



Demand management incentive scheme for the NSW 2009 distribution determinations

D-factor scheme

February 2008

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Amendment record

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Shortened forms

AER	Australian Energy Regulator
DNSP	distribution network service provider
IPART	Independent Pricing and Regulatory Tribunal (NSW)
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEM	national electricity market
NER	National Electricity Rules

1 Nature and authority

1.1 Introduction

This document sets out the Australian Energy Regulator's (AER) demand management incentive scheme (the scheme) to be applied to the distribution network service providers (DNSPs) Country Energy, EnergyAustralia and Integral Energy for the NSW 2009 distribution determination, for the regulatory control period 2009–14. This scheme adopts the D-factor as promulgated by the Independent Pricing and Regulatory Tribunal (IPART) for its NSW distribution determinations during the regulatory control period 2004–09.

The AER is responsible for regulating the revenues and/or prices of DNSPs in the national electricity market (NEM) in accordance with the National Electricity Rules (NER), which were notified in the South Australian Gazette on 20 December 2007.

Within the NER, Chapter 6 deals with the classification and economic regulation of distribution services, while Chapter 6A deals with the economic regulation of transmission services. The Ministerial Council on Energy (MCE) has determined that transitional arrangements will apply to the preparation and assessment of the ACT and NSW 2009 distribution determinations. The transitional arrangements for the 2009–14 regulatory control periods for the ACT and NSW are set out in appendix 1 to Chapter 11 of the NER. Clause references in appendix 1 are numbered commencing with a six. This scheme will only apply to the transitional period, 2009–14.

The NER distinguishes between the rules in Chapter 6 and Chapter 11 by referring to the Chapter 6 rules as 'general Chapter 6 rules,' and Chapter 11 rules as 'transitional Chapter 6 rules.' The AER has followed this convention in this document when referring to the two sets of rules.

1.2 Authority

In accordance with clause 6.6.3 (a) of the transitional Chapter 6 rules states that the AER may develop and publish an incentive scheme or schemes (demand management incentive scheme) to provide incentives for DNSPs to implement efficient non-network alternatives or to manage the expected demand for standard control services in some other way.

The AER may, from time to time and with the agreement of each affected DNSP, amend or replace this demand management incentive scheme that is developed and published under clause 6.6.3 of the transitional Chapter 6 rules.

1.3 Role of the scheme

The purpose of the D-factor, as promulgated by IPART, is to reduce regulatory barriers to demand management in NSW. In particular, it is designed to overcome the barriers associated with the weighted average price cap form of regulation applying in NSW. This form of regulation may provide DNSPs with incentives to achieve demand forecasts to reach a required revenue allowance, which indirectly provides DNSPs with disincentives to undertake demand management.

The D-factor is a short-term incentive for businesses to overcome barriers to the efficient use of demand management solutions in supplying network services. The D-factor scheme, in conjunction with the demand management innovation allowance scheme, also aims to address concerns regarding rising peak loads and network asset underutilisation in NSW, by promoting an efficient level of demand management activity in response to rising peak demand on the distribution networks. When first introduced, IPART anticipated that demand management, and its related costs, would become part of the standard business practices of DNSPs so that, in the medium to long term, a D-factor incentive would not be necessary.

1.4 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a DNSP are governed by the Trade Practices Act 1974, the National Electricity Law (NEL) and the NER.

2 The demand management incentive scheme

This demand management incentive scheme is to be applied in setting the 2009 distribution determinations for the NSW DNSPs, for the regulatory control period 2009–14. For the purposes of this scheme, the AER has decided to apply the D-factor as promulgated by IPART during the regulatory control period 2004–09.

The application of the D-factor is set out in five guidelines as published by IPART which the AER has adopted for the purposes of this demand management incentive scheme (IPART’s D-factor guidelines).

