



Information paper

Demand Management and Embedded Generation Connection Incentive Scheme

March 2013

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Overview

The purpose of this information paper is to set out our proposed approach to applying a demand management incentive scheme to ACT/NSW Distribution Network Service Providers (DNSPs) as part of the next distribution determination process. We also set out our proposed approach for consulting on:

- matters relevant to the form of any new demand management and embedded generation connection incentive scheme (DMEGCIS) based on the draft specifications in the Australian Energy Market Commission (AEMC)'s Power of Choice Final Report (Final Report) and draft rule change proposals that may be under consideration
- issues which fall within the Power of Choice work stream.

The National Energy Rules (NER) allow the Australian Energy Regulator (AER) to develop and publish a DMEGCIS.¹ The DMEGCIS is to:²

provide incentives for Distribution Network Service Providers to implement efficient non-network alternatives, or to manage the expected demand for standard control services in some other way, or to efficiently connect Embedded Generators.

When the AER makes an electricity distribution determination, it must set out how the DMEGCIS will apply to a distribution network service provider.³

The current ACT/NSW distribution determination applies for five years (this is referred to as the regulatory control period).⁴ The current regulatory control period for the ACT/NSW DNSPs finishes on 30 June 2014.

In 2012, we commenced preliminary work on the DMEGCIS that will apply to ACT/NSW DNSPs for the next regulatory control period. In September 2012, the AER extended the time to publish a decision on the proposed DMEGCIS for ACT and NSW, pending finalisation of the AEMC's Power of Choice review.

In November 2012, the AEMC released the Final Report. The Final Report made recommendations for supporting market conditions that facilitate efficient demand side participation (DSP) including reforms to the DMEGCIS. The majority of the AEMC's recommendations require changes to the NER.

We propose to hold a forum on 12 April 2013 to give stakeholders an opportunity to discuss our proposed approach. If interested stakeholders wish to provide written feedback on the information paper, it can be emailed to the AER via either DemandManagement@aer.gov.au or NSWACTelectricity@aer.gov.au.

¹ NER, cl. 6.6.3.

² NER, cl. 6.6.3(a).

³ NER, cl. 6.3.2(a)(3).

⁴ NER, chapter 10. The regulatory control period will be a period of not less than 5 years.

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Glossary

Term	Definition
2011 demand management rule change	National Electricity Amendment (Inclusion of Embedded Generation Research into Demand Management Incentive Scheme) Rule 2011 No. 11 (December 2011). This rule change expressly included embedded generation into any demand management incentive scheme developed by the AER.
2012 DMEGCIS process	<p>Process commenced by the AER in May 2012 to amend or replace the current 2008 scheme for ACT/NSW DNSPs. As part of this process the AER released the proposed 2012 DMEGCIS and accompanying explanatory statements for consultation.</p> <p>On 14 September 2012, the AER delayed the time to publish its final decision on the proposed 2012 DMEGCIS. The AER considered this delay necessary in order for the AEMC to finalise its Power of Choice review, which addresses issues that are directly relevant to the proposed 2012 DMEGCIS.</p>
2012 preliminary F&A process	In June 2012, the AER released for consultation a preliminary framework and approach (F&A) positions paper for the upcoming ACT/NSW electricity determination process—see AER, Preliminary positions, Framework and approach paper: Ausgrid, Endeavour Energy and Essential Energy regulatory control period commencing 1 July 2014, June 2012 and AER, Preliminary positions, Framework and approach paper: ActewAGL regulatory control period commencing 1 July 2014, June 2012.
ACT DNSP	ActewAGL Distribution
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
current 2008 demand management incentive scheme for ACT DNSPs	<p>Demand management incentive scheme for the ACT and NSW 2009 distribution determinations—Demand management innovation allowance scheme, November 2008 as applied to ACT DNSPs in the AER, Final decision: Australian Capital Territory distribution determination 2009–10 to 2013–14, April 2009.</p> <p>This scheme consists of the DMIA.</p>
current 2008 demand management incentive scheme for NSW DNSPs	<p>Demand management incentive scheme for the ACT and NSW 2009 distribution determinations—see Demand management innovation allowance scheme, November 2008 as applied to NSW DNSPs in the AER, Final decision: New South Wales distribution determination 2009–10 to 2013–14, April 2009.</p> <p>This scheme consists of the DMIA and the D-factor component.</p>
current regulatory control period	1 July 2009—30 June 2014
D-factor	scheme which permits a DNSP to recover the forgone revenues associated with demand management projects or programs.

