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Mr John Pierce  
Chairman  
Australian Energy Market Commission  
Via email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

AEMC consultation paper National Electricity Amendment (National Electricity Amendment (Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses) Rule 2011

Dear Mr Pierce,

Ausgrid appreciates the opportunity to comment on the AEMC consultation paper National Electricity Amendment (National Electricity Amendment (Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses) Rule 2011.

In responding to this specific rule change, Ausgrid supports the proposed amendment to the Efficiency Benefit Sharing Scheme framework applicable to transmission businesses to require the Australian Energy Regulator (AER) to consider the scheme's effect on the businesses' incentive to undertake demand management or other DSP related (i.e. non-network alternatives) expenditure. This will provide consistent treatment amongst TNSPs and between TNSP's and distribution businesses.

However, beyond this immediate rule change Ausgrid believes that the current design and operation of the EBSS needs to be reviewed to address asymmetric risks for networks, particularly at the regulatory reset. This is because the AER will likely reduce operating expenditure forecasts and place businesses in a position where they continue to be penalised by overspending an allowance set by the AER that may not reflect efficient costs.

Responses to the specific issues raised in consultation paper are contained below.

**Materiality of the problem**

*1. Does the current EBSS as implemented by the AER create a material disincentive for TNSPs to undertake efficient non-network alternative expenditure?*

Ausgrid supports amending the rule to ensure regulatory consistency even though the current disincentive for TNSP's may not be material.

2. Are there any TNSPs for whom non-network expenditure is not excluded from their EBSS?

Ausgrid's transmission assets are currently regulated under the same framework as its distribution assets so any non-network expenditure relating to our transmission business is already excluded from the EBSS.

#### **Regulatory discretion and certainty**

1. *What types of demand management expenditure and other forms of DSP related expenditure undertaken by TNSPs can be characterised as non-network alternative expenditure?*

The intent of the exclusion of non-network alternatives from the EBSS is to ensure that there is no disincentive for the economic substitution of operating costs for capital costs, which is a core to demand management. As such, any operating expenditures that relate to the identification, development and implementation of alternatives to conventional network investments should be captured. The types of expenditure should capture payments to providers of network support (including embedded generators), the cost of developing the necessary information, knowledge and capability to develop and deliver demand management type alternatives, internal costs related to the development and management of demand management initiatives, and the cost of trialling innovative alternatives to conventional network investment.

2. *Should the AER have flexibility and discretion in determining what types of expenditure can be classified as non-network alternative expenditure?*

Ausgrid supports the proposed rule amendment but believes the larger issue of regulatory discretion, the operation of the EBSS and particularly the regulatory reset at the end of each regulatory period needs to be addressed. We will raise these issues during the consultation on the AER's framework and approach to apply to our next regulatory reset.

If you wish to discuss any aspect of this submission please do not hesitate to contact me or Ms Catherine O'Neill, Executive Manager – Regulation and Pricing on 02 9269 4171.

Regards,



Péter Birk  
Executive General Manager – System Planning & Regulation (Acting)