ENERGY RESPONSE — supply in the Australian energy market

AUSTRALIAN ENERGY REGULATOR MELBOURNE
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Australian Energy Regulator
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COMMENTS ON THE PROPOSED REGULATORY TEST APPLICATION AND GUIDELINES

Thank you for the opportunity to comment on version 3 of the Proposed Regulatory Test Application and Guidelines.

Energy Response is a Demand Side Response (DSR) Aggregation company and as such has a keen interest to see greater emphasis on Demand Side options because they deliver:

- Substantial economic and enabling benefits to the market
- Unique environmental benefits (including Greenhouse Gas abatement and water savings)
- Significant consumer benefits

AER's proposed changes are sensible improvements and appear to provide a more balanced framework for the consideration of Demand Side activities as compared to build options. We understand and accept that build options are inevitable over the longer term however NSPs must be innovative and attuned to power consumers who are happily providing DSR for many other purposes, and can deliver (through non-network solutions) significant market and economic benefits.

In particular we applaud the AER for suggesting that:

- NSPs must consider alternative proposals that include non-network solutions as part of an overall solution. We have submitted several proposals in the past where the NSP recognised that our offer did not fully meet the project requirements and therefore the NSP discarded our proposal. The CitiPower Melbourne CBD project is a case in point where (if the project is approved) consumers will be forced to fund this project worth about $50m, whereas with some of that project being met by the users own DSR capabilities, much of the cost of the DSR program would flow back to the users as payments and the whole build project may, as a consequence of their participation, be deferred, possibly for years. This would be achieved with vastly improved reliability to the end users that participate in the DSR program.
- NSPs must be more transparent and disclose costs. Each build project is different and the benefits will determine the dimensions of any alternative non-network solutions, so the transparency is imperative.
- While the RFI process is not the ideal way to contract for non-network solutions (see ESCOSA's recent review of their Guideline 12) the revamped RFI process as suggested will take greater account of the effort involved in putting together a viable non-network solution

The RFI timing should be longer (about 8-12 weeks is reasonable) because we need to contract with each company providing the DSR separately and they in turn, need to gain approval from their management/operational personnel and from their legal advisors. It should be noted that most NSPs have generally not been cooperative with our suggested non-network solutions and without their cooperation, making adequately tangible submissions can be near impossible. Indeed their lack of interest and complacency to non-network solutions means that an additional $1.5bn per annum of capex is spent on infrastructure for peak excursions of only 10-20 hours a year, where DSR is most effective.

Energy Response is also concerned that NSPs often submit related projects to the AER when seeking reg tests; primarily to gauge the impact on their investment program. Linking the projects and pressing for a build solution may crowd out non-network solutions for all the projects (not just the one project under review). We would therefore appreciate that each project considers non network alternatives and if projects are linked then the linked projects as well as the individual projects should consider non network alternatives because the larger linked group of projects could make other non network options feasible.

Another issue that needs to be addressed immediately is that NSPs who have pass through provisions will not apply for the pass through until after the RFI process is completed. The AER is then obliged to take no more than 2 months to decide on the pass through. This means that the time it takes from the end of the RFI process to when the contract is signed will take from at least four months to possibly a year or more. This is clearly untenable and will not be acceptable to companies that provide DSR (ie end users) who need certainty and reasonableness in timing to make their own investment decisions that may impact on their ability to provide the DSR they committed to months or a year or more earlier. We suggest that once the NSP issues an RFI for a non-network solution that they <u>must</u> apply for the pass through approval at that time, based on the estimated benefit of capex deferral. It seems sensible that running these two processes in parallel will ensure there is approved funding for the project at the time that a decision is made of whether to accept a non-network solution. The NSP may need to "square up" the final amount to be passed through, but that should not impact on the process or timing leading to a contract for a non-network solution.

The proposed changes in Version 3 do not address issues we have witnessed where TNSPs refused to contract for DSR beyond the existing price reset period, however we are hopeful that TNSPs will recognise the superior benefits of DSR (beyond those of build options) and find ways to overcome that issue.

Yours faithfully

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