DMEGCIS	demand management and embedded generation connection incentive scheme
DMEGCIS proposed rule change	AEMC's recommended changes to the NER in order to reform the DMEGCIS. These recommendations are set out in chapter 7 of the Final Report. Currently, there is no indication of when the AEMC will commence the proposed DMEGCIS rule change process and the timing of any final determination.
DNSP	distribution network service provider
Final Report	AEMC, Final Report: Power of Choice review—giving consumers options in the way they use electricity, 30 November 2012.
F&A	framework and approach
NEM	National Electricity Market
NER	National Electricity Rules
NSW DNSPs	Ausgrid, Endeavour Energy and Essential Energy
proposed 2012 DMEGCIS	The DMEGCIS for the ACT/NSW DNSPs released for consultation by the AER on 29 May 2012.
Stage 2 F&A paper	F&A paper to be realised in January 2014 under cl. 11.56.4(l)(2) of the NER.
subsequent regulatory control period	Expected to be 1 July 2015 to 30 June 2019.
transitional regulatory control period	1 July 2014—30 June 2015
transitional rules	Transitional rules contained in the <i>National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012 No. 9</i> (Network Regulation rule change) which the AEMC determined in November 2012. These transitional rules set out the transitional arrangements for the next ACT/NSW electricity distribution determination.

1 Introduction

The purpose of this information paper is twofold.

Firstly, it outlines our proposed approach to applying a demand management incentive scheme to ACT/NSW DNSPs during their next regulatory control periods. This includes three distinct issues:

- the demand management incentive scheme to apply to the ACT/NSW DNSPs in the transitional regulatory control period (1 July 2014–30 June 2015).⁵ We propose to apply the current 2008 demand management incentive scheme for the ACT/NSW transitional regulatory control period.
- the DMEGCIS to apply to the ACT/NSW DNSPs in the subsequent regulatory period (expected to be 1 July 2015–30 June 2019).⁶ We propose to commence informal consultation on matters relevant to the form of a new scheme based on the AEMC's draft specifications set out in the Final Report. This consultation will also take into account the forthcoming draft rule proposals which are to be determined by the AEMC following consideration by the Standing Council on Energy and Resources (SCER).
- the conclusion of the 2012 DMEGCIS process. We propose to conclude the 2012 DMEGCIS process by publishing a final decision to maintain the current 2008 demand management incentive scheme. The 2008 scheme will be in place until we develop a new scheme after consulting with stakeholders.

Secondly, the information paper outlines our proposed approach to consulting on issues which fall within the Power of Choice work stream of the Better Regulation program.

1.1 Background

1.1.1 DMEGCIS

We commenced preliminary work on the next ACT/NSW distribution determination last year. As part of this process, we commenced consultation on a new DMEGCIS for ACT/NSW (proposed 2012 DMEGCIS) in May 2012.⁷ This was intended to apply to the ACT/NSW DNSPs for the 1 July 2014 to 30 June 2019 regulatory control period. For the NSW DNSPs, the proposed 2012 DMEGCIS discontinued the Independent Pricing and Regulatory Tribunal's (IPART) D-factor scheme.

On 25 June 2012, we published a preliminary framework and approach (F&A) paper for the next ACT/NSW distribution determination.

On 17 September 2012, we extended time to publish the final decision on the proposed 2012 DMEGCIS due to circumstances beyond our control.⁸ These circumstances arose from a delay in the

⁵ NER, cl. 11.56.3(a)(4). The transitional rules define the transitional regulatory control period as 1 July 2014—30 June 2015.

⁶ NER, cl. 11.55.1. The subsequent regulatory control period is defined as the regulatory control period that immediately follows the transitional regulatory control period. The subsequent regulatory control period will commence on 1 July 2015. DNSPs can propose the length of the subsequent regulatory control period under cl. 11.56.4(k) of the NER. If the DNSP proposes a period of four regulatory years, the AER must approve that period as the regulatory control period.

⁷ NER, cl. 6.6.3. The proposed 2012 DMEGCIS incorporated the AEMC's *Rule determination: National Electricity Amendment (Inclusion of Embedded Generation Research into Demand Management Incentive Scheme) Rule 2011 No. 11*, December 2011. This rule change expanded the objective of the demand management incentive scheme to include incentives for DNSPs to efficiently connect embedded generators.

