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Ref.: EPR0022 - AC/TF/JD

19 October 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

EPR0022 - AEMC's Draft Report – Power of choice – giving consumers options in the way they use electricity

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ), collectively referred to as Ergon Energy, appreciate the opportunity provided by the Australian Energy Market Commission (AEMC) to provide comments on the *Draft Report – Power of choice – giving consumers options in the way they use electricity* (the Draft Report). This submission is provided by EECL in its capacity as a Distribution Network Service Provider and EEQ in its capacity as a non-competing area retail entity in Queensland.

Ergon Energy looks forward to providing continued assistance to the AEMC in identifying opportunities for customers to make informed choices about the way they use electricity, whilst ensuring there is no overt regulatory impost on the whole supply chain that participates in the demand side participation market. Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Trudy Fraser on (07) 3228 2144.

Yours sincerely

Jenny Doyle
Group Manager Regulatory Affairs

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Email: Jenny.Doyle@ergon.com.au

Ergon Energy Corporation Limited
and
Ergon Energy Queensland Pty Ltd

Submission on the

Draft Report – Power of Choice – giving consumers options in the way they use electricity

Australian Energy Market Commission

19 October 2012

Submission on the

Draft Report

Power of Choice – giving consumers options in the way they use electricity

Australian Energy Market Commission

19 October 2012

This submission, which is available for publication, is made by:

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1. INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on its *Draft Report – Power of Choice – giving consumers options in the way they use electricity* (the Draft Report).

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy supports Demand Side Participation (DSP) services/programmes in the National Electricity Market (NEM). However, Ergon Energy considers that further investigation is still required. We note that the AEMC considers that the *power of choice review is to identify opportunities for consumers to make informed choices about the way they use electricity and for network operators, retailers and other parties to maximise the potential of efficient DSP and respond to consumers' choice in a manner that minimises the total cost of electricity services*[1]. While we agree with this in principle, Ergon Energy considers that further evidence is required to demonstrate that this will result in a positive value to end users prior to a Rule change consultation being initiated.

Ergon Energy has responded to the questions and recommendations raised by the AEMC and these are outlined in Section 4 of this submission. Ergon Energy has also taken the opportunity, in Section 3 of this submission, to discuss our approach to DSP and the DSP Projects that we have been involved with.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AEMC require.

2. GENERAL COMMENTS

Although Ergon Energy supports DSP in the NEM, we consider that there are too many uncertainties surrounding the recommendations made in this Draft Report for Ergon Energy to support a Rule change being initiated by the AEMC at this point. This Draft Report is wide ranging and covers multiple and complex issues. We consider that there is lack of understanding in the market as a whole about engaging with customers about the effects of DSP and therefore think there would be extreme value in targeted consultations occurring with DNSPs that are presently engaging in DSP activities. We support arrangements that do not restrain DNSPs engaging with customers directly about DSP activities.

In Ergon Energy's experience there is some uncertainty in using DSP to provide firm network capacity and are working through a number of initiatives to improve the efficiency and effectiveness of how we deliver DSP outcomes to the benefit of our customers. Imposing new rules and guidelines without adequate understanding of their full impacts could pose significant risks to the effectiveness of DSP and the ability for DNSPs to use DSP as an effective means to provide network capacity during peak times.

Ergon Energy considers that there are large differences in the business drivers for DNSPs and retailers, and these drivers should be examined more closely to determine the best possible outcome for customers. Further there are differences in the drivers of different DNSPs and this has been acknowledged by the AEMC in this Draft Report. Ergon Energy has stated our intention to use DSP where it is possible and is a cost effective means to provide network capacity. Our network has characteristics that make DSP options a viable choice to meet customer needs. However, this may not be the case for all DNSPs.

[1] Refer to executive summary, page (i), paragraph 3 of the Draft Report.

We also think that too little value has been placed on the role that networks will play in assessing options to address network constraints under the new Regulatory Investment Test – Distribution (RIT-D). The RIT-D process has been designed to focus on facilitating stakeholder engagement and enhancing the consideration of alternative investment options. The RIT-D process will encourage development in the market for DSP service providers and solutions to ensure that cost efficiencies are being met.

While Ergon Energy has a strong commitment to providing DSP opportunities to customers we are cognisant of the learnings still to be fully realised by the industry as a whole. Ergon Energy feels that more value will be gained if the industry as a whole better understands the potential of DSP to enable network businesses to reduce their rate of capital spending before any Rule changes are initiated by the AEMC. There are many facets associated with ensuring that customers are given the power to choose, and consequently Ergon Energy considers that there would be significant value in undertaking further targeted consultation with parties/stakeholders who are actively involved in the DSP space.

3. Ergon Energy's approach to DSP

Ergon Energy considers that for the past five years, we have been at the forefront of exploring the potential for DSP to provide network capacity. To support this Ergon Energy has created a dedicated team, the Alternative Energy Solutions (AES) Team, within the Asset Management business unit with the express purpose of ensuring that DSP solutions are incorporated into Ergon Energy's network planning processes.

Building on the substantial body of research conducted by our Energy Sustainability and Market Development business unit, the AES Team have worked with traditional network planners to identify network constrained areas where DSP solutions could extend the capacity of the network.

Ergon Energy has committed to reducing 103 MW in demand in the 2010-15 regulatory control period. To date, we have achieved reductions of 17 MW in 2010-11 (Figure 1) and 36 MW in 2011-12 (Figure 2).

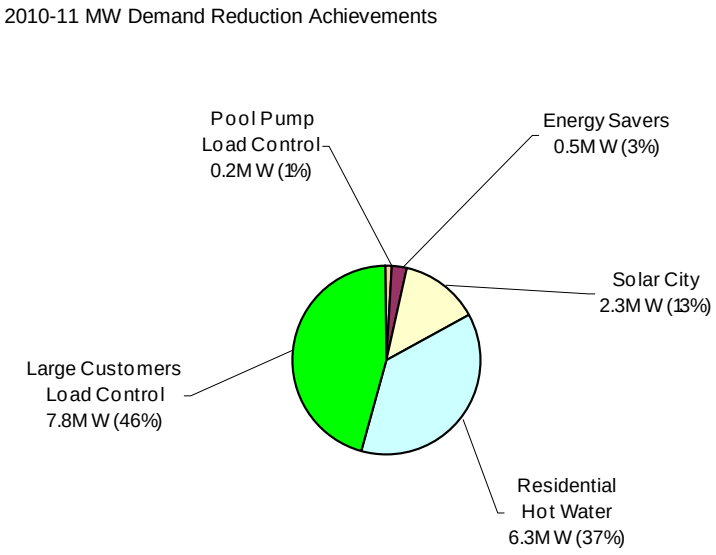

Figure 1: breakdown of demand reduction in 2010-11 by DSP program

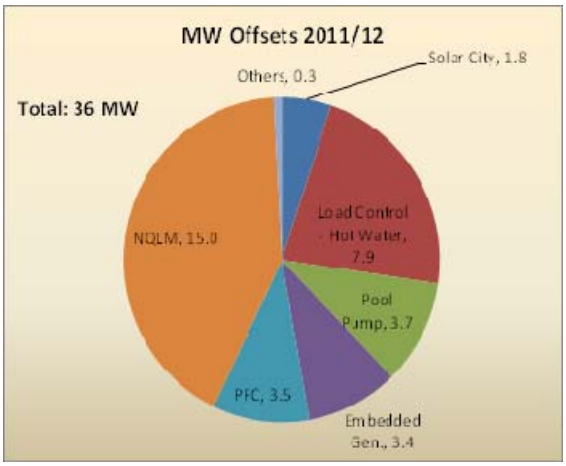

Figure 2: Breakdown of demand reduction in 2011-12 by DSP program.

