TOTAL ENVIRONMENT CENTRE INC.
National Electricity Market Campaign

Suite 2, 89-97 Jones Street, Ultimo, NSW 2007
Ph: 02 9211 5022 Fax 02 9211 5033
www.tec.org.au

Total Environment Centre

Submission to the AEMC

Distribution Network Planning and Expansion Framework

MCE Rule Change Request

November 2011

Further information:

Jeff Angel
Executive Director

Glen Wright
National Energy Market Advocate
Total Environment Centre
Ph: 02 9211 5022
glenw@tec.org.au

Introduction
Total Environment Centre (TEC) welcomes the opportunity to provide comment as part of the Distribution Network Planning and Expansion Framework rule change proposal. Total Environment Centre (TEC) has advocated for greater utilisation of demand-side participation (DSP) in the National Electricity Market (NEM) since 2004, and is encouraged by the rule changes and reviews currently in progress.

Demand-Side Participation in the NEM
TEC has previously noted that DSP is supported across a range of stakeholder groups and that the benefits are widely recognised. The potential benefits include:

- Lowering the amount of fossil fuels burned, which leads to lower emissions, mitigating climate change;
- Saving consumers money through:
    - Avoided infrastructure augmentation;
    - Deferred infrastructure augmentation; and
    - Lowered consumption of electricity.
- Lowers the demand for electricity networks which lowers the amount of energy lost through transmission loss;
- Increasing reliability and security of supply;
- Allows demand to be responsive to fluctuating supply, which facilitates intermittent renewable generation
- Lowers the risk associated with building too little infrastructure to meet demand;
- Increases the time available to plan for and carry out efficient and necessary infrastructure augmentations; and
- Reduces the incidence of peak price events.

DSP is in line with the National Electricity Objective, as well as the broader objectives of sustainability, as it results in outcomes that are in the long-term interests of consumers. Despite these benefits, uptake of DSP has been very low as the current regulatory environment favours supply-side network solutions over DSP.

The Importance of Demand-Side Participation in Distribution Networks
Distribution accounts for around 40%-50% of the cost of electricity to the end consumer. With networks increasing their expenditure, prices have increased by 40% in real terms since 2007[1] and are set to increase further. DSP could play a significant role in mitigating these increases. For this to occur there must be a sympathetic regulatory environment that cultivates engagement with DSP.

Demand-Side Participation in the current Rule Change Proposal
TEC commends the Ministerial Council on Energy (MCE) for their inclusion of a Demand Side Engagement Strategy in the Distribution Network Planning

[1] Australian Bureau of Statistics 6401.0, Table 7, CME analysis.

and Expansion Framework rule proposal. TEC supports the Demand Side Engagement Strategy concept. DSP is a vastly underutilised resource that has been beset by systemic bias in favour of supply-side solutions, despite the intention that the NEM was to be a two-sided market.

Demand-Side Engagement Strategy
TEC understands that the Distribution Network Planning and Expansion Framework would impose the following additional obligations on Distribution Network Service Providers (DNSPs) in relation to DSP:

- A requirement that DNSPs engage with non-network providers and consider non-network alternatives ;
- An obligation to prepare and publish a document detailing the DNSPs Demand Side Engagement Strategy; this strategy must then be implemented ; and
- A requirement to establish a database of non-network proposals and a register of parties interested in distribution planning and investment.

TEC particularly supports the objective of these provisions, specifically to:

- ensure timely and efficient investment for the long term interests of consumers of electricity;
- ensure the efficient and effective development of the network, including to *ensure that non-network alternatives are considered*.

Question 2.1: To what extent would potential investors, non-network providers and any other interested parties find the information provided by the proposed Demand Side Engagement Strategy useful?
The information provided will be of some use to potential DSP actors, though these actors are better placed to comment than TEC. TEC recommends that the AEMC gives particular weight to the submissions of DSP providers when assessing this rule change.

The Demand Side Engagement Strategy will hopefully provide some interface between DNSPs and DSP providers and create greater opportunities for these two groups to work together to improve the uptake of DSP in the NEM.

In relation to the proposed database, the infancy of DSP in the NEM is often cited as a barrier to greater implementation, so access to information regarding projects may help actors to develop greater understanding of what works. TEC notes that the International Energy Agency's Demand-Side Management program, to which Australia is a signatory, is currently working on an International Database on Demand Side Management Technologies and Programmes.[2] The AEMC may wish to explore the progress of this project as it may provide some useful information in terms of designing such databases.

