

Mr John Mackay
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Email: john.mackay@aemc.gov.au

19 July 2019

Re: ERC0266 - NATIONAL ELECTRICITY AMENDMENT (DEMAND MANAGEMENT INCENTIVE SCHEME AND INNOVATION ALLOWANCE FOR TNSPS) RULE

Dear Mr Mackay

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) National Electricity Amendment (Demand Management Incentive Scheme and Innovation Allowance for Transmission Network Service Providers (TNSPs) Rule Change Discussion Paper (hereafter referred to as the 'Discussion Paper').

The Energy Efficiency Council (EEC) is the peak body for energy efficiency, energy management and demand response. Our members include energy management companies, independent experts and various levels of government.

The most cost effective way to deliver energy services to consumers, such as comfortable homes and warm food, is through a mix of investment in supply-side measures (e.g. generation and networks) and demand-side measures (e.g. insulation and demand response). As part of this broader approach, the EEC strongly advocates that Australia's energy markets should encourage a mix of investments in network and non-network solutions in order to reduce costs for consumers.

There is a litany of examples of demand-side investments reducing or avoiding investments in both distribution and transmission infrastructure. For example, the Pennsylvania New Jersey Maryland (PJM) energy market allows demand-side resources to bid into its capacity market. The inclusion of low-cost bids from demand-side resources in the PJM's 2017/18 capacity auction reduced consumers' bills by \$9.3 billion in that year alone.¹ The level of demand management in the PJM was also one of several factors enabling the system operator to cancel the multi-billion-dollar Potomac-Appalachian Transmission Highline.²

The PJM case study highlights three issues. First, managing demand can dramatically reduce the cost of transmission services. Second, managing demand can deliver multiple benefits to the electricity system, including lower costs for generation capacity and reduced network expenditure. Third, many parties could deliver demand-side resources that reduce the need for network investment, not just TNSPs.

¹ Monitoring Analytics 2014, *The 2017/2018 RPM Base Residual Auction: Sensitivity Analyses*, The Independent Market Monitor for PJM, Eagleville PA.

² Hlecik, R. & Faruqi, A. 2015, *Valuing Demand Response: International Best Practices, Case Studies and Applications*, Brattle Group, Cambridge MA.

Therefore, the EEC makes the following comments with regards to the proposal to allow the Australian Energy Regulator to provide incentives to TNSPs through a Demand Management Incentive Scheme (DMIS) or Demand Management Innovation Allowance (DMIA):

- The EEC strongly supports the general intent of ensuring that market structures and economic regulation encourage Distribution Network Service Providers (DNSPs), TNSPs and other parties to invest in demand-side resources when it can offset greater expenditure in supply-side resources, as this would deliver lower costs to consumers.
- While TNSPs could play a key role in enabling non-network solutions, on many occasions other parties may be best placed to invest in demand-side resources. It's notable that in distribution systems the value of demand management can be very specific to particular locations, whereas in transmission systems demand management could occur on a large number of sites to avoid transmission upgrades. Therefore, where possible competitive processes, such as price-signals or tenders, should be used to encourage competition in the provision of demand side services. Furthermore, it is critical that TNSP activities are appropriately ring-fenced.
- There appears to be a reasonable case for providing TNSPs with DMIA. It is less clear if TNSPs already have good incentives to invest in demand management, or whether they will need access to a DMIS. The EEC looks forward to working with the AEMC and other stakeholders to determine the case for the application of both of these incentives to TNSPs. Even if the AEMC determines that the broad approaches of the DNSP DMIA and DMIS should be applied to TNSPs, they may need to be significantly modified.
- More broadly, we believe that markets should provide incentives for consumers, retailers and energy service providers to make investments in demand-side measures that reduce the need for investment in transmission and distribution infrastructure, and strongly recommend that the AEMC consider this broader issue as part of its assessment of whether to provide demand-side incentives to TNSPs.

We look forward to continuing to engage with the AEMC on this matter. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



Rob Murray-Leach
Head of Policy, Energy Efficiency Council