



20 June 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A244
SYDNEY NSW 1235

Dear John

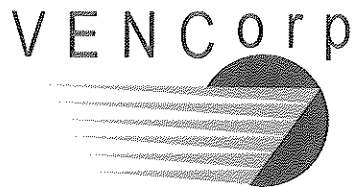
RE: ISSUES PAPER FOR REVIEW OF DEMAND-SIDE PARTICIPATION IN THE NEM

VENCorp welcomes the opportunity to respond to the Australian Energy Market Commission ("AEMC") in relation to its Stage 2 Issues Paper for the review of demand-side participation in the National Electricity Market (NEM).

VENCorp's response to the Issues Paper follows an earlier submission by VENCorp (dated 28 March 2008) in relation to the recommendations in the Draft Report by NERA on the role of demand-side participation in the NEM.

In summary, the main comments in VENCorp's previous submission were as follows:

- VENCorp agrees with NERA's recommendation that NSPs seek information from demand-side proponents for non-network solutions on an annual basis outside the regulatory test process;
- Restricting the application of the Request for Information (RFI) process to the market benefits limb of the regulatory test represents a limitation in the regulatory test's ability to select the optimal solution for a given constraint in terms of both the type and the timing of solution;
- VENCorp disagrees with NERA's interpretation that in applying the new Regulatory Investment Test (RIT) to demand-side response alternatives, the option that has the highest net benefit or least negative net benefit should be the successful option. Instead, the RIT should be developed so that a market benefit is calculated for all options, regardless of whether it is a network option or otherwise. In addition, if statutory requirements dictate a particular implementation date of the best option, then the statutory requirement should prevail; and
- Locational pricing is an appropriate tool to raise efficiency in relation to where investments are made on the network. However, as a tool to discourage DSR, it has shortcomings.



For this submission, VENCorp has elected to respond to questions raised in the Issues Paper relating to network planning and network access and connection arrangements.

Network Planning

VENCorp recognises that the network planning issues in the Issues Paper is restricted to the Distribution Network, however, VENCorp wishes to make an additional comment regarding the time that a demand-side management (DSM) provider may need to respond to a proposed augmentation.

NERA's Final Report seems to have accepted that transmission network service providers (TNSPs) already provide a great deal of information that assists potential DSM identify opportunities.¹

However, VENCorp is of the view that potential network constraints should be identified and brought to the attention of the market through the TNSPs' annual planning report (APR) much earlier. If there were 9 or 10 year lead-time to the actual requirement of the augmentation, this may give potential DSM providers much more time to develop a response.

Network Access and Connection Arrangements

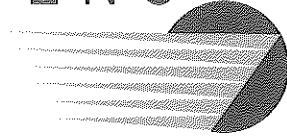
VENCorp supports the existing arrangements for avoided TUOS and DUOS in clauses 5.5(h)-(j) of the Rules and considers that embedded generation plays an important role in reducing load on the transmission network during times of peak demand.

The location of embedded generation in areas of high demand may also result in the deferral of future network investment. VENCorp considers that TNSPs should take into account the overall market benefits of deferring future network investment for embedded generation solutions. The AEMC may wish to consider whether embedded generator should be eligible to receive a portion of the transmission or distribution investment that the generator has allowed the TNSP or DNSP to avoid. In addition, TNSPs should also be involved in identifying any potential opportunities for embedded generation in their APRs for each jurisdiction of the NEM.

Currently, avoided TUOS charges are calculated on a locational basis in order to provide an incentive for embedded generators to locate in areas of high demand. These charges exclude the non-locational and common service components of prescribed TUOS charges. In order to provide more comprehensive pricing signal, the AEMC may wish to consider whether the scope of avoided charges should be broadened to include non-locational and common service charges.

¹ Refer to pages 38-39 of NERA's Stage 1 final report for the review of demand-side participation in the NEM.

V E N C o r p



Finally, VENCorp supports the minimum technical standards contained in Schedule 5.2 of the Rules. VENCorp considers that there should be no exemptions for embedded generators from the minimum connection requirements. Any such exemption may increase the risks associated with system security and the reliability of embedded generators within the network.

Should you have any questions please do not hesitate to contact Tim Sheridan on (03) 8664 6617.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Zema', written over a light blue horizontal line.

Matt Zema
Chief Executive Officer