



Ref.: TP/CP

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Dear Dr Tamblyn

### **Review of the Role of Demand Side Participation in the NEM: Stage 1 - Report by NERA Consulting**

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity to comment on NERA Economic Consulting's (NERA) draft recommendations relating to Stage 1 of the Australian Energy Market Commission's (AEMC) review of demand side participation (DSP) in the National Electricity Market (NEM). This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

As a general comment, Ergon Energy supports the development of a regulatory regime which provides for the efficient investment in, and efficient use, of electricity services. Ergon Energy recognises that increased efficiencies may be facilitated through a combination of:

- Incentives for network service providers to pursue the most efficient options to deliver against their regulatory requirements, including the facilitation of DSP where appropriate;<sup>1</sup> and
- The removal or reduction of barriers inhibiting efficient DSP.

It is acknowledged that the Stage 1 review is limited in its scope to the AEMC's current work program and that the role of DSP in the Rules governing distribution network service regulation, including distributed generation and network tariff setting, will not be considered by the AEMC until Stage 2 of its review.

As a consequence, Ergon Energy focuses its comments on those aspects of NERA's draft recommendations which are likely to have a direct influence on the future operations of DNSPs – the Regulatory Investment Test (RIT) and the provision of planning and transfer information.

#### **Regulatory Investment Test:**

Despite its impacts for all network service providers, the RIT has been (and continues to be) designed for transmission investment.

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<sup>1</sup> In the case of distribution, Ergon Energy notes that the new Chapter 6 of the National Electricity Rules provides for an increased focus by both distributors and the AER on demand management.

The Energy Networks Association has previously raised the need for an examination of the RIT as it applies to DNSPs, including articulation of an overall policy objective.<sup>2</sup> Similar concerns regarding the applicability of the RIT to DNSPs, including the administration and cost burden that is imposed, have been expressed by Ergon Energy in its recent submissions to the AEMC on a number of related Rule Change proposals.<sup>3</sup>

While Ergon Energy recognises that resolution of ambiguity surrounding the policy objective of applying the RIT to DNSPs is beyond the scope of the Stage 1 review, Ergon Energy is firmly of the view that the AEMC must:

- Acknowledge the impacts of amending the RIT in a broader context than that which has traditionally occurred by explicitly recognising the consequential impact of change for DNSPs; and
- Limit the impact of any further changes to the RIT to transmission network service providers. That is, the RIT as applied by DNSPs should not be amended until such time as there has been a thorough examination of the policy objective of applying the RIT to DNSPs, including the administrative and cost burden associated with its application.

Ergon Energy believes that it is imperative for the AEMC to resolve issues surrounding the application of the RIT to DNSPs to ensure that the intended application of an investment framework to DNSPs is not further compromised.

### **Congestion Management**

The NERA report (at page 42) recommends the publication of transfer capability “at each distribution network connection point”. Ergon Energy is concerned that this implies a degree of measurement at the distribution level which goes well beyond that which would be required to report on the transfer capabilities of the transmission network.

Ergon Energy believes that any development and application of transfer capability measures by the National Transmission Planner should be limited to the transmission network and that this should be clarified in NERA’s final report.

Ergon Energy would be pleased to discuss this submission with the AEMC and looks forward to actively participating in the Stage 2 review.

Yours sincerely



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<sup>2</sup> Energy Networks Association, Submission, “*National Transmission Planning Arrangements – Issues Paper*” (21 December 2007).

<sup>3</sup> Refer Ergon Energy’s submissions in response to the AEMC’s “*National Transmission Planner – Scoping Paper*” (7 September 2007), Total Environment Centre’s proposed “*National Electricity Amendment (Demand Management) Rule 2007*” (30 January 2008) and the Electricity Transmission Network Owners Forum’s proposed “*National Electricity Amendment (Regulatory Test Thresholds and Information Disclosure on Network Replacements) Rule 2007*” (18 January 2008).