

11 October 2012

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Australian Energy Market Commission  
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**Re: Power of choice – giving consumers options in the way they use electricity**

Thank you for the opportunity to provide a submission with respect to the Power of choice draft report.

SA Power Networks supports many of the recommendations that the AEMC has presented in the draft report and considers that they will provide a level of support for market conditions necessary to facilitate efficient DSP.

However, we feel it appropriate to reinforce that:

1. A reduction in peak demand is not the silver bullet to reduce electricity prices. Although the benefits available are significant, even under an optimistic scenario whereby peak demand growth related expenditure could be reduced to zero, SA Power Networks' modelling suggests that resultant distribution price reductions to customers over a 10 year period may be limited to 5 – 10%<sup>1</sup> lower than they otherwise would be. As the distribution component of residential customers' bills in South Australia is only around 30%<sup>2</sup>, customers will see an even lower reduction. It is important that the benefits are not over-sold.
2. Where prudent and economic, electricity industry participants have been undertaking DSP. For example, SA Power Networks has had cost reflective tariffs in place for larger commercial and industrial customers for nearly 15 years, where the incremental cost of smarter metering has been warranted, and networks are beginning to routinely consider and apply non-network solutions to address network constraints. Controlled load metering and tariffs for electric storage hot water has also been in place for many, many years.

We make these points not to understate the benefits or importance of facilitating efficient DSP, but merely to suggest that caution is warranted in adding significant additional complexity to markets and/or introducing heavy handed regulation when the benefits are modest and there is no clear evidence that the market is not already responding where it is economic to do so.

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<sup>1</sup> On the basis of SA Power Networks' modelling, and noting that even this may not result in a 'net' reduction, rather a 5 – 10% reduction as compared to what prices might otherwise have been.

<sup>2</sup> Excluding the component of the distribution bill relating to recovery of amounts payable under the State Government solar feed-in tariff.

With respect to specific recommendations in each chapter of the report, our key comments are as follow:

1. **Background:** not applicable.
2. **Access to information:** supported.
3. **Engaging with customers:** generally supported. Distributors should not be precluded from engaging directly with customers on either targeted or broad-based DSP initiatives unless there are very clear reasons that such preclusion is warranted.
4. **Enabling technologies:** generally supported, however, the approach proposed by the AEMC would seem to put at risk the realisation of efficiency and service benefits that can be leveraged by distributors and other parties. In South Australia, detailed modelling of such benefits indicates a net present value in the region of \$200 million<sup>3</sup> across the supply chain, approximately  $\frac{2}{3}$  of the total benefits available under a smart meter roll-out.

In order to retain potential access to these benefits, it is considered that the minimum standard for smart meters should encompass the full scope of national SMI Minimum Functionality Specification. A great deal of consultation has been undertaken in developing that specification and it is unclear why it would suddenly be abandoned, particularly when any reduction in the specification is unlikely to lead to a material reduction in the cost of implementation of smarter meters.

We also remain unconvinced that a competitive metering roll-out will lead to the best value solution to customers. We note that a competitive roll-out would preclude certain cost-effective communications technologies, reduce economies of scale and hamper the realisation of the efficiency and service benefits that can be leveraged by market participants. It is unclear why the AEMC considers that previous extensive work undertaken by the SCER in 2008 (then MCE), recommending a distributor led roll-out as providing best value, is now invalid.

5. **DSP in wholesale markets:** supported.
6. **Efficient pricing:** generally supported, however sufficient scope must be retained for innovation in tariff design by distributors. We agree that cost reflectivity is critical, but note that such tariffs need not necessarily be time varying. Further, we do not consider that the NER Chapter 6 Pricing Principles need to be more prescriptive when there is every evidence that distributors have put in place cost reflective pricing wherever suitable metering is available and/or can be cost effectively deployed.

We agree that significant consideration needs to be given to the impact of such tariffs on vulnerable customers taking into account any direct government support.