⁸ NER, cl. 6.16(g)(2) (version 51). The distribution consultation procedures under cl. 6.16(e) of the NER require the AER to make a final decision on its proposed DMEGCIS. This is to be done within 80 business days of publishing the proposed DMEGCIS and an explanatory statement.

AEMC finalising its Power of Choice review. In making the decision to extend time, we noted that the submissions on the proposed 2012 DMEGCIS suggested that changes resulting from the Final Report should strengthen the incentives created through a DMEGCIS.

On 29 November 2012, the AEMC amended the network regulation provisions of the NER. Those amendments provide the AER with greater capacity and flexibility in setting revenues and prices for electricity network service providers. In order for those amendments to take effect as soon as possible, the AEMC inserted transitional rules into the NER. These transitional rules impact ACT/NSW DNSPs.⁹

1.1.2 Power of Choice—Final report

On 30 November 2012 the AEMC released its Final Report. The Final Report set out the AEMC's recommendations for supporting market conditions that facilitate efficient DSP. The AEMC's recommendations cover the following areas:¹⁰

- Consumer awareness, information education and engagement—improving consumer access to information and education, and improving consumer engagement to facilitate the shift to a new pricing environment.
- Enabling technology—rolling-out smart meters via a phased and contestable model, thereby enabling the provision of efficient price signals.
- DSP in wholesale markets—introducing a demand response mechanism in the wholesale electricity market to facilitate consumer participation in the spot market.
- Efficient and flexible pricing—introducing efficient (peak cost reflective) and flexible (time varying) network tariffs for consumers in the National Electricity Market (NEM).
- Distribution networks and DSP—improving incentives for distributors to engage in DSP (reform of the DMEGCIS).
- Distribution generation (DG)—developing a national approach to feed-in tariffs including the ability of time varying tariffs to encourage owners of DG assets to maximise the export of power during peak demand periods.
- Energy efficiency—developing greater coordination of energy efficiency regulatory schemes and DSP options available.

The majority of the AEMC's recommendations require changes to the NER. Similarly, much of the AER's work to implement these recommendations, including developing a new DMEGCIS and pricing guidelines, are predicated on the AEMC making appropriate changes to the NER. It is anticipated these rule changes will be considered during the course of 2013. The precise timing of when the new rules will take effect is currently unclear.

⁹ AEMC, *Rule determination: National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012 No. 9*, November 2012.

¹⁰ AEMC, *Final Report: Power of Choice review—giving consumers options in the way they use electricity*, 30 November 2012, pp. i–iii.

2 Transitional regulatory control period

We propose to apply the current 2008 demand management incentive scheme for the transitional regulatory control period.

2.1 Transitional rules applying to the next ACT/NSW distribution determination

The transitional rules establish a transitional regulatory control period for ACT/NSW DNSPs from 1 July 2014 to 30 June 2015. The ACT/NSW DNSPs must submit their transitional regulatory proposal to us by 31 January 2014. We must make our transitional regulatory determination by 30 April 2014.¹¹

The transitional rules require us to specify that the same D-factor and DMEGCIS scheme that applied to the DNSP in the current regulatory control period (i.e. 2009–14) be applied in the transitional regulatory control period (2014–15). This is subject to any modifications that are set out in the January 2014 stage 2 F&A paper.¹² That is, the demand management incentive scheme that applies in ACT and NSW currently, is to be applied as the ‘default’ in the transitional regulatory control period, subject to any modifications.¹³ These modifications can include, for example, changing the incentives under the scheme, or deciding not to apply the scheme at all.¹⁴

The relevant rules are set out in **appendix A**.

2.2 AER's proposed approach

We are proposing to apply the current 2008 demand management incentive scheme to the ACT/NSW DNSPs for the transitional control period without any modifications. In the ACT, the demand management incentive scheme includes a demand management innovation allowance (DMIA) and revenue recovery component. In NSW, the demand management incentive scheme includes a DMIA and the D-factor.¹⁵

We consider that our proposed approach is preferable to applying a modified 2008 demand management incentive scheme or applying no scheme during the transitional regulatory control period. This approach provides the ACT/NSW DNSPs with regulatory certainty for the transitional regulatory control period.

Submissions made to the various processes conducted last year support the view that the current 2008 demand management scheme does not create real incentives for DNSPs to undertake demand management activities in NSW. We acknowledge this issue and consider that, because the transitional regulatory control period is only for 12 months, any adverse impact the scheme may have

¹¹ NER, cl. 11.55.2. Transitional Chapter 6, cl. 6.11.2.

