



Ref.: TP/CP

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Dear Mr Tamblyn

## **RULE CHANGE PROPOSAL – Demand Management and Transmission Networks**

Ergon Energy Corporation Limited (Ergon Energy) is pleased to provide this submission to the Australian Energy Market Commission (AEMC) in relation to the Rule change proposal initiated by the Total Environment Centre (TEC) regarding the treatment of demand management within the regulatory arrangements for transmission networks. This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

As a general comment, Ergon Energy supports incentives for network service providers to pursue the most efficient options to deliver against their regulatory requirements, including demand management solutions where appropriate. In the case of distribution, Ergon Energy notes that the new Chapter 6 already provides for an increased focus by both distributors and the AER on demand management.

While Ergon Energy therefore supports consideration of demand management solutions during the network development stage and when conducting a regulatory test for new network assets, Ergon Energy does not support TEC's proposed 'prioritisation' of demand management solutions above other options for the management of network constraints. Ergon Energy believes that all viable options should be considered in parallel, with full recognition given to the range of reliability and timing risks that may be associated with a particular solution, including where that solution involves demand management.

TEC have indicated an intention to submit further Rule change proposals amending the regulatory arrangement applying to DNSPs at a later date<sup>1</sup>. Ergon Energy therefore makes specific comment in relation to the Network Development and Regulatory Test issues raised in the Rule change proposal, recognising how these are likely to impact the future operations of DNSPs.

#### **Clause 5.6.2 Network Development:**

The Rule changes suggested by the TEC are designed to ensure that networks thoroughly consider demand management solutions before network augmentation alternatives thereby removing a perceived bias in the National Electricity Rules towards augmentation<sup>2</sup>.

Ergon Energy believes that the barriers to the uptake of demand management solutions identified by the TEC, and which appear to be a major driver for the Rule change proposal, fail to recognise that demand management solutions:

- May not have the reliability or 'firmness' of traditional network solutions;
- May have a greater reliance on third party commitment for delivery; and
- In some instances, will only defer, not replace, the need for network investment.

The need for the network service provider to appropriately assess these issues in its planning and regulatory considerations, is made more difficult by the broad interpretation of 'demand management' adopted by TEC – i.e. includes 'demand response', 'demand side management', 'demand side response', 'energy efficiency' and 'non-network solutions'<sup>3</sup>.

#### **Regulatory Test:**

Ergon Energy does not support reviewing or modifying the Regulatory Test – which applies to both transmission and distribution - as part of the current consultation process.

The AEMC's National Transmission Planner Review has already commenced and includes consideration of the Regulatory Test for transmission entities. Furthermore, distributors have requested a holistic review of the Regulatory Test as it applies to DNSPs, including articulation by the MCE of a policy position regarding the objectives for DNSPs in undertaking the Regulatory Test.

Ergon Energy would therefore encourage the AEMC to consider amendment of the Regulatory Test in a broader context.

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<sup>1</sup> p2, *Rule Change Package: Demand Management and Transmission Networks*, Total Environment Centre, Nov 2007.

<sup>2</sup> p20, *ibid*

<sup>3</sup> Pgs 6-8 *Rule Change Package: Demand Management and Transmission Networks*, Total Environment Centre, Nov 2007 – Insert after 5.6.2(e), change current 5.6.2(g) to, change current 5.6.2(h) to, insert after 5.6.2(h).

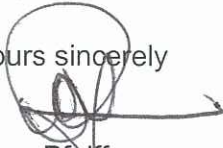
## Conclusion

Ergon Energy does not support the Rule change proposal on the basis that:

- TEC has not sufficiently demonstrated how the Rule change proposal will or is likely to contribute to the achievement of the NEM objective;
- A network service provider's consideration of non-network solutions already includes consideration of demand management solutions. In the case of distributors, the new Chapter 6 already provides for an increased focus by both distributors and the AER on demand management;
- There is inadequate consideration of the relative risks for a network business of demand management solutions, in satisfying its regulatory obligations as to reliability; and
- There is a need for mechanisms to be developed that neutralise the financial impacts for network businesses when pursuing a demand management solution relative to a network solution.

If you have any questions or would like to discuss this matter in detail, please do not hesitate to contact Tony Pfeiffer.

Yours sincerely



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