Mr Warwick Anderson
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By email: warwick.anderson@aer.gov.au

Dear Warwick,

Demand Management Incentive Scheme & Innovation Allowance Mechanism Consultation Paper

Thank you for the opportunity to respond to the AER's Demand Management Incentive Scheme (DMIS) and Demand Management Incentive Allowance (DMIA) Discussion Paper.

GreenSync is one of Australia's leading energy technology companies with a proven track record of supplying non-network solutions to some of Australia's most innovative network businesses. It has also won numerous awards for its innovative technology. It is with this experience that GreenSync offers its views on the DMIS and DMIA.

In general, we support incentive based frameworks which reward network businesses for pursuing the most economic solution. We have been agree with the ENA's position that networks should move to a TOTEX model and encourage the AER to investigate adopting a TOTEX framework. GreenSync believes that the current distinction between CAPEX and OPEX is unnecessary and opens the framework to gaming. It is also one of the reasons why network businesses have not pursued more non-network opportunities. We would encourage the AER to adopt any mechanism which allows networks to transition, in an orderly manner, towards a TOTEX model. The DMIS/ DMIA is a tool which can be utilised to smooth this transition and, in addition, we would welcome the AER considering a 'moving average' style regulatory control period to provide greater investment certainty to network and non-network providers.

Comments on the AER's DMIA options

At a high level, we support a scheme that is:

- Simple for network businesses to administer;
- Provides an adequate reward incentive for network businesses to pursue non-network alternatives;
- Ex-ante in nature to provide investment certainty for network and non-network providers;
- Does not require the AER to approve every project ex-post and requires minimal involvement from the AER through the period;
- Focuses on commercial outcomes rather than economic assessments.

The AER has proposed a number of high level solutions which it has asked interested parties to comment on.

We foresee challenges with implementing the proposed options and do not believe that they will meet the National Electricity Rules (NER) objectives to deliver efficient non-network solutions. We have provided some brief views on each of the schemes proposed by the AER:

Lack of incentives for networks to provide information

There are presently sufficient opportunities for network businesses to provide information to non-network businesses and network customers in general. The two most effective means are through AER's Regulatory Information Notice (RIN) process and the Annual Planning Reports. The AER should conduct a review of both the RIN and APR's to ensure that the information is both consistent with the relevant obligations and sufficient for parties to make informed decisions. rather than provide another mechanism for network businesses to release information. This could include information on:

- Improved visibility of network constraints and publication of the data required to formulate cost effective solutions;
- Publication of the "cost to serve" and "asset utilisation" at a network element level;
- Publication of voltage performance at a network element level;
- Use of common data formats;
- Visibility of VCR;
- Revenue or cost data by network asset;
- Publication of policies and process to allow customers to enrol devices and assets which can contribute to resolving network issues;
- Publication of data required data points relevant to REPEX.

Bidding mechanisms

The bidding mechanism option appears to be administratively complex and an unnecessary burden to the network businesses particularly for smaller projects which do not presently require a network business to conduct a Regulatory Investment Test for Distribution (RIT-D). The approach also replicates elements of what businesses are presently required to do under the NER.

Baseline targets

This option requires the AER to determine the MW or MWh targets. This approach would require significant consultation with the market and modelling of future outcomes by the AER, either at the time of the regulatory reset or on an annual basis. The modelling would need to consider whether it is done by state, and apportioned over each of the distribution businesses, by distribution business, or by connection point.

Net market benefit sharing

This approach, while theoretically sound, is subject to a number of assumptions which will make it challenging to implement in practice including:

- Demand forecasts (should a business use a 10% POE, or 50% POE);
- Probabilities of events;
- The Value of Customer Reliability (which is now at least 3 years out of date);
- Future investment decisions of embedded generation and transmission network businesses.

Our proposed scheme design

We believe that the AER should apply a NCIPAP style incentive scheme which provides a sufficient reward to network business for installing a non-network solution. The AER has implemented a similar scheme for Transmission Businesses and we believe that this approach strikes the right balance for network and non-network businesses. The scheme could include:

- A business should be allowed to receive an uplift of 25% or 50% above the cost of the project.
- The AER's compliance review would only need to consider whether the project has been delivered and the external cost of the project.
- The AER should not be looking to impose additional regulatory burdens on the businesses by imposing cost-benefit assessments over and above the RIT-D threshold and allow the network business to conduct commercial negotiations. 50% of the funding for a project should be released to the network business to be paid to the DM provider once it has provided the AER with a signed contract from a DM provider and the remainder released following the delivery of the project. The network business only receives the incentive payment at the time that the project is delivered.
- The projects could be OPEX or CAPEX in nature and could also be used to support STPIS payments to network businesses. It should not be limited to augmentation related projects and can cover replacement projects.
- Cap the allowance at 3% of a network businesses Maximum Allowable Revenue (MAR).

Allowance Design

The AER is also consulting on a re-design of the Demand Management Incentive Allowance. The objective of the allowance is fund research and development in demand management projects. We encourage the AER to collaborate with ARENA to consider how to work together to fund innovation and report on unproven or non-commercial demand management technologies which may eventually be implemented by the network businesses.

If you have any questions, please do not hesitate to contact me.

E. David Anstee
Company Secretary