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Power of choice review direction paper – Submission from Jemena Limited

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) directions paper on the Demand Side Participation (**DSP**) review entitled 'Power of Choice'.

The Jemena Group has ownership interests in electricity distribution businesses within both Victoria and the ACT. In Victoria Jemena owns Jemena Electricity Networks (Vic) Ltd (**JEN**). Jemena also has ownership interests in the United Energy electricity distribution business in Victoria (34%) and the ActewAGL electricity distribution partnership in the ACT (50%).

Jemena has provided a focused response below and has also actively contributed to the Energy Networks Association (**ENA**) submission.

Facilitating demand side participation

Jemena considers that DSP is an important step in the evolution of the national electricity market and welcomes the work undertaken by the AEMC in this area to date. In particular, the AEMC has successfully identified the challenges the market currently faces to extract the potential benefits of DSP.

Jemena supports the power of choice review recommending the introduction of more efficient and flexible network pricing as part of the evolution toward enhanced DSP. Jemena believes that the move to cost-reflective pricing should be introduced in a measured and reasonable manner consistent with the evolution of customer ability to respond to the signals provided.

In addition, Jemena believes that certain incremental improvements to the regulatory framework would enhance distribution network businesses' ability and incentive to explore and facilitate DSP projects. These include initiatives such as:

- rules to provide enhanced certainty of recovery of DSP operating expenditure in future regulatory periods
- changes to AER practices to:

- maintain constant incentives to reduce capital costs across the regulatory period. This could involve introducing an efficiency benefit sharing scheme (**EBSS**) for distribution businesses and removing depreciation from the scheme
- enable a demand management incentive scheme for distributors to capture a portion of benefits created outside of its network (potentially with a mandatory review or sunset clause).

Role of peak demand

Jemena acknowledges that a benefit of DSP is to curb peak demand rises. This benefit is predominantly due to customers shifting their demand to periods outside the peak or consciously choosing lower consumption levels. However, there are a number of potential drivers of rising peak demand and therefore network investment. There is likely to be varying degrees of effectiveness of DSP for each of these drivers.

For example, the ability for DSP to be an effective tool to curb peak demand is mitigated by new commercial and industrial connections driven by economic growth. Since 2001, JEN's non-domestic customer numbers increased approximately 62 per cent compared to an approximate 16 per cent increase in domestic customer numbers. From 2010 to 2011, non-domestic customer numbers increased by approximately 10 per cent with a static net change in domestic customers.

JEN's current priority is to connect and serve these new customers. Doing this facilitates ongoing economic development which has corresponding wider social and economic benefits.

Advanced Metering Infrastructure

Smart meters are likely to have a considerable role facilitating DSP in future. JEN has been a major participant in the installation of advanced metering infrastructure (**AMI**) in Victoria.

The quality and time-span of data available from AMI is constantly expanding. Over time, this will provide the opportunity to facilitate DSP. While JEN is eager to offer innovative network pricing structures and load management products, this will require the additional expansion of the available AMI data set.

The expected evolution toward greater levels of DSP will therefore need time. In particular, in distribution networks such as JEN's where economic growth is driving an elevated level of new commercial and industrial connections, stakeholders should exercise caution and maintain realistic expectations as to what can be achieved in the short-term.

Jemena looks forward to further consultation on this review. If you wish to discuss the submission please contact Sandra Gamble on (02) 9455 1512 or at sandra.gamble@jemena.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read "Sandra Gamble".

Sandra Gamble
General Manager Regulation and Strategy
Jemena Limited