7. **Distribution networks and distributed generation:** partial support. We strongly support the introduction of more appropriate incentives to encourage DSP projects where a net cost saving is delivered to consumers. We refer the AEMC to work being undertaken by the ENA on the potential design of such a mechanism.

Further, for the reasons mentioned in point 6 above, we do not consider that the Pricing Principles in the NER require amendment.

8. **Supply chain interactions:** supported.
9. **Energy efficiency measures and policies:** supported.

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<sup>3</sup> KEMA, Socio Economic Assessment of Smart Metering and DLC for South Australia, Rev 1.0, 17 August 2008

We have also responded to the specific questions posed within the draft report where applicable. Our detailed responses are attached.

Should any of our comments be unclear, or the AEMC require further clarification, please contact Mark Vincent, Manager Network Investment Strategy, on (08) 8404 5284.

Yours sincerely

  
Sean Kelly  
General Manager Corporate Services

## Attachment: Detailed responses to questions

### Chapter 2 – Facilitating consumer access to electricity consumption information

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#### DRAFT RECOMMENDATIONS

We propose that changes are made to:

- Chapter 7.7 (a) of the NER to clarify the requirements on a retailer when consumers request access to their energy and metering data. This would include provisions relating to the format and structure of data to be provided; the timeframes for delivery; and fees that can be charged.
  - Chapter 7 of the NER to require, at a minimum, a retailer to provide residential and small businesses consumers with information about their electricity consumption load profile. There may be a need to amend the NECF to ensure consistency of arrangements.
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- We note that although the focus of these recommendations is on retailers, distributors, having access to ALL customers' billing data, would be able to efficiently provide such data to either customers or their agents as a 'one-stop shop'. The distributor also has the benefit of being independent, with no disincentive to providing the data in an effective and efficient manner.
  - Provision of data by the distributor would also avoid the issue mentioned in the paper of approval for access to the data given to a 3<sup>rd</sup> party being revoked if a customer changes retailer.
1. What should be the minimum standard form and structure of energy and metering data supplied to consumers (or their agents)? Should these arrangements differentiate between consumer sectors (ie industrial/ commercial and residential)?
    - No comment
  2. When do you think it is appropriate for a retailer (or responsible party) to charge a fee for supplying energy and metering data to consumers or their agents?
    - Fees could be charged where customers want analysis performed that is above and beyond the standard data set or where the data required is more than 2 years old.
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#### DRAFT RECOMMENDATIONS

- We propose that changes are made to Chapter 7.7 (a) of the NER to enable agents, acting on behalf of consumers, to access consumers' energy and metering data directly from a retailer. This would include requirements on a retailer to provide consumers' energy and metering data to an authorised consumer's agent (third party), following explicit informed consent.
  - We propose that changes are made to the NER to require AEMO to publish market information on representative consumer sector load profiles.
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- Refer earlier comments.
3. Do you agree that general market information should be published on consumer segment load profiles to inform the development of DSP products and services to consumers?
    - No comment.

4. Is AEMO the appropriate body to publish such information, or should each DNSP be required to provide such information particularly where data will be at the feeder level where accumulation meters are installed?
  - Given the predominance of accumulation metering in some states, this data will need to be derived from feeder level information and/or meter data from a representative sample of small customers for which interval meters have been installed. This data is currently not available to AEMO. This being the case, the distributor will be required to provide this data, the question then is simply who publishes it. This would seem to be most efficiently undertaken by the distributor, unless there are other benefits to AEMO obtaining and publishing this data that are currently unclear.

## Chapter 3 - Engaging with consumers to provide DSP products and services

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### DRAFT RECOMMENDATION

- We recommend that the NECF is clarified to make it clear what arrangements apply to third parties providing “DSP energy services”. This should involve establishing criteria either in the NECF or the AER guidelines on retail exemptions. The criteria could include the circumstances where accreditation (or exemptions) of parties is required and the relevant provisions of the NECF that would apply (ie marketing rules, and the relevant enforcement and monitoring provisions).
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- Agreed
5. What specific criteria could be used to determine whether elements of the NECF (ie marketing code) apply to third parties providing DSP energy services to consumers? That is, beyond Australian Consumer Law?
    - No comment
  6. What requirements should be in place for these third parties? For example, what should be the form of authorisations/accreditations?
    - No comment
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### DRAFT RECOMMENDATIONS

