

18 January 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn

Re: Rule Proposal on Demand Management

We are pleased to comment on Total Environment Centre's Rule Change proposal on demand management.

We strongly support this proposal. Australian businesses are increasingly under pressure from the rising costs of electricity and greenhouse emissions. There is an urgent need to transform the national electricity market's wasteful, supply heavy system into one that prioritises efficiency. It therefore makes sense for electricity industry regulations and incentives to ensure that all efficiency gains have been exhausted before the building of expensive and polluting new infrastructure.

CVC has operated its Sustainable Investment Fund since 2002. As investors in sustainable technologies we are keenly aware of market failures that are preventing Australia from capturing the full economic and environmental benefits of energy efficiency. If network augmentation is more expensive than a demand management solution then the demand management solution should be implemented. Australian electricity consumers should not pay more for a less environmentally friendly solution.

The major bias against demand management in the national electricity market must be reversed. Not only can demand management reduce costs and greenhouse emissions, it can also provide both short and long-term supply and system efficiencies and hence assist system reliability. Reducing pressure on generation and relieving short-term congestion improves reliability and reduces the frequency of black-outs.

Ideally, a demand management objective should be inserted into the National Electricity Law. Without such an objective, extensive Rule changes are necessary, including those proposed by Total Environment Centre. While the proposals relate to transmission networks only, we give in principle support to their tailored application to distribution networks as well.

We support the specific Rule proposals below:

1. Transmission network planning

Regulators must ensure that demand management solutions are prioritised and properly investigated in the planning stages of network development.

2. Annual Planning Reports

Transmission networks must be required to publish robust data on upcoming constraints that are relevant and useful to demand management service providers. This would inform the demand management market of upcoming opportunities and enable it to respond to these in an effective and timely manner.

3. DM Incentive

There should be an explicit provision for the Australian Energy Regulator to develop and implement a demand side incentive scheme. This should address the chronic failure of networks to invest in cost-effective demand management.

4. Financial cover for DM investments

The energy regulator must clarify the circumstances in which transmission networks can recover spending on demand management. This would create more certainty for networks regarding their ability to investigate, implement and recover demand management expenditure.

5. Revenue determinations

Revenue determinations for networks must ensure that demand management is prioritised ahead of the construction of more network infrastructure. Revenue determinations are an ideal process to facilitate demand management as this process allows regulators to closely scrutinise and modify future spending by networks.

6. Acknowledgment of modest DM expenditure

Small scale demand side activities should be enabled even when unrelated to particular network constraints or when covering relatively modest amounts of load. Modest but widespread demand reductions can provide long term benefits by reducing the need for a range of possible future network as well as generation augmentations.

7. Effective prudency reviews

Prudency reviews by the regulator must assess past capital expenditure. These should specifically and thoroughly assess the extent to which transmission networks have implemented, and not ignored, an adequate level of demand management. Such reviews are critical to ensure that transmission networks do not ignore demand management solutions at the expense of electricity consumers.

8. Regulatory Test


The Rules should specify that the Regulatory Test require demand management options to be investigated *before* augmentation options. This is likely to ensure that a more appropriate level of transmission networks' resources and attention are directed to DM before augmentation planning is underway.

9. Short-term and long-term price for DM

A price should be set for demand management within the market pool. Setting a price for demand management will encourage greater investment in and facilitate growth of demand management aggregation as a market commodity. A market mechanism that provides the opportunity for proponents to bid into the market would encourage new demand management entrants and promote competition for existing demand management businesses.

We look forward to significant progress on demand management as a result of these important Rule change proposals.

Yours sincerely



Sandy Beard
Chief Executive Officer