

05 June 2009



Dr John Tamblyn  
Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn

**Draft Report: Demand-Side Participation in the National Electricity Market – Reference EPR0002**

ENERGEX Limited (ENERGEX) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Draft Report "Review into Demand-Side Participation in the National Electricity Market" (Review), released on 29 April 2009. ENERGEX provides this submission as a distribution network service provider (DNSP) in Queensland.

ENERGEX supports the development of a regulatory framework that facilitates the exploration of non-network alternatives, recognising the DNSP's overarching obligations in relation to reliability, security and quality of supply. Further to this, ENERGEX agrees with the majority of the Review's findings, including the AEMC's recognition of the analysis and consultation that is occurring through concurrent reviews and regulatory work programs.

This submission is limited to those issues where ENERGEX believes that clarification is required or where the AEMC has specifically requested stakeholder feedback. In particular:

- *Shifting Expenditure from Capital to Operating* - ENERGEX believes that the Efficiency Carryover Mechanism (ECM) should exclude demand-side related operating expenditure from its calculation. That is, where operating expenditure is more prudent and efficient than capital expenditure, a DNSP should receive the same allowance as if a supply-side investment was made.

This is consistent with the AER's stated approach in its *Final Decision: Demand Management Incentive Scheme - ENERGEX, Ergon Energy and ETSA Utilities 2010 – 2015* (October 2008), (at page 6):

*In order to minimise the impact of the EBSS on the incentives to undertake efficient demand management programs, the AER will exclude identifiable operating expenditure on non-network alternatives from the actual and forecast opex amounts used to calculate carryover gains or losses under the EBSS. This exclusion includes demand management expenditure in the form of approved opex, opex underspends and overspends, and expenditure under the DMIS.*

Enquiries  
Louise Dwyer  
Telephone  
(07) 3407 4161  
Facsimile  
(07) 3407 4499  
Email  
louisedwyer  
@energex.com.au

Corporate Office  
150 Charlotte Street  
Brisbane Qld 4000  
GPO Box 1461  
Brisbane Qld 4001  
Telephone (07) 3407 4000  
Facsimile (07) 3407 4609  
www.energex.com.au

Given that the majority of demand-side expenditure is opex in character and the practical issues associated with the exclusion of deferred capex from capex allowances, the introduction of a requirement for a capital expenditure ECM to facilitate DSP is not supported. DNSPs should also be provided with the opportunity to bed-down existing schemes prior to their expansion or the introduction of new incentive mechanisms.

- *Distribution Network Planning* – ENERGEX does not believe that, given the dynamic nature of distribution network investment, information can be reliably provided over a planning horizon of greater than five years.

Consistent with the comments it provided on the AEMC's *Review of National Framework for Electricity Network Planning and Expansion*, ENERGEX supports the development of a nationally consistent Annual Planning Report (APR) which provides:

- detailed planned project scopes and costs for year 1 of the APR, for those projects scheduled for completion in year 1 of a value greater than \$1 million. For ENERGEX, this represents approximately 100 – 200 projects per annum;
- strategic project scopes and indicative costs for the remaining four years of the APR. These projects represent a preliminary solution for the alleviation of constraints flagged in the APR and as such are scoped and costed at a high-level; and
- a description of existing and planned demand management programs together with an invitation for non-network solutions, in the form of a statement of network demand management opportunities. It is important to note that although the APR may identify the costs of network solutions for strategic projects (i.e. those flagged for the outer years of 2 – 5), these are preliminary solutions only and are subject to revision should a viable non-network solution be raised.

Preparation of the APR should not result in an unwarranted cost burden for DNSPs, and ultimately customers. It is crucial that an appropriate balance is achieved between the costs of production and the value of information provision. Given the relative immaturity of the market for non-network solutions, ENERGEX believes that viable alternatives are more likely to achieve success in circumstances where they are considered at the point of option development by the DNSP (i.e. early in the process of analysis), rather than where they are raised in response to an APR or similar instrument.

- *Arrangements for avoided TUOS* – ENERGEX notes that the Draft Report has found that with respect to embedded generation (at page 52):

*Where possible, network support agreements should be used to compensate embedded generators for any benefits they provide to the network. However, where there is no network support agreement in place, there are benefits in retaining the payment for avoided network costs.*

ENERGEX requests clarification as to the scope of the obligation that is intended to apply to DNSPs as a consequence of the AEMC's finding. For example, whether the AEMC is suggesting that specific arrangements should be introduced or preserved for particular categories of embedded generation.

- *Minimum Technical Standards* - While ENERGEX supports the development of an AER-approved standard connection contract for micro embedded generators (in accordance with the Australian Standard AS 4777), the technical requirements for micro embedded generators should not be defined in the NER on the basis that:
  - the AEMC's *Review of National Framework for Electricity Distribution Network Planning and Connection*, proposes that standard connection contracts will be approved by the AER. A regulatory 'check' on the reasonableness of technical requirements would therefore already exist under this framework; and
  - the technical requirements for micro embedded generators may be influenced by jurisdictional policy and legislation.

ENERGEX believes that the framework for micro embedded generators should be structured as following:

- the schedules to Chapter 5 of the NER specifying minimum content of the standard connection contract; and
- the DNSP's standard connection contract specifying the technical requirements.

Please do not hesitate to contact me on 07 3407 4161 should you wish to discuss this submission in any way.

Yours sincerely



Louise Dwyer  
Group Manager Regulatory Affairs