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Mr Warwick Anderson
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted at DM@aer.gov.au

Dear Mr Anderson

**RE Demand management incentive scheme and allowance mechanism consultation**

Tasmanian Networks Pty Ltd (**TasNetworks**) welcomes the opportunity to provide a response to the Australian Energy Regulator's (**AERs**) consultation paper on the proposed demand management incentive scheme (**DMIS**) and innovation allowance mechanism. We are a Network Service Provider providing transmission and distribution network services to more than 280,000 end-use customers throughout Tasmania. This overall scheme will have a direct impact on the level of future non-network opportunities within Tasmania.

We support the arguments proposed to the AER by Energy Networks Australia (ENA) in its submission on the proposed scheme and mechanism. In line with the ENA submission, we support the principle that consumers benefit from incentives that deliver the efficient level of non-network options to manage demand. In particular, TasNetworks would like to reinforce the view put forward by the ENA that the DMIS must not create a bias toward supporting inefficient network service delivery models to promote a goal of fostering or facilitating competition. TasNetworks is concerned that restricting the options available to Distribution Network Service Providers (DNSPs) when implementing demand management initiatives will ultimately lead to sub-optimal outcomes for consumers.

In addition to the submission provided by the ENA, TasNetworks offers additional commentary on the potential allowance mechanism design options. TasNetworks has assessed each of the options on the overall benefit to consumers based upon the relatively small size of the Tasmanian market. The AER has put forward four potential options for interested parties to consider. TasNetworks believes that there are potential improvements in each of options presented. It is suggested that the AER consider the following principles in designing an appropriate mechanism option for the preferred mechanism under option two. TasNetworks' specific comments on the allowance mechanism design options are as follows:

**Option 1 - Minor extension to the status quo**

TasNetworks notes that the Australian Energy Market Commission (AEMC) found that the current scheme had not encouraged an efficient level of demand management. The minor extension to the status quo proposed in option 1 is unlikely to create the right incentives for networks to actively and efficiently invest in non-network solutions

**Option 2 - High cap allowance with ex-ante approval – preferred option for TasNetworks**

This option provides flexibility and discretion to DNSPs in assessing and planning non-network solutions and demand management programs. There is also benefit in assessing potential demand management programs in conjunction with the forward capital programs within the regulatory cycle.

While TasNetworks is supportive of the principle of allocating a proportion of Maximum Allowable Revenue (MAR) to demand side management initiatives, this needs to be counter balanced with networks having the option and flexibility to respond in an appropriate timeframe to potential networks constraints.

For TasNetworks, the key components of the preferred option could benefit from inclusion of the following:

- Networks should have the ability to innovate and invest in a timely and efficient way to ensure there are appropriate customer outcomes.

- Allowing distributors the ability to propose and undertake demand management options (where permitted by the ring-fencing guideline) or allowing the distributor to partner with third party would lead to better outcomes. The ability for DNSPs to consider both insourced and outsourced options to meet demand management options will be a critical element.

**Option 3 - Bidding to encourage ground breaking R&D**

TasNetworks does not support a bidding mechanism in which a central pool of funds is provided to DNSPs. Under option 3, competing for funding with other distributors is likely to disadvantage a winter peaking jurisdiction such as Tasmania with a small and geographically dispersed customer base.

**Option 4 bidding to encourage market-facilitated R&D**

Under option 4, limiting demand management projects to third parties precludes potential solutions that can be provided from within the DNSP more efficiently than from third party providers. The key consideration for DMIS design is to ensure that demand management initiatives are provided at an efficient level. In order to achieve this, a competitive tension between choice of insourcing and outsourcing delivery options is more likely to achieve the objective of efficiency.

In a jurisdiction such as Tasmania, in order to ensure optimal outcomes for consumers in a small market, the preferred option two inclusive of the above aligns with the objectives for the demand management incentive scheme outlined in the consultation paper.

If you have any questions or require further information in relation to the matters raised above, please contact me on (03) 6271 6696 or at kirstan.wilding@tasnetworks.com.au

Yours sincerely

Kirstan Wilding

Leader Regulation

Select the letter salutation ("Yours sincerely" if addressed to a name, "Yours faithfully" if addressed to sir/madam.