AUSTRALIAN ENERGY REGULATOR

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Your Ref: ERC0266
Contact Officer: Angela Bourke
Contact Phone: 03 9290 1910
Date: 11 July 2019

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Rule change request—Demand management incentive scheme and innovation allowance for transmission network service providers—Consultation Paper

Thank you for the opportunity to comment on Energy Networks Australia's (ENA's) rule change request for the introduction of a demand management incentive scheme (DMIS) and demand management innovation allowance mechanism (DMIA) for transmission network service providers (TNSPs). We are pleased to make this submission to the Australian Energy Market Commission's (AEMC's) consultation paper.

In order to promote achievement of the National Electricity Objective (NEO), investments in distribution and transmission networks should be made only where they are the most efficient considering all alternatives, including non-network solutions.

Increased take up of demand management measures by electricity network businesses and consumers, when efficient, will lead to a reduction in the need for costly infrastructure spending and accordingly put downward pressure on prices, benefitting the whole community. This is increasingly important in the context of significant change and uncertainty in the energy sector.

The electricity network economic regulatory framework and our regulatory approaches are designed to promote efficient investment. In particular, under the capital expenditure sharing scheme (CESS) and efficiency benefit sharing scheme (EBSS), networks have a continuous positive incentive to make both operating expenditure and capital expenditure efficiency gains, balanced by an incentive to maintain service quality under the service target performance incentive scheme (STPIS). Despite this, uptake of demand management options by networks has in practice been limited. To that end, we seek to use multiple tools to promote greater use of efficient demand management options, provided there is evidence to support the use of those tools.

We consider a well-designed DMIS and DMIA for TNSPs could make an important contribution to the existing framework. However, some key considerations need to be taken into account:

- We consider it useful to have additional tools at our disposal to promote efficient take up of non-network options. However, we do not yet have sufficient evidence to form a view of the effectiveness of the DMIS and DMIA for distribution network service providers (DNSPs).

- There needs to be evidence of consumer support for extending the DMIS and DMIA to TNSPs. This was an important factor in our decision to design and implement the DMIS and DMIA for DNSPs.
- If the rule change is approved, we would require sufficient flexibility to consult on and develop a scheme and mechanism for TNSPs, including its design, implementation timeframe, and application. We would also support allowing early application so long as it is structured to avoid re-opening regulatory determinations.

Too early to assess the effectiveness of the DMIS and DMIA for distribution

As noted in the rule change proposal and the AEMC's consultation paper, we currently apply a DMIS and DMIA for DNSPs. These were introduced in December 2017 with significant stakeholder support,[1] following a rule change in 2015.[2]

Despite an additional rule change allowing early implementation of the scheme in advance of revenue determinations,[3] the DMIS for DNSPs remains largely untested. In December 2017 when we launched the scheme, we estimated that if DNSPs fully subscribed to it, demand management investment of up to $1 billion over five years could be realised. Since that time six distribution networks have applied for early adoption of the scheme, with five approved.[4] Further, while some DNSPs have identified potential demand management projects in their regulatory proposals,[5] we have not received any compliance reports yet because these are required within four months of the end of a regulatory year in which the scheme is applied. Given this, we do not yet have visibility on eligible or committed projects put forward by DNSPs, nor their associated expenditure.

Similarly, the updated DMIA as developed in 2017 commenced on 1 July 2019 (as early implementation only applies to the DMIS). As such, we are not yet in a position to conclude how effective the current DMIS or DMIA are in achieving their objectives as set out in the National Electricity Rules (NER).[6]

Consumer support for the DMIS and DMIA for transmission is not yet clear

A DMIS and DMIA rely on consumers funding incentive and allowance payments in the short term in the expectation of longer term benefits through improved take-up of efficient demand management options. For that reason, we consider consumer support for this rule change request is critical. Consumer support was a key factor in the introduction and design of the distribution scheme,[7] and the rule change itself was proposed by the Total Environment Centre and COAG Energy Council. In this case, it is not evident that the views of consumers

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1 AER, Demand management incentive scheme, Explanatory Statement, December 2017, pp. 21-24.

