Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Online: DM@aer.gov.au

4 October 2017

Dear Mr Anderson,

Re: Demand management incentive scheme early implementation rule change

We welcome the opportunity to respond to the Australian Energy Regulators draft demand management scheme and allowance mechanism.

NAGA is a network of nine northern Melbourne metropolitan councils working to achieve significant emissions abatement and energy cost savings by delivering effective programs and leveraging local government, community and business action. Our council members include the cities of Banyule, Darebin, Hume, Manningham, Whittlesea, Yarra, Melbourne, Moreland, Moreland Energy Foundation Limited, and Nillumbik Shire Council. NAGA formed in 2002 to share information, coordinate emission reduction activities and cooperate on research and develop innovative projects. NAGA is part of a broader network of Victorian Greenhouse Alliances operating across the State.

Our submission follows on from previous advocacy we have undertaken on the Demand Management Incentive Scheme and Allowance Mechanism. Previously, the greenhouse alliances have made a detailed submission to the Victorian Electricity Distribution Price Review (EDPR) and follow up submissions regarding the lack of incentives for Demand Management in the currently regulatory period 2016-2020. During the network revenue proposal consultations we also requested and participated in a forum between the AER and DNSPs to discuss proposed demand management projects.

Our previous submissions criticised the Victorian regulatory decision due to:

- the lack of support for demand management initiatives within the Victorian network revenue decisions.
- the small allowances provided to network businesses to pilot and trial projects to fully assess the costs and benefits of network innovations via the Demand Management Incentive Scheme. On average, allowances under the scheme equate to just 0.09% of the total revenue allowances for each DNSP. This amount is clearly insignificant when compared with other industrialised businesses where expenditure on research and development is often higher by several orders of magnitude

- stalling the implementation of the DMIS rule change until 2020, rather than establishing transitional arrangements - another example of a failure in meeting the needs of a dynamic market, resulting in productivity loss.

As such we welcome and **fully support the proposal** to fast track the new scheme mid way through the current regulatory period. We offer the following responses to the consultation questions.

Question 1. What will be the effect of the rule?

The rule will enable Victorian DNSPs to do more demand management in the current regulatory period. Importantly it will allow them to trial and test new approaches to non-network solutions and work with stakeholders to achieve efficient energy outcomes. Despite demand management being recognised for many years as an important pillar of a functioning energy ecosystem, it is fair to say it has been poorly incentivised and implemented in Australia. According to a review by the Institute for Sustainable Futures, the lack of balanced DM incentives in the National Electricity Market (NEM) has costed consumers hundreds of millions of dollars due to excessive generation and network infrastructure spending.

Question 2. Will the proposed rule contribute to the National Electricity Objective?

Yes. In our view, the NEO has been interpreted narrowly in the past by the AEMC and AER and has confined consumer interests mainly to economic interest. The interpretation of 'efficient investment' has resulted in unbalanced rule-making and a market bias that supports centralised infrastructure rather than demand management or other non-network solutions. This rule change helps to redress that. We consider regulatory decision-making reflecting the current context of the transitioning energy market is central to the long-term interest of consumers, particularly with respect to demand management.

In addition to the NEO the rule change is in line with the current Australian Energy Market Agreement (AEMA). The AEMA has as one of its objectives to "address greenhouse emissions from the energy sector, in light of the concerns about climate change and the need for a stable long-term framework for investment in energy supplies." The AEMC itself notes the integration of energy and emission reduction policy as a key requirement to maintain and enhance an efficient, safe, secure and reliable energy system.

Question 3. Do the benefits of early implementation outweigh the costs?

Yes. The energy market is undergoing rapid transformation. This requires rule changes to keep pace and be more flexible and adaptive.

In addition to the consultation questions, there is another aspect of the current demand management incentive scheme we would like to see strengthened; incentivising collaboration. Demand Management requires working with stakeholders that sit outside the energy sector, engaging and collaborating with households, businesses, government organisations and

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industry. It is not just a technical solution that a third party demand management provider can step in and solve.

The design of local energy solutions requires collaboration between parties that have traditionally not worked in close partnership, such as local governments and electricity networks. Distributed energy resources require participation and collaboration from diverse stakeholders to ensure that overall system security and reliability is maintained. The energy sector could learn a lot from the water sector, where multi-stakeholder partnerships is more common, and upstream and downstream impacts and benefits are more holistically considered.

The current consumer engagement processes for network planning, such as the Regulated Investment Test (RIT-D), are overwhelmingly complex and time consuming for local (and to a lesser extent state) governments to proactively engage with. For example, a number of councils have recently been consulted by their DNSP a few days prior to the RIT-D due date, with the DNSP seeking local government support for substation upgrades. This is an example of this process failure and highlights the need for coordinated and ongoing engagement between the sectors. Future regulatory settings should incentivise proactive and collective cross-sector solutions, particularly with respect to network constraints and demand management solutions.

Thank you for the opportunity to comment on the proposed rule change. Further inquiries regarding this submission can be directed to David Meiklejohn, Executive Officer by email at david@naga.org.au.

Yours sincerely

David Meiklejohn
Executive Officer

The views represented in this submission do not necessarily represent the views of all NAGA councils individually.

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