- We recommend that the NER and NECF are clarified to outline the conditions when a distribution network business can engage directly with consumers to offer DSP network management services. This may involve establishing appropriate guidelines/process for the AER to apply and outlining which elements of the NECF apply.
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7. Do you agree that existing rules and guidelines should be amended to clearly outline the circumstances when distribution businesses are able to directly contract with residential and small consumers to deliver DSP network management services/programs?
    - Clarity in this respect is desirable.
    - In clarifying these circumstances, it is important that the “triangular relationship” as defined in the NECF be maintained as it is essential to enable distributors to deal directly with customers in providing cost effective network services.
    - In particular, we consider that distributors should not be precluded from engaging directly with customers on either targeted or broad-based DSP initiatives unless there are very clear and compelling reasons that such preclusion is warranted. It is not apparent what these might be, provided that the distributor complies with relevant ring-fencing guidelines.
    - SA Power Networks has been highly successful in engaging broadly with commercial and industrial customers to encourage economic reductions in peak demand<sup>1</sup> and we cannot see why similar initiatives should be precluded in the future.
    - Further, we consider that to extract the best possible value from such investments/activity, neither should networks be precluded from contracting more broadly with customers so as to be able to leverage additional benefits by:
      - Deferring transmission network augmentation (under contract); or

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<sup>1</sup> Specifically, SA Power Networks has introduced a range of tariffs based on the customers agreed peak demand (kVA) and, for those customers not complying with codified power factor requirements, excess kVAR tariffs. SA Power Networks has engaged directly with customers with respect to these tariffs.

- Selling such generation or load response into the market, provided that such activities are appropriately ring-fenced and/or mechanisms are in place to ensure that regulated customers receive an appropriate benefit.

## Chapter 4 - Enabling technologies for DSP

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### DRAFT RECOMMENDATION

- We recommend that a new minimum functionality specification is included into the NER for all future new meters installed for residential and small businesses consumers. That specification should include, interval read capability and remote communications.
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7. Should the minimum functionality specification for meters be limited to only those functions required to record interval consumption and have remote communication? Alternatively, should the minimum functionality include some, or all, of the additional functions specified in the SMI Minimum Functionality Specification?
  - We can see no reason why the functionality would not be expanded to meet the entire SMI Minimum Functionality Specification.
  - A great deal of consultation has been undertaken in developing that specification and it is unclear why it would suddenly be abandoned.
  - The additional functions beyond interval reading and remote communications come at very little incremental cost and, in South Australia, would result in material benefits. Detailed modelling undertaken by KEMA on behalf of SA Power Networks indicate that such benefits would have a net present value of over \$100 million<sup>2</sup>.
  - Further, we note that the AEMC's proposal for the current customer to specify the additional functionality of the smart meter beyond the basic functionality and for this cost to be recovered over the life of the meter appears inequitable. In South Australia approximately 15% of customers move out of and into any premise each year. Under the AEMC's proposal, this would mean that the new customer would pay for metering functionality that a previous customer had specified. A common standard would avoid this issue.

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### DRAFT RECOMMENDATION

We recommend that:

- the installation of meters consistent with the proposed minimum functionality specification to be required in certain situations (eg refurbishment, new connections, replacements).
  - Such metering must also be installed on an accelerated basis for large residential and small business consumers whose annual consumption a defined threshold.
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### DRAFT RECOMMENDATION

- Reforms to the current metering arrangements are necessary to promote investment in better metering technology and promote consumer choice. We put forward a model where metering services are open to competition and can be provided to residential and small business consumers by any approved metering service provider.
  - If new arrangements are implemented, then we advise that governments should consider removing the possibility of a mandated roll-out of smart meters.
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- SA Power Networks agrees that smart meters are critical to enabling effective DSP, however it does not agree with the proposed contestable/opportunistic model on the