2 AEMC, Demand Management Incentive Scheme, Rule Determination, 20 August 2015. See also: AEMC, Demand Management Incentive Scheme, Consultation Paper, 19 February 2015; AER, Demand management incentive scheme and innovation allowance mechanism, Consultation paper, January 2017.

3 AEMC, Implementation of Demand Management Incentive Scheme, Rule Determination, 3 April 2018.

4 AER, Determinations: Early application of the Demand Management Incentive Scheme – AusNet Services, Ergon Energy and Energex, December 2018; AER, Determinations: Early application of the Demand Management Incentive Scheme – Endeavour Energy and Ausgrid, March 2019; United Energy, Request for early application of the revised DMIS June 2019.

5 See, for example, AER, Draft decision TasNetworks: Attachment 11, September 2018, p. 8; SAPN, Regulatory proposal: Attachment 11, January 2019, p. 8.

6 See NER, clause 6.6.3(b) and 6.6.3A(b).

7 AER, Demand management incentive scheme, Explanatory Statement, December 2017, section 3.2.

were sought by the proponent in the development of the proposal. In the absence of consumer consultation by the proponent, it is not yet clear the proposal is in the long-term interests of consumers as required under the NEO.

We consider the perspective of consumers should be sought and influential in:

- whether an option to introduce such a scheme is added to the rules; and
- if it is, our consideration of scheme design and application.

Noting the above, we recommend that, should the AEMC approve the proposed rule change, it incorporates the following suggestions for implementation.

Flexibility in the design and application of the DMIS and DMIA

If the AEMC decides to include a transmission DMIS and DMIA in the NER, we consider there needs to be flexibility so the scheme and mechanism can operate effectively in an uncertain and rapidly changing environment. We agree with the Energy Networks Australia's (ENA's) proposal that it is important we have discretion in relation to both the design and application of the DMIS and DMIA for TNSPs, similar to how the DMIS and DMIA operates for DNSPs.[8]

There are also some important distinctions between DNSPs and TNSPs. Unlike DNSPs, TNSPs do not have a direct relationship with customers other than a small number of customers directly connected to the transmission network. TNSPs also have access to network support cost pass through provisions in the rules, as well as distinct STPIS components that may interact with a DMIS, such as the network capability incentive parameter action plan (NCIPAP). We consider further analysis of the existing regulatory framework as it relates to TNSPs is necessary before the specific details of a DMIS and DMIA for TNSPs are determined. There should also be sufficient time allowed for consultation with stakeholders to evaluate the differences between DNSPs and TNSPs, and any implications for the design and application of a scheme and mechanism. This would also allow us time to gather data and learn more from the DMIS and DMIA for DNSPs.

Allowing early application without re-opening determinations

The distribution DMIS was subject to a rule change that allowed early application by DNSPs.[9] The ENA's rule change proposal suggests incorporating the same process for the transmission DMIS. The AEMC noted some potential concerns with early application, including the potential need to re-open and amend existing regulatory determinations.

If a scheme is to be implemented, we support allowing early application in a similar manner to the distribution DMIS. This allowed for DNSPs to accrue DMIS project incentives during their current regulatory control period, but was structured such that the incentives would not be payable until the subsequent regulatory control period. This avoided re-opening regulatory determinations, which would impose considerable costs on us and NSPs.[10]

We thank the AEMC for the opportunity to submit on this process and look forward to ongoing involvement in the assessment of the transmission DMIS/DMIA rule change request.

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8 ENA, Demand Management Incentive Scheme and Demand Management Innovation Allowance – Rule Change Request, Submission to Australian Energy Market Commission, February 2019, p. 6.

9 AEMC, Implementation of Demand Management Incentive Scheme, Rule Determination, 3 April 2018.

10 AER, Request for rule change – Early implementation of the demand management incentive scheme, 14 December 2017, pp. 1, 11.

If you have any questions about our submission, please feel free to contact Angela Bourke (03 9290 1910).

Yours sincerely,

Paula Conboy
Chair