9th July 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: ERC0177

Dear Mr Pierce

Demand management incentive scheme – Draft Rule Determination

Snowy Hydro appreciates the opportunity to comment on the Draft Determination. While Snowy Hydro recognises efficient distribution network use and development as an important element in delivering the National Electricity Objective (NEO) we believe an explicit demand management incentive scheme is unnecessary.

The existing Demand Management and Embedded Generation Connection Incentive Scheme (DMEGCIS) is part of a regulatory incentive framework that already incentivise distribution businesses to consider capital expenditure, operating expenditure, and demand side options to address network limitations.

Snowy Hydro questions the need for the DMEGCIS on the grounds that:

1. The new distribution network pricing arrangements introduced by the AEMC in 2014 with the introduction of competition in metering is likely to move the market to where there is less need for the distribution businesses to actively manage demand on their networks by themselves. If distribution networks are priced efficiently and all electricity consumers were able and willing to respond to network prices and thereby manage their own demand consumption, the need for the distribution networks to manage peak demand in their local area would cease to be a material issue.

2. The regulatory incentive framework already include the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS), and associated ex-post review mechanism for capital expenditure. The DMEGCIS only adds to the high level of complexity in administering and determining whether efficient expenditure is occurring. Snowy Hydro advocates that the broader regulatory incentive structure currently applied to distribution businesses are already sufficient to incentivise distribution businesses to pursue efficient demand management.

3. The role of distribution businesses in demand management in problematic in light of the competitive provision of demand management services currently offered by Retailers and third parties. Snowy Hydro is concerned that a separate incentive scheme for demand management would provide distribution businesses with a competitive advantage with

asymmetric information and a regulated revenue stream that is not available to the wholesale (competitive) Market Participants.

In recent times it is commonly recognised that the electricity sector is subject to large number of macro changes with technological and economic advances in a range of technologies. Some examples are as follows:

- Smart meters and smart appliances;
- Battery storage technologies and the potential growth of electric vehicles (battery or fuel cell based); and
- Distributed generation particularly solar PVs.

With these factors there is a large degree of uncertainty in relation to the use of, and reliance on distribution networks. Future distribution networks are likely to deliver a range of functions and services not currently needed or offered and some customers may end up being self proficient and disconnect from the grid.

Since it is not possible to know what a customer of the future will look like and what they want, it is impossible to quantify the long term benefits to consumers of demand management services.

Consequently, networks should not be allowed to undertake projects that undermine customer response and potential benefits in the future. For example the Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance (DMIA) may undermine benefits to one group of customers to respond to new distribution network pricing arrangements and at the same time interfere with the competitive wholesale energy market. The end result is an increase the network costs which are subsequently socialised across all end consumers.

Snowy Hydro believes it is therefore unclear and unlikely that the rule change would lead to sustained benefits to consumers. We advocate that the AEMC must establish that the proposed DMIS/DMIA arrangement meets the NEO prior to proceeding with the draft rule change recommendations.

Transitional arrangements?

Snowy Hydro sees this as a difficult area of reform as it blurs the boundaries between the competitive market Participants and regulated entities and hence we advocate caution with the proposed changes.

We remain concerned that the current draft rules are unlikely to achieve long term benefits to consumers and are likely to interfere and undermine other regulatory reforms such as cost reflective network pricing. In addition, the demand management incentive scheme is likely to interfere with efficient functioning of the wholesale market (signals to consumers), and may also interfere with retailer/customer relationships.

We anticipate that the cost reflective network pricing will be effectively implemented, and will provide signals to foster efficient customer responses. On this basis we believe there is no need for a DMIS/DMIA scheme.

We recognise cost reflective network pricing will take time to implement and require the rollout of smart meters. However, as outlined earlier we believe other existing incentive arrangements already provide sufficient incentives for distribution businesses to invest in demand management.

The key question is whether a case has been made for another incentive scheme to incentivise efficient network demand management which delivers net benefits to consumers. In our opinion the draft rule determination fails to articulate this case and also makes unsubstantiated claims regarding the draft rule change recommendations meeting the NEO.

If the draft rule recommendations are to be implemented we believe the arrangements should only be transitionary and subject to a sunset.

Snowy Hydro appreciates the opportunity to respond to this Draft Determination. Should you have any enquires to this submission I can be contacted on kevin.ly@snowyhydro.com.au or on (02) 9278 1862.

Yours sincerely,

Kevin Ly

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