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<sup>2</sup> KEMA, Socio Economic Assessment of Smart Metering and DLC for South Australia, Rev 1.0, 17 August 2008. These benefits substantively relate to those accruing from capabilities to undertake remote disconnect/reconnect, direct load control and capacity control. Additional benefits, not included in this figure, may also accrue owing to the ability to interface in-home displays to smart meters as can be undertaken readily using the HAN defined in the SMI specification.

basis that the AEMC does not appear to have appropriately considered the loss of economies of scale associated with such a model, increased telecommunications costs, and potential loss of operational benefits that could accrue to distributors and other market participants under a monopoly roll-out.

- Although competition has benefits, and installing new meters whenever current meter changeovers occur may appear superficially efficient, where significant economies of scale exist, a wide-scale monopoly roll-out can reduce overall costs to the community and maximise potential benefits.
  - In particular, we note that:
    - The AEMC does not appear to consider the ongoing telecommunications costs associated with smart meters.
    - Current telecommunications costs for an individual meter are currently in the region of \$60/year/meter. Although this may reduce over time, such a cost is an order of magnitude higher than that associated with mesh radio solutions that could otherwise be implemented under a monopoly roll-out model.
    - An opportunistic/contestable roll-out will put at significant risk some of the benefit streams available from smart meters. For example, manual meter reading costs do not reduce materially until ALL meters within a given service area can be remotely read. Similarly, identification of electricity theft can be most effectively undertaken only if all meters within the service area have been migrated to smart meters. The sum of such benefits, as modelled by KEMA for South Australia<sup>3</sup>, have a net present value in the region of \$100 million. This benefit is above and beyond the \$100 million described in question 7 of chapter 4.
    - In contrast, a large scale roll-out will capture economies of scale, make investment in private telecommunications infrastructure efficient, and enable full capture of efficiency and service benefits estimated at approximately \$200 million – around ⅔ of the total benefits available – on the basis of KEMA’s modelling.
8. Does the separation of the provision of metering services from retail energy contracts remove the need for meter churn when a consumer changes retailer? Does this cause any unforeseen difficulties or create any material risk? Are there any alternative approaches to reducing the need for meter churn?
- No comment.
9. Are there sufficient potential metering services providers to facilitate a contestable roll out of AMI? Does the proposed model mitigate all the material risks of a contestable roll out? If not, should a monopoly roll out be adopted?
- No comment.
10. What should the exit fee when a consumer upgrades its meter from one provided by the local distribution business? Is the proposed fixed 30% of the cost of a replaced meter appropriate?
- This cost should be modelled specifically for each distributor, and must incorporate not just compensation for the loss of the meter, but recovery of all fixed and variable costs associated with the meter installation as well as any other costs associated with such removal including administrative and disposal costs.

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<sup>3</sup> ibid

- A blanket 30% figure is not appropriate.
11. Does the option of a government mandating an AMI roll out within its jurisdiction act as a strong disincentive to a commercial roll out? Should the ability for these governments to mandate an AMI roll out removed from the NEL?
- Yes. If, despite the reservations of stakeholders, a 'commercial roll-out' approach is selected, the ability for a Government mandate should be removed.

## Chapter 5 – Demand side participation in wholesale electricity and ancillary services markets

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### DRAFT RECOMMENDATION

- We recommend a demand response mechanism that pays demand resources via the wholesale electricity market is introduced. Under this mechanism, consumers participating in the wholesale market can make the decision to continue consumption, or reduce their consumption by a certain amount for which they would be paid the prevailing spot price.
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#### 12. Participation in the wholesale market:

- (a) Do stakeholders agree that the proposed demand response mechanism is likely to result in efficient consumption decisions by end-users? If not, are there any changes you recommend to the mechanism to facilitate this?
  - (b) On balance, is a new sub-category of market generator required for consumers providing a demand that enables aggregation? What types of issues should be considered when developing the registration process?
- SA Power Networks supports any mechanisms that may enable extraction of broader market benefits from network-oriented demand side participation initiatives. By virtue of enabling capture of such benefits, initiatives may be enabled that would result in benefits to the community, but which otherwise might not be justified on the basis of (for example) distribution benefits alone.
  - The mechanism proposed by the AEMC would seem to provide such capture of broader benefits, provided that distributors are not precluded from participating in such a mechanism.
  - Given the significance of this proposal, an industry working group should be established to ensure all potential issues are identified and appropriately addressed.