Current DSP programs and initiatives Ergon Energy has in place include:

- Townsville Energy Sense Community - The Townsville Energy Sense Community Program contains both "Smart Asset Management Capital Deferral" and "Network of the Future" Initiatives supported by stakeholder, community and customer engagement frameworks, knowledge framework and trial architecture. The objective of the Townsville Energy Sense Community Program is to take knowledge and expertise gathered to date from various energy conservation, demand management and technology innovation trials and apply them to a live capital deferral opportunity.
- Townsville Queensland Solar City Project - This program involves distributed solar technologies, energy efficiency, load management, smart meters, cost-reflective pricing and Community Engagement strategies relying on Community Based Social Marketing (CBSM) and Thematic Communication principles.
- Powersavvy – An innovative program that is run by Ergon Energy, to help residents and businesses in some of its off-grid communities reduce their power consumption and power bills.
- Power Factor Correction - Power Factor Correction is used to improve the efficiency of certain types of appliances, such as motors, to reduce the load drawn from those appliances.
- Townsville Network Demand Management Pilot - the objective of this pilot is to enable Ergon Energy to develop the tools and expertise to proactively implement network demand management arrangements with its customers through a targeted program, thereby facilitating deferral of the need for network upgrades.
- Commercial and Industrial Customer Opportunity Evaluations - Ergon Energy identifies customers whose demand can be actively managed to reduce the peak demand on the network, and assesses the possible drivers for the customers concerned, with a view to approaching those customers. Following negotiations, and commercial and engineering assessments by Ergon Energy, a contract is negotiated whereby the customer agrees to reduce their load at peak periods as well as their overall demand for electricity. Mechanisms to achieve this reduction can include the replacement of inefficient equipment, the use of power factor correction on certain appliances, and the customer actively shifting electricity use to off-peak periods.

- North Queensland Load Management Project - The North Queensland Load Management Project will establish a communication and engagement strategy for customers and stakeholders to support implementation of a program to gain increased control of hot water loads in Townsville.
- Air conditioning Direct Load Control – The enhanced ability to widely control air conditioning load during peak periods would decrease pressure on the network and help to defer network augmentation. The primary objective of this strategy will be to maximise customer uptake by offering a financial incentive, such as a rebate, for participating. Ergon Energy will use outcomes of trials completed previously to transition customers to participate on an ongoing basis. This will ensure long term peak demand management benefits for Ergon Energy.
- Pool Pump and Filtration Direct Load Control - The objective of this initiative is to maximise customer uptake of load control options by offering incentives of a significant enough value to persuade customers to participate.
- Maintenance of Existing Load Control Relays - This initiative involves Ergon Energy establishing a program to identify receivers in a non-working state and, once they have been located, to cost effectively repair or replace them. Delivery of this initiative will provide Ergon Energy with an enhanced ability to directly control load.
- Embedded Generation Solutions - This initiative will assess the feasibility of customer embedded and network embedded solutions to address peak demand in network constrained areas. One of the key objectives of this initiative is to create market awareness for third parties to provide the generation solution by contracting with Ergon Energy for network support services.
- Reward Based Tariffs (RBT) Project - This project initiative looks to influence demand management through market based pricing signals. The project comprises a series of pilots on volunteer groups of customers, empowering them to respond to pricing signals that will convey information regarding available network capacity. Customers participating in the pilots have been given control over their energy bills and have had the opportunity to reduce electricity costs by reducing demand at peak periods.

In addition to our existing work, we are also undertaking a program of works to further improve the effectiveness and efficiency of our DSP program. At the forefront is the development of our Demand Management Strategic Plan. This strategic plan will provide a roadmap on how Ergon Energy will efficiently and effectively deliver DSP for the benefit of reducing overall distribution costs.

Ergon Energy believes that the key to effective DSP is a strong and vibrant energy services industry. To help foster the development of this industry, Ergon Energy is undertaking a number of initiatives to facilitate better provision of information of DSP opportunities to the Energy Service Companies (ESCOs) market. Our aim is to create the tools and structures to provide better visibility of DSP opportunities to the market so they are further enabled to provide quality responses to our requests for DSP solutions to network constraints. It is within this context that Ergon Energy stresses caution in regard to creating new administrative structures that may hamper the growth of this sector.

Ergon Energy is currently undertaking the following activities to improve the efficiency and effectiveness of our delivery of DSP as a means to increase network capacity:

- **Demand Reduction Potential Review** – this review will estimate the amount of peak demand reduction realistically available across our network by geographical area and customer segment. This information will provide guidance on where Ergon Energy should be investing funds in DSP.
- **New product offerings for customers** - Ergon Energy is developing a suite of incentives for products with predetermined or “deemed” demand reduction incentive savings. These products will provide customers value in return for their participation in DSP initiatives.
- **ESCO Service Provider Alliance -** Ergon Energy is developing an Alliance structure to directly engage with ESCOs to support our DSP initiatives. The Alliance will comprise technology and service providers who will be accredited to support and enhance the product offerings offered by

Ergon Energy. The Alliance will enhance our ability to reach customers to involve them in DSP initiatives and enhance our relationships with the ESCO sector.

- **Alternative energy solutions for new customer connections** - Ergon Energy has recently incorporated an option for customers to explore lower demand options as part of the new customer connection process. This option provides customers with the opportunity to work with Ergon Energy to explore how lowering their demand – through changes to their planned project design or operations – can save them on their connection, network and operating costs. This process also allows Ergon Energy to target customers intending to connect in high growth and constrained areas to provide them with incentives to reduce demand.

- **Demand Management Funding Package** - Ergon Energy is working with external funding agencies to develop a dedicated DSP fund to overcome the financing barriers to the uptake of the technology that will enable commercial and industrial customers to reduce their coincident peak demand and operating costs.

- **Dynamic Planning Model Framework -** A fundamental part of the mindset shift required to fully capture the value of DSP into efficient network planning is in recognising DSP as providing valuable system capacity. This shift in thinking allows DSP capacity to be considered alongside traditional supply capacity as a complementary part of an optimised solution to deliver affordable electricity to customers. This piece of work aims to refine the network planning process to incorporate a more dynamic approach to utilising DSP within a traditional network planning framework.

- **DSP value map** - DSP has varying value across Ergon Energy's network. In areas where there is plenty of network capacity, DSP has lower value. In highly constrained areas, DSP has a high value by providing additional capacity that can defer the need to build traditional network infrastructure. Ergon Energy is currently undertaking an activity to map the value of DSP across our network. This map, which will provide valuable information on the opportunities for DSP, will be made available to the DSP service provider market and customers.

