentives for distribution businesses to pursue non-network demand management projects as an efficient alternative to network capital investment. In particular, Energex supports the key features of the proposed new framework, including:

- Provision for a separate Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance (DMIA);
- Introduction of a high-level objective and supporting principles to guide the development and application of the DMIS and DMIA by the Australian Energy Regulator (AER), rather than detailed prescription in the National Electricity Rules (the Rules);
- Discretion for the AER to apply the DMIS and DMIA, taking into account the objective and principles, and set the level of incentive and innovation allowances and associated timeframes;
- Ability for the Australian Energy Regulator (AER) to take into account the net economic benefits delivered by demand management projects;
- Recognition that it is not appropriate for the new DMIS and DMIA to be applied mid-way through a regulatory control period but that incentives and/or allowances should not necessarily be limited by the length of the regulatory control period; and
- A requirement for the AER to develop and publish guidelines to support the application of the DMIA and DMIS in accordance with the rules consultation procedures by 1 December 2016.

**Enquiries**

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However, Energex is also supportive of the recommendations made by the Energy Networks Association (ENA) in its submission on the draft rule determination for further enhancements to strengthen the proposed new framework. In particular, Energex agrees that consideration should be given to ensuring there is:

- Explicit provision in the Rules for compensation under the DMIS for any foregone revenue or profits that occur as a result of reduced demand delivered by a demand management project where appropriate.
- No bias against innovative tariff design projects under the DMIS. The scheme should have the potential to include both tariff-based and non-tariff based options to provide a suite of tools with which distribution businesses are able to manage demand.
- Transparency around the methodology used by the AER for determining the size of the DMIA and the decision-making process for allocation of funding.
- No distinction made between embedded generation projects and other demand management projects within the scope of the DMIA. While there are clearly compliance obligations in the Rules to further enhance the ability for embedded generators to connect to the network, there may be benefit in providing additional incentives for innovation.
- Provision for reporting requirements under the DMIA to be proportionate to the scope of the project and resources employed to limit the imposition of additional administrative and compliance costs on distribution businesses.

Energex has a long history of delivering cost-effective demand management in partnership with industry and looks forward to further engaging in the development of the new demand management incentive framework. Should you have any queries regarding this submission, please contact Nicola Roscoe, Acting Network Regulation Manager, on (07) 3664 5891.

Yours sincerely



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