

## **ENHANCING ELECTRICITY NETWORK PRODUCTIVITY THROUGH DEMAND MANAGEMENT AND MARKET BASED REGULATORY REFORM**

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### **ABSTRACT**

Increasing emphasis has been placed on the role of markets to facilitate improved economic efficiency and lower electricity prices. However, the potential of competitive market processes in electricity networks has been largely ignored. As a result, potentially viable and environmentally attractive demand management (DM) solutions have been unable to compete against traditional network solutions. This article considers the scope for competitive market reform to remove entrenched barriers to the participation of DM in electricity network services.

Case study material is provided from recent reform initiatives in New South Wales, Australia. These reforms contain a number of methodological and policy innovations which enable cost effective DM to compete, including:

- The use of marginal avoidable network cost to provide a stronger, more cost reflective price stimulus for local network augmentation solutions,
- The use of mapping tools to transparently inform the market of impending network capacity constraints and network augmentation value; and
- Establishing a “Demand Management Code of Practice” which emphasises market based procurement of DM.