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2 May 2017

Warwick Anderson
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

Follow-up response to the demand management incentive scheme and innovation allowance mechanism consultation paper

Essential Energy appreciates the opportunity to provide a further submission following the demand management options day held on 6 April in Melbourne. We would like to emphasise four points:

1. The form of delivery for projects funded under the demand management incentive scheme (DMIS) should not be dictated by the guideline, but instead be left open to the most efficient, least cost form of delivery. This may be a third party led installation, a distributor led installation or a combination of both. The application of the AER's new Ring-Fencing Guideline eliminates the need to make any reference to the form of delivery.
2. The guideline should not focus solely on the belief that any form of demand management will always lead to a net benefit to consumers. As a rural network with increasing amounts of distributed generation, a reduction in demand which leads to greater demand reductions through the peak generation period than the peak load period, will often require augmentation to be undertaken at a net cost to consumers. Whilst distribution transformer tap settings can compensate for voltage sag along the length of a feeder they cannot accommodate voltage bandwidth increases. The increase in bandwidth (ignoring losses) is the same whether peak demand is increased or minimum demand is reduced by the same amount.
3. The measures to determine the success of a DMIS project should not focus solely on peak demand reduction. Instead a suite of measures should be offered, from which the DNSP can select the appropriate measures and weightings for each project. As a voltage constrained network, improving Essential Energy's network utilisation through demand management is of greater importance in reducing customer prices than the reduction of peak demand. The efficient and effective use of our existing assets will provide the greatest benefit to our customers.
4. Some form of allowance mechanism is vital to encouraging distributors to trial demand management projects. Investing in emerging technologies is risky, so it is important that distributors can test the robustness of said technologies in a controlled environment. Having to bid for projects only from a shared pool of funding would not only be an inefficient use of a network's staff, where a bid is successful, but would also result in a distributor's customers funding projects for other networks when the results of those projects will likely be of no relevance to the customer's distributor. Whilst, on the face of it, some might assume that distributors are homogenous, their actual network characteristics are not identical. For example, the findings of a battery trial undertaken in an urban area would not lead to the same costs and benefits in more sparsely populated rural areas. Similarly, the demand management projects employed by a capacity constrained distributor would not be the same as those employed by a voltage constrained network.

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We hope that you consider these points in the drafting of the scheme and allowance guideline. Should you have any questions regarding our submissions, then please do not hesitate to contact Natalie Lindsay, Manager Network Regulation, on (02) 6589 8419.

Yours sincerely

Gary Humphreys
Deputy Chief Executive Officer