

17 October 2017



Mr Warwick Anderson  
General Manager, Network Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Email to: [DM@aer.gov.au](mailto:DM@aer.gov.au)

Dear Mr Anderson

**Demand Management Incentive Scheme Early Implementation Rule Change –  
Consultation Paper**

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER), on its consultation on the Demand Management Incentive Scheme Early Implementation Rule Change.

This submission is available for publication and is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex), Ergon Energy Corporation Limited (Ergon Energy) and Ergon Energy Queensland (EEQ).

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Jenny Doyle".

Jenny Doyle  
**General Manager Regulation and Pricing**

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*Encl: Energy Queensland submission to the Consultation Paper*

# **Energy Queensland Submission on the Demand Management Incentive Scheme Early Implementation Rule Change**

## **Consultation Paper**

**Energy Queensland Limited**  
17 October 2017



## About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable businesses, Metering Dynamics, Energy Impact and Ergon Energy Telecommunications.

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km<sup>2</sup> and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes new energy services businesses which will provide customers with greater choice and control over their energy needs and access to the next wave of innovative technologies and renewables. The energy services businesses are key to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

## Contact details

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# 1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its Demand Management Incentive Scheme Early Implementation Rule Change Consultation Paper (Consultation Paper). This submission is provided by Energy Queensland, on behalf of its related entities Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) and Ergon Energy Queensland Limited (EEQ). Energy Queensland is a recently established Queensland Government Owned Corporation that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex and Ergon Energy; and
- A regional service delivery retailer, EEQ, limited in its scope of operations by jurisdictional legislation.

Energy Queensland is generally supportive of the Draft Demand Management Incentive Scheme (DMIS), the Draft Demand Management Innovation Allowance (DMIA) Mechanism, and the DMIS Early Implementation Rule Change. In the following section, Energy Queensland has focused on a few of the main concerns with the design of the Draft DMIS, in particular:

- the overall cap of the scheme;
- the eligibility criteria; and
- the reporting requirements.

Ergon Energy and Energex are both members of Energy Networks Australia (ENA), the national industry association representing businesses operating Australia's electricity transmission and distribution, and gas distribution networks. The ENA has prepared a comprehensive response to the AER's Consultation Paper and Energy Queensland is supportive of the positions presented in their response.

Energy Queensland is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

## 2 Specific comments

### 2.1 Draft Demand Management Innovation Allowance Mechanism

Energy Queensland supports the AER's Draft DMIA Mechanism which appears to be consistent with the previous application of the mechanism in Queensland. In particular, Energy Queensland welcomes the AER's calculation of the allowance cap and the ability for projects to extend across more than one year of the regulatory control period. We also welcome the emphasis placed on knowledge sharing and making the outputs of DMIA projects public where possible. However, Energy Queensland is concerned the project criteria may be too prescriptive and limits the benefit that could be gained from the DMIA.

Clause 2.2.1 (1)(b) of the Draft DMIA Mechanism appears to restrict innovation to new concepts that have not been implemented previously in the National Electricity Market (NEM). Energy Queensland suggests there are 2 flaws with this proposal:

1. There are two types of innovation – gradual incremental changes and significant step changes. Under the Draft DMIA Mechanism, any innovation which is a gradual incremental change may not be eligible for funding from the DMIA, as these would be based on technology or techniques currently in use within the NEM. We note that the DMIA Mechanism Explanatory Statement eligibility criteria includes a potential, if proved viable, to reduce long term network costs in that it be designed to, *inter alia*, build demand management capability and capacity<sup>1</sup>. However, this does not appear to have been translated in the DMIA Mechanism, which purely states that the project or program have the potential, if proved viable, to reduce long term network costs. Energy Queensland suggests that in order to realise the benefits, demand management capability and capacity needs to be built on technology or techniques that are currently in use or have previously been tested within the NEM. We would be mindful about excluding the logical extension to evaluating a technology or technique which is to build the capability that delivers value.
2. Care must be taken to ensure that innovations do not create unexpected consequences. While this may be seen as conservative by industry it is necessary to ensure that our customers are not adversely impacted by new technologies and innovations. Accordingly, the integration of new technologies can be as challenging as the new technology itself. There are costs associated with integration of innovations with respect to ensuring system safety and security is maintained and existing DNSP systems and process can be adapted. Ergon Energy has previously had examples where the business case of a new technology

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<sup>1</sup> Demand Management Incentive Allowance Mechanism, Table 3: Project criteria for eligibility under the Mechanism, page 23.

demonstrated overall savings. However, after incorporating the integration costs into the final business case it was no longer viable.

