

AER Demand Management Directions Forum: Discussion summary

Matter name:	Australian Energy Regulator (AER) Demand Management Incentive Scheme Directions Forum		
Date:	Thursday 29 June 2017		
Time:	10:30 am to 1:30 pm		
Location:	ACCC/AER Offices in Sydney, Melbourne, Canberra, Hobart, Brisbane and Adelaide		
Phone to <input checked="" type="checkbox"/>	Phone from <input type="checkbox"/>	Meeting <input type="checkbox"/>	Other <input checked="" type="checkbox"/>

Note: This document provides an overview of the main points discussed during the AER DMIS Directions Forum. Its use is purely informative.

The Australian Energy Regulator (AER) held a directions forum as part of its consultation process regarding the new Demand Management Incentive Scheme (the Scheme) and Demand Management Innovation Allowance Mechanism (the Allowance Mechanism). The AER presented its proposed draft Scheme and Allowance Mechanism and provided stakeholders with the opportunity to ask questions and provide comments on the draft Scheme and Allowance Mechanism.

The draft Scheme

There was general support for the proposed design of the draft Scheme, although some stakeholders expressed reservations about the merit of introducing another incentive into the regulatory framework. Other stakeholders noted that the National Electricity Rules required the AER to introduce an incentive and indicated that they supported the simple proposed design of the draft Scheme and magnitude of the proposed incentive. Some stakeholders also noted that they were pleased to see that the Scheme will be considering the upstream benefits of demand management.

In addition to these high level observations, stakeholders raised two core issues regarding the proposed draft Scheme:

- Many stakeholders argued it appeared to be too narrow, focusing on peak demand and that this would exclude other forms of demand management.
- Stakeholders sought to further understand its practical operation and considered it important to see worked examples (based on real world scenarios).

Definition of Demand Management

There was considerable discussion regarding the definition of demand management proposed for the draft Scheme. The AER's presentation on the draft Scheme proposed to

define demand management as ‘the act of modifying the drivers of network usage to remove a network constraint at peak’. A number of stakeholders observed that peak demand issues were only a component of what they considered the full range of applications for demand management. They considered that the life and usefulness of the Scheme would be enhanced by more broadly defining demand management. Some stakeholders also pointed to new technologies that may be excluded by this definition. Some distribution network service providers (distributors) noted that their networks were not experiencing peak demand issues, but instead would turn to demand management to solve other issues, such as those relating to voltage.

The general consensus was that the proposed demand management definition would prevent consideration of other demand management projects that would deliver value to consumers.

Worked examples

A number of stakeholders asked for clarification around the proposed practical operation of the Scheme, which AER staff provided where possible. However, there was general agreement that further understanding of the draft Scheme could be achieved by use of worked examples in its explanatory statement — particularly in relation to the uplift methodology and the calculation of net market benefits. Some distributors offered to provide the AER with examples of recent investment processes that could be used to demonstrate how the Scheme is proposed to operate.

Other issues

While the above issues constituted the bulk of discussion, stakeholders also queried the following:

- *Overall incentive cap (one per cent of allowed revenue)* - stakeholders generally considered that the cap was a reasonable starting point, but that a future review of the Scheme should revisit the cap in light of the outcomes it was achieving.
- *Interrelationship with other aspects of the regulatory framework* – some stakeholders noted that there are a number of ongoing reforms. These included the Australian Energy Market Commission’s (AEMC’s) contestability rule change process, the AER’s new ring-fencing guideline and the Australian Energy Market Operator’s (AEMO’s) work in relation to ancillary services unbundling. These stakeholders questioned whether the Scheme would be compatible with these other elements of the regulatory framework.
- *Net market benefits calculation* – stakeholders noted that the calculation of net benefits may be challenging and guidance was sought on their calculation. It was also suggested that there may be benefit in adopting a simpler approach to calculating net market benefits.
- *Minimum tendering requirements* - there was some discussion as to whether a requirement to issue a request for quote under the minimum tendering requirements was appropriate. Some adjustments were discussed to facilitate practical application of the minimum tendering requirements.

Rule change for early implementation of the Scheme

There was broad support for a rule change that would permit early application of the Scheme.

A representative from AEMC discussed the timeline on which the rule could be considered, indicating that it was unlikely that the rule change would be expedited, but that a six month process was feasible.

A representative from the Energy Consumers Association suggested that it might be of assistance for the AER to consult on the proposal before submitting a rule change, possibly in conjunction with the draft Scheme. This was supported by the AEMC and other stakeholders.

Some stakeholders sought further clarification regarding the precise legal mechanism for early implementation as part of the AER's draft Scheme.

The draft Allowance Mechanism

There was general support for the proposed design of the draft Allowance Mechanism and strengthening of the project reporting requirements. However, most stakeholders suggested that despite the proposed increase to the allowance, it was still too small and that useful projects would require a larger allowance. Other issues raised by stakeholders included:

- The importance of a consolidated annual report on the outcomes of the Scheme, including potentially a coordinated report between the AER and other relevant organisations/agencies (for example, the Energy Networks Australia, the Australian Renewable Energy Agency).
- The need to establish an easily accessible platform (portal or register) for accessing project information (particularly to determine what has been previously implemented, what the outcomes were and what projects have been rolled out more widely).
- Whether the proposed draft Allowance Mechanism is compatible with recent reforms such as the contestability rule change and the AER's ring fencing guideline.
- The need to carefully define 'innovation' (if at all) to avoid being too restrictive and preventing useful projects.
- The need to set clear project eligibility criteria to avoid unproductive duplication of projects but allow technologies to be tested on a variety of consumers.
- Possible changes to the funding approval process to minimise funding risk for distributors.

There was also discussion as to how the Allowance Mechanism could be directed to ensure it benefits customers through reduced costs. Some stakeholders considered that a focus on customer benefits from projects in the short term could inhibit more experimental projects that would unlikely produce customer benefits in the short-term, but may have the capacity to support substantial long-term customer benefits.

Next steps

Stakeholders sought clarification about the remaining steps in the process and whether they would be permitted to make further submissions. The AER clarified that it would be aiming to publish a draft Scheme and Allowance Mechanism in August and a final in December. The AER noted that it would be seeking submissions on the draft Scheme and draft Allowance Mechanism.