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4. TABLE OF DETAILED COMMENTS

Recommendations/Questions	Ergon Energy Response
2.3.1 Timely and accessible energy and metering data to consumers	
• Chapter 7.7 (a) of the National Electricity Rules (the Rules) to clarify the requirements on a retailer when consumers request access to their energy and metering data. This would include provisions relating to the format and structure of data to be provided; the timeframes for delivery; and fees that can be charged. • Chapter 7 of the Rules to require, at a minimum, a retailer to provide residential and small businesses consumers with information about their electricity consumption load profile. There may be a need to amend the National Energy Customer Framework (NECF) to ensure consistency of arrangements.	• Ergon Energy supports the development of a minimum standard form for providing energy and metering data to customers and their agents. It is important that stakeholders are consulted when developing this form. Considerable research and analysis will be required in order to document what the minimum standard form should be in order to ensure that the appropriate value/benefit is derived and therefore passed onto customers. • Ergon Energy believes that the costs to market participants and the appropriate channel through which load profile information is to be provided should be assessed prior to implementing any Rule change on this issue. We suggest that a cost-benefit analysis should be undertaken to ensure that the cost of providing this information to all customers does not outweigh the benefits. Market-based research on specific customer requirements may also be needed. Ergon Energy agrees that customers should have access to their energy and metering data. However, there are a number of matters that will need to be considered at a policy level if a DNSP is required to directly provide this information to customers. For example, clause 7.7(a)(7) of the Rules, which establishes the persons entitled to access or receive certain categories of data, including energy data, metering data and NMI standing data, prohibits DNSPs from directly providing this information. That is, end users can only gain access to their data through a request to the financially responsible market participant (usually the retailer for residential and small business customers). Also, consideration should be given to how this interacts with the Australian Energy Regulator's (AER) Classification of Services and the economic regulation of DNSPs under Chapter 6 of the Rules (including a DNSP's ability to recover its costs). While customers may not be liable to pay a retailer for the provision of certain energy and metering data, this should not prevent a DNSP from recovering its costs from the retailer, if it is required to perform additional metering services which do not form part of its Standard Control Services (SCS).

1. What should be the minimum standard form and structure of energy and metering data supplied to consumers (or their agents)? Should these arrangements differentiate between consumer sectors (ie industrial/ commercial and residential)	1. Ergon Energy believes that the Rules should outline a timeframe in which retailers are required to respond to a request for energy and metering data only in instances where standardised data is requested. In these circumstances, Ergon Energy believes a timeframe of 10 business days is reasonable. If non-standardised data is requested (e.g. the retailer has to manipulate data or the metering data provider (MDP) is involved), we do not believe the legislation should specify a timeframe. For example, if the MDP is involved, the timeframe will be dependent on the relevant service order request timeframe, as well as processing times by the retailer (e.g. receipt of request, raising the service order request, receipt of the information, manipulating the data, if necessary, and provision of the information to the customer).
2. When do you think it is appropriate for a retailer (or responsible party) to charge a fee for supplying energy and metering data to consumers or their agents?	2. Ergon Energy agrees that standardised form data held by the retailer should be provided to the customer at no cost. However, we believe the AEMC's proposed approach to charging for additional data services provided by the retailer or responsible party, or in instances where customers (or their agents) request information more than once per billing period over a 12 month period, should be cognisant of existing jurisdictional and business-specific regulatory arrangements. As a non-competing retailer, EEQ may only impose other fees and charges on a small customer relating to the provision of customer retail services where the imposition of that fee is expressly provided for in the Notified Prices (which are published as a Tariff Schedule in the Queensland Government Gazette). Similarly, under section 8.1 of the Standard Large Non-Market Customer Retail Contract, EEQ can only charge large customers the Notified Prices for the provision of customer retail services and associated services. Currently, the Notified Prices does not expressly specify a fee which can be charged for providing data more than once per billing period over a 12 month period. It does specify a maximum fee that can be charged for providing historical billing data that is more than 2 years old. However, there are no other services expressly identified. Therefore, at this stage, EEQ would be unable to recover costs associated with the provision of most of these retail services. However, EEQ is not prevented from passing through Alternative Control Services (ACS) charges that EECL may bill EEQ. Having said this, we do not object to the introduction of a reasonable fee in these circumstances. The fee should reflect the effort involved in providing these services, and should not place undue financial burden on customers.

	Where additional data services are provided by the MDP, it should be recognised that EECL will be providing metering data to a standard which is above what it, as a DNSP, is required to provide to EEQ and other retailers in order for them to prepare a customer's bill. This means EECL can charge for this service. For EECL, the amount which can be charged will be dependent on the meter type and the Classification of Services set out in the Final Distribution Determination for the 2010–15 regulatory control period. That is: • Type 1 to 4 metering services are unregulated and are not subject to economic regulation by the AER under the Rules. Consequently, EECL can determine its own price for these services. • Type 5 to 7 metering services are regulated and are subject to economic regulation by the AER. The amount EECL is able to charge is governed by the Classification of Services and form of price control. Most of EECL's 'standard' Type 5 to 7 metering services have been classified as SCSs by the AER. There are no additional charges for SCS as the cost of providing these are already accounted for and recovered through the network charges EECL bills retailers. However, EECL does have a range of 'non-standard' or ancillary Type 5 to 7 metering services which have been classified as ACS by the AER. These services are usually undertaken as a result of a specific request from a retailer and EECL levies separate charges for the provision of these services. Ergon Energy believes 'additional data services' are likely to fall into this category. Ergon Energy therefore considers that any arrangements should not impact a DNSP's ability to recover costs in accordance with existing provisions. It is also important to note that retailers are generally entitled to pass through distribution non-network charges on customers' electricity bills. This would in most cases include charges associated with additional data services provided by the MDP.
2.3.2 Transfer of energy and metering data to authorised consumer agents	
• We propose that changes are made to Chapter 7.7 (a) of the Rules to enable agents, acting on behalf of consumers, to access consumers' energy and metering data directly from a retailer. This would include requirements on a retailer to provide consumers' energy and metering data to an authorised consumer's agent (third party), following explicit	Ergon Energy supports the AEMC's recommendation to broaden the Rules to enable third parties or agents acting on behalf of customers to have access to their customers' energy and metering data. Understanding the detail around a customer's energy use behaviour is essential in identifying where that customer could change technologies and/or practices to reduce their energy consumption and shift load into non-peak times. Ergon Energy notes

