



Submission by

Alternative Technology Association

on

**Proposed Demand Management
& Embedded Generation Connection
Incentive Scheme NSW and ACT**

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By Email to: NSWACTelectricity@aer.gov.au

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Introduction

The Alternative Technology Association (ATA) welcomes the opportunity to respond to the Proposed Demand Management and Embedded Generation Connection Incentive Scheme papers relating to NSW and ACT (the 'Papers').

ATA is a national, not-for-profit organisation representing consumers in the National Energy Market. The organisation currently provides service to approximately 5,500 members nationally who are actively engaged with small, medium and large scale renewable energy projects, energy efficiency and demand side management.

ATA notes that the AER intends to 'consider its position' after the AEMC's Power of Choice review has concluded. Whilst the outcomes of the AEMC's review may make this consultation redundant, the ATA believes that submitting to this process remains of importance as the AER's current proposals for the DMEGCI Scheme will do nothing more than extend what has been a failed approach to ensuring efficient levels of demand management are realised in the management of electricity networks.

A Patchwork Approach

ATA supports the notion that demand management and embedded connection activities '*are likely to provide long term efficiency gains to energy consumers*' (p16) and therefore, that these activities are strongly aligned with the National Electricity Objective (NEO).

However, the proposed DMEGCIS is almost identical in design to the existing/previous Demand Management Incentive Scheme (DMIS) – one that has failed to realise any long term structural shift in the way that Distribution Network Service Providers (DNSPs) invest in network management. ATA fails to see how the proposed DMEGCIS will lead to any significantly different outcomes from those minor efficiency gains that have arisen from the DMIS over recent years.

On current design, the DMIS/DMEGCIS reinforces the idea that demand management is a separate business activity, within its own silo, and carried out to take advantage of specific funds rather than becoming part of business-as-usual.

Separate incentive schemes provide false comfort to DNSPs, regulators, and policymakers that 'something' is being done to foster demand management. For these reasons, ATA believes that separate, stand-alone incentive schemes will not lead to success and more fundamental change is required.

Procuring an efficient level of demand management, so as to avoid unnecessary network expenditure, must become part of the normal business practices of DNSPs. This can and will only occur when DNSPs are regulated to ensure that demand management options are always undertaken when proven to be more cost effective than network based solutions – not simply because there is an external fund available to 'dip into' at DNSP discretion.

Competition from demand management providers / aggregators to meet network constraints at lowest cost must become part of the fundamental planning and regulatory reset process of DNSPs in this regard.

Building network infrastructure is core business for DNSPs, and given their inherent skill base, is perceived as 'less risky' than alternative solutions. As a result, even if the regulatory regime meant that network and efficient non-network solutions were equally profitable (which currently they are not), DNSPs would still likely choose to build network asset.

To overcome the inherent bias of DNSPs toward network investment, the Rules need to give DNSPs strong motivation to change their business practices. This will only likely be achieved by implementing the following two approaches:

- Making efficient non-network solutions more profitable for DNSPs than conventional capital works. Since non-network solutions are usually significantly cheaper than typical capital works, there is the potential to make them much more profitable for DNSPs, so as to provide a strong driver for change, while still greatly reducing the total costs to consumers.
- Establishing mandatory minimum targets for the proportion of peak demand growth met through efficient non-network solutions, with meaningful financial penalties if these targets are not met. The usual criticism of mandatory minimum targets is that they may be set too high, leading to inefficient expenditure. In this case, the current levels of use of non-network solutions by DNSPs are so far below best practice that it should be easy to set a target which is well above current practice but still very low compared to the economically efficient level.

Other Issues

ATA is aware that the provision of a Demand Management Innovation Allowance (DMIA) has been requested by the MCE as part of their *Distributed Generation (DG), Demand Side Response (DSR) and the National Framework for the Economic Regulation of Distribution*¹.

It is evident that the DMIA should only incentivise demand management that requires additional support, and the ATA notes the MCE's following comments:

"The establishment of distribution expenditure objectives that recognise distribution companies should not just be seeking to meet expected demand but may also manage demand. Additionally, the new national framework requires the Australian Energy Regulator (AER) to consider the extent to which distribution businesses have considered, and made provision for, efficient non-network alternatives such as DG and DSR, when assessing their expenditure forecasts. This means that the AER has the discretion to reject proposals for capital expenditure on network infrastructure if DG or DSR would be more efficient."

Given the plethora of demand management options available to DNSPs, the ATA strongly endorses the MCE's comments above and requests that the AER give detailed consideration as to how the extent to which demand management options have been fully considered by DNSPs is transparently communicated to the AER. It is ATA's belief that the only way to deliver on the MCE direction above is to provide a framework where the provision of services to meet network constraints is subject to competition between network and non-network providers, with full transparency of relevant information to all parties and the public.

¹ MCE, <http://www.mce.gov.au/dsp/nferd.html> - Accessed: 31st July 2012

Further Contact

Thank you for the opportunity to submit to this policy process and please do not hesitate to contact us at Damien.Moyse@ata.org.au or on (03) 9631 5417 should you have any questions regarding the content of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Moyse', with a long horizontal flourish extending to the right.

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