Ethnic Communities'
Council of NSW Inc.

Ethnic Communities' Council of NSW Inc.

221 Cope Street Waterloo NSW 2017
Tel: (02)9319 0288 Fax: (02)9319 4229 Email: energy@eccnsw.org.au

17/3/2015

Submission on *National Electricity Amendment (Demand Management Incentive Scheme) Rule Change 2015*

The Ethnic Communities Council of NSW (ECC NSW) thanks the Australian Energy Market Commission (AEMC) for the opportunity to provide comment on the consultation paper concerning the combined AEMC Rule Change proposed by COAG Energy Council and the Total Environment Centre *National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015* published in December 2013. [1]

Since its formation 40 years ago the ECC NSW has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The Ethnic Communities' Council of NSW main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA) and the Energy Advocacy role represents FECCA in the NEM.

The ECC NSW believes that demand management initiatives have considerable potential to reduce costs to all consumers. [2] We believe that there are long term risks to consumers if the current regulatory approach is not adjusted to have the ability to respond to new energy markets and services, especially those facilitated by innovative demand management initiatives.

We also believe that innovative and cost effective demand management initiatives need a framework that encourages and supports their development and uptake and that such an approach will have long term benefits for both networks and consumers.

An effective demand management incentive scheme (DMIS) has the potential to encourage and assist networks to adapt to new markets and services, particularly those associated with decentralised generation and storage options, electric vehicles and increasingly sophisticated energy management systems.

---

[1] AEMC, *National Electricity Amendment (Demand Management Incentive Scheme) Rule* February 2015

[2] AEMC, Power of Choice Review - giving consumers options in the way they use electricity, Final Report November 2012 page vi

The Consultation Paper presented a number of issues for consideration: [3]
The ECC NSW would like to comment on some of these issues.

Issue 1: Issues this rule change is seeking to address

1.1 *Having regard to current and potential future market conditions, and in light of recent changes to the regulatory framework for distribution businesses, is there a gap in the current framework which may be discouraging distribution businesses from pursuing demand management projects as an efficient alternative to network investment?*

1.2 *If a gap does exist, where does it lie? Is it a product of the provisions in the NER or a result of the current design of the DMEGCIS applied by the AER?*

Future overall energy demand is generally forecast to be flat or falling over the next five years. [4] Regardless of general trends, there will still be some areas of localised peak demand growth, and an appropriate demand management program in these areas may be a suitable and cost-effective alternative to network augex. Without a specific incentive for networks to explore demand management alternatives to augex (ie a recognised share of the potential savings of such a program) networks will most likely pursue a business as usual approach.

Ongoing network revenue resets across the NEM, and draft determinations in some, have pointed to likely extensive reductions in capex (of the order of approximately 24% in NSW) and opex (of the order of approximately 35% in NSW). Augmentation capex, however, remains in the range 10 - 20% of total capex within the three NSW DNSP revised revenue proposals. Some proportion of this augex may be deferrable through appropriate demand management initiatives, as would some of the extensive replacement capex proposed by the networks in their revenue proposals. (Repex approximately 85% of total capex in Ausgrid revised proposal). [5]

In their recent draft determination AER on NSW revenue resets for 2015 - 19, [6] Ausgrid's fairly modest demand management proposal was rejected. [7] Demonstrable demand management targets and proposals need to be part of any revenue determination, or networks will not see the need to commit the relevant expertise, time and expenditure to make it happen.

Increases in maximum (peak) demand are also forecast to remain low over the next regulatory period. [8] Modifying peak demand profiles by the use of demand

---

3 AEMC, *National Electricity Amendment (Demand Management Incentive Scheme) Rule* February 2015
4 for example AEMO, National Electricity Forecasting Report (NEFR), June 2014 pages ii, among many other commentators
5 AER Draft Determinations 2014, and Networks Revised proposals 2015
6 AER Draft Determination Ausgrid
7 op cit
8 AEMO, June 2014, op cit page iv

management utilising distributed storage and sophisticated energy management options, and hence reducing networks costs (and subsequent benefits to consumers) has great potential. This is particularly evident in recent improvements in battery technology and its associated costs, as well as the exponential growth of third party energy management options for consumers.