informed consent.	that customers, especially residential customers may not have the expertise to interpret their energy use, and therefore what options may be available to them. This lack of understanding inhibits a customer's ability to better manage their energy use and Ergon Energy sees value in granting a third party permission or a customer agent access to a customer's energy data to enable them to provide this service.
2.3.3 Market information to develop DSP products and services	
• We propose that changes are made to the Rules to require Australian Energy Market Operator (AEMO) to publish market information on representative consumer sector load profiles	
3. Do you agree that general market information should be published on consumer segment load profiles to inform the development of DSP products and services to consumers?	3. Providing the Energy Services Companies (ESCOs) Market with information on the energy use characteristics of different customer segments should encourage innovative, new products and services that will provide customers with realistic options to manage their energy use. In a practical sense, Ergon Energy considers that publishing this type of market information can be a complex and onerous task and therefore a demonstrated benefit to the customers of a DNSP must be established. Ergon Energy therefore recommends that the AEMC undertake more detailed analysis in this space prior to initiating a Rule Change Consultation.
4. Is AEMO the appropriate body to publish such information, or should each DNSP be required to provide such information particularly where data will be at the feeder level where accumulation meters are installed?	4. Despite the fact that Ergon Energy sees the possible benefits of publishing this information, we consider that these possible benefits may be outweighed by the complexities of such a requirement. Also, Ergon Energy considers that it is not appropriate that a DNSP is the appropriate party to publish or provide this information. Ergon Energy notes that retailers will hold this information to allow accurate segmentation, so does not see the benefit in having DNSPs responsible for providing this information. Determining the customer segments at a feeder level would require a DNSP or AEMO to have a very detailed knowledge of customers across a particular network. At present Ergon Energy collates this type of information for the purposes of developing demand management solutions to address constrained areas of the network. The process of gathering this information requires significant effort and cost. We would envisage the cost of collating this information across the entire network would be prohibitive but at least should be considered in a cost benefit analysis.

	Further, profiles provided at feeder level need to include switching information to ensure that the data remains representative of the customers on that feeder.
3.3.1 Energy services to residential and small business consumers	
• We recommend that the NECF is clarified to make it clear what arrangements apply to third parties providing "DSP energy services". This should involve establishing criteria either in the NECF or the AER guidelines on retail exemptions. The criteria could include the circumstances where accreditation (or exemptions) of parties is required and the relevant provisions of the NECF that would apply (ie marketing rules, and the relevant enforcement and monitoring provisions).	
5. What specific criteria could be used to determine whether elements of the NECF (ie marketing code) apply to third parties providing DSP energy services to consumers? That is, beyond Australian Consumer Law?	5. The Australian Consumer Law cannot be contracted out of and will apply to any provision of goods or services in the course of trade by third parties. Accordingly, all such activity will be caught under and regulated by this legislative framework. For this reason, Ergon Energy does not consider that there is a need for any further specific criteria in this regard.
6. What requirements should be in place for these third parties? For example, what should be the form of authorisations/accreditations?	6. We consider that the NECF, as currently drafted, is not broad enough to encapsulate the services to be provided by third parties in the market. Accordingly, we consider that there is a genuine need to strengthen the NECF and/or the Rules to ensure that third parties operating in this market are sufficiently regulated and customers are sufficiently protected. Whilst recommending that there is a need for a legislative framework especially for aggregators operating in the wholesale market, Ergon Energy recommends that considerable analysis occurs so as to ensure that some ESCOs such as Home Area Network sellers, In-Home Devices sellers, peak smart air conditioner providers are not unintentionally captured as this will limit the development of the DSP market in providing positive outcomes for customers. It is important that DSP energy services are defined so that there is clear unequivocal direction on who will be captured under any proposed regulatory arrangements. Ergon Energy considers that this must be carefully considered by the AEMC so as to ensure that there are no unintended consequences that inhibit the development of the DSP market.

3.3.2 Role of retailers and distribution network businesses - engaging with consumers	
• We recommend that the NER and NECF are clarified to outline the conditions when a distribution network business can engage directly with consumers to offer DSP network management services. This may involve establishing appropriate guidelines/process for the AER to apply and outlining which elements of the NECF apply.	Ergon Energy considers that the NECF currently allows distributors to have a relationship with its customer from a physical and supply connection service perspective. It does not go so far as to explicitly provide for DSP service arrangements. This is the same under the Rules. This highlights the fact that DSP network services are an un-defined term in the legislative framework. Currently, Ergon Energy has contracts with customers owning embedded generation which require them to generate at specified times to release additional capacity onto the network. This type of contract effectively allows Ergon Energy to defer building costly network infrastructure to meet peak demand events that occur on an irregular basis. The same situation applies to load shedding contracts, where customers can reduce their demand requirements at peak times in order to maintain adequate capacity on the network. Ergon Energy exercises those contractual rights in partnership with the customer for the specific purpose of alleviating network constraints. Engaging customers to participate in demand management activities requires DNSPs to create solid relationships with customers. The principle underpinning the relationship between customers engaging in a demand management activity and Ergon Energy is the equitable and efficient sharing of the value created. This value on the network side is an extension of the life of existing network infrastructure to provide safe and reliable electricity to our customers. In the long term this slows network expansion and will reduce the size of increases in distribution costs. Ergon Energy works with developers to reduce the peak demand generated by the establishment of new residential estates. For large estates, these negotiations will result in lower demand requirements at the HV level of the network, substantially prolonging available network capacity. Ergon Energy considers it important to note that Retailers are not involved during these negotiations. The purpose of this relationship is to find mechanisms (chiefly through building design guidelines) to engage with residential customers to ensure that their new dwellings are built to reduce peak demand (e.g. connection to off peak tariffs, ability to control air conditioning load, energy efficient building design etc.).
7. Do you agree that existing rules and guidelines should be amended to clearly outline the circumstances when distribution businesses are	7. This question highlights the importance of defining what are “DSP network services”. Ergon Energy considers that the area of DSP is still in its infancy and therefore does

able to directly contract with residential and small consumers to deliver DSP network management services/programs?	not consider that the existing rules and guidelines are deficient. In saying this, Ergon Energy does see value in making it explicit that DNSPs and other third party DSP service providers can directly engage with customers and offer DSP services. Ergon Energy sees great value in allowing DNSPs to have a direct relationship with customers. This is especially important for DNSPs given that it's the distributor that manages the network and has jurisdictional obligations to maintain quality and reliability of supply. Any impediments to the ability for a DNSP to interact directly with a customer will effectively diminish the use of demand management to manage network constraints.
4.3.1 Functional Specification of meters in the Rules	
• We recommend that a new minimum functionality specification is included into the Rules for all future new meters installed for residential and small businesses consumers. That specification should include, interval read capability and remote communications. 8. Should the minimum functionality specification for meters be limited to only those functions required to record interval consumption and have remote communication? Alternatively, should the minimum functionality include some, or all, of the additional functions specified in the Smart Metering Infrastructure Minimum Functionality Specification?	8. Ergon Energy supports the inclusion of a minimum functional specification in the Rules. We agree that all functions in the SMI minimum functionality specification should be included except for the communication technology. We note that additional work needs to be undertaken around interoperability of metering and associated equipment. Ergon Energy recommends that consideration is given to include additional functionality such as direct load control functions where they provide benefits to the retailer, LNSP and/or the customer. Ergon Energy has participated in the National Smart Metering program to determine the most effective method of deploying smart metering capability. This extensive consultation process found that the most effective way to deliver smart meter capability was through DNSPs.
4.3.2 When should metering infrastructure be installed	
We recommend that: • the installation of meters consistent with the proposed minimum functionality specification to be required in certain situations (eg refurbishment, new connections, replacements). • Such metering must also be installed on an accelerated basis for large residential and small business consumers whose annual consumption a defined threshold.	Ergon Energy supports the installation of meters consistent with the proposed minimum functionality specification in certain situations if business cases demonstrate that the benefits outweigh the costs. The recommendation that such metering be installed on an accelerated basis has merit. However, Ergon Energy considers that more analysis should be undertaken and perhaps on a case-by-case basis.

