



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC's) *National Electricity Amendment (Demand management incentive scheme) Rule 2015 - Draft Rule Determination*.

The Energy Markets and Programs Division (the Division) of the Department of State Development, accepts the AEMC's preferred rule which provides a principles-based approach for both the Demand management incentive scheme (scheme) and Demand management innovation allowance mechanism (allowance). We are pleased to see the explicit requirement on the Australian Energy Regulator (AER) to develop the scheme and allowance.

While the Division sees the benefits of the AEMC's preferred approach, which allows for a more flexible regime, the Division is concerned that there are a number of key elements contained in the Council of Australian Government's (COAG) rule change request that have not been adequately addressed in the draft determination.

One matter relates to the capturing of, and reward for, combined market benefits. The COAG rule change proposal recommended that one of the rewards under the scheme should be derived from the combined market benefits of an approved demand management project. However, the AEMC provides that Principle 3 of rule 6.6.3 sufficiently captures the COAG's intent while giving the AER the discretion to design incentive rewards in different ways. Furthermore, in contrast to the COAG's proposal the AEMC's draft rule does not require the AER to develop a guideline for the scheme, which among other things, was to set out the methodology used to determine the value of non-network market benefits.

The Division accepts the AEMC's position on Principle 3 and the guideline. However, given COAG's position that the current inability of distribution network service providers (DNSPs) to secure a proportion of benefits created across the supply chain is a major failing and noting other stakeholders' concerns, we submit that rule 6.6.3 should include an additional principle which provides that,

where the AER takes into account the net economic benefits, the scheme should provide a transparent methodology about how the value of these benefits is to be determined. In addition the Division provides that it is unnecessary to specifically include reference to those that produce and transport electricity within the Principle because, under the scheme, any market benefits whether at generation, transmission or distribution level, will eventuate in economic benefits to those who consume. As it is electricity consumers that provide the reward under the scheme, it is appropriate that only market benefits which result in economic benefit to electricity consumers be accounted for.

We are also not convinced that the draft rule sufficiently addresses item 4.7(iv) of the COAG's proposed rule which states that the AER must have regard to *the ability of DSP services to recover market benefits through fees, charges and other revenue*. While Principle 4(ii) of draft rule 6.6.3 ensures that the incentive should not include costs that are recoverable from other sources it does not consider potential fees and charges that a DNSP can recover as a result of the DSP project.

In addition, the Division is concerned that Principle 2 of rule 6.6.3 does not go far enough to ensure that rewards to DNSPs under the incentive scheme are only made available when a projects' savings are actually substantiated and realised. It may therefore be preferable for the rule to contain a separate principle to this effect. This is of particular concern given the AEMC's position on assessment and monitoring of the scheme.

The Division also notes that the AEMC's draft rule does not specifically provide for any assessment or monitoring on the scheme. COAG's rule request included a requirement on the AER to publish an assessment report on the effectiveness of the scheme on an annual basis, including development of criteria. While we acknowledge that the AER has previously published Assessment Decisions on the current scheme, the Division considers that the rule should explicitly have this requirement in line with COAG's proposal.

Finally, the Division notes the AEMC's consequential amendments to Chapter 5, Part 5, and Schedule 5.8. Given that the AEMC's draft rule does not contain the COAG's request that DNSPs publish the results of projects under the scheme in their Distribution Annual Planning Report, could the AEMC confirm that these consequential amendments fulfil COAG's request.

Should you require any further information or have any questions, please contact Ms Rebecca Knights on (08) 8204 1715 or Rebecca.Knights@sa.gov.au.

Yours Sincerely



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