



Demand management incentive scheme for the ACT and NSW 2009 distribution determinations

Demand management innovation allowance scheme

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Version	Date	Pages
1	29 February 2008	9

Contents

Shortened forms	iii
1 Nature and authority.....	1
1.1 Introduction.....	1
1.2 Authority	1
1.3 Role of the scheme.....	1
1.4 Confidentiality	2
2 The demand management innovation allowance	3
2.1 Operation of this scheme	4
2.2 Relevant determinations.....	5
2.3 Assessment of the scheme	5

Shortened forms

AER	Australian Energy Regulator
DNSP	distribution network service provider
IPART	Independent Pricing and Regulatory Tribunal
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 innovation allowance, a demand management incentive scheme, to apply to distribution network service providers (DNSPs) in the 2009 ACT and NSW electricity distribution determinations. The scheme only applies to ActewAGL, Country Energy, EnergyAustralia and Integral Energy for the regulatory control period, 2009–14.

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

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 any 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 applying a demand management innovation allowance as a demand management incentive scheme is to address the barriers to efficient demand management in the market and regulatory frameworks. It aims to encourage DNSPs to undertake an efficient level of demand management in response to rising demand on their networks. The demand management innovation allowance aims to encourage broad-based and/or innovative demand management programs, which may provide long-term benefits to consumers and DNSPs.

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 National Electricity Rules (NER).

2 The demand management innovation allowance

The AER will apply a demand management innovation allowance to the ACT and NSW 2009 distribution determinations. The aim of the scheme is to encourage DNSPs to undertake efficient broad based demand management which may provide long-term benefits to consumers and DNSPs. The magnitude of the allowance provided has been increased fivefold since the AER's December 2007 preliminary positions paper.

The results of the scheme, in terms of demand management programs undertaken by DNSPs, will be considered by the AER throughout the 2009–14 regulatory control period, and an assessment of the scheme will be made when considering the AER's application of demand management incentive schemes for the 2014–19 regulatory control period.

The AER's demand management innovation allowance will allow a DNSP to recover:

- \$1 million per annum for EnergyAustralia
- \$600 000 per annum for Country Energy
- \$600 000 per annum for Integral Energy
- \$100 000 per annum for ActewAGL

over the regulatory control period 2009–14 in the ACT and NSW.

The dollar amounts that the AER will allow for the ACT and NSW DNSPs to recover under the demand management innovation allowance are broadly proportionate to the relative sizes of the DNSPs' annual revenues. To obtain the amounts under the demand management innovation allowance, DNSPs must undertake efficient demand management programs and make claims for the associated costs, to be approved by the AER. If DNSPs do not carry out any demand management programs that are approved under the scheme, they will not be eligible for the demand management innovation allowance.

The amounts are reflective of the AER's position that it is appropriate to allow a modest demand management innovation allowance due to the existing and potential DNSP demand management obligations within the 2009–14 regulatory control period. The AER considers that the amounts provided under the scheme will allow DNSPs to conduct a number of demand management programs over the regulatory control period.

Assessment of demand management programs will be carried out in two stages; a prior approval stage to establish the aims of the program, followed by final approval at the end of the demand management program. Cost recovery under the demand management innovation allowance will be on an annual, ex post basis for the implementation and foregone revenue costs of approved demand management programs. Demand management undertaken as part of the scheme will not be subject to auditing requirements, to ensure the administrative costs of conducting demand management under the scheme do not unreasonably erode the available cost recovery.

In the case of non-tariff demand management, implementation and foregone revenue costs will be recoverable, however, in the case of tariff demand management programs, only implementation costs will be able to be recovered. This is in line with cost recovery under the current D-factor arrangements in NSW.

In NSW, the existing D-factor arrangements will remain in operation, as indicated in the AER's Demand management incentive scheme for the ACT and NSW 2009 distribution determinations, D-factor scheme. The AER's demand management innovation allowance will be applied supplementary to the D-factor in NSW, and will be accommodated in the average revenue cap in the ACT.

2.1 Operation of this scheme

Assessment of demand management programs carried out under this scheme will be conducted in two stages:

1. A prior approval stage, carried out at the time of DNSPs' annual price reviews, in which DNSPs can apply for the AER's approval of demand management programs before they are carried out.

This stage aims to provide a level of certainty for DNSPs wishing to carry out demand management under the scheme, that the AER will approve their demand management program's cost recovery at the completion of the program. This will involve the AER identifying a series of requirements, which may be unique to each application under the scheme, that it will check at the end of the demand management program to ensure that DNSPs have conducted the demand management programs efficiently. For demand management programs that are to be carried out over several years, the DNSPs may identify annual interval targets for cost recovery carried out each year. If specific annual targets are not known at the time of prior approval, DNSPs may apply to recover the annual allowance at the end of the program, however DNSPs must be able to identify annual spending on the program.

2. An ex post approval process, which will involve the AER checking that the completed demand management program meets the requirements set out by the AER in the prior approval process.

The AER will review the DNSPs' cost recovery application, and the outcomes of the program, to the extent known. The AER will require that this final application for cost recovery is made public as part of a report on the demand management programs carried out by DNSPs.

Applications for the AER's demand management innovation allowance will be assessed annually at the time of the DNSP pricing review, and costs for approved demand management programs will be recovered in the regulatory year following their implementation via an adjustment in the weighted average price cap in NSW, and via a pass through in the ACT's average revenue cap. To be eligible for recovery under this scheme, the AER requires that DNSPs provide a public report at the completion of the program which includes:

- an overview of the demand management program, setting out the features of the program that can be considered innovative and/or broad-based

- aims of the demand management program
- outline of its implementation
- implementation costs
- a statement certifying that the costs of the demand management program have not been recovered under another scheme
- foregone revenue (in the case of non–tariff demand management programs)
- outcomes of the program.

Projects eligible for recovery will fall within the following criteria which the AER will consider when reviewing DNSPs’ applications under the demand management innovation allowance:

- demand management programs claimed under the scheme should not be recoverable under categories of the D-factor
- costs recovered under the scheme must not be recovered under any other state or Australian government schemes
- demand management programs to be recovered under the scheme should be innovative, and/or target broad–based demand reductions across the DNSPs’ networks
- recoverable programs may be tariff or non–tariff based, however the foregone revenue of tariff based demand management will not be recoverable under the scheme.

At the completion of the annual DNSP price reviews, the AER will publish, for each DNSP, the available allowance and amount claimed under the demand management innovation allowance for demand management expenditure in the previous year.

2.2 Relevant determinations

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

2.3 Assessment of the scheme

The operation of this scheme will be considered by the AER throughout the regulatory control period 2009–14, and an assessment of the scheme will be made when considering the AER’s application of demand management incentive schemes for the regulatory control period 2014–19.