¹² NER, cl. 11.56.3(a)(4). The stage 2 F&A paper is required under cl. 11.56.4(l)(2) of the NER.

¹³ In the ACT the demand management incentive scheme includes a DMIA and revenue recovery component. In NSW the demand management incentive scheme includes a DMIA and the D-factor.

¹⁴ NER, cl. 11.56.3(a)(4).

¹⁵ AER, *Final Australian Capital Territory distribution determination decision 2009–10 to 2013–14*, 28 April 2009, (as revoked and substituted in April 2012) pp 118–122, AER, *Final Decision: NSW distribution determination 2009–10 to 2013–14*, 28 April 2009, pp. 253–266.

on creating incentives is likely to be negligible. In addition, we note submissions received from stakeholders supported the continuation of the D-factor in NSW.¹⁶

The continuation of the current 2008 scheme for the transitional regulatory control period is unlikely to interfere with the ACT/NSW DNSPs' existing forward planning processes.

¹⁶ Alternative Technology Association, *Submission on proposed demand management & embedded generation connection incentive scheme NSW and ACT*, August 2012; Ausgrid, *Proposed demand management and embedded generation connection incentive scheme*, August 2012; Dugan, D., *Submission email to the AER, 29 May 2012*; Endeavour Energy, *Proposed demand management and embedded generation connection incentive scheme*, July 2012; EnerNOC, *Submission on the proposed demand management and embedded generation connection incentive scheme*, July 2012; Essential Energy, *Proposed demand management and embedded generation connection incentive scheme*, August 2012; City of Sydney, *Submission on Preliminary Positions Framework and Approach Paper—Ausgrid*, 15 August 2012; Endeavour Energy and Essential Energy, *Regulatory Control Period Commencing 1 July 2012*, 15 August 2012; Combined NSW DNSPs submission (Ausgrid, Endeavour Energy and Essential Energy), *NSW DNSPs' Response to the AER's Preliminary Framework and Approach Paper, Regulatory Control Period Commencing 1 July 2014*, 17 August 2012; Total Environment Centre Inc, *Submission to the AER: Preliminary Framework and Approach Paper—Ausgrid*, 15 August 2012; Endeavour Energy and Essential Energy, *Regulatory Control Period Commencing 1 July 2014*, 15 August 2012.

3 Subsequent regulatory control period

We propose to commence consultation over the next year on matters relevant to the form of a new DMEGCIS. It is our expectation that this process will run in parallel with the AEMC's rule change on a new DMEGCIS.

3.1 DMEGCIS rule change

The AEMC's consideration of demand management incentive schemes is contained in chapter 7 of the Final Report. The chapter sets out the recommendations for facilitating DSP by distribution networks.¹⁷ These recommendations include amending the NER to reform the application of the current demand management incentive scheme so it provides an appropriate return for DSP projects which deliver a net cost saving to consumers. This includes creating separate provisions for an innovation allowance. Further, the Final Report recommends adopting a two-part approach to address the issue of business profits being dependent on actual volumes:

- Firstly, amendments to the pricing principles in chapter 6 of the NER to provide guidance on network tariff structures.
- Secondly, the AER consider expanding the current application of the foregone profit under the DMEGCIS.

The AEMC's proposed changes to reform the DMEGCIS scheme are dependent on making changes to the NER (DMEGCIS rule change). The starting point for developing the DMEGCIS rule change is likely to be the draft specifications developed by the AEMC.¹⁸

On 14 December 2012, SCER agreed to progress work on the recommendations set out in the Final Report. SCER directed officials to prepare rule change proposals for consideration by the AEMC. These rule changes will cover a number of specified areas, including the DMEGCIS.¹⁹

While it is expected that the AEMC will commence the formal DMEGCIS rule change process in the coming months, the precise timing of this process is unclear. We are liaising with the AEMC on the progress of the rule changes processes. Even though the timing of the rule change is unclear, there is still considerable preliminary work we can do while the rule change process is underway. This preliminary work will include consulting on matters relevant to the form of the new scheme, taking into account the Final Report and draft rule change proposals that may be under consideration.

We informally indicated to the AEMC that we may seek transitional rules if the DMEGCIS rule change is delayed. This is so the outcome of the rule change may be applied in the subsequent regulatory period.

