

Demand Management Draft Decision
Independent Pricing and Regulatory Tribunal
PO Box Q 290
QVB Post Office NSW 1230

**Submission on Treatment of Demand Management in the Regulatory
Framework for Electricity Distribution Pricing 2004/05 to 2008/09**

AGL Energy Sales and Marketing (AGL ES&M) welcomes the opportunity to provide comments on the Independent Pricing and Regulatory Tribunal's (IPART) draft decision on " Treatment of Demand Management in the Regulatory Framework for Electricity Distribution Pricing 2004/05 to 2008/09"

AGL ES&M notes that the Tribunal considers its draft decision represents a generous treatment of demand management and that this approach is justified in the 2004-09 regulatory period in light of the emergent nature of the market for demand management solutions and the barriers to adoption that demand management faces.

AGL ES&M supports the Tribunal's objective in promoting demand management however we have a number of concerns in relation to the draft decision's impact on customers. These issues are discussed in more detail in our submission.

If you have any questions relating to our submission please contact Shaun Ruddy Manager Retail Regulation NSW, on (02) 9922- 8467 or email sruddy@agl.com.au

Yours Sincerely,

Sandro Canale
General Manager Customer Services.

Submission on Treatment of Demand Management in the Regulatory Framework for Electricity Distribution Pricing 2004/05 to 2008/09

AGL ES&M considers that aspects of the Tribunal's draft decision have an adverse impact on customers within the regulatory period and do not adequately recognise broader demand management participation. Specifically:

- Generous treatment of DNSP's demand management initiatives which will increase prices to customers. Furthermore the benefits from demand management do not flow through to customers until after the end of the regulatory period;
- Lack of acknowledgment of the role other parties such as retailers and energy service providers can play in demand management;
- Use of alternative fuels(fuel substitution) for reducing electricity demand; and
- Lack of certainty in assessing compensation for demand management.

AGL ES&M notes the Tribunal's expectation that the treatment of demand management will be less generous in future regulatory periods as demand management becomes integrated into the DNSPs' planning processes.

Generous Treatment of DNSP Demand Management Initiatives

The Tribunal's draft decision in relation to the treatment of demand management for the 2004/05 to 2008/09 regulatory period is that DNSPs will be allowed to:

- pass through demand management costs incurred during the regulatory period, up to a maximum value of the avoided distribution costs;
- retain the benefit of avoided capital expenditure; and
- recover foregone revenue as a result of demand management projects during the regulatory period.

The draft decision allows DNSPs to recover cost of implementing demand management and the foregone revenue as a result of the initiative. Whilst we note that the approach is similar to current arrangements, we are concerned that the proposal will have a compounding effect on the increase to network charges for customers. Not only will network charges to customers' increase to compensate for reduction in demand but also to meet the costs of demand management. No benefit is provided to customers for the avoided capital expenditure on network augmentation as a result of the demand management.

AGL ES&M agrees with the Tribunal that incentives may be required in the current regulatory period taking into account the emergent nature of the market for demand management solutions. However, the proposed incentives will result in increases in network charges above expected levels (in the absence of demand management). This increase in the costs to customers should be made explicit.

Incentives for Retailers to enter into Demand Management

The Tribunal's aim is to ensure that its regulatory framework does not create barriers to network-driven demand management. This is seen as an important step in promoting demand management.

AGL ES&M believes that in addition to removing barriers to network driven demand management, consideration should also be given to the role and incentives for

retailers and other energy service providers in promoting demand management. Retailers have the relationship with customers and a better insight into options for demand management.

Fuel Substitution

Alternative fuels such as natural gas or renewables can also contribute to demand management. The promotion of natural gas for as a substitute for electricity will also help in reducing demand and capital requirements on an electricity network.

AGL ES&M believes that consideration should be specifically given to the promotion and use of alternative fuels for demand management where such approach has the potential to be in conflict with the commercial interests of DNSPs.

Lack of certainty with compensation for demand management investment

AGL ES&M agrees with the Tribunal that both the Tribunal and the DNSPs have a limited experience on the types of demand management projects that may be entered into during the course of the regulatory control period. This will make it difficult for the Tribunal to prescribe an acceptable methodology for calculating foregone revenue.

Uncertainty and lack of transparency with the methodology for the approval of compensation results in risk and may act as a disincentive for demand management projects.

AGL ES&M believes that further works needs to be undertaken to establish a transparent methodology not only to reduce risk for businesses but to also ensure that any compensation amounts for demand management initiatives truly reflect the costs and benefits.