

19 March 2015

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online: www.aemc.gov.au

Dear John

Consultation Paper on National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015 (AEMC Reference: ERC0177)

TransGrid welcomes the opportunity to respond to the AEMC's Consultation Paper on National Electricity Amendment (Demand Management Incentive Scheme) Rule 2015.

TransGrid is the owner, operator and manager of the high voltage electricity transmission network which connects generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, providing an electricity system that makes interstate energy trading possible.

We broadly support the transmission network service provider (TNSP) perspectives provided to this consultation process by the Energy Networks Association and Grid Australia. TransGrid would also like to offer further comment based on its own demand management experience. As outlined in this submission, TransGrid considers that:

- the regulatory framework should provide greater certainty and incentives for transmission networks to undertake efficient demand management activities
- the AEMC's rule change consultation should be expanded to include demand management at the transmission network level and wider consultation with stakeholders
- there is a role for TNSPs in engaging the demand side of the market, as shown by TransGrid's past procurement and innovation activities, and
- investment in innovation is critical to unlocking the full potential of demand management.

The regulatory framework does not envisage the full potential of TNSPs to drive uptake in demand management

TransGrid understands that the current process is based on recommendations made by the AEMC in its Power of Choice review completed in 2012. However, TransGrid is concerned that by limiting the current rule change process, to distribution network service providers (DNSPs), the AEMC is not harnessing the opportunity to consider the total system benefits of demand management opportunities across the National Electricity Market, including at the transmission network level.

TransGrid seeks greater clarity on how the AEMC sees TNSPs participating in the demand management market. Historically, TNSPs have undertaken demand management through a network support cost pass through arrangement approved ex-post by the Australian Energy Regulator (AER) based on a forecast allowance. These cost pass through arrangements are

excluded from the efficiency benefit sharing scheme and capital expenditure sharing scheme. As an ex-post approval process, there is a risk that a cost pass through arrangement is not approved by the AER. As a result, these non-network options by TNSPs currently face regulatory uncertainty as to their classification and approval, and the potential optimisation between capital and operating expenditures may not be fully realised.

TransGrid is supportive of measures which aim to strengthen the incentives for both transmission and distribution network businesses to pursue demand management projects as an efficient alternative to network capital investment. TransGrid proposes that the AEMC consider expanding the scope of this rule change consultation process to include consideration of the current regulatory framework for demand management by TNSPs. This holistic approach is likely to achieve better alignment between the incentives and regulatory treatment of demand management by network businesses across the electricity system.

Transmission networks can play a role in engaging the demand side of the market

TransGrid is committed to delivering cost-effective non-network options such as demand management. These options can defer or avoid investment in the electricity transmission network, delivering benefits which are in the long-term interest of consumers.

TransGrid has an understanding of how to successfully procure demand management, having achieved two major demand management procurements:

- 350 megawatts in the Newcastle-Sydney-Wollongong area for summer of 2008/09, to defer network augmentation investment; and
- 40 megawatts in the inner Sydney metropolitan area for summer of 2012/13, to mitigate network operational risk.

TransGrid is also committed to engaging with stakeholders to better understand the potential for demand management in its network. For example, last year, TransGrid engaged closely with a broad range of relevant stakeholders on the 'Powering Sydney's Future' network constraint which was expected to emerge in 2019 (now deferred until 2023 in light of revised demand forecasts). This engagement process demonstrated stakeholders' strong preference for the use of non-network options where available and cost-effective.¹

As a relatively new concept, the pursuit of demand management procurement is relatively uncertain under the current regulatory framework. The National Electricity Rules should provide appropriate incentives and regulatory certainty to undertake demand management and allow for innovation in this emerging market.

Investment in innovation is critical to unlocking the full potential of demand management

The demand management market is in its infancy in Australia. On the customer side, large businesses are often uncertain about how best to reduce their peak electricity use, and residential customers can be unaware of the importance and ultimate benefits of demand management. On the network side, the full potential of innovation in demand management is yet to be realised and key technical considerations are still unclear, such as the link between energy efficiency efforts and peak demand reduction.

Many of TransGrid's past calls for demand management to address a network constraint have gone unanswered by the market. This is due to a variety of factors, including a lack of market liquidity, the need for clear information to the market and a lack of network integration technology and practices. As such TransGrid considers there is an important role for network businesses to play in improving demand management uptake, through innovating to improve information flow between demand management providers and networks, through making the space for the market to grow, and through making network integration of demand reduction as smooth as possible.

¹ See TransGrid's *Powering Sydney's Future Interim Engagement Report*, August 2014, available at: <http://yoursaytransgrid.com.au/welcome-to-have-your-say-transgrid>

TransGrid is the only TNSP which has received a specific funding allowance from the AER to undertake demand management innovation activities similar to the demand management innovation allowance that is available to DNSPs.

For its 2009 to 2014 regulatory control period, TransGrid sought an allowance for undertaking demand management innovation activities, which was approved at \$1 million per annum by the AER. TransGrid used this allowance for joint projects with distribution businesses in broad-based demand management and peak-targeted energy efficiency, procurement of related research, a demand management 'triage database' and the iDemand system.² These innovation activities demonstrated that lack of information about peak demand was a significant barrier to demand management projects, that there is untapped potential for energy efficiency measures by large businesses, and that the lack of open, transparent information to market about demand management opportunities is inhibiting its uptake.

In its current regulatory determination process (for the period 2015/16 to 2017/18), TransGrid has again sought an operating expenditure allowance to undertake further demand management innovation activities. In its draft decision, the AER approved \$1 million per annum for this purpose.

The AER has discretion to approve operating expenditure allowance for demand management purposes such as those sought by TransGrid. However, greater regulatory certainty and transparency (including agreed outcomes for the innovation activities and reporting requirements to the AER) would be achieved from a specific scheme allowance which is broadly aligned with that which can apply to DNSPs.

TransGrid supports the AEMC in consulting widely on demand management issues

As part of its ongoing consultation process for this rule change proposal, TransGrid encourages the AEMC to consider undertaking stakeholder workshops to further engage on the important issues raised in the rule change proposals, its consultation paper and submissions.

If you have any questions about this submission, please contact TransGrid's Regulatory Affairs Manager, Caroline Taylor, on 02 9284 3715 or caroline.taylor@transgrid.com.au.

Yours sincerely



Greg Garvin
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² For more information on TransGrid's iDemand project, please visit: <http://www.transgrid.com.au/iDemand>