



25 March 2009

Australian Energy Market Commission
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AEMC Draft Rule Determination: Demand Management Rule 2009 Proposed by the Total Environment Centre

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the AEMC's draft determination of the Total Environment Centre's (TEC) Rule change proposal relating to the requirements and incentives for the use of demand management by transmission network service providers (TNSPs), as published on 29 January 2009.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 40,000 people directly and contribute \$14.5 billion directly to the nation's Gross Domestic Product.

esaa's policy position is that demand management should be facilitated via open and competitive markets that allow for efficient cost-reflective pricing and through effective incentive-based economic regulation of networks that appropriately rewards network owners for innovation and investment in demand management.

The main element of the TEC's proposal was to impose requirements on TNSPs to consider demand management solutions ahead of network and other non-network alternatives. The TEC considered that current arrangements encouraged TNSPs to favour network solutions over other options when constraints emerged in the transmission system. The AEMC draft determination concluded that the existing rules were largely neutral in their design between different solutions and that introducing a bias in favour of demand management proposals would not deliver efficient outcomes.

esaa strongly supports the AEMC's finding that the existing rules should not bias investment or planning decisions in favour of any particular option. The National Electricity Objective is focused on promoting efficient investment in, and efficient use of, electricity services for the long-term interests of consumers. The TEC proposal is based on the premise that demand management solutions will deliver a lower cost solution for the market than other alternatives, although this is not supported by detailed analysis. The current NEM Rules do provide a regulatory framework that

requires TNSPs to evaluate the relative economic merits of different solutions on an equal basis.

The AEMC accepted, in a modified form, three of the Rule changes proposed by the TEC. These changes relate to the level of published information on constraints, the revenue recovery process for demand-side activities and a requirement for TNSPs to provide information on non-network alternatives considered in a revenue proposal.

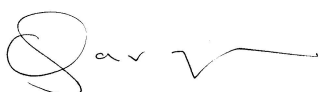
esaa would encourage the AEMC to work with the TNSPs on the specific wording of these Rule changes. TNSPs should not be obliged to duplicate existing constraint reporting procedures and there should be some 'materiality test' on any new information provided to the market. Similarly, it may not always be practical for a TNSP to assess non-network options for constraints that may or may not emerge during the five-year regulatory period for which there is no proponent and little information on possible non-network alternatives at the time revenue proposals are submitted.

The AEMC has indicated that it will release the Stage 2 report of the *Review of Demand-side Participation in the NEM* in March or April 2009. That Review is intended to consider potential impediments or incentives for the use of demand side options covering all aspects of the economic regulation of network participation, network planning and access, wholesale markets and meeting reliability requirements.

esaa supports a broad ranging and integrated review of the role of demand side participation in the NEM. Changes to one part of the regulatory framework may have implications for demand side providers to offer and deliver services in response to wholesale market signals or under contract to network service providers or the system operator. A systematic assessment of the size and impact of any impediment to demand side participation should allow the AEMC to consider and possibly propose a coordinated package of changes to the Rules that are consistent with the National Electricity Objective. A broader review also allows the AEMC to consider the findings and outcomes of other review and Rule changes processes including the AEMC's Review of Market Frameworks in Light of Climate Change Policies.

In conclusion, esaa supports the findings in the AEMC's draft rule determination but encourages the AEMC to work with TNSPs on the specific wording of these rule changes. esaa looks forward to providing further input into the next stages of the Demand Side Participation review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Clare Savage', with a stylized flourish at the end.

Clare Savage
Chief Executive Officer