3.2 Performance of the current 2008 demand management incentive scheme

During the preliminary work conducted last year, we received submissions from stakeholders on the current 2008 demand management incentive scheme applying in the ACT and NSW. These

¹⁷ AEMC, *Final Report: Power of Choice review—giving consumers options in the way they use electricity*, 30 November 2012, pp. 198–230.

¹⁸ AEMC, *Draft Specifications: Power of Choice review—giving consumers options in the way they use electricity*, 30 November 2012, pp. 34–38.

¹⁹ Standing Council on Energy and Resources, *Meeting Communiqué*, 14 December 2012, p. 2.

submissions generally identified the need to reform the current demand management incentive scheme to better incentivise ACT/NSW DNSPs. Briefly, the submissions noted that:

- the current scheme failed to create sufficient incentives for long-term structural change.
- the lack of funding provided under the DMIA reduced its effectiveness.
- demand side actions and technologies should be incentivised based on the actual reduction in electricity demand (particularly peak demand) it brings.²⁰

3.3 Timing of the next ACT/NSW distribution determination process

The transitional rules set out the timing of the ACT/NSW distribution determination process for the subsequent regulatory period.²¹

- Stage 1 of the F&A was published on 25 March 2013 (including control mechanism, classification of services, dual function assets).
- Stage 2 of the F&A is to be published in January 2014 (any demand management incentive scheme is to be covered in this paper).
- ACT/NSW DNSPs are required to submit to the AER their regulatory proposal for the subsequent regulatory control period in May 2014.
- AER draft determination for the subsequent regulatory control period is due in November 2014.
- AER determination for the subsequent regulatory control period is due in April 2015.

The current rules do not allow us to change the DMEGCIS applying to the ACT/NSW DNSPs midway through the subsequent regulatory control period. This means that if we develop a DMEGCIS (consistent with the draft specifications set out in the Final Report and/or the DMEGCIS rule change) we must finalise the new scheme before we make a final determination for the subsequent regulatory control period in April 2015. The final distribution determination can then set out how a new DMEGCIS is to be applied to the ACT/NSW DNSPs for the subsequent regulatory control period.

We consider that it would be preferable to have any new DMEGCIS established by January/February 2014. This would allow the ACT/NSW DNSPs the opportunity to address any issues in their regulatory proposals for the subsequent regulatory control period. Failing this, we are of the view that a new DMEGCIS should be finalised and addressed in the ACT/NSW draft determination by November 2014, when it is due to be released. This will allow the DNSPs to address any issues in their revised proposals. It will also avoid any potential concerns about procedural fairness that ACT/NSW DNSPs may raise if the scheme is finalised after the AER releases its draft determination.

3.4 Form of control for ACT/NSW DNSPs

Stage 1 of the F&A paper for NSW DNSPs sets out our decision to move standard control services to a revenue cap for the 2014–19 regulatory control period. We note that under a revenue cap a DNSP has a greater incentive to undertake demand side management projects that reduce costs.²²

²⁰ These submissions were received in response to the AER's proposed 2012 DMEGCIS and preliminary F&A paper.

²¹ NER, cl. 11.55–11.56.5.

²² AER, *Stage 1 Framework and approach paper, Ausgrid, Endeavour Energy and Essential Energy*, March 2013, p. 53.

Stage 1 of the F&A paper for the ACT DNSP ActewAGL set out that standard control service would remain on an average revenue cap. It also acknowledged that the average revenue cap provides weak incentives to provide demand side management projects.

We will take these decisions into account when considering the form of any new DMEGCIS.

3.5 AER's proposed approach

We consider that it would not be appropriate to apply the existing 2008 demand management incentive scheme (or a variation of this scheme) to the ACT/NSW DNSPs during the subsequent regulatory period. We have reached this position based on our consideration of the draft specifications and recommendations set out in the Final Report, and the performance of the current demand management incentive scheme.

Informal engagement on matters relevant to the form of a new demand management incentive scheme will be based on the draft specifications set out in the Final Report and draft rule change proposals that may be under consideration will form part of our consultation. As part of that consultation, we will consider the size and scope of any new scheme as well as matters relevant to its design. In most instances, we will consult by releasing issues papers and conducting workshops at appropriate times. We envisage that this consultation would fall under the Better Regulation program's Power of Choice work stream. It is our intention that once the rule changes are finalised, our preliminary work will be used to inform our draft scheme.