#### 13. Consumer baseline consumption:

- (a) What factors should be taken into consideration when developing a baseline consumption method?
  - (b) Have we identified the correct three key principles for developing a baseline consumption method (data refresh, accuracy, metering)?
  - (c) Are there any substantial changes to metering and settlement arrangements required for this mechanism to be implemented? Can these issues be resolved through AEMO's consultation process and procedures or are broader amendments to the rules required?
- No comment.

#### 14. Incorporating demand response into central dispatch:

- (a) Do you agree that similar arrangements for generation should apply to demand resources in terms of thresholds for registering as scheduled or non-scheduled basis?
- (b) What are the ways in which the regulatory arrangements can be adapted to facilitate the participation of scheduled and non-scheduled load in AEMO's central dispatch process? Are there any specific changes to reporting, telemetry and communication requirements?

- (c) Should both market and non-market loads above a certain size be required to provide information to AEMO regarding their controllable (and therefore interruptible) load blocks?
  - (d) Should there be a trigger in the monitoring and reporting framework that requires consumers to provide greater detail regarding their demand resource to AEMO or affected DNSPs?
- [No comment](#)

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#### DRAFT RECOMMENDATION

- We recommend that the NER is amended to clarify AEMO's role in developing both long and short term demand forecasts, including estimating DSP, for the purpose of providing accurate price signals to the market over various time frames including pre-dispatch.
  - To achieve clarity in this regard, the existing rules associated with specific reporting obligations may need to be rationalised to remove any ambiguity regarding their information gathering powers.<sup>131</sup>
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15. How should AEMO's powers be expanded to improve demand forecasting? Should retailers and other market participants be obliged to provide information regarding DSP capabilities? Will non-obligatory requirements achieve the desired accuracy in reporting requirements?
- [An obligation to divulge DSP capabilities would seem necessary and prudent.](#)
16. In what ways can AEMO improve its survey questions regarding DSP capabilities? How often should AEMO be required to update its expectations on DSP capabilities in the NEM?
- [No comment](#)
17. Would a pre-dispatch that includes active and price-responsive DSP improve decision making processes for C&I users and aggregators? If not, do you have any other suggestions for improving the ability for AEMO to accurately forecast demand?
- [No comment](#)

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#### DRAFT RECOMMENDATION

- We recommend creating a new category of market participant in the NER that will allow for the unbundling of all non-energy services from the sale and supply of electricity.
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Note: Numbering not consistent started at 15 (section 5.7.2)

15. Do you agree that a new category of market participant should be established for the provision of non-energy services?
- [Yes. As stated earlier \(see Question 12\), SA Power Network agrees with the AEMC's proposed demand response mechanism, as such the creation of a new market participant category would seem appropriate to facilitate this.](#)
16. What types of issues should be considered when developing the registration process, such as eligibility, obligations and liabilities?
- [We consider that distributors should be eligible to register.](#)
17. What metering arrangements need to change to implement this mechanism?
- [There is no apparent need to alter arrangements.](#)

## Chapter 6 - Efficient and flexible pricing options

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### DRAFT RECOMMENDATION

- We recommend that governments and industry work together to educate consumers and provide them with the information they need to understand both the system wide benefits and potential individual gains from time varying tariffs.
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- Agreed, subject to replacement of the term “time varying” with “cost reflective”.
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### DRAFT RECOMMENDATION

To manage the impacts on vulnerable consumers we recommend that:

