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Mr Anthony Bell

Australian Energy Market Commission

via the AEMC website

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Submission to Demand Management Incentive Scheme for TNSPs rule change – ERC0266

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) draft determination on a demand management incentive scheme (**DMIS**) and innovation allowance (**DMIA**) for transmission network service providers (**TNSPs**) (**Draft Determination**).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

In addition, AGL is continually innovating our suite of distributed energy and demand management services for customers of all sizes. These energy solutions involve new and emerging technologies such as energy storage, electric vehicles, Solar PV systems, digital meters, and home energy management services delivered through digital applications.

The AEMC's Draft Determination would enable transmission companies to access a Demand Management Innovation Allowance (DMIA), but not a Demand Management Incentive Scheme (DMIS).

AGL is supportive of this draft determination and considers it to strike an appropriate balance between encouraging networks to investigate demand management options and ensuring that investment occurs at the most efficient long-term costs to consumers.

Under the existing regulatory framework, transmission networks must consider non-network options (including demand management projects) when considering the lowest cost option to meet changing demand. AGL agrees with the AEMC that this indicates that a DMIS is unnecessary and may add additional costs for customers over the long-term.

On the other hand, a DMIA would encourage transmission networks to undertake innovative demand management projects that may not otherwise be implemented due to the upfront costs involved and uncertain benefits. While innovative projects can currently be approved and funded under OPEX, formalising it in a DMIA means the outcomes will be monitored and shared, which would be of benefit to the wider market.

The Draft Determination requires the AER to develop a DMIA for TNSPs by 31 March 2021. This would allow the DMIA to apply ahead of the next revenue determinations for Transgrid, Electranet and Murraylink. This timing would also allow AER to review the operation of the DMIA for Distribution networks and apply that experience to the development of the DMIA for Transmission networks.

AGL reiterates the importance that the TNSP ring fencing guidelines be reviewed and updated before TNSPs are provided with greater incentives to engage demand management services. The existing ring-fencing guidelines for TNSPs have not been updated since 2002 and do not consider the provision of new products and services. Without appropriate ring-fencing arrangements, and compliance with those arrangements, there is a risk that networks cross-subsidise a competitive service by its regulated activities or restrict competition for the services that should be efficiently value stacked. If a TNSP wishes to engage an affiliated business to provide those services, appropriate ring-fencing must apply.

The TNSP ring fencing guidelines are expected to be updated in 2020. However, there is no rule requirement that this be completed. AGL suggests that the Final Determination should include a transitional rule for the AER to review and update the TNSP ring fencing guidelines by 31 December 2020 (or another appropriate date).

AGL also makes the following suggestions, which we consider are necessary to encourage appropriate competition for demand management services:

- The Contestability Rule should be applied to TNSPs:

  In 2017 AEMC made the Contestability Rule which prohibited DNSPs from providing services behind the meter, unless this is carried out by a ring-fenced business. A similar requirement should be placed on TNSPs to avoid impacting competition for those services.

- The DMIA should include a tender process, or something similar:

  Unlike the DMIS, the DMIA for distribution networks does not require the distribution business to carry out a tender process to identify competitive providers. While the nature of the DMIA is slightly different to DMIS (the DMIS involves addressing an identified problem), we consider the DMIA should include a more explicit obligation for networks to partner with competitive providers to investigate demand management ideas and deliver these projects.

  There should also be greater transparency and scrutiny around decisions of networks to engage their ring-fenced business, especially if a tender process has shown another provider can reliably deliver the service at lower cost.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

Chris Streets

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