

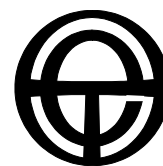
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16 January 2009

Chris Pattas
General Manager
Networks Regulation South Branch
Australian Energy Regulator
GPO Box 520
Melbourne 3001
Email AERInquiry@aer.gov.au

Dear Mr Pattas,

Re: Priorities and objectives of electricity TNSP performance reports – AER Discussion paper

It is critical for transparency and accountability that transmission network service providers (TNSPs) provide clear and informative reports on their activities and planning. Total Environment Centre (TEC) agrees with the Australian Energy Regulator's (AER) position, as set out in the Discussion Paper, that these should be the main objectives of performance reports.

TEC's submission of 10 June 2008 on the AEMC's *National Transmission Planning Arrangements - Draft Report* raises issues relevant to the Discussion paper and we are forwarding it along with this letter to be included for consideration.

Incentives for demand management

Our major concern with the performance reports as described in the Paper is that there is no allowance for incorporating reporting on demand management (DM) activities. Adequate implementation of DM enhances the overall efficiency of the electricity system and can improve reliability, therefore meeting the national electricity objective. There are currently minimal incentives in the National Electricity Law or Rules for TNSPs to investigate DM, let alone implement it, even though policy makers and regulators have repeatedly conceded that DM is vastly under-utilised, to the disbenefit of consumers. Encouraging TNSPs to report on their approaches to DM would go some way to kick-starting a currently immature sector and develop a culture within networks of pursuing non-network solutions.

The AER is engaging in an extended process to develop demand management incentive schemes (DMIS) for distribution network service providers (DNSPs), as they were directed to do by the Rules. Included in the current versions of the schemes – now under way jurisdiction by jurisdiction – are requirements for annual reporting on their DM activities. Consequently a significant divergence in treatment between TNSPs

and DNSPs is occurring because the AER has not been directed similarly to develop such schemes for TNSPs. This is not only inconsistent but it is also unreasonable and not in the long term interests of consumers.

TEC urges the AER to develop similar schemes for TNSPs. Although not specifically set out in the Rules, the AER is equally not prohibited by the Rules to do so. Essential features for promotion of DM and provision of consistency across the NSPs are:

- establish DM targets for all sectors, including transmission networks
- ensure networks investigate and implement DM as a primary option, ahead of network augmentation wherever possible; where the costs of DM or non-network alternatives are equal to or less than network solutions, augmentation should be ranked below other options
- establish a DM code of practice, for both transmission and distribution
- establish incentives for the transmission sector for the implementation of DM
- ensure networks disclose information on impending constraints and potential non-network solutions in a timely manner.

Reporting on demand management

Because of the development of a DMIS for each DNSP (and hopefully a national scheme soon), the AER will be receiving annual reports on their DM activities. Even in the absence of a DMIS for the transmission sector, the AER should require and publish similar reports for the TNSPs. A pro forma could be developed to assist TNSPs and encourage consistency. Features that should be included in annual DM performance reports are:

- expenditure on investigation and implementation of DM;
- peak demand and energy consumption reductions;
- value of electricity sales foregone;
- value of capital and operating expenditure avoided or deferred; and
- efforts to identify and procure cost effective DM.

As a preliminary, it would be of great benefit to stakeholders and for the promotion of DM for the AER to undertake a benchmark investigation of DM actions by all TNSPs to date; this should be published for easy access by all businesses engaged in the electricity sector. This would serve both as provision of examples for businesses to assess and as a performance indicator. The database would then be expanded as the AER collects more information from the annual reports.

The goals of transparency and accountability are not met adequately if TNSPs are not required to supply information to the AER on their investigation and implementation of DM.

Yours faithfully,

Glyn Mather
NEM Advocate
Total Environment Centre