

06 August 2008

MR Chris Pattas,
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001



Dear Mr Pattas,

Proposed Demand Management Incentive Scheme for Energex, Ergon Energy and ETSA Utilities for the 2010-15 Regulatory Control Period.

Thank you for the opportunity to comment on the AER's '*Proposed demand management incentive scheme for Energex, Ergon Energy and ETSA Utilities for the 2010-15 regulatory control period*'.

ENERGEX welcomes the AER's proposal to apply a Demand Management Incentive Scheme (DMIS) in the form of a demand management innovation allowance in Queensland. ENERGEX believes that a Demand Management Innovation Allowance (DMIA) is a positive step in encouraging DNSPs to develop demand management initiatives. ENERGEX also welcomes the AER's position that the inclusion of demand management projects in the DNSP's operational and capital expenditure should be the key delivery mechanism for efficient demand management initiatives.

ENERGEX's comments in relation to the operation of the demand management innovation allowance are summarised below:

1. Amount of demand management innovation allowance

The AER proposes that the amount of the demand management innovation allowance be capped at an amount that is broadly proportionate to the relative size of the DNSP's annual revenue requirement. The AER has indicated that the amount is likely to be modest.

Demand management is an emerging area with new initiatives, not available at this time, likely to appear on the horizon. ENERGEX's preference is to be in a position to act on new technologies and solutions as they become available, rather than being constrained by rigid regulatory funding arrangements.

ENERGEX recognises that the amount will need to be capped on an ex-ante basis but proposes that a mechanism be incorporated that will enable an increase to the allowance to allow innovation to continue during the regulatory period should the range of opportunities exceed the initial limits.

ENERGEX seeks the capacity to act in a timely manner to progress successful DMIA initiatives. As such ENERGEX believes that recovery of associated CAPEX and OPEX costs arising from the full scale implementation of a demand management initiative developed through the DMIA must be allowed as a pass through during the regulatory period.

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2. Access to the demand management innovation allowance

ENERGEX supports the AER proposal that the allowance will take the form of an ex-ante allowance at the commencement of each regulatory period. This is a pragmatic approach as demand management is a developing technology. An ex-ante provision will provide DNSPs with the flexibility to adopt and implement new demand management technologies and solutions as they become available.

However, this ex-ante provision with an ex-post assessment of the expenditure effectively transfers risks to the DNSP. In the event that the AER disallows the expenditure (step 3) for a demand management initiative, such an initiative is effectively 'unfunded' as the DNSP would have already incurred the cost. ENERGEX is concerned with how this will be treated under an EBSS. ENERGEX seeks confirmation from the AER that expenditure under the demand management allowance will be excluded from EBSS, irrespective of the ex-post-approval by the AER.

3. Approval of expenditure under the demand management innovation allowance

ENERGEX is concerned with the potential for onerous requirements of the ex-post assessment of the allowance. It is important that any administrative burden be minimised to ensure that the allowance provided is prudently and efficiently directed towards demand management projects rather than being consumed by the administrative cost of compliance.

The approval process involves an assessment of the projects meeting a pre-determined set of criteria; one of which is that the scheme 'should be innovative'. This criterion is subjective and may be open to different interpretations. While ENERGEX supports the public reporting of the initiatives, ENERGEX is unclear about the extent of public influence on the debate of the merits of the initiatives.

As the intent of the scheme is to foster innovation and the amount provided is modest, ENERGEX questions whether the approval process and criteria assessment is proportional to the expected benefits and costs of the scheme.

4. Final year adjustment

In principle, ENERGEX agrees with the methodology proposed by the AER to calculate the carryover amount.

ENERGEX will address the specifics of the scheme as proposed to be applied to ENERGEX in a separate response to the AER paper '*Preliminary positions Framework and Approach paper on the application of scheme to ENERGEX and Ergon Energy 2010-15*'.

Should you have any queries in relation to the above please do not hesitate to contact me directly on (07) 3247 6409.

Yours sincerely



Kevin Kehl
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