4.3.3 Arrangements to support commercial investment in metering technology	
• Reforms to the current metering arrangements are necessary to promote investment in better metering technology and promote consumer choice. We put forward a model where metering services are open to competition and can be provided to residential and small business consumers by any approved metering service provider. • If new arrangements are implemented, then we advise that governments should consider removing the possibility of a mandated roll-out of smart meters.	In its Draft Report,[2] the AEMC has indicated that, under the contestable model, metering costs would be unbundled from Distribution Use of System (DUOS) charges. Ergon Energy notes that if metering costs were required to be unbundled within the SCS classification, there would be significant administrative costs to Ergon Energy. These would include sourcing additional data from within the business and the AER to enable prices to be calculated and modifying IT systems, including network pricing and network billing systems. It would also require Ergon Energy to request a change to the Queensland B2B Network Billing Specification, leading to a consultation process with retailers. It also may require retailers to undertake system changes to meet the B2B Specification. Ergon Energy believes it is premature to make any recommendations relating to the unbundling of metering costs until the extent of contestability (if this model is adopted) is known. From a high level perspective Ergon Energy supports a framework that enshrines meter ownership and maintenance sitting within a dedicated asset management regime. The cost of servicing difficult and remote sites should be considered – contestability could leave a DNSP with all the high cost to serve sites. These proposed recommendations require greater consultation with industry. Ergon Energy therefore recommends further investigation is undertaken by the AEMC.
9. Does the separation of the provision of metering services from retail energy contracts remove the need for meter churn when a consumer changes retailer? Does this cause any unforeseen difficulties or create any material risk? Are there any alternative approaches to reducing the need for meter churn?	9. Transitioning to a contestable model will increase the rate of churn of customers from the DNSP as a provider to another provider which increases the risk of stranded assets and reduces the economies of scale that are achievable if the DNSP continues as the provider. Additionally, the AEMC should have regard for the need to maintain consistency when delivering/deploying new meter infrastructure. This is likely to be best achieved by a centrally managed service such as currently exists within DNSPs.
10. Are there sufficient potential metering services providers to facilitate a contestable roll out of AMI? Does the proposed model mitigate all the material risks of a contestable roll out? If not, should a monopoly roll out be adopted?	10. Ergon Energy does not consider that there are sufficient potential metering service providers in the market to facilitate a contestable roll out of AMI. We believe the DNSP is best placed to capture the benefits and economies of scale in providing metering services.

[2] Page 54

11. What should the exit fee when a consumer upgrades it meter from one provided by the local distribution business? Is the proposed fixed 30% of the cost of a replaced meter appropriate?	11. Ergon Energy believes that the appropriate methodology to determine a fee (e.g. for a meter upgrade) should be assessed by the AER through the distribution determination process, and through the annual Pricing Proposal process. Ergon Energy supports the current arrangements where the AER determines the appropriate classification and form of price control which applies to its distribution services (including any costs and prices associated with upgrading an accumulation meter). Ergon Energy also believes that DNSPs should be provided the discretion around how they develop their prices in order to recover their efficient costs incurred in providing their services.
12. Does the option of a government mandating an AMI roll out within its jurisdiction act as a strong disincentive to a commercial roll out? Should the ability for these governments to mandate an AMI roll out be removed from the National Electricity Law?	12. Ergon Energy submits that regardless of the ability to mandate a roll out, as a prudent and efficient distribution business a roll out should only occur where there is a positive business case to do so.
5.3 Demand response mechanism	
• We recommend a demand response mechanism that pays demand resources via the wholesale electricity market is introduced. Under this mechanism, consumers participating in the wholesale market can make the decision to continue consumption, or reduce their consumption by a certain amount for which they would be paid the prevailing spot price.	In its Draft Report, the AEMC has indicated that, in order to implement the demand response mechanism, network charges would need to be separated from energy only costs by retailers. As a non-competing retailer, EEQ is only able to offer the Notified Prices determined by the Queensland Competition Authority upon delegation from the Queensland Minister for Energy and Water Supply. The Notified Prices are set out as a Tariff Schedule in the Queensland Government Gazette, and are currently bundled. For EEQ, this issue would need to be addressed at the jurisdictional level. The AEMC's contention that "this mechanism should deliver long term benefits to consumers by facilitating greater participation of price response demand, lowering generation and network costs and increasing competition in the energy market; and will, in turn, lower spot prices and network charges" does not appear to be supported by evidence. In terms of the concept at the heart of this recommendation, Ergon Energy would welcome greater investigation by the AEMC in terms of what is the net benefit to customers.
13. Participation in the wholesale market: (a) Do stakeholders agree that the proposed demand response mechanism is likely to result in efficient consumption decisions by end-users? If not, are there any changes you recommend to the mechanism to facilitate this?	13. (a) EEQ agrees with the proposed demand response mechanism and that it will contribute to efficient consumption by end-users. Whether the end users make efficient decisions will vary between end users. Those with flexible demand management capability, able to respond quickly to spot market signals, should be capable of making efficient decisions. Those with a more inflexible demand profiles will be more

	dependent on market forecasts and may make inefficient decisions. It is possible that aggregators will be able to provide end users with more certainty through the design of their arrangements for end users. EECL considers that a demand response mechanism within the wholesale market will contribute to efficient consumption decisions by users in so much as they can be rewarded through market payments. This may have lucrative benefits to some customers but may result in unforeseen consequences for the electricity supply chain and uncertain net benefits to customers. The ability to bid in demand reductions should result in a lowering of the need for expensive peaking plant which should ultimately reduce average wholesale electricity costs. However, it is not certain that demand bidding will assist in managing network peak demand periods as they may not be correlated (and often are not) with a peak pricing event. This is particularly true in Ergon Energy's network which is subject to more regional factors contributing to peak demand conditions. EECL recommends that the AEMC consider all facets of the proposition that a demand response mechanism will deliver long term benefits to customers by facilitating greater participation of price response, lowering generation and network costs and increasing competition in the market[3]. EECL considers that the AEMC should undertake further analysis to ensure that the network impacts of this demand response mechanism are fully realised. We do not think that the Draft Report has demonstrated how this mechanism will reduce network costs.
(b) On balance, is a new sub-category of market generator required for consumers providing a demand that enables aggregation? What types of issues should be considered when developing the registration process?	(b) EEQ agrees that a new sub-category of market generator will be required. However, we think that more investigation is required to fully understand and appreciate what efficiencies these demand response mechanisms will provide. As these are likely to be mostly aggregators, the registration process will need to assess the technical and financial capability of the aggregator especially in the provision of advice and systems to end users. Furthermore consideration of the size and how much load may be exported will have to be considered.
14. Consumer baseline consumption: (a) What factors should be taken into consideration when developing a baseline consumption method?	14. (a) EEQ considers that thorough testing of the baseline formula needs to be undertaken to ensure loop holes or weaknesses do not exist in the method that could lead to gaming or a participant incurring costs or gains that are not warranted.