[2] See http://www.iea.org/techno/iaresults.asp?id_ia=8.

Any information provided by these rules may, however, be of limited use overall in the absence of a regulatory framework that is more broadly supportive of DSP. For example, the lack of a capacity market means that third party aggregators are not able to pool disparate capacity across the NEM, which has prevented greater utilisation of DSP. Simply providing for access to greater information seems unlikely, alone, to result in a significant increase in the uptake of DSP.

There is a risk that, like other provisions in the Rules that require mere consideration of DSP, rather than seeing DSP as a fundamental component of a balanced energy market. The AEMC must work to ensure that this rule change does not become simply another 'consider' formality that DNSPs must address before engaging their usual network development activities.

TEC therefore supports this rule change on the basis that it is part of the broader movement occurring at the moment toward greater recognition of DSP, as it is now widely acknowledged that the time has come to focus on improving the demand-side of the NEM.

Question 2.2: To what extent would DNSPs incur additional costs in developing and maintaining the various components of the proposed Demand Side Engagement Strategy?
TEC acknowledges that DNSPs will face some additional costs as a result of this rule change. However, it is unlikely, given the fairly modest nature of the obligations proposed, that these costs would be significant.

In any case, DNSPs are able to recoup these costs in two ways. Firstly, DNSPs generally pass through additional costs. Secondly, if the sharing of information encouraged by this rule change results in greater utilisation of DSP, some of the costs incurred can be recouped from DSP projects.

TEC is therefore of the opinion that the pressing need to improve DSP uptake in the NEM outweighs the relatively minor costs to DNSPs; and would outweigh even higher costs.

Question 3.5: Do DNSPs face sufficient business and regulatory drivers to ensure that they carry out appropriate planning and produce accurate forecasts in their DAPRs?
TEC is concerned that there are not sufficient pressures in place for DNSPs to be accurate and honest in drafting their DAPRs. TEC recently made a submission to the AER regarding Powerlink's revenue proposal for the next regulatory period.[3] TEC argued that Powerlink had overstated drivers for network growth and understated factors that suggest a reduction in energy usage. TEC understands that many interested groups agree that NSPs are able to 'game the system'.

[3] While Powerlink is a TNSP, the same issues apply.

Given the foregoing, TEC is particularly concerned that DNSPs may overestimate their need to invest in new infrastructure or exaggerate its load estimates. Aside from deliberate misinformation, there is also the possibility that DNSPs will simply not invest the resources necessary to produce an accurate DAPR.

Question 5.2: Do you consider it is necessary to provide the AER with additional powers to (1) review a DNSPs policies and procedures with regard to the consideration of non-network alternatives and (2) audit projects which have been identified by DNSPs as not meeting the threshold for the RIT-D?

TEC is strongly of the view that the AER should be given additional powers in these areas. In TEC's experience, the AER has struggled to effectively regulate NSPs in a number of key areas. In particular we note the current rule change proposal by the AER regarding the economic regulation of networks is a response to these weaknesses. TEC believes that it is necessary to give the AER the strongest possible powers from the outset to ensure that the current rule change makes a practical difference to network planning.

The AER must have sufficient powers of regulatory oversight to ensure that DNSPs are adequately considering and implementing DSP options. Only with this oversight will the uptake of DSP increase.

The Need for Further Demand-Side Reform

The NEM was originally intended to be a two-sided market, where supply- and demand-side options for meeting electricity demand are on an equal footing. However, DSP in the NEM has been low, and it is widely acknowledged by a range of NEM actors that the NEM is heavily biased in favour of the supply-side.

The current rules require only consideration of non-network alternatives, rather than any obligation or target for DSP, and usually provisions are phrased in a way that suggests that DSP consideration is an afterthought or mere formality. TEC is pleased that the current rule change proposes to make the consideration of DSP more transparent and comprehensive, in contrast to the extremely limited consideration presently given to DSP. However, the changes proposed do not actually *require* any further consideration or implementation of DSP in practice. Without such obligations, and in light of the supply-side bias of the NEM, DSP is likely to continue to be underutilised.