- Arrangements are put in place for consumers, which may a limited capacity to respond, to remain on a retail tariff which has a flat network component, and would have the option to choose a time varying tariff.
  - Government programs target advice and assistance to these consumers to help manage their consumption.
  - Governments review their energy concession schemes so that they are appropriately targeted.
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- Agreed, subject to replacement of the term “time varying” with “cost reflective”.
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### DRAFT RECOMMENDATION

The transition to better price signals in the NEM should be done in a gradual phased approach. We propose that this can be achieved through:

- Focusing only on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include the relevant network tariff into their retail offers; and
  - Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways. This would work as:
    - For large consumers (band 1), the relevant network tariff component of the retail price must be time varying. This would require these consumers to have a meter that can be read on an interval basis.
    - Medium to large consumers (band 2) with an interval meter would transition to a retail price which includes a time varying network tariff component. These consumers would have the option of a flat network tariff.
    - Small to medium consumers (band 3) would remain on a flat network tariff. These consumers would have the option to select a retail offer which includes a time varying network tariff, if they so choose.
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- SA Power Networks generally agrees with this approach, however, we note that:
  - The terms “cost reflective” and “time varying” appear to have been used almost inter-changeably within the chapter, and the recommendations use the term “time varying”.
  - Some tariffs discussed within the chapter, most notably capacity (demand) based tariffs, may not necessarily be time varying, even though they are clearly cost reflective.
  - It is SA Power Networks view that capacity based tariffs offer a number of advantages over simple time of use based pricing, and thus, we consider it inappropriate for such tariffs to be precluded on the basis that they are not time varying.
  - We recommend that the term “cost reflective” be used within the recommendations.

- We also note that the AEMC discusses within the chapter the possibility of locational pricing, even though this is not reflected in the recommendations. In SA, such an approach is not possible without legislative change, as we are required to price on a postage stamp basis for all customers below a 160 MWh/annum threshold.
18. Do stakeholders agree with our approach for phasing in cost-reflective pricing? If not, how can the policy be improved to transition to cost-reflective pricing?
- The AEMC’s ‘banding’ approach appears superficially to offer an appropriate way to transition customers to cost reflective pricing, however, we note a number of issues as discussed in response to question 19 below.
  - We also retain some reservations as to whether the introduction of such complexity is warranted in terms of the benefits that will accrue, and whether an across the board ‘opt-out’ approach might be more efficient whilst still offering sufficient protections. Alternately, a simpler two-banded approach might be considered, with the highest consumption consumers having no ‘opt-out’ opportunity. The threshold for ‘opt-out’ could then be gradually lowered. This approach has been progressively utilised by SA Power Networks over a number of years now for commercial and industrial customers and has been very successful.
19. Have we identified the main issues with transitioning to cost reflective pricing? If not, what other issues need to be considered?
- A key issue that may not be apparent to the AEMC is that, if the three band approach is taken, customers in band 3 may be subject to significant price rises even if they remain on flat tariffs.
  - This could occur because current accumulation metering based tariffs are typically (entirely in South Australia) based on inclining blocks. Thus, large energy customers could save significant sums by moving to cost reflective prices, provided that they have good load factors. For large energy customers, this is often the case. In other words, we would expect a large proportion of ‘winners’ in band 1.
  - Further, the customers in band 2 that are likely to opt in are likely to be those that can save money by moving to cost reflective pricing (once again, a predominance of ‘winners’).
  - To offset lower revenues received from the winners in bands 1 and 2, distribution businesses will need to increase their flat rate tariffs in order to fully recover their allowed revenues, thus prices may need to increase significantly for band 3 customers. This potentially unintended consequence warrants serious consideration.
  - The time frame to transition customers in bands 1 and 2 would also need to be carefully considered. We assume this would be over a 2 – 3 year period.
  - Further, we note again, that in the absence of a monopoly smart meter roll-out, the installation of meters for those (scattered) customers moving to cost reflective pricing may prove inefficient, and, communications costs in particular could prove costly as compared to the costs to undertake a volume roll-out.
20. How should consumption thresholds be determined?
- If thresholds were established, we consider that this might best be undertaken by percentile. For example:
    - Large = top 33% of customers
    - Medium = mid 33% of customers

- Small = lowest 33% of customers.
- We note further, that for a distribution network, the appropriate measure of customer ‘size’ would be peak demand and not energy. For example, a large holiday home may have a peak demand of 15 kW and is clearly a large customer, despite their energy consumption being quite low due to low occupancy. However, we can see no way around this problem with current metering. The AEMC may, however, wish to consider transitioning to defining customer size by peak demand once suitable metering is in place.
- We note that this issue would not arise under a monopoly meter roll-out as the peak demand for all customers would be known.