Timing issues may prevent us from establishing a new scheme and applying it to ACT/NSW DNSPs in time for the commencement of the subsequent regulatory control period. In liaising closely with the AEMC as the DMEGCIS rule change progresses, we may pursue the option of including transitional arrangements in the DMEGCIS rule change such that a new DMEGCIS could apply to ACT/NSW DNSPs during the subsequent regulatory control period.

4 2012 DMEGCIS process

We propose to conclude the 2012 DMEGCIS process by publishing a final decision to maintain the current 2008 demand management incentive scheme.

4.1 Extension of time to publish final decision

We commenced the process to establish a new DMEGCIS for the ACT/NSW DNSPs in 2012.²³ After receiving submissions from interested stakeholders on the proposed 2012 DMEGCIS, the AER decided in September 2012 to extend the time to publish its final decision due to circumstances beyond its control.²⁴ These circumstances arose from a delay in the AEMC finalising its Power of Choice review. We considered that the Power of Choice review addressed issues that were directly relevant to the proposed 2012 DMEGCIS, and should therefore, be given consideration before the publication of the AER's final decision.

In considering the Final Report and the implications of its recommendations for the 2012 DMEGCIS process since its release on 30 November 2012, we have not yet concluded the 2012 DMEGCIS process for the ACT/NSW DNSPs.

4.2 AER's proposed approach

We propose to conclude the 2012 DMEGCIS process by publishing a final decision in accordance with the requirements of cl. 6.6.3 (e) of the NER. This final decision would indicate the AER is finalising the 2012 DMEGCIS process by not amending or replacing the current 2008 demand management incentive scheme.²⁵

As noted above, we intend to commence informal engagement on matters relevant to the form of a new general demand management incentive scheme based on the draft specifications set out in the Final Report.

We consider that our proposed approach is preferable to further extending the time for the AER to publish a final decision on the proposed 2012 DMEGCIS. This is primarily because the Final Report recommends reforming the DMEGCIS by amending the NER. As indicated in chapter 3 of this information paper, the timing of the DMEGCIS rule change is currently uncertain. Accordingly, by adopting this approach we will have more flexibility to choose the timing for the establishment of a new scheme. It will also minimise any potential timing constraints that may arise through the operation of the distribution consultation procedures in r. 6.16 of the NER.²⁶

²³ AER, *Proposed demand management and embedded generation incentive scheme—ACT and NSW distribution determinations 2014–19*, May 2012.

²⁴ NER, cl. 6.16(g)(2) (version 51). On 17 September 2012, the AER notified stakeholders and published this decision on the AER's website.

²⁵ NER, cl. 6.6.3 (c), 6.16 (e).

²⁶ Under this rule, the AER must allow no less than 30 business days for the making of submissions on any proposed scheme. A final decision on the proposed scheme must be within 80 business days of publishing the scheme.

5 Next steps

5.1 Consultation on approach

We propose to hold a forum on 12 April 2013 with interested stakeholders to provide an:

- opportunity for the stakeholders to share their views on the AER's approach set out in the information paper. We expect that the forum will allow us to collate stakeholder views on the scope and timing of issues to consider.
- update on the Power of Choice work stream of the Better Regulation program. This update will cover the progress and timing of the proposed reforms to the DMEGCIS and other demand side incentives, distribution pricing and the development of a reasonable investment test for distribution (RIT-D) and associated guidelines.²⁷

5.2 Development of any new DMEGCIS for DNSPs in the NEM

As discussed above, we intend to commence informal engagement on matters relevant to the form of a new demand management incentive scheme in parallel with the AEMC's rule change process. The draft DMEGCIS specifications set out in the Final Report and draft rule change proposals that may be under consideration will form part of our consultation. In most instances we will commence our informal engagement with a stakeholder forum and then on-going workshops and issues papers. We expect that our approach will be influenced by the availability of stakeholders with particular expertise and the complexity of particular issues to be considered.

5.3 Feedback

If interested stakeholders wish to provide written feedback on the information paper, it can be emailed to the AER via either DemandManagement@aer.gov.au or NSWACTelectricity@aer.gov.au.

²⁷ We note that that we will conduct a separate consultation process for the development of the RIT-D.

