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Dr John Tamblyn
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Australian Energy Market Commission
PO Box A2449
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Ref: 82010/1
Your Ref: N/A
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Dear John

Re: Proposed Rule Change – Demand Management

Thank you for the opportunity to respond to the Australian Energy Market Commission ("AEMC") in relation to its Notice of Proposal for Rule Change ("Rule Change Proposal") dated 22 November 2007 on demand management ("DM") and initiated by the Total Environment Centre ("TEC"). This letter sets out VENCorp's comments in relation to the Rule Change Proposal. In this letter, VENCorp is limiting its comments to the application of DM to the transmission system.

1. General

In general terms, VENCorp supports any objective that allows alternatives with higher net benefits to displace or defer network solutions. Network solutions are generally expensive and can be subject to under-utilisation if not properly assessed. However, they deliver a level of reliability and security that is hard to achieve by other means. Additionally, once installed, they operate with relatively little maintenance for forty and more years. DM, by contrast, has a smaller up-front cost, is theoretically able to be applied "marginally" or flexibly for any given constraint and is more portable. However, although theoretically more flexible, due to DM providers' desire to be given long notice periods to deploy than is feasible in response to a system event, it often ends up being of limited application.

It should be pointed out that VENCorp considers DM response in every regulatory test it conducts. Since it employs a probabilistic planning standard, VENCorp places a value on load shedding for the relevant constraint. This value has been quoted in advance in the Annual Planning Report (APR) in respect of particular constraints (see section 3 below). Despite publication, competitive DM offers or expressions of interest of any significance are rarely received . Moreover, on the rare occasion that it does receive an expression of interest, the proposed DM provider invariably cannot agree to the short/no notice requirement to call on the service and the quantity of service to be provided. Consequently, contracts are unable to be concluded. Anecdotal evidence suggests that this is not an uncommon experience.

Therefore, while VENCorp agrees with the sentiment of the Rule Change Proposal, it recognises the inherent limitations of DM. Those shortcomings require more thought and attention by potential DM service providers to allow DM to play a more significant role in the market.

2. When planning, network operators consider DM solutions before network augmentation alternatives so that DM is implemented when it is a more cost effective option than augmentation

With the adoption of the Request for Information ("RFI") process in the Regulatory Test, the need to consider DM solutions prior to any network augmentation alternative should no longer be necessary, at least at transmission level. In VENCorp's view, one of the most beneficial aspects of the RFI process is that it should allow the most efficient option in the circumstances to be chosen, including any demand management response received from the market. In November 2007, the Australian Regulatory Regulator ("AER") issued its final decision in relation to the Regulatory Test (Version 3) and its Application Guidelines. It provides that whenever an augmentation is considered by a TNSP under the market benefits limb, it must prepare and publish an RFI setting out relevant information of the proposed network solution, including the technical elements of the solution and the expected costs. The TNSP must allow a minimum period of eight weeks for third parties to offer any alternative non-network solutions suitable for the outcome the TNSP is seeking to achieve.

In cases where a TNSP assesses an augmentation under the reliability limb, a TNSP is under no obligation to provide the lengthy public notification required by an RFI and consequently, many alternative options would not see the light of day. To this end VENCorp suggests that the RFI process be extended to both limbs of the regulatory test. Furthermore, VENCorp notes that the AEMC is currently considering a rule change proposal to raise the regulatory test thresholds. For the sake of consistency and to ensure that retrieval of information from the market is consistent for all proposed augmentations, if the rule change proposal proceeds, the AEMC may wish to consider extending the RFI process to *new small network transmission assets* as well. The process could be scaled down depending on the size of the proposed project in much the same way as the carrying out of the regulatory test itself must be commensurate to the size of the proposed augmentation.

3. Publish robust data on upcoming network constraints that are relevant and useful to DM service providers

VENCorp supports proposals designed to increase the body of useful information to the market. To this end, VENCorp agrees with the general proposition put forward. However, the suggested amendments to the Rules have the potential to impose a reporting burden on the TNSP which is disproportionate to the benefits that the information may bring to the market.

VENCorp has, as a matter of course in its APR, provided the value of particular constraints in terms of the dollar value of the interruption. This particular valuation is one that already needs to be undertaken as part of its transmission planning function. Rather than the detailed and specific information required by the Proposed Rule Change, the valuations of lost load would

provide a useful metric to market participants considering offering DM services in response to an RFI (or a project outlined in an APR). VENCorp is considering resuming the practise commencing in its next APR due 31 July 2008 going forward for projects identified by VENCorp in its five year planning horizon. An example of the valuations of cost of constraints is attached as Appendix A (refer to table 6.7). However, VENCorp reiterates that even though it has provided this information in the past, offers and expressions of interest have been scarce.