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#### DRAFT RECOMMENDATION

We recommend that:

- The distribution network pricing rules in the NER are amended so that distribution network businesses have sufficient guidance to set efficient and flexible network tariff structures that support DSP.
  - A new provision is included in the rules which require distribution network businesses to consult with consumer groups and retailers on their proposed tariff structures each year.
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21. We seek stakeholder comments on appropriate pricing principles for distribution businesses and the appropriate time period for stakeholder consultation on distribution network pricing proposals.
- The paper lists a number of potential impediments as to why distribution businesses have not implemented “time varying tariffs”, however it seems to ignore the evidence that where it has been economic to install the metering to support cost reflective (demand) tariffs, DNSPs have done so.
  - For example, in South Australia, demand (peak kW based) tariffs were introduced in 1999/00 as soon as suitable metering became available for large customers (> 160 MWh/annum). Customers subject to demand tariffs at that time amounted to approximately 35% of SA Power Networks’ annual energy distributed.
  - Since that time, more customers have gradually been moved onto such tariffs, and the measure has been transitioned from kW to kVA, thus rewarding customers who can improved their power factor as well as their load factor.
  - We now have nearly 4,000 customers on demand tariffs, comprising nearly 50% of energy distributed. By mid-next year, we will have added another 20% to these customer numbers as we continue to reduce the threshold for mandatory re-assignment to demand tariffs.
  - We are also about to commence a trial of demand tariffs for residential customers, to determine how well such customers will understand them, and to what extent they will respond to the highly cost reflective pricing signals they offer.
  - We understand that a number of other Australian distributors have taken a similar approach and are also in various stages of trialling more cost reflective tariffs.
  - The key impediment to expanding the application of cost reflective tariffs is quite simply the limited availability of suitable metering and, in some states, Government willingness to allow such tariffs. Other issues exist, but are of far lower materiality.
  - On the basis that there is no evidence that distributors will not offer cost reflective pricing as long as the requisite metering is in place, or can be put in place cost

effectively, we consider that the current NER pricing principles are adequate and do not need to be altered.

- In addition, we observe that the greater the degree of prescription within the rules, the greater the extent to which innovation is stifled.
- In relation to consultation, an obligation already exists to consult on tariff changes, and we consider this a necessary step in the process. We are therefore ambivalent to rule changes in this regard.

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#### DRAFT RECOMMENDATION

- We recommend that once a residential and small business consumer has a meter with interval read capability, that consumer's consumption should be settled in the wholesale market using the interval data and not the net system load profile. This will be the case irrespective of whether the consumer has reverted to a flat retail tariff.