[3] Page 62, Section 5.4 of the Draft Report.

	International literature reviews have highlighted the difficulty and problematic outcomes associated with baseline formulas. Concern also exists for the costs of development, administration and ongoing costs to retailers of such a system.
(b) Have we identified the correct three key principles for developing a baseline consumption method (data refresh, accuracy, metering)?	14. (b) Ergon Energy provides no comments.
(c) Are there any substantial changes to metering and settlement arrangements required for this mechanism to be implemented? Can these issues be resolved through AEMO's consultation process and procedures or are broader amendments to the rules required?	14. (c) Ergon Energy provides no comments.
15. Incorporating demand response into central dispatch: (a) Do you agree that similar arrangements for generation should apply to demand resources in terms of thresholds for registering as scheduled or non-scheduled basis?	15. (a) Ergon Energy agrees.
(b) What are the ways in which the regulatory arrangements can be adapted to facilitate the participation of scheduled and non-scheduled load in AEMO's central dispatch process? Are there any specific changes to reporting, telemetry and communication requirements?	(b) Ergon Energy considers that each aggregator may use its own system of automatically communicating, monitoring and potentially controlling each end users demand response. AEMO will need to identify minimum technical requirements for these systems.
(c) Should both market and non-market loads above a certain size be required to provide information to AEMO regarding their controllable (and therefore interruptible) load blocks?	(c) Ergon Energy considers market and non-market loads above a certain size should be required to provide information to AEMO. Ergon Energy considers that it is appropriate that different information requirements may apply depending on how those market and non-market loads are interacting with the market generally.
(d) Should there be a trigger in the monitoring and reporting framework that requires consumers to provide greater detail regarding their demand resource to AEMO or affected DNSPs?	(d) This requirement should fall on the aggregator.

5.7.1 Creating new category of market participant	
• We recommend creating a new category of market participant in the Rules that will allow for the unbundling of all non-energy services from the sale and supply of electricity. 16. Do you agree that a new category of market participant should be established for the provision of non-energy services? 17. What types of issues should be considered when developing the registration process, such as eligibility, obligations and liabilities? 18. What metering arrangements need to change to implement this mechanism?	Ergon Energy considers that a third party market already effectively operates without this kind of regulatory imposition. We think there is value in allowing this market to grow as DNSPs become more confident and skilled in integrating DSP into their network planning processes. Ergon Energy is concerned that by creating a new category when the area of DSP is still in its infancy is premature, especially when the regulatory impost of registration and compliance is significant and could be seen as a barrier by DSP service providers. Ergon Energy recommends further investigation by the AEMC.
6.3.2 Building consumer confidence through education	
• We recommend that governments and industry work together to educate consumers and provide them with the information they need to understand both the system wide benefits and potential individual gains from time varying tariffs.	If the proposed approach to time varying tariffs is adopted, Ergon Energy supports this draft recommendation. However, Ergon Energy notes that it does not support the AEMC's proposed approach to transitioning network tariffs to time varying pricing.
6.3.3 Managing the impacts on vulnerable consumers	
To manage the impacts on vulnerable consumers we recommend that: • Arrangements are put in place for consumers, which may have a limited capacity to respond, to remain on a retail tariff which has a flat network component, and would have the option to choose a time varying tariff. • Government programs target advice and assistance to these consumers to help manage their consumption. • Governments review their energy concession schemes so that they are appropriately targeted.	If the proposed approach to time varying tariffs is adopted, Ergon Energy supports this draft recommendation. However, Ergon Energy notes that it does not support the AEMC's proposed approach to transitioning network tariffs to time varying pricing.

6.3.5 Phasing in time varying pricing	
The transition to better price signals in the NEM should be done in a gradual phased approach. We propose that this can be achieved through: • Focusing only on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include the relevant network tariff into their retail offers; and • Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways. This would work as: o For large consumers (band 1), the relevant network tariff component of the retail price must be time varying. This would require these consumers to have a meter that can be read on an interval basis. o Medium to large consumers (band 2) with an interval meter would transition to a retail price which includes a time varying network tariff component. These consumers would have the option of a flat network tariff. o Small to medium consumers (band 3) would remain on a flat network tariff. These consumers would have the option to select a retail offer which includes a time varying network tariff, if they so choose.	Ergon Energy appreciates the strong desire to put in place incentives for DSP to reduce the upward trend in electricity prices, and to make it easier for customers to take up demand side options. However, Ergon Energy questions how recommendations focusing on mandating the application of time varying prices for one component of customer bills (i.e. network tariffs) will achieve these objectives. Ergon Energy believes that there has been insufficient consideration by the AEMC on the ability of and likelihood of customers to be affected by the proposed time varying network tariffs, as long as retailers are free to decide how to include network tariffs in their retail offers to market customers. Furthermore, Ergon Energy believes that additional consideration is required around how this policy will interact with retail competition policy and the methodologies used to determine the regulated retail tariffs for non-market customers which is administered at the state level. Ergon Energy is also concerned with the impact that the proposed segmentation of customers and mandated application of time varying network tariffs has on the market as a whole. Ergon Energy envisages that in order to effect this recommendation, there will be a range of additional transaction costs imposed on both distributors and retailers in order to develop the systems and manage data to facilitate the billing of network tariffs under the AEMC proposal. These costs need to be considered by the AEMC. Ergon Energy agrees there is considerable potential to manage peak demand through cost reflective tariff structures over time. However, Ergon Energy believes that individual DNSPs should have the discretion to determine their pricing structures, and be able to adapt their pricing structures to manage demand on the network as technology and the energy market evolves. While Ergon Energy agrees that time varying network prices can contribute to reductions in demand during peak periods, Ergon Energy believes that there are a range of pricing signals and network tariff structures which are capable of incentivising efficient DSP and reductions in demand during peak periods. It is also important to note that that there are a number of DNSPs which already have existing time-of-use (TOU) or 'time varying' network tariffs. A number of DNSPs are also actively refining their basis of their network tariffs and investigating alternative pricing structures which potentially can send stronger pricing signals in comparison to traditional TOU tariffs (for example capacity based charges and critical peak pricing). Ergon Energy