The ECC NSW agrees with a number of the comments of the Consumer Challenge Panel (CCP) in its response to the networks initial regulatory proposals concerning demand management (DM), notably:

'Peak and overall demand….could and should continue to fall if better managed - the network businesses should not be passive recipients of such changes but actively looking for scope to manage demand better and to collaborate with others such as retailers and customers to achieve this….[and] [t]hese changes should be achieved wherever possible through re-allocating expenditure - they should not be viewed in general as providing a case for more revenue' [9]

In addition, '[t]here may also be a case for the regulator to look at using rewards/penalties to encourage new approaches to demand management.' [10]

We believe that innovative demand management initiatives have the potential to significantly lower peak demand and hence prices for consumers. Demand management initiatives need to be seriously considered in relation to capex alternatives, as well as in relation to augex or repex. This would necessitate demand management initiatives to be spelled out in revenue proposals in a great deal more detail than to date and form part of the revenue proposal from its outset.

Networks, rather than consumers, [11] may be better placed to fully realise the benefits of distributed storage opportunities. Networks, therefore, need to have in place a regulatory and revenue framework that encourages them to invest in such options, rather than ignore or actively obstruct the consumer side take-up of distributed storage and energy management options. There seems to be, as yet, little enthusiasm by networks in taking this path and it is certainly in the interest of consumers for this to happen if it can reduce electricity prices and boost network profitability.

Issue 3: Demand management innovation allowance

3.1. *Given that the proposed amendments in relation to the innovation allowance are largely reflective of existing AER practice, what additional benefits are likely to be gained by codifying these in the NER?*

3.2. *What impact, if any, will the proposed amendments have on distribution businesses*

---

9 Consumer Challenge Panel submission to NSW DNSP regulatory proposals 2014-19, Jam Tomorrow? page 33

10 loc cit

11 The Australian, 18 March 2015, UBS report on Networks sale.

incentives to utilise a greater proportion of their allocated allowances on innovative demand management projects, relative to current practice? For example, would greater certainty increase the likelihood of distribution businesses participating in this scheme?

3.3. *Are the proposed amendments likely to address concerns raised by stakeholders around the size of the innovation allowances allocated by the AER to the distribution businesses (noting that, to date, these amounts have been considered to be modest)?*

3.4. *Given the new DAPR and DSES arrangements are now in place, what additional benefits will the proposed annual reporting requirements deliver to the market? Is there a risk of duplication in reporting for the distribution businesses?*

3.5. *Should the innovation allowance be a time-limited measure? If so, should the AER be given the flexibility and discretion to determine the appropriate timeframe?*

The codification of the Demand Management Innovation Allowance within the NER will add substance to current practice within the AER. The reality is that only sections of the demand management work undertaken under the current DMIA has been innovative; rather it has largely explorations of DM possibilities with little actual DM work undertaken by networks.

Currently (and in the draft revenue determinations for NSW networks), the DMIA remains a small allocation, has no performance targets or criteria and provides little financial incentives for networks.

Issue 4: Demand management incentive scheme

4.1 *If distribution businesses are able to receive a payment based on a proportion of the market benefits produced by a demand management project, is this likely to increase investment in projects that will deliver broader market benefits that are in the long term interests of consumers?*

4.2 *Given that the majority of distribution businesses are expected to be regulated under a revenue cap in the near future, is there value in amending the rules to explicitly require the inclusion of a payment for any foregone revenue resulting from implementing a demand management project approved under the innovation allowance? Should the AER retain discretion as to whether this component is appropriate?*

The ECC NSW believes that a proportional payment to networks based on market benefits will provide incentives to networks to undertake demand management projects. The incentives given (financial and possibly a regulatory minimum threshold) will need to exceed the costs of such projects to the network. Particular emphasis will need to be placed on the process and methodology for the calculation of market benefits - both to consumers and to networks.

We agree with the COAG Energy Council that a cap of 30% of non-network benefits is appropriate.

If you require additional information please contact Iain Maitland, Energy Advocate on 02 9319 0288 or email energy2@eccnsw.org.au .

Sincerely yours,

Mary Karras

Executive Officer
Ethnic Communities' Council of NSW Inc.