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Via email: ***aerinquiry@aer.gov.au***

Subject: Submission on Issues Paper

Reference: AER Issues Paper, Potential development of demand management incentive schemes for Energex, Ergon Energy and ETSA Utilities for the 2010-15 regulatory control period, April 2008

Dear Mike,

Energy Response is an aggregator and provider of demand side response services in the National Electricity Market (NEM), the Western Australian Electricity Market (WEM), and the New Zealand Electricity Market. Since our inception in December 2004, we have provided services to a number of electricity retailers in the NEM, NEMMCO, TransGrid, Integral Energy (networks), the NSW Demand Management Planning Project, the WEM Market Operator, and Transpower in New Zealand. We are an experienced provider of demand side management services using load curtailment and local generation from industrial and commercial energy users.

We appreciate this opportunity to comment on the Issues Paper.

Current Schemes and Activities on Demand Management

The Issues Paper provides a good view of the current schemes and activities related to demand management in each state. It is interesting to note that only some DNSPs in NSW and Queensland are attempting to integrate demand management into their normal business activities. ETSA's activities are focused around the $20 million opex allowance, but it is unclear whether demand management is an integral part of their business planning process.

We support the view that a robust Demand Management Incentive Scheme (DMIS) is needed to encourage DNSPs to actively undertake demand management projects and to incorporate demand management in their core business processes.

Towards a National Demand Management Incentive Scheme

AER have stated that consultation on a national scheme will be undertaken later this year. This Issues Paper was released to consider a temporary incentive scheme for SA and

Queensland as the national scheme will not be in place in time for the upcoming regulatory reset.

We support AER's strategy to implement a DMIS in SA and Queensland for the upcoming regulatory period, while trying to maintain some consistency between the state based and national schemes.

We support the two-pronged approach to a DMIS that was used in NSW and ACT.

The positive effect of the D-factor on a DSNP's revenue provides the key incentive to a DNSP to incorporate demand management into its core processes.

The Innovation Allowance allows for experimentation and innovation, however, we feel it essential that the Innovation Allowance be accessible to the end users directly so that they can invest in plant modifications or technologies to improve demand management outcomes.

In some ways the Innovation Allowance is similar to the $600,000 (per DNSP) provided to the Victorian DSNPs by the ESC at the last reset (mentioned in section 3.5). This fund has spurred almost no activity in demand management and using it for AMI projects would be inappropriate. The $20 million opex allowance given to ETSA is also a form of Innovation Allowance with uncertain outcomes.

If measures such as an Innovation Allowance are expected to encourage consumer participation, then consumers must also benefit. Therefore, we believe the AER must ensure that such funds are not primarily used for internal costs of a DNSP. The funds must aim to benefit the network and appropriately reward the consumer, since it is the consumers' assets or their behaviour that must be heavily influenced to achieve the best non-network outcome.

Transparency in Valuation of Demand Management

We have experienced that different DSNPs, even in the same regulatory environment with similar sized capital works, will assign significantly different value to demand management. This can result in certain DNSPs meeting their regulatory obligations by stating that demand management solutions do not exist. Low valuations make it uneconomic for end users to participate. We are concerned that without standards and transparency, DNSPs can skew the process to networks based solutions only.

Information Provisions for Demand Management

Extracting information to develop demand management solutions from many DNPS' planning reports and application notices is extremely tedious and often impossible. These reports should distil the requirements and at a minimum state the magnitude, frequency, timing, and seasonality of support required from demand side or non-network solutions. Similarly, tenders and contracts should be designed to accept demand management solutions.

Yours truly,

Jitendra Tomar