	believes that the AEMC needs to have regard for the effectiveness of alternative pricing structures and the longer term strategies that are already being investigated by DNSPs in improving cost-reflective pricing and DSP options for customers.
19. Do stakeholders agree with our approach for phasing in cost-reflective pricing? If not, how can the policy be improved to transition to cost-reflective pricing?	19. Ergon Energy does not support the AEMC's proposed approach to transitioning to time varying pricing. Ergon Energy believes that the AEMC's proposed approach is too prescriptive, and that the proposed additional regulation of DNSP price structures is unwarranted. A DNSP should have discretion to determine its own network tariff structures and choose which signals should be sent to customers in managing demand and recovering its allowable revenues on an efficient basis. Ergon Energy is currently undertaking a review of its Network Tariff Strategy. As part of this Strategy, Ergon Energy will investigate innovative network tariff structures which are consistent with our greater focus on demand management.
20. Have we identified the main issues with transitioning to cost reflective pricing? If not, what other issues need to be considered?	20. Ergon Energy provides no comments.
21. How should consumption thresholds be determined?	21. As discussed above, Ergon Energy does not support the proposed approach to transitioning to time varying tariffs. If adopted, Ergon Energy notes that segmenting residential and small business customers into three different consumption bands will require system changes at the distributor and retailer level, amendments to the Market Settlement and Transfer Solution (MSATS), as well as other legislative changes. If this approach is adopted, we agree that consumption thresholds may need to vary across jurisdictions.
6.3.6 Strengthening arrangements for network tariffs	
We recommend that: • The distribution network pricing rules in the Rules are amended so that distribution network businesses have sufficient guidance to set efficient and flexible network tariff structures that support DSP.	Ergon Energy believes the distribution pricing rules already provide sufficient guidance to set efficient and flexible network structures that support DSP. We do not support further prescription. As noted above, a DNSP should have discretion to determine its own network tariff structures and choose which signals should be sent to customers in managing demand and recovering its allowable revenues on an efficient basis.

• A new provision is included in the rules which require distribution network businesses to consult with consumer groups and retailers on their proposed tariff structures each year. 22. We seek stakeholder comments on appropriate pricing principles for distribution businesses and the appropriate time period for stakeholder consultation on distribution network pricing proposals.	We support the AEMC's consideration "that the pricing principles should provide some flexibility for networks to signal differences in locations costs".[4] Ergon Energy agrees that DNSPs should consult with consumer groups and retailers on their proposed tariff structures, and intends to do so when making changes to our network tariff structures.[5] This will ensure that customers, retailers and interested parties are involved in the development of new tariffs and are cognisant of changes likely to affect them. In terms of revising the Rules, Ergon Energy believes that the new provision should not be too onerous or unduly delay the introduction of new network tariffs to support the network, new meters and market technologies etc. The consultation process will also need to work into our current Pricing Proposal process.
6.3.7 Addressing risks for retailers under cost reflective pricing	
• We recommend that once a residential and small business consumer has a meter with interval read capability, that consumer's consumption should be settled in the wholesale market using the interval data and not the net system load profile. This will be the case irrespective of whether the consumer has reverted to a flat retail tariff.	Ergon Energy notes that if this recommendation is adopted then there may be an impact on meter reading costs. Additional infrastructure would be required to read and house interval data which will in turn result in additional costs to customers.
6.6.1 Demand forecasting	
• We recommend that the Rules is amended to clarify AEMO's role in developing both long and short term demand forecasts, including estimating DSP, for the purpose of providing accurate price signals to the market over various time frames including pre-dispatch. • To achieve clarity in this regard, the existing rules associated with	There are a number of risks in using this approach to incentivise DSP in the NEM. DNSPs need to be able to access firm demand reduction to ensure network capacity is maintained at peak times. It is difficult to envisage how a fluid market such as the NEM could provide the level of certainty of demand response that would be required. Ergon Energy considers that a suitable solution would be for a contractual arrangement to exist between providers of demand reduction and a DNSP to provide the certainty required.

[4] Page 107
[5] See EECL (2012), *Pricing Proposal for the AER, Distribution Services for 1 July 2012 to 30 June 2013*, p62.

specific reporting obligations may need to be rationalised to remove any ambiguity regarding their information gathering powers. 23. How should AEMO's powers be expanded to improve demand forecasting? Should retailers and other market participants be obliged to provide information regarding DSP capabilities? Will non-obligatory requirements achieve the desired accuracy in reporting requirements? 24. In what ways can AEMO improve its survey questions regarding DSP capabilities? How often should AEMO be required to update its expectations on DSP capabilities in the NEM? 25. Would a pre-dispatch that includes active and price-responsive DSP improve decision making processes for C&I users and aggregators? If not, do you have any other suggestions for improving the ability for AEMO to accurately forecast demand?	There are a number of complicated variables in forecasting a peak demand reduction target that the AEMC should be cognisant off. For example, Ergon Energy is seeking to reduce the variability in forecasting by investing in a review of the available and achievable potential to reduce demand across our network. This process uses an analysis of the customer segments across 9 geographical regions across the network, the technologies, the methodologies and the instruments available to technically reduce demand. To this we apply an economic factor to determine the economic level of demand reduction that Ergon Energy and customers could fund and an achievable factor that accounts for the likelihood that a customer will act to reduce their demand. As DSP is in its infancy we do not think that there is justification to amend the Rules to clarify AEMO's role in this regard.
7.3.1 Potential return for network businesses implementing DSP projects	
• We recommend that the AER considers reforming the application of the current demand management and embedded generation connection incentive scheme to provide an appropriate return for DSP projects which deliver a net cost saving to consumers. We have put forward principles and two mechanisms for how this could be achieved. 26. Would it be beneficial to include reference to the suggested mechanisms and provide more guidance and an overall objective in the Rules governing the Demand Management incentive Scheme (DMIS)? 27. Should separate provisions for an innovation allowance be included into the rules? Given that the costs of the allowance would be borne by electricity consumers, is it more appropriate for such innovation to be funded through government programs?	Ergon Energy supports this recommendation. We would support the AER reviewing the current Demand Management and Embedded Generation Connection Scheme to ensure that DNSPs are appropriately incentivised and rewarded to engage in DSP activities. However, we would recommend that there is a thorough investigation prior to any decision being made to ensure that any administrative and transaction costs imposed on DNSPs to meet any amended regulatory framework are considered. 26. Ergon Energy considers that there is value in extending the DMIS that incorporates a more long term proactive approach to DSP that rewards DNSPs for innovative DSP solutions (not just covers their cost) and provides allowance for a longer term approach to reducing peak demand across the network, such as the use of broad based programs that encourage long term changes in customer behaviour. 27. The Demand Management Innovation Allowance should remain in the Rules as the mechanism to fund trials and projects that do not demonstrate an immediate benefit to customers (through recognisable reductions in network costs). This allows a DNSP to trial new methods and technologies that can lead to more efficient and effective

