9 July 2015

Elisabeth Ross
Director
Australian Energy Market Commission
Sydney

Submitted online via: *http://www.aemc.gov.au/Contact-Us/Lodge-a-submission?nodeid=25623*

Your ref: ERC0177

Dear Ms Ross

Submission in response to the Australian Energy Market Commission's (AEMC) draft determination on the Demand Management Incentive Scheme Rule 2015

The Public Interest Advocacy Centre Ltd (PIAC) is pleased to have the opportunity to respond to its draft determination on the Demand Management Incentive Scheme (DMIS) Rule 2015, including as part of the implementation of the Power of Choice reforms. PIAC agrees with the AEMC's analysis that 'the current regulatory framework creates a bias towards expenditure on network investment over non-network options' and views this rule change as one mechanism to address that inherent bias.

Overall, PIAC agrees with the AEMC's new framework of separate provisions for a demand management incentive scheme (DMIS) and demand management innovation allowance (DMIA) (as an R&D allowance) with separate objectives.

AER discretion

However, PIAC is concerned about the discretion awarded in the draft rule to the AER as to whether or not it wishes to apply the DMIS and DMIA in network determinations.

If the objective of the demand management incentive scheme is to 'provide distribution businesses with an incentive to undertake efficient expenditure on relevant non-network options relating to demand management (the demand management incentive scheme objective)' and the objective of the demand management innovation allowance mechanism is 'to provide distribution businesses with funding for research and development in demand management projects that have the potential to reduce long term network costs (the demand management innovation allowance objective)', why would the application of the DMIS and DMIA be discretionary? Surely it would be in the long-term interest of consumers for this scheme and mechanism to be applied to all network determinations, although the application would vary according to the opportunities available in each business. If this rule change is to address inherent bias, surely it should be applied in each and every network.

Recommendation 1

PIAC recommends that the AER be required to apply the DMIS and DMIA to all networks.

Timing of implementation

Consumers have waited a long time for this rule change. They've also been waiting a long time for the AER to prioritise demand management.

If the AER needs up to 9 months to design a DMIS and a new DMIA, then this should be the time allowance for the rule to apply following its finalisation. Why should consumers wait any longer for this reform to be implemented and for

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costs to be reduced through the thoughtful application of demand management and DM innovation? The AER previously committed to introduce a new DMIS as a transitional arrangement and it should be held to this commitment. Given time it has taken for these rule changes to be progressed, there should be no need for further delays at consumers' expense. PIAC does not accept the AEMC's contention that implementing the DMIS midway through a regulatory control period is likely to have costs outweighing the benefits.

Recommendation 2

PIAC recommends that the AER should be required to publish a DMIS and DMIA within 9 months of the publication of the final rule, and to introduce them into revenue determinations by 1 July 2016 via transitional arrangements.

Guidelines

Given the cultural barriers to DM that PIAC discussed in our previous submission on this matter, PIAC believes the rule should include an explicit requirement for the AER to prepare DM guidelines. The networks' generally poor responses to demand management indicate that guidance is much needed. In general Guidelines have been a vital part of the Better Regulation reforms and supported by consumers as providing clarity and transparency to both consumers and network businesses. The DMIS rule should therefore include a requirement for the AER to prepare guidelines for DM.

Reporting

PIAC has been consistently concerned about the lack of accountability for outcomes and sharing of outcomes in the current DM arrangements. The clear, consistent, regular, public and transparent reporting of expenditure and outcomes should be applied to both the DMIA and DMIS as a matter of good practice and accountability.

PIAC supports the TEC's proposal that network businesses should be required to publish:

- Details of spending on all DMIS, DMIA and any other DM projects.
- Performance outcomes, using metrics such as peak kVA and GWh p.a. saved.
- Value of network investment saved in $million total and $million p.a.
- Cost effectiveness of each project, in $kVA p.a., $/MWh and benefit/cost ratios.
- Reporting of data in a clear and consistent manner that allows transparent comparison of performance across networks and over time.
- Plans for sharing the outcomes of successful DMIA activities with other networks, and incorporating them into business as usual planning via capex reductions.

This would allow the effectiveness of DM spending to be assessed on an objective basis. These should be matters addressed in the AER's DM Guidelines, but if the AER is not required to publish such Guidelines then reporting should be a stronger focus of the new rule.

Recommendation 3

PIAC recommends that the AER be required to publish DM Guidelines (including reporting requirements for DMIS and DMIA programs and projects with performance metrics).

If you would like any further information on the information contained in this submission, please do not hesitate to contact me, or Dr Gabrielle Kuiper, Senior Policy Officer in PIAC's Energy and Water Consumers' Advocacy program, on 02 8898 6520, or gkuiper@piac.asn.au.

Yours sincerely

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