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Total Environment Centre

Demand Management Incentive Scheme and Allowance

Draft Determination

Submission to AER

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Total Environment Centre's National Electricity Market advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environments: flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for ten years, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

DMIS

After a long and at times difficult gestation period, TEC welcomes the AER's publction of the draft demand management incentive shceme (DMIS) and allowance (DMIA). While the draft scheme and allowance differ in some respects from TEC's and ISF's original designs, TEC considers that the AER has done an excellent job in weighing up the potential designs and has arrived at one that is essentially rational, attractive, simple and accountable. To be more specific, we concur in regard to the following major elements:

- Cost uplift approach.
- Magnitude of cost multiplier.
- Minimum project evaluation requirements for rpojects valued at less than the RIT-D threshold.
- The broad definition of DM as 'the act of modifying the drivers of network demand to remove a network constraint' - including non-peak, minimum demand & repex projects.
- The absence of network DM targets.
- Compliance and reporting requirements.

We have some minor queries regarding the application of the DMIS (as follows), but these may be answered by AER staff before the end of the submission period:

1. How long networks can claim project DM costs for, especially if costs are only incurred once but benefits continue for some years (e.g. DLC aircons).
2. Whether there are any practical limits on the types of projects covered - e.g. if paying another party to paint the west wall of an apartment building white will effectively reduce the need for aircon loads on summer afternoons by 20%, might that project comply?
3. Under what circumstances an innovative tariff like a peak time rebate would be eligible for cost recovery and uplift under the DMIS (as opposed to R&D funding under the DMIA).*
4. What constraints apply where a DM project is part-funded by another source - e.g. AEMO and ARENA. Are they ineligible for the DMIS or can this be factored in?

* For instance, a peak time rebate trial may be considered to be relevant to the DMIS where it targets a network constraint, but to the DMIA where there are currently no constrained substations or feeders in a network but is being trialled more broadly to assess its consumer impacts.

DMIA

TEC is liekwise generally positive about the revised DMIA in regard to:

- The formula for determining the allowance for each network (given that the current allowances do not worok for small networks).
- Broad project eligibility requirements and the option for indicative upfront approval.*
- Compliance reporting requirements – although, in view of the newfound relevance of DM in constraining costs and improving reliability, we would recommmend that networks be requried to publish plain English summaries of current and past DM projects on their websites for the benefit of consumers and DER proponents who may not read compliance reports.
- The carryover formula for unspent DMIA funds.

While we would have preferred a more innovative methodology to be applied to the allowance (eg, determined by options 3 or 4, auctions) we understand the AER's incremental approach to encouraging more innovative R&D given some networks' poor past performance in ths regard, and look forward to reviewing progress over the next 5 years to determine whether an alternative allowance design may be callled for thereafter.

Early implementation rule change

In view of the fact that the implementation of the DMIS and DMIA rule change was delayed at the request of the AER, meaning they could not be applied for the whole of the curent regulatory period, TEC is especially delighted that the AER is now proposing

> a rule change to the National Electricity Rules (NER) to allow eligible distribution network service providers (distributors) to request approval to apply the demand management incentive scheme (the new Scheme) mid-way through an existing regulatory control period.

Given its voluntary applicability, we agree with the AER's contention that it is appropriate for the AEMC to "expedite the rule change as non-controversial under section 96 of the National Electricity Law" and would be happy to provide any further inputs required to facilitate its success.

Conclusion

In addition, we would encourage the AER to produce plain English worked examples of a range of relevant DM projects and an infographic for the benefit of small consumers and DER proponents (networks themselves will not require these) when the final determination is published, again given the heightened relevance of this important regulatory reform. This is also important to dispel the assumption that the 50% uplift implies a net cost to consumers.

Finally, we would like to acknowledge the diligent professionalism shown by Lisa Beckman and other AER staff during this reform process.

Yours sincerely,

Jeff Angel
Executive Director