22 October 2019

Anthony Bell
Technical Specialist
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

public interest
ADVOCACY CENTRE

Dear Mr Bell,

Submission to DMIS and DMIA for TNSPs draft determination

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AEMC's draft determination.

Application of the innovation allowance

PIAC supports the AEMC's draft determination to extend the Demand Management Innovation Allowance (DMIA) to Transmission Network Service Providers (TNSP).

This allowance provides another tool for both TNSPs and the AER to explore innovative solutions and share the outcomes to drive long-term reductions in cost. It allows the AER to retain discretion as to whether to allow particular DMIA proposals as part of a business' revenue regulatory framework, including by assessing interactions with other allowances and incentives.

The AER has already approved similar innovation allowances for TransGrid under its revenue determination for the 2009-14 and 2014-18 regulatory control periods, as a discretionary opex allowance. Formalising such an allowance through the DMIA is beneficial to all stakeholders. It provides greater certainty to both the AER and TNSPs regarding the criteria innovation projects must meet, and greater certainty that the resulting insights will be shared publicly.

Application of the incentive scheme

The AEMC has stated that:

> It is not clear from the evidence presented by ENA that the incremental benefits of introducing a DMIS are likely to outweigh the upfront costs to consumers … [And that] the Commission accepts ENA's view that networks may face upfront, transitional costs to develop their ability to utilise non-network options. But, ongoing incentive payments to transmission businesses are not necessary to overcome implementation barriers. These mostly one-off costs can be funded through AER revenue allowances.[1]

[1] AEMC, *Demand Management Incentive Scheme and Innovation Allowance for TNSPs draft determination*, September 2019, i-ii.

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PIAC is inclined to agree with this position, particularly given that the AER has stated it has not received the information required to assess how effective the DMIS has been for DNSPs.[2]

Therefore, we do not consider it currently prudent to extend the current DMIS framework (as it applies to DNSPs) to TNSPs. Instead, if there are systemic biases against demand management and other non-network options in transmission planning or more effective ways to deliver prudent non-network alternatives, this should be investigated separately such as through the AEMC's Electricity Network Economic Regulatory Framework (ENERF) review. From this an appropriate mechanism could be developed specific to TNSPs.

Building the market for demand response

Distributed energy resources (DER) including demand management can provide a wide range of potential services to the energy system. This includes responding to wholesale spot prices, alleviating network constraints and minimising a customer's draw from the grid through self-consumption. Making as many of these potential value streams as possible available to providers is key to realising the full benefit of DER and demand management. Accordingly, a rational trade-off will often need to be made where providing multiple services is in conflict.

PIAC considers there is a need to proactively build a large, diverse and readily accessible pool of DR throughout each NEM region (including both by directly contracting with customers or via an intermediary such as an aggregator or retailer). By such 'market building' procurement, the collective pool could be called on to meet other potential value streams of DR far more efficiently and reliably than the current un-coordinated arrangements. This would develop a greater pool of cost-effective resources for the future, and expand the range of options for future market design and system operation strategies.

We encourage the AEMC to explore options to help build a larger and more resilient market for DR such as through the AEMC's Electricity Network Economic Regulatory Framework (ENERF) review.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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2 AER, *Submission to the Demand Management Incentive Scheme and Innovation Allowance for TNSPs consultation paper*, July 2019, 2.