

S08/48

13 FEB 2008

Dr John Tamblyn  
Chairman  
AEMC  
PO Box A2449  
Sydney South NSW 1235

Dear Dr Tamblyn,

### **Submission to Demand Management Rule Change Proposal**

I welcome this opportunity to provide a submission to the first round of consultation on the Demand Management Rule Change proposal ('the Rule change proposal') submitted by the Total Environment Centre (TEC).

The NSW Government and NSW electricity network businesses have been actively involved in the development of frameworks and practices for encouraging efficient investment, including the use of demand management (DM), in network services. Based on this experience, I write to put forward some guiding principles for the AEMC to consider in assessing the Rule change proposal. These principles, which relate to network planning, information disclosure and economic incentives, should assist the development of DM solutions for improving network services.

When undertaking network planning, it is important that a system-wide perspective is adopted and that both demand and supply side options for addressing capacity constraints are considered and appropriately assessed. Only assessing one side of the demand-supply equation can lead to missed opportunities to provide consumers with cost effective solutions to network service delivery.

Sound network planning requires transparent and consistent disclosure of information across the network, particularly the identification of network constraints, regions or localities where demand growth is strong, and the estimated cost of network augmentation options. This will allow current market participants and potential new market entrants to have access to the relevant information to identify DM or other (for example, embedded generation) opportunities for providing network services, especially where they are cost competitive compared to network augmentation. This approach recognises the important role that up to date information plays in allowing DM options to be developed to address a network constraint or reduce peak demand.

Economic incentives, such as appropriate mechanisms to recover the costs of implementing DM projects, are important for stimulating the development of DM projects. In its review of the D-factor, *Demand management in the 2004 distribution review: Progress to date*, the NSW Independent Pricing and Regulatory Tribunal (IPART) noted that DM initiatives have allowed distributors to defer some planned capital investment. The D-factor was a short term incentive to overcome barriers to the greater use of demand management solutions in supplying distribution network services. However, it demonstrated that incentives are a workable mechanism to encourage the uptake of DM initiatives.

Any regulatory framework for DM, particularly one which is based upon financial incentives, needs to be cognisant of the impact that emissions trading will have upon various elements of the National Electricity Market (NEM) and the comparative cost-effectiveness of different options for meeting energy service needs into the future. These impacts will accrue in the generation sector with likely flow on effects to the way electricity transmission and distribution networks are planned and developed. There are a number of publicly available studies which have examined the impact of emissions trading on the NEM.


The importance the NSW Government places on DM is demonstrated by the incentive based policy initiatives we have previously put in place to support DM. The general principles put forward by TEC are largely supported. However, in assessing the Rule change proposal, it is important to ensure that the reliability of the national electricity system is in no way compromised.

Furthermore, in alignment with the competitive principles that underpin the NEM, and the objective of the National Electricity Law itself, the development and evaluation of DM options should be guided by efficiency criteria, focusing on market based solutions and avoiding overly prescriptive regulation.

I look forward to seeing how the AEMC considers the TEC's Rule change proposal in light of its current reviews (Demand Side Participation in the NEM and Congestion Management) and the development of the National Transmission Planner. As DM is a relevant issue in all these areas of the AEMC's work, the TEC Rule change proposal should be considered within this broader context in order to achieve the most comprehensive and workable DM regulatory framework for the entire NEM.

If you require any further information on this matter, please contact Ms Katharine Hole, from the Department of Water and Energy on (02) 8281 7371.

Yours sincerely



IAN MACDONALD MLC