28. Should the provisions for a demand management incentive scheme be included in the regulatory framework for transmission businesses?	delivery of demand reduction. Leaving this sort of funding to be provided by government is uncertain and subject to policy changes. 28. Ergon Energy provides no comment.
7.3.2 Network tariff structure influencing incentive to do DSP	
• We recommend a combination of two approaches to mitigate the problem of network profits being linked to actual volume. Firstly, the pricing principles in Chapter 6 of the Rules need to be amended to provide greater guidance on how network businesses should set their tariffs to reflect their costs. Secondly, we recommend that the AER considers expanding the current application of the foregone revenue component of the DMIS to cover DSP tariff based projects as well. 29. What amendments are required to the current distribution pricing principles as set out in clause 6.18.4 of the Rules?	Ergon Energy believes the distribution pricing rules already provide sufficient guidance to set efficient and flexible network structures that support DSP. We do not support further prescription of pricing principles in Chapter 6 of the Rules. Ergon Energy has been operating under a revenue cap for a number of regulatory periods, and has been setting network tariffs under the current distribution pricing rules since 2010.
7.3.5 Providing clarity and flexibility for DSP related expenditure - a) Inclusion of market benefits into the AER regulatory expenditure reset assessment.	
• We recommend that the Rules are clarified to enable the AER to consider potential non-network benefits when assessing the efficiency of network expenditure allowances.	Ergon Energy supports this recommendation. Particular consideration should be given to the long term impacts that broad based (i.e. not directly linked to a specific area constraint) DSP programs would have on the whole value chain, including the long term impact on distribution costs from changing customer behaviour. For example, in Queensland load control tariffs (reflected in Retail Tariff 33 and 31) have been enormously effective in managing peak demand across the network and the effect of this will have filtered through to transmission and generation investment.
7.3.5 Providing clarity and flexibility for DSP related expenditure - b) Managing volatility in DSP expenditure	
• We recommend that the Rules are amended to include the ability for distribution network businesses to have extra flexibility in their annual tariff setting process to reflect changing DSP costs.	Ergon Energy has interpreted this recommendation to mean that: • DNSPs should have the ability to provide for tariffs which pass on to customers changing DSP related cost during a regulatory control period; and • A specific cost recovery mechanism should be designed in the Rules to cater for DSP related expenditure which would allow a DNSP to carry out annual revenue adjustments as part of its annual Pricing Proposal to reflect any under or over

	recoveries in actual DSP related costs, in comparison to forecast expenditure for the relevant year. For Ergon Energy, this would mean any differences in actual DSP costs (in comparison to expenditure forecasts) would be treated as an under/overs feature in revenue cap calculations, and not as a cost pass through event in accordance with provisions in Chapter 6 of the Rules and a Distribution Determination. Ergon Energy envisages that this would be a similar arrangement to the existing cost recovery provisions available for jurisdictional schemes, as set out in section 6.18.7A of the Rules. While Ergon Energy supports flexibility in funding arrangements and the efficient recovery of its expenditures, Ergon Energy questions why the existing cost pass through arrangements in the Rules cannot be applied to manage volatility in DSP expenditure. Ergon Energy envisages, that if DSP related expenditure was made a specified pass through event, then there would be nothing preventing a DNSP utilising the cost pass through process to reflect changes in DSP expenditure throughout a regulatory control period (noting that pass throughs can be either *negative* **or** *positive*, and associated revenue adjustments are generally made through the annual tariff setting process). Alternatively, if an annual unders/overs feature was deemed necessary to reflect changing DSP costs, then the AEMC could consider broadening the existing provisions relating to jurisdictional schemes to cater for DSP related expenditures. Ergon Energy believes the AEMC needs to give more consideration to the best way to implement this decision. Ergon Energy also considers further consultation is required to ensure the solution does not unduly delay the annual Pricing Proposal process or impose additional administrative complexity and transaction costs on DNSPs.
7.3.5 Providing clarity and flexibility for DSP related expenditure - c) Clarifying treatment of DSP operating expenditure at regulatory resets	
c) <u>Clarifying treatment of DSP operating</u> <u>expenditure at regulatory resets</u> • We propose that a new rule is introduced in the Rules that provides distribution network businesses with more certainty on how DSP expenditure incurred in a regulatory period (but which is not included in the approved allowance) will be treated in future regulatory determinations.	Ergon Energy supports this recommendation. We consider that this is particularly necessary as DSP operating expenditure projects often result in deferring capital expenditure which had not been forecast at the time of the Final Distribution Determination. However Ergon Energy notes that there are a range of circumstances which could result in expenditure being incurred in a regulatory period, which is not included in a DNSPs approved allowances. That is, this issue is not necessarily specific to DSP related

	expenditure. Ergon Energy considers that further work needs to be undertaken by the AEMC to fully understand the regulatory implications of DSP activities and the treatment of the associated expenditures. Ergon Energy also believes that there needs to more incentives available in the market to reward DSP operating expenditure.
7.3.5 Providing clarity and flexibility for DSP related expenditure - d) Temporary exemption from the Service Target Performance Incentive Scheme	
• We propose that the Rules are changed to permit the AER to grant temporary exemption from reliability service standards for specific DSP pilots/trials.	Ergon Energy supports this proposal. However, we note that jurisdictional Guaranteed Service Level (GSL) schemes also depend on reliability of supply and Ergon Energy must pay GSLs to customers for certain forms of interruptions (i.e. duration and frequency as per the Electricity Industry Code requirements). This means Ergon Energy may still be at risk of a financial penalty if a specific DSP pilot or trial causes interruptions.
7.4 Distributed Generation (DG) - b) Ability of DNSPs to own and operate DG	
• We recommend that the AER should give consideration to the benefits of allowing distribution network businesses to own and operate DG assets when developing the national consistent Ring-Fencing Guidelines for these businesses	Ergon Energy agrees with this recommendation. Ergon Energy has advocated this during the AER's recent consultation on the development of national Ring-Fencing Guidelines.
7.4 DG - c) Feed in tariffs and value of export from DG units	
• We consider that SCER should, in developing a national approach to feed in tariffs, take into account the value of time varying feed in tariffs to encourage owners of DG to maximise the export of their energy during peak demand periods	Ergon Energy recommends that the AEMC should closely investigate the overall net customer benefit in balancing Distributed Generation (DG) in areas where the network would require augmentation to meet that DG's export requirements. Networks have not been designed to handle large export power flows at the distribution level and this should be considered by the Standing Council on Energy and Resources (SCER) when developing a national approach to feed-in tariffs. In Ergon Energy's experience, high penetration levels of DG have resulted in additional network augmentation costs.
8.3.1 Alternative approaches to facilitate efficient DSP	
• The recommendations are a package of integrated reforms for the	The AEMC acknowledges there are many ways customers can engage with energy

market. If implemented, the market should have time to adjust and transition to the new environment. There should be ongoing monitoring and evaluation of the market for the desired outcomes to be achieved. We therefore do not consider that additional regulatory mechanisms beyond those recommended in this report are needed for the market at this time.	businesses to reap the benefits of appropriate DSP, either directly with a DNSP or a retailer or through a third party. Ergon Energy would encourage the AEMC to apply a test for determining how the DSP can be delivered most efficiently. This will vary on a case by case basis. Ergon Energy considers that any framework that is developed or endorsed at SCER level should be flexible so as to allow the DSP market to grow. In relation to the comments regarding a virtual DSP market, Ergon Energy has been working towards this goal with the development of a value map which would provide information on areas of the network where Ergon Energy would be willing to fund DSP to an economically efficient level. We consider the value map has greater relevance to a DNSP than allowing DSP bidding into the NEM. Ergon Energy supports the AEMC's comments on Government funded energy efficiency schemes. However, given the uncertainty in the political and economic context Ergon Energy recommends that the AEMC should also consider how DNSPs can fund a long term financial approach to DSP. That is funding the implementation of forward looking programs to lower long term growth in peak demand.