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South Australian Council of Social Service

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Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
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Lodged online: DM@aer.gov.au

28 September 2017

Dear Mr Anderson,

RE: AER 58882 – Draft Demand Management Incentive Scheme, Draft Innovation Allowance Mechanism and Proposed Demand Management Incentive Scheme Early Application Rule Change

Thank you for the opportunity to provide written submissions on the Australian Energy Regulator (AER)'s Draft Demand Management Incentive Scheme, Draft Innovation Allowance Mechanism and Proposed Demand Management Incentive Scheme Early Application Rule Change.

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the necessary market mechanisms for and regulation of essential services. Our research shows that the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable people. Our advocacy is informed by our members and direct consultations with consumers and other consumer organisations; organisations and individuals who witness and experience these impacts in our community.

Draft Demand Management Incentive Scheme (the Scheme)

SACOSS strongly supports the implementation of measures that contribute to the achievement of the National Electricity Objective (NEO)[1]; promoting the efficient operation of electricity services in the long term interests of consumers.

In pursuing this objective, the AEMC's 2015 Rule Change[2] recognised the need to properly incentivise distributors to actively engage in managing demand on their networks. The new Scheme objective contained in the NER aims to 'provide distribution businesses with an incentive to undertake efficient expenditure on relevant non-network options relating to demand management'.[3] SACOSS recognises the importance of the Scheme objective in promoting non-network investment that is in the long-term interests of consumers in terms of both price and reliability[4], thereby contributing to the achievement of the NEO. SACOSS believes the new Scheme aligns with the Scheme objective and is satisfied that the proposed Scheme will promote the delivery of a more efficient network, ultimately reducing costs to consumers.

[1] National Electricity Law, section 7: 'to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to-(a)price, quality, safety, reliability and security of supply of electricity; and (b)the reliability, safety and security of the national system.'
[2] In 2015 the AEMC amended the NER in response to two separate rule change proposals submitted by COAG Energy Council and the Total Environment Centre
[3] NER 6.6.3(b)
[4] AER, Consultation Paper: Demand Management incentive scheme early application rule change, August 2017, p17

SACOSS recognises the importance of the Scheme in redressing the imbalance created by the bias in favour of network capital expenditure (capex), relative to non-network operating expenditure (opex) demand management solutions.[5] In the face of this bias, SACOSS agrees with the AER that 'there is value in improving how we regulate to encourage distributors to better utilise efficient demand management in managing their networks'[6] and supports measures that will address any imbalance in incentives that affect efficient network investment.[7] Efficient network investment and the promotion of efficient eligible demand management projects under the Scheme is a positive step toward addressing these imbalances, and will support good overall outcomes for consumers.

For the purposes of the new Scheme, demand management refers to network demand management, defined as 'the act of modifying the drivers of network demand to remove a network constraint'.[8] SACOSS is supportive of the definition not confining 'network constraint' to peak demand, but rather broadly recognising that network constraints can be driven by:

- peak demand
- aging assets and risks associated with equipment failure
- minimum demand and associated issues with voltage, system frequencies and power quality management, and
- the need to manage diverse power flows and system security issues.

Given South Australia's recent system failures, SACOSS strongly supports measures which encourage distributors to undertake projects that will manage diverse power flows and deliver greater system security for customers. The breadth of the 'network constraint' definition will also allow for distributors to take advantage of greater innovation and respond to new technologies, such as Internet of Things Devices[9], thereby supporting consumers to access technologies that may deliver greater value.

SACOSS notes Energy Consumers Australia's comments that 'the Scheme could result in consumers funding increased network spending in one regulatory period to realise greater benefits of demand management in subsequent periods'.[10] SACOSS agrees with ECA's view that 'consumers accept the concept of funding developments on the condition that benefits are shared and outweigh costs over time,'[11] and is satisfied that the Scheme will achieve good outcomes for consumers in the longer term. While customers will bear the cost of the incentive payments under the Scheme, they will also receive the benefits from demand management as a more efficient network in the longer term.

SACOSS agrees with the AER that an incentive scheme that rewards demand management where **efficient** should encourage distribution businesses to act in the long term interests of electricity consumers.[12] SACOSS supports the efficiency test for proposed demand management projects to address network constraints,

[5] AEMC, Rule Determination, National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015 August 2015, p38

[6] AER, Explanatory Statement – Draft Management Incentive Scheme, August 2017, p12

[7] See Institute for Sustainable futures (ISF), re: demand management incentive scheme supplementary submission 8 May 2017; Dunstan, C., Alexander D., Morris T., Langham, E. Jazbec, M., 2017, Demand Management Incentives Review: Creating a level playing field for network DM in the Electricity Market (prepared by the ISF, University of Technology Sydney), June 2017.

[8] AER, Explanatory Statement, Draft Demand Management Incentive Scheme, Electricity Network Service Providers, August 2017, p8

[9] ISF, Additional Submission following our Demand Management Options Day, 8 May 2017, p1.

[10] ECA, Submission to the AER's development of a Demand Management Incentive Scheme and Innovation Allowance, June 2017

[11] ibid, p4

[12] AER, Fact Sheet, Draft Decision: Demand Management incentive scheme and innovation allowance p1.

where only those projects that deliver the most value to consumers (after having taken into consideration both demand-side and supply-side options) will be deemed eligible for the incentive payment.

SACOSS believes the cost multiplier of up to 50% of the costs of eligible demand management projects assessed as efficient is a reasonable amount to apply as a starting point for the Scheme, recognising that the amount may be varied in future versions of the Scheme.

SACOSS further supports the AER's measures of ensuring the incentive contained in the Scheme is subject to two caps:

- The project cap - which stipulates that the total incentive payable cannot exceed the expected net benefits of the project. This cap aims to have every project that receives the incentive deliver **a positive or neutral benefit** to retail electricity customers ex-ante.
- The overall cap - this cap prevents a distributor's total incentive for a regulatory year from exceeding 1.0 per cent of maximum allowable revenue for that year. [13]

SACOSS also supports the AER's approach to balancing the need for reporting and transparency with the importance of keeping distributor's administrative costs low.

Draft Demand Management Innovation Allowance Mechanism (the Mechanism)
SACOSS supports the AER's modest changes to the current Demand Management Innovations Allowance (DMIA), creating the Mechanism that will operate in tandem with the Scheme. SACOSS supports the tightening of criteria for project eligibility to encourage more innovative projects, and also supports the clarification of project reporting requirements to place greater emphasis on sharing project proposals across the industry and with consumers.

Proposed Demand Management Incentive Scheme Early Application Rule Change (the Rule Change)
SACOSS understands that the purpose of the proposed rule change is to allow for eligible distributors to apply to the AER for approval to apply the new Scheme mid-way through an existing regulatory control period.[14] The Rule Change will deliver consistency and certainty for consumers across the NEM, and SACOSS believes the early application of the Scheme will assist with driving efficient outcomes for consumers. SACOSS supports the narrow scope of the Rule Change and believes it is appropriate that the Rule Change does not exempt projects from any existing incentive schemes (STPIS, EBSS and CESS). In the interests of reducing costs, SACOSS supports the AER's proposal to continue with the current operation of the DMIA until the distribution determinations are remade on the current schedule.

SACOSS has no objection to the AER seeking the Rule Change be expedited under section 96 of the NER as it is non-controversial in nature.

[13] AER, Consultation Paper, Demand Management Incentive Scheme Early implementation rule change, Electricity distribution network service providers, August 2017 p10
[14] Ibid p13

We thank you in advance for consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on (08) 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

Ross Womersley
Chief Executive Officer