

Dear Committee Members

At the Senate Select Committee hearings on Friday 26th February, I undertook to pursue more information in relation to a question about regulatory barriers to Smart Grid investment. Following is the record of question as conveyed to me:

Having now consulted with members of Smart Grid Australia (SGA) involved in regulatory and policy matters, I can advise you that the following potential problems were identified by SGA members in 2009 and notified to the Department of Environment as part of the consultation process leading to the \$100m Smart Grid, Smart City (SGSC) component of the National Energy Efficiency Initiative (NEEI):

- 1. Rate cases and the 5 year cycle.** This creates some inflexibility to smart grid (SG) investment for the demonstration and more broadly. Distributors can ask for pass through of new costs as they arise, but the regulator needs clear justification (a business case). As SG involves new technologies, this is difficult - and is one of the reasons why there is market failure in this area and the demonstration project. Uncertainty around the business case issues that could impact the regulatory cycle (the rate case cycle and seeking pass through of new costs) could include:
 - Timing for the return on SG investments are unclear - could be long, given again SGs are new technologies and it could take some time to bed the technology down.
 - The investment is likely to create a reduction in revenues (as consumers using pricing signals to better manage their demand). It is not clear whether the investment will reduce expenses to offset reduced revenue.
 - Additional revenue could be earned through PVs, new products via better in home management of demand and trading emissions permits. The extent and business value of these are not clear.
 - Through better demand management and use of distributed generation and load management there also could be a reduction in demand for wholesale power.
 - The benefits of SG investments can flow across the energy value chain, and are not all captured by the distributor.
- 2. In some states/territories the regulatory regimes do not include incentives to minimise energy losses in the network.**
- 3. The regulatory regime includes incentives to sell more energy, not conserve energy.** The impact of reducing energy consumption on distributors ROI needs to be tested.
- 4. Different states have various regimes, such as different expectations around network reliability.** Many do not have mechanisms to appropriately make step changes in technology to manage reliability, for example. However, Victoria's 's' factor incentive for improving reliability was said to be useful for SG investments.

5. There are no mechanisms to incent R&D. Reintroducing the 'i' factor was considered a good idea.

I trust that this provides useful additional information to your deliberations and will naturally be happy to pursue any further questions that the response may prompt.

Regards ... Robin Eckermann

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