As such, Energy Queensland proposes the following clause from the existing DMIA be utilised in the project criteria:

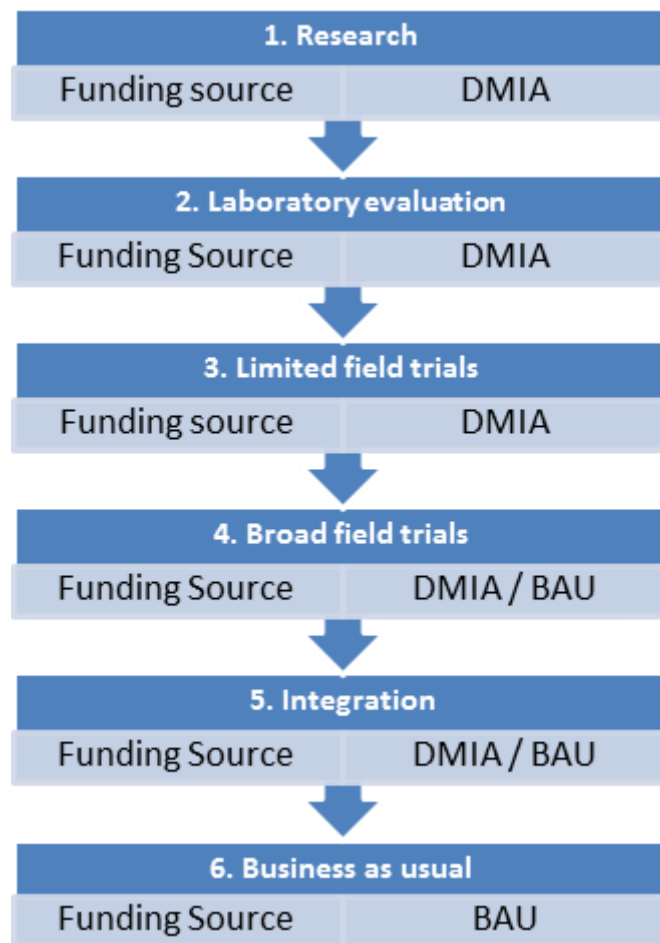
*Demand management projects or programs may be innovative, and designed to build demand management capability and capacity and explore potentially efficient demand management mechanisms, including but not limited to new or original concepts.<sup>2</sup>*

This would enable DNSPs to take research projects (either their own or other DNSPs) through the complete process to implementation thus providing a path to reducing long term network costs. The use of the DMIA funds for integration can be weighed against the value of new research or accelerated implementation and business as usual (BAU) implementation to extract the value potentially available via the DMIS.

Energy Queensland believes there is a multi-staged approach from innovation to cost savings and propose that DMIA funding can be leveraged for the removal of barriers to ultimately reduce long term network costs as demonstrated below. We are concerned that under the proposed DMIA Mechanism, stages 2, 3, 4 and 5 could be mutually exclusive for accessing the DMIA funds, essentially placing a barrier prior to integration and enabling the BAU benefits.

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<sup>2</sup> Demand Management Incentive Scheme for Energex, Ergon Energy and ETSA Utilities 2010-2015, Clause 3.1.3(3)



Ergon Energy’s award winning Grid Utility Support System (GUSS) went through multiple stages throughout its development from idea, research, development, trial and integration with the support of DMIA, other research funds, and finally BAU savings. Our experiences with the development of the GUSS was that as projects progress there are unknowns that can only be quantified with time. DNSPs are required to maintain system security and safety and if the business savings are marginal, they may err on the side of caution and therefore the integration barriers can be substantial. The GUSS systems are now operational in our network fully funded via efficient network expenditure. Energy Queensland is concerned that this would not have been possible under the proposed Mechanism.

## 2.2 Draft Demand Management Incentive Scheme

Energy Queensland generally supports the AER’s Draft DMIS, and in particular commends the AER on the application of the uplift on demand management costs. Furthermore, Energy Queensland agrees with the broader definition of demand management to recognise that demand management is not only about addressing peak network demand constraints.

However, Energy Queensland suggests that some elements of the DMIS are unnecessarily complex and prescriptive in nature which may limit the ability for DNSPs to implement innovative demand management solutions. For example, the minimum project evaluation requirements appear to go some way to conducting a regulatory investment test for Distribution (RIT-D) for

projects which fall under the RIT-D cost threshold. It is possible that the project incentive for smaller scale demand management projects would be negated through the administrative cost and time to conduct this analysis, and the associated compliance reporting. As such, it is unlikely that a DNSP would apply for the incentive for these smaller scale projects. While this in itself does not limit the DNSPs ability to implement small scale demand management solutions, the utilisation of demand management solutions would appear understated under the scheme. Energy Queensland suggests that for smaller scale projects (such as below the RIT-D cost threshold), the minimum project evaluation requirements could serve more as a guideline to which DNSPs should have regard, rather than providing prescriptive requirements.