Appendix A

Clause 11.56.3(a)(4) of the NER states:

- (a) Without otherwise limiting the operation of clause 6.12.1 of transitional Chapter 6, a distribution determination made by the AER for an affected DNSP for the transitional regulatory control period must:.....
 - (4) specify that the D-factor scheme, efficiency benefit sharing scheme, service target performance incentive scheme and demand management and embedded generation connection incentive scheme that applied to the affected DNSP under the distribution determination for its current regulatory control period apply to the affected DNSP for the transitional regulatory control period subject to such modifications as are set out in the framework and approach paper that is published in respect of the subsequent regulatory control period of the affected DNSP (including as to the incentives under, and the non-application of, the relevant scheme).

Clause 6.6.3 of the NER states:

- (a) The AER, may in accordance with the distribution consultation procedures, develop and publish an incentive scheme or schemes (demand management and embedded generation connection incentive scheme) to provide incentives for Distribution Network Services Providers to implement efficient non-network alternatives, or to manage the expected demand for standard control services in some other way, or to efficiently connect Embedded Generators.
- (b) In developing and implementing a demand management and embedded generation connection incentive scheme, the AER must have regard to:
 - (1) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for Distribution Network Service Providers;
 - (2) the effect of a particular control mechanism (i.e. price – as distinct from revenue – regulation) on a Distribution Network Service Provider's incentives to adopt or implement efficient non-network alternatives;
 - (3) the extent the Distribution Network Service Provider is able to offer efficient pricing structures;
 - (4) the possible interaction between a demand management and embedded generation connection incentive scheme and other incentive schemes under clauses 6.5.8, 6.5.8A, 6.6.2 and 6.6.4;
 - (5) the willingness of the customer or end user to pay for increases in costs resulting from implementation of the scheme; and
 - (6) the effect of classification of distribution services, as determined in accordance with clause 6.2.1, on a Distribution Network Service Provider's incentive to adopt or implement efficient Embedded Generator connections.
- (c) The AER may, from time to time and in accordance with the distribution consultation procedures, amend or replace any scheme that is developed and published under this clause.
- (d) [Deleted]

Rule 6.16 of the NER states:

- (a) This rule 6.16 applies wherever the AER is required to comply with the distribution consultation procedures. For the avoidance of doubt, the distribution consultation procedures are separate from, and (where they are required to be complied with) apply to the exclusion of, the Rules consultation procedures under rule 8.9.

- (b) If the AER is required to comply with the distribution consultation procedures in preparing, making, developing, reviewing, amending or replacing any guidelines, methodologies, models, schemes, or tests, it must publish:
- (1) the proposed guideline, methodology, model, scheme, test or amendment;
 - (2) an explanatory statement that sets out the provision of the Rules under or for the purposes of which the guideline, methodology, model, scheme, test or amendment is proposed to be prepared, made or developed or is required to be reviewed, and the reasons for the proposed guideline, methodology, model, scheme, test or amendment; and
 - (3) an invitation for written submissions on the proposed guideline, methodology, model, scheme, test or amendment, or the review, (as the case may be).
- (c) The invitation must allow no less than 30 business days for the making of submissions, and the AER is not required to consider any submission made pursuant to that invitation after this time period has expired.
- (d) The AER may publish such issues, consultation and discussion papers, and hold such conferences and information sessions, in relation to the proposed guideline, methodology, model, scheme, test or amendment, or the review, as it considers appropriate.
- (e) Within 80 business days of publishing the documents referred to in paragraph (b), the AER must publish:
- (1) its final decision on the guideline, methodology, model, scheme, test, amendment or review that sets out:
 - (i) the guideline, methodology, model, scheme, test or amendment (if any);
 - (ii) the provision of the Rules under which or for the purposes of which the guideline, methodology, model, scheme, test or amendment is being prepared, made or developed or is being reviewed;
 - (iii) the reasons for the guideline, methodology, model, scheme, test or amendment; and
 - (iv) the reasons for the outcome of any review; and
 - (2) notice of the making of the final decision on the guideline, methodology, model, scheme, test, amendment or review.
- (f) Subject to paragraph (c), the AER must, in making its final decision referred to in paragraph (e)(1), consider any submissions made pursuant to the invitation for submissions referred to in paragraph (b)(3), and the reasons referred to in paragraph (e)(1)(iii) or (iv) must include:
- (1) a summary of each issue raised in those submissions that the AER reasonably considers to be material; and
 - (2) the AER's response to each such issue.
- (g) The AER may extend the time within which it is required to publish its final decision if:
- (1) the consultation involves issues of unusual complexity or difficulty; and
 - (2) the extension of time has become necessary because of circumstances beyond the AER's control.