Finally, to provide the data suggested by TEC in its Rule Change Proposal would not only mean a significant investment in time to modify existing models but it would also require an resources to collect data and run models at sufficient intervals to achieve the standard implied by the Rule Change Proposal.

4. Require the AER to design a demand management incentive scheme

The AER has spent considerable time and resources to develop and apply the service target performance incentive scheme with the recently added market impact of transmission congestion (MITC). The purpose of the incentives package is to encourage the efficient use of existing infrastructure by providing incentives to TNSPs to optimise existing capacity rather than adding new capacity. In this respect, the incentive to use DM could notionally be already built in. Whether this is correct or not, it might be prudent to allow sufficient time to allow the newly reformed incentive scheme to be assessed against its original targets before incorporating further targets that may complicate matters.

5. Specification, within the Regulatory Test, that DM options must be investigated before augmentation options

See comments in relation to section 2 above in relation to the suggested requirement that TNSPs consider DM solutions before augmentations in the planning horizon.

6. A mechanism for setting the price of demand side response activities within the market pool

Provided that the costs of determining the price of DM are not disproportionate to the benefits to the market of that price, VENCorp has no in principle objection to such a proposal. However, without details of the type of obligations faced by participants and NEMMCO in developing that price, it is difficult to properly assess whether the exercise is a cost effective one.

Moreover, the determination of a publicly available price requires that DM providers make non-confidential binding offers. As noted above, VENCorp's experience has been that offers for DM services are not common and even if an initial offer or expression of interest is made, the ultimate conditions that make DM useful for TNSPs (i.e. load shedding at little to no notice at times of high demand) makes DM a difficult service to negotiate.

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The Rule Change Proposal would need to be more specific regarding type, frequency, level and detail of information (including presentation format) that market participants and NEMMCO would need to provide.

Lastly, the determination of a price would also assume the adoption of a market-wide standard set of conditions under which load shedding services would be provided. Until these are developed and agreed upon, any indicative price would at best be speculative. This is not to be critical of the development of an indicative price but its limitations should be noted.

Should you have any questions please do not hesitate to contact Franc Cavoli on (03) 8664 6616 or Louis Tirpcou on (03) 8664 6615.

Yours sincerely

Matt Zema
Chief Executive Officer

Appendix A

Extract from VENCorp's Electricity Annual Planning Report 2006

It has been assessed that sub-transmission transfers and a number of other emergency operations, such as utilising mobile cranes, can reduce the unserved energy during a double circuit outage. Mobile crane support is only considered for suspension towers because cranes do not have the capability to safely support the additional forces exerted on strain towers. These cranes are also only able to access a fraction of suspension tower sites, depending on location and surrounding terrain. Table 6.6 outlines the number of suspension and strain towers per circuit as well as the percentage of towers that are considered to be accessible by mobile cranes.

Table 6.6 – Circuit towers relieved by mobile crane support

Circuit	Suspension Towers	Strain Towers	Towers accessible by Mobile Cranes (percentage of towers in circuit)
ROTS-SVTS	20	7	50%
SVTS-HTS	18	14	50%
ROTS-MTS	37	14	N/A – Full load secured by tie transfers (6 hours)
CBTS-TBTS	50	12	60%
TBTS-JLA	2	3	60%

Table 6.7 summarises the expected unserved energy at Malvern, Springvale and Heatherton due to double circuit outages on the radial lines connecting Rowville to Malvern and Rowville to Springvale and Heatherton, over the next five years. The value of this constraint is calculated using the Victorian system wide Value of Customer Reliability (VCR) of $29,600 per MW.

No further analysis has been performed on the supply to Tyabb and JLA (Western Port) due to the 2005 EAPR clearly showing the net market benefits associated with a new installation to increase the reliability to these stations, as not economically viable over the current planning horizon.

Table 6.7 – Expected unserved energy

	2006/07	2007/08	2008/09	2009/10	2010/11
Expected Unserved Energy (Pr[x].MWh)	115.4	116.9	117.4	118.7	118.5
Value of Constraint ($k)	3,415	3,459	3,474	3,512	3,507