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SUBMISSION

to

Australian Energy Regulator

on

ETSA Utilities draft distribution determination 2010-11 to 2014-15

18 February 2010

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ETSA Utilities draft distribution determination 2010-11 to 2014-15

Although Total Environment Centre (TEC) appreciates the opportunity to comment on the ETSA Utilities (ETSA) draft distribution determination, the failure of the Australian Enegy Regulator (AER), Ministerial Council on Energy, and the Australian Energy Market Commission to put in place a regulatory framework that prioritises demand management (DM) above inefficient infrastructure expansion remains a core problem in the National Electricity Market (NEM).

TEC is concerned that ETSA has considerably underutilised the potential of DM to meet and reduce demand and has instead opted for an inefficient, peak-driven, asset-based expansion program.

The underutilisation of DM is both inefficient and irresponsible in the context of both unnecessary electricity price increases and Australia's rising greenhouse emissions, driven largely by the supply of carbon intensive electricity. The failure to implement large-scale DM is a lost opportunity for both reduced electricity bills for consumers and the least expensive greenhouse emissions reductions – energy efficiency and demand management – and places the inappropriate burdens of climate change and increased carbon costs on present and future generations.

Despite network DM having a proven track-record of being almost four times more cost-effective than augmentation,[1] ETSA do not appear to have allocated any of their proposed $2.67 billion capex and opex to DM. The AER has set an embarrassing sum of $3 million for ETSA for the whole regulatory period ($600,000 per year) as a DM 'innovation' allowance (DMIA) – a mere 0.1% of ETSA's allocated capex and opex figure. This is highly irresponsible and shows complete neglect of the AER's responsibility to ensure that the monopoly network is regulated for efficiency. In fact, the opposite is occuring: across all jurisdictions the AER is allowing networks to charge consumers for inefficient expansion. The AER's current performance is a major regression compared to the Essential Services Commission of SA's (ESCOSA's) work in 2005. In this previous regulatory period ESCOSA provided ETSA with a demand management allowance of $20.4 million. To date, ETSA has spent over $10 million of this budget. While there are yet to be comprehensive results from the project, highlights include a 19 - 35% reduction in peak load using direct load control demand management in trials.[2] It is therefore inexplicable why the AER is not intending to build on this work. As ETSA did not propose any increase to the capped DMIA,[3] it is clear that both ETSA and the AER are planning to sideline DM in SA.

It is the responsibility of the Australian Energy Regulator (AER), acting in the long term interests of consumers, to ensure that the most cost-effective solution to meeting demand growth is selected by the networks. DM is by far the most cost-effective approach, despite its under-use by the networks. DM's cost-effectiveness is further enhanced when compared to the carbon costs payable by consumers that will continue to rise, particularly after the introduction of a carbon price in Australia.

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[1] ISF. 2008. *Win Win Win Regulating Electricity Distribution Networks for Reliability, Consumers and the Environment - Review of the NSW D-Factor and Alternative Mechanisms to Encourage Demand Management*, p. 6. Source: http://www.tec.org.au/tec/reports-and-submissions/393?task=view

[2] http://www.etsautilities.com.au/centric/our_network/demand_management.jsp

[3] AER. 2009. *South Australia draft distribution determination 2010-11 to 2014-15,* p. xxvi.

The historic underutilisation of DM and the current supply-heavy proposals give weight to the case for sweeping reforms to regulation to change network culture and dramatically increase the amount of DM being undertaken. TEC believes the AER should require networks to implement DM as a first choice over network augmentation where equal to or more cost effective than building new infrastructure, and recommends that demand management targets should be mandated for peak demand on networks.

Yours faithfully,

Jeff Angel
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