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Australian Energy Market Commission
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Total Environment Centre Rule Change Proposal Demand Management and Transmission Networks

The Energy Supply Association of Australia (esaa) welcomes the opportunity to provide the following comments on the Total Environment Centre's (TEC) rule change proposal for demand management in transmission networks. esaa considers that the issues raised in the TEC proposal are more appropriately addressed via the AEMC's forthcoming review into potential amendments to the Rules to enhance demand side participation in the National Electricity Market.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of more than 40 electricity and downstream natural gas businesses, including energy businesses in Western Australia. esaa member businesses own and operate some \$110 billion in assets, employ over 40,000 people and contribute \$14.5 billion dollars directly to the nation's Gross Domestic Product.

esaa fully supports the important role demand management (DM) can play in delivering the efficient supply of electricity. DM can be usefully defined as actions to alter the level or pattern of the consumption of energy, or use of the energy network, in response to efficient prices or other incentives that efficiently minimise the cost of energy services. esaa's policy position therefore is that DM 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 networks owners for innovation and investment in DM.

The TEC proposal puts forward a number of suggested changes to the National Electricity Rules (NER) with the overall aim of placing a requirement on network service providers to ensure 'cost-effective DM is the priority for meeting energy demands before other options are considered'¹. TEC argues that introducing a bias in

¹ While the TEC proposal relates primarily to transmission networks, a number of amendments are proposed that would directly impact on distribution network service providers as well. See for example Pg 22. The TEC also indicate that they will be making further rule change proposals to address DM within distribution network regulation.

the NER towards DM will result in the avoidance of unnecessary augmentation and a resulting reduction in price pressures and is therefore consistent with the NEM objective of meeting the long-term interest of consumers.

esaa will not provide substantive comments at this time on each of the TEC's proposed rule change areas but offers the following comments of a general nature for the AEMC's consideration. Further comment will be provided at appropriate points in the AEMC's proposed forthcoming review of Rule amendments to efficiently enhance demand side participation in the NEM.

esaa questions the need to adopt the approach outlined in TEC proposal at present given recent initiatives in the national energy market reform program to ensure potential barriers to efficient DM are fully evaluated and corrected. As the TEC proposal notes, the *National Electricity (Economic Regulation of Distribution Services) Amendment Rules* – which came into effect as of 1 January 2008 – contain mechanisms to reduce barriers to distributed generation and DM. Progress is also being made in other key areas. The Ministerial Council on Energy (MCE) is currently progressing a mandated smart meter roll-out via consultation on a national minimum meter functionality, and impediments to efficient price discovery and DM valuation will be progressively removed as retail energy price controls in the electricity and gas retail markets are removed as effective competition in these markets (as assessed by the AEMC) develops.

Furthermore and most importantly, the AEMC has signalled its clear intent to investigate the potential for amendments to the Rules in order to better facilitate demand side participation in the NEM. This will be a comprehensive, three stage process which will analyse the potential for DM within the AEMC's current work programmes and rule change proposals as well as following the finalisation of the national distribution and retail rules, with the final phase assessing any remaining overall opportunities for DM.

esaa fully supports the AEMC review process as an integrated approach to evaluating the appropriateness of mechanisms to facilitate DM and strongly argues that the issues raised in the TEC proposal should be comprehensively addressed in this forum. This will further avoid the time consuming and costly exercise of having to consider and potentially implement multiple rule changes.

The TEC proposal would also place a bias towards consideration of DM ahead of other network and non-network solutions, distorting the current balance in the Rules requiring network service providers to evaluate all alternatives in an unbiased manner and implement the most efficient solution. Given the statutory economic efficiency objective of the NEM it would be contradictory to introduce a requirement that afforded priority to one aspect of network development.

esaa's preferred alternative to the relatively regulated approach outlined in the TEC proposal would be to facilitate transparent and efficient pricing for networks to allow all network options to be compared on an equal basis. The firm of NERA Economic Consulting, in examining network incentives for demand side response and

distributed generation for the Ministerial Council on Energy (MCE)², argued that impediments to efficient DM predominantly arise due to rules that limit the extent to which distribution networks are provided or priced efficiently.

The reports on DM prepared by NERA for the MCE SCO suggested that the most efficient and effective position on DM would be guided by the following two principles:

- (i) efficient network and retail pricing will lead to consumers undertaking and investing in DSM and related efficiency measures efficiently; and
- (ii) commitments to reducing barriers to efficient pricing is the most effective strategy for providing productive incentives for the efficient uptake of DM and related efficiency measures.

For networks in particular, Rules that provide efficient network pricing will establish the most efficient incentives for the efficient investment in, and use of, distribution networks and provide the most effective signals for developing efficient alternatives to distribution network capacity, including DM.

esaa supports the primacy of such a pricing approach, which will lead to least cost outcomes for energy supply investors and users of energy services. To the extent that further incentives should be considered in relation to DM, the most efficient and effective next step would be the proposed AEMC DM review process. It is noted also that the Australian Energy Regulator also has powers under the NER (clause 6.6.3) to develop an incentive scheme for DM for distribution networks.

In summary, esaa does not support the TEC rule change proposal at this time and encourages the AEMC to consider the issues raised in the proposal during its integrated review of incentives for DM in the NEM.

Yours sincerely



Brad Page
Chief Executive Officer

² NERA in April 2007 was commissioned by the MCE Standing Committee of Officials (SCO) to review the impact of the proposed initial NER for the regulation of revenue and pricing of electricity distribution network service providers on incentives to undertake demand side responses and invest in distributed generation. Its paper 'Network Incentives for Demand Side Response and Distributed Generation' is available at the MCE website mce.gov.au