



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

12 October 2017

Dear Mr Anderson,

Re: Demand management incentive scheme early implementation rule change

The Eastern Alliance for Greenhouse Action (EAGA) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) consultation paper on the early implementation rule change for the Demand Management Incentive Scheme (DMIS).

EAGA is a formal Alliance of eight councils in Melbourne's East, including:

- City of Boroondara
- Glen Eira City Council
- Knox City Council
- Maroondah City Council
- City of Monash
- City of Stonnington
- Whitehorse City Council
- Yarra Ranges Council

EAGA is committed to delivering mitigation and adaptation projects and advocating for initiatives that support sustainable, low carbon communities. Our councils recognise the importance of regulatory and market based mechanisms in overcoming the barriers preventing distribution businesses from undertaking demand management projects as an alternative to building new network infrastructure. **We therefore fully support the proposed rule change to fast track the DMIS**, which will assist in addressing these barriers and reduce the overall long term costs (and emissions) of supplying electricity to consumers.

This submission follows on from previous advocacy undertaken by EAGA (and the Victorian Greenhouse Alliances) on the DMIS via the Victorian Electricity Distribution Price Review (EDPR)¹ and follow up submissions regarding the lack of incentives for demand management in the currently regulatory period 2016-2020.²

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 DMIS. On average, allowances under the scheme equate to just 0.09% of the total revenue allowances for each Distribution Network Service Provider (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

We urge the AER to consider the following responses to the questions posed in the consultation paper:

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

The rule will enable Victorian DNSPs to implement additional demand management measures 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. Whilst demand management is broadly utilised as an effective network management tool in other countries, current regulatory settings has meant that demand management has been largely neglected in Australia. A review by the Institute for Sustainable Futures identified that that the lack of balanced demand management incentives in the National Electricity Market (NEM) has costed consumers hundreds of millions of dollars due to excessive generation and network infrastructure spending.³

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

Yes - 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

¹ Local Government Response to the Victorian Electricity Distribution Price Review (EDPR) 2016-20, July 2015 ([link](#))

² EAGA response to Victorian Electricity Distribution Price Review (EDPR) 2016-20 Preliminary Decision October 2015, Jan 2016 ([link](#))

³ 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 National Electricity Market (Prepared by the Institute for Sustainable Futures, University of Technology Sydney) ([link](#))

rather than demand management or other non-network solutions. The rule change will assist in addressing these flaws in the regulatory framework.

The rule change is also aligned with the objective within the Australian Energy Market Agreement (AEMA) 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. Ensuring that regulatory decision-making keeps pace with a rapidly transitioning energy market is central to the long-term interest of consumers and ensuring ongoing energy productivity.

In addition to the consultation questions, EAGA would like to see the DMIS strengthened to include a greater focus on cross sector collaboration. Effective demand management requires working and collaborating with stakeholders that sit outside the energy sector, including households, businesses, government organisations and industry. It is not just a technical solution a DNSP or third party demand management provider can step in and solve. Efficient uptake of distributed energy resources requires 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. Many of these challenges and opportunities have been identified and scoped in a recent project lead by EAGA and the Northern Alliance for Greenhouse Action (NAGA), *Future Energy Planning*. EAGA urges the AER to consider the findings of this project when implementing the DMIS rule change.⁴

Should you have queries or questions relating to this letter, please contact Scott McKenry, EAGA Executive Officer on scott.mckenry@maroonodah.vic.go.au or 03 9298 4250.

Kind regards,



Cr John Mortimore
Executive Committee Chair
Eastern Alliance for Greenhouse Action
Councillor, Knox City Council



⁴ EAGA,NAGA (2017), Future Energy Planning Final Report ([link](#))

This submission has been approved through EAGA's formal governance structure as described in the EAGA Memorandum of Understanding 2017-21. The submission may not have been formally considered by individual member councils.