IPART’s D-factor guidelines are appended to this document as follows:

- appendix A – Calculation of avoided distribution costs
- appendix B – Methodology for estimating foregone revenue
- appendix C – Methodology for assessing economic value of loss management investments
- appendix D – Network planning
- appendix E – IPART’s Preliminary Assessment of Energy Australia’s methodology under the D-factor mechanism of the 2004 Distribution Pricing Determination

These five guidelines may also assist the NSW DNSPs with the interpretation, methodology and process in relation to preparing a D-factor proposal.

2.1 Reference to IPART is a reference to the AER

For the purposes of this scheme a reference in IPART’s D-factor guidelines to the ‘Independent Pricing and Regulatory Tribunal’, ‘IPART’, ‘The Tribunal’ or a related reference:

- (a) in its role as the NSW jurisdictional regulator or administrator of the D-factor, are to be read as a reference to the ‘Australian Energy Regulator’ or the ‘AER’
- (b) in the context of views, responses, distribution determinations made prior to the regulatory control period 2009–14 and documents other than the five guidelines referred to in section 2.1 of this document, are not to be read as a reference to the ‘Australian Energy Regulator’ or the ‘AER’.

For example, section 5 of appendix B: Methodology for estimating foregone revenue states:

- 5 The DNSPs must demonstrate the link between the implementation of the non-tariff-based demand management measure and the resulting estimated actual foregone energy quantum. IPART may require the DNSP to provide independent expert evidence which verifies this link.

which, for the purposes of this scheme, is to be read as:

- 5 The DNSPs must demonstrate the link between the implementation of the non-tariff-based demand management measure and the resulting estimated actual foregone energy quantum. **The AER** may require the DNSP to provide independent expert evidence which verifies this link.

2.2 Operation of this scheme

- (a) EnergyAustralia, Integral Energy and Country Energy must submit a D-factor proposal as part of their regulatory proposals for assessment by the AER.
- (b) The AER will assess the submitted D-factor proposals against IPART's D-factor guidelines adopted by the AER as set out in section 2.1 of this document.

2.3 Relevant determinations

This scheme applies only to the distribution determinations to be made by the AER by 1 May 2009 for EnergyAustralia, Integral Energy and Country Energy for the regulatory control period 2009–14 in accordance with the transitional Chapter 6 rules.

2.4 Continuation of the D-factor scheme during the regulatory control period 2014–19

The continued application of the D-factor for the NSW DNSPs during the regulatory control period 2014–19 will be assessed by the AER as part of its considerations for the distribution determinations for that regulatory control period.

However, due to the lag in the D-factor mechanism and to ensure the appropriate incentives remain for the duration of the regulatory control period 2009–14, relevant expenditures undertaken in this period will be recoverable during the regulatory control period 2014–19.

2.5 Temporal definitions

For the purpose of the 2009 distribution determinations for the regulatory control period 2009–14, the AER has defined the current regulatory year as 'year $t-1$ ' while IPART defined the current regulatory year as 'year t '.

The AER's distribution determinations and statements with respect to the guidelines drafted by IPART must be read in the context of these temporal definitions.

Appendix A: Calculation of avoided distribution costs

Appendix A is IPART's guideline on the calculation of avoided distribution costs under the D-factor, attached.

Appendix B: Methodology for estimating foregone revenue

Appendix B is IPART's guideline on the methodology for estimating foregone revenue under the D-factor, attached.

Appendix C: Methodology for assessing economic value of loss management investments

Appendix C is IPART's guideline on the methodology for assessing the economic value of loss making investments under the D-factor, attached.

Appendix D: Network planning

Appendix D is IPART's note on network planning and its interaction with the D-factor, attached.

Appendix E: IPART's Preliminary Assessment of Energy Australia's methodology under the D-factor mechanism of the 2004 Distribution Pricing Determination

Appendix E is IPART's Preliminary Assessment of EnergyAustralia's Methodology under the D-factor Mechanism of the 2004 Distribution Pricing Determination, attached.