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- No comment

## Chapter 7 - Distribution networks and distributed generation

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### DRAFT RECOMMENDATION

- We recommend that the AER considers reforming the application of the current demand management and embedded generation connection incentive scheme to provide an appropriate return for DSP projects which deliver a net cost saving to consumers. We have put forward principles and two mechanisms for how this could be achieved.
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- We strongly support this reform.
22. Would it be beneficial to include reference to the suggested mechanisms and provide more guidance and an overall objective in the Rules governing the demand management incentive scheme?
- SA Power Networks is highly supportive of any mechanisms that provide appropriate incentives to support demand management and distributed generation.
  - The principles described by the AEMC appear generally appropriate, however they are unclear in a number of respects. In particular, it is uncertain to what extent such projects are assessed ex-ante, ex-post, or both. Any scheme that requires an ex-post review exposes the proponent to additional risk and administrative cost and may therefore be less successful.
  - We refer the AEMC to work being undertaken by the Energy Networks Association on the potential design of such a mechanism.
  - The current rules give the AER significant freedom in design of the scheme and we consider that such freedom is appropriate to enable the AER to exercise flexibility to adapt as experience in operation of such schemes is gained. Too much prescription could lock in mechanisms that are later found to be inefficient. It may, however, be necessary to clarify that the AER has discretion to consider broader market benefits in the application of such a scheme.
23. Should separate provisions for an innovation allowance be included into the rules? Given that the costs of the allowance would be borne by electricity consumers, is it more appropriate for such innovation to be funded through government programs?
- As the AEMC has observed, the DM innovation allowance is by no means an incentive and thus could appropriately be separated from the scheme. It is however considered appropriate for distribution businesses to be explicitly provided with some funding to undertake research in respect of DM and potentially other areas. Government funding would seem to be an inefficient means of providing such allowances.
24. Should the provisions for a demand management incentive scheme be included in the regulatory framework for transmission businesses?
- No comment
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### DRAFT RECOMMENDATION

- We recommend a combination of two approaches to mitigate the problem of network profits being linked to actual volume. Firstly, the pricing principles in Chapter 6 of the NER need to be amended to provide greater guidance on how network businesses should set their tariffs to reflect their costs. Secondly, we recommend that the AER considers expanding the current application of the foregone revenue component of the demand management incentive scheme to cover DSP tariff based projects as well.
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25. What amendments are required to the current distribution pricing principles as set out in clause 6.18.4 of the national electricity rules?

- As stated earlier, the assertion that distribution businesses will not establish cost reflective prices in the absence of more prescriptive pricing principles is not borne out in practice. The current pricing principles are not considered materially deficient.
- We agree, and have previously argued, that the foregone revenue component of the DMIS should apply to tariff based projects. In the absence of such an amendment, an artificial disincentive to undertake such projects exists.

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DRAFT RECOMMENDATION

- We recommend that the NER is clarified to enable the AER to consider potential non-network benefits when assessing the efficiency of network expenditure allowances.

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- Agreed.

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DRAFT RECOMMENDATION

- We recommend that the NER is amended to include the ability for distribution network businesses to have extra flexibility in their annual tariff setting process to reflect changing DSP costs.

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- Agreed.

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DRAFT RECOMMENDATION

- We propose that a new rule is introduced in the NER that provides distribution network businesses with more certainty on how DSP expenditure incurred in a regulatory period (but which is not included in the approved allowance) will be treated in future regulatory determinations.

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- Agreed.

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DRAFT RECOMMENDATION

- We propose that the NER is changed to permit the AER to grant temporary exemption from reliability service standards for specific DSP pilots/trials.

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- Agreed.

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DRAFT RECOMMENDATION

- We recommend that the AER should give consideration to the benefits of allowing distribution network businesses to own and operate DG assets when developing the national consistent ring fencing guidelines for these businesses

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- Agreed.

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DRAFT RECOMMENDATION

- We consider that SCER should, in developing a national approach to feed in tariffs, take into account the value of time varying feed in tariffs to encourage owners of DG to maximise the export of their energy during peak demand periods

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- Agreed. However, we also draw the AEMC's attention to consideration as to whether such tariffs should be provided on a gross or net basis. We note that if such tariffs were offered on a gross basis, then this would enable distributors to more effectively provide cost reflective pricing signals to such customers without the potentially conflicting driver for customers to minimise their in-house consumption so as to maximise their feed-in.

## Chapter 8 - Supply chain interactions

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### DRAFT RECOMMENDATION

- The recommendations are a package of integrated reforms for the market. If implemented, the market should have time to adjust and transition to the new environment. There should be ongoing monitoring and evaluation of the market for the desired outcomes to be achieved. We therefore do not consider that additional regulatory mechanisms beyond those recommended in this report are needed for the market at this time.
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- Agreed.

## Chapter 9 - Energy Efficiency measures and policies

- Although no recommendations or questions were posed within this chapter, SA Power Networks supports greater integration between policies.