Furthermore, Energy Queensland suggests that a RIT-D may not be the most appropriate mechanism to compare network and non-network solutions when taking into consideration the total cost of supply and levelised cost of energy. Energy Queensland would welcome further discussion on alternative methods for assessing the efficiency of demand management projects in application to the DMIS and alternative mechanisms to the RiT-D for proactively engaging the market in non-network alternatives.

### **2.2.1 Overall scheme cap**

While Energy Queensland recognises the AER's desire to cap the total incentive payments to DNSPs, we suggest that an overall scheme cap may appear somewhat redundant, given the existing safeguards built into the scheme to ensure efficiency, such as the requirement for a positive net present value (NPV). Notwithstanding, Energy Queensland suggests that an overall scheme cap would benefit from the flexibility to smooth the incentive across the regulatory control period, particularly where a project may incur expenditure across regulatory years. Moreover, expenditure on demand management projects can be 'lumpy' with a large upfront payment followed by smaller ongoing payments, and as such the overall scheme cap may be exceeded in a single regulatory year but not in others.

### **2.2.2 Eligibility criteria**

Energy Queensland notes the Explanatory Statement for the Draft DMIS summarises the elements of project eligibility as:

1. When identifying whether a project is an efficient non-network option, a distributor has either completed a RIT-D or 'minimum project evaluation requirements'.
2. It is efficient if it is a credible option to meet an identified need on the distribution network, where that credible option is the preferred option.<sup>3</sup>

As noted above, Energy Queensland suggests that the minimum project evaluation requirements would impose additional costs on smaller scale demand management projects which could

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<sup>3</sup> Explanatory Statement Draft Demand Management Incentive Scheme, Table 1, page 34



outweigh any potential incentive payments. As such, we expect that the benefit of applying for the incentive for these types of projects would be negated.

Notwithstanding, Energy Queensland questions the requirement to provide a direct link to an identified need and accordingly, to a network investment. For example, the National Electricity Rules (NER) defines identified need as the objective a Network Service Provider<sup>4</sup> seeks to achieve **by investing in the network** (emphasis added). This implies a direct correlation to the demand management solution and an alternative capital investment. Further, it would appear to limit innovative demand management solutions that could be tied to a network risk rather than an immediate investment. For example, Ergon Energy has implemented incentive maps and Optimal Incremental Pricing (OIP) to engage with the market and create more opportunity for demand side solutions, which has been well received by the industry as leading edge innovation in demand management. The OIP seeks to appropriately price risk in areas of known network risks and enable early market engagement without requiring an immediate investment in the network. It is our interpretation of the proposed DMIS that innovative mechanisms such as this would not be eligible for the incentive uplift. To this end, the Draft DMIS does not encourage early engagement innovative solutions. Moreover, Energy Queensland believes that our OIP meets the principles of the scheme objective to incentivise demand management solutions that lead to more efficient outcomes and deliver net cost savings to retail customers. As such, Energy Queensland believes a broader application of the scheme which maintains the principles of the scheme objective would incentivise greater uptake of innovative demand management solutions.

### 2.2.3 Reporting Requirements

Energy Queensland suggests the proposed compliance reporting appears to be disproportionately burdensome, particularly given the established efficiency and regulatory measures employed. Overall the requirement to provide a report on the activities is unlikely to add any significant value over that of reporting on the key program deliverables. Moreover, Energy Queensland's DNSPs already detail the outcomes of demand projects each year as part of their Demand Management Outcomes Report which is due to the Queensland regulator (Department of Energy and Water Supply) by 31 August each year. To avoid further duplication in reporting and to simplify overall reporting, Energy Queensland suggests a modified Regulatory Information Notice (RIN) format or additional template to the RIN could provide all the information required for compliance reporting.

## 2.3 Early implementation of the DMIS

Energy Queensland supports the DMIS early implementation rule change, subject to the areas of concern raised in section 2.2 above. Noting our preference for simplification of the mechanism, particularly surrounding the smaller scale demand management projects, Energy Queensland welcomes the opportunity to commit projects prior to the next distribution determination.

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<sup>4</sup> Or in the case of a need identified through joint planning under clause 5.14.1(d)(3) or clause 5.14.2(a), a group of Network Service Providers