

12 September 2018

David Chan
Director
Australian Energy Regulator
Level 35, 360 Elizabeth Street
Melbourne Victoria 3000

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Dear David,

Request for early application of Demand Management Incentive Scheme

AusNet Services is writing to seek early application of the Demand Management Incentive Scheme (DMIS), with an effective start date of 1 January 2019.

AusNet Services has been a strong advocate for demand management solutions, and strongly supported the development of the AER's DMIS, and the subsequent rule change to allow the scheme to apply to networks before the start of their next regulatory period.

We have a strong track record of using demand management where it has been an economic and effective alternative to network upgrades in the past, and have long supported regulatory changes that encourage the further adoption of demand management solutions. For instance, AusNet Services maintains a portfolio of 18 MW of commercial and industrial load curtailment contracts which it began establishing in 2012 as a pilot, managed until recently a 10MW network support contract based on embedded generation established in 2012, and operates 4MW of mobile generation that was established in 2013. These contracts have successfully deferred millions of dollars of capital expenditure and reduced risk levels on the network, benefiting customers through lower prices over the long term.

More recently, residential demand management was first tested during the 2017-18 summer under a proof-of-concept project called Peak Partners (DMIA funded). Residential demand management is typically more challenging to procure than commercial and industrial demand response, but is crucial to potential deferment of future investment in our key growth corridors, including in the suburbs of Doreen and Clyde North, where augmentation projects have been identified for the 2021-25 period. Building demand management capability in these areas could potentially defer millions of dollars of network capex, to the extent an efficient non-network solution becomes available. Making sure the right incentives are in place now, and embedded into network planning processes, will ensure potential non-network solutions are fully considered in these growth areas.

The focus of Peak Partners was on behavioural demand response, but also included air conditioning load control. Both techniques will remain a focus of innovation work under the DMIA with the aim of proving reduced costs, customer acceptance and deployability at scale.

During the 2018-19 summer, AusNet Services will be taking a three tiered approach to further build its residential demand management capability. Broadly, this is likely to involve:¹

¹ Should the AER grant early application of the DMIS, these programs will not be eligible for a DMIS incentive as they will commence prior to 1 January 2019

- **Tier 1:** Broad messaging and energy education/information to customers around summer energy costs and supply risks. We may partner with other organisations that have a strong customer engagement capability, and coordinate with the activities of other network businesses.
- **Tier 2:** Targeted customer engagement program in areas of network risk, with live messaging around peak event days and trialling non-financial incentives for customers to occasionally and temporarily reduce demand at peak times.
- **Tier 3:** Evolution of the first Peak Partners program, targeting areas with emerging network constraints, such as Doreen and Clyde North, with refinement of financial incentives and customer engagement messaging and communications.

Despite the progress we have made developing and implementing demand management solutions, we acknowledge there remain some barriers to more widespread deployment of these solutions, including an underdeveloped market for demand response, a lack of enabling technologies, the absence of efficient demand management options in some areas, and a need to further embed demand management in internal planning processes.

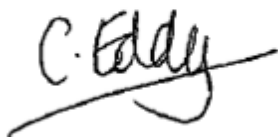
Introducing incentives to encourage further adoption of demand management solutions through a DMIS will both develop the market for demand management services and ensure distributors are strongly encouraged to consider alternatives to investment in long-life network assets, where more flexible short term efficient alternatives may exist. These short term alternatives have significant option value which, if demand levels change, can efficiently reduce capital investment and reduce prices relative to traditional network solutions.

Enhanced incentives are also likely to facilitate the development of mechanisms and platforms for 'grid service' markets that will add significant value for customers as the transformation of the electricity supply chain proceeds. Further, it is prudent to ensure distribution networks have robust demand management capability in place to be able to efficiently manage the significant impacts electric vehicles may have on the grid. While the uptake of electric vehicles is subject to uncertainty, failure to be prepared in this regard may result in material, avoidable capital costs being incurred on the network.

Accordingly, we consider that the early application of the DMIS is desirable to ensure demand management solutions are brought quickly onto equal footing with traditional network solutions, unlocking their potential to generate significant long term capex savings for our customers.

If you have any queries in relation to this submission, please contact Rob Ball, Senior Economist, on 03 9695 6281.

Sincerely,



Charlotte Eddy
Manager, Economic Regulation
AusNet Services