INFORMATION

Demand management incentive scheme and innovation allowance for TNSPs

AEMC draft rule to promote demand management innovation for transmission services

The AEMC has published a draft rule that would require the Australian Energy Regulator (AER) to implement a new scheme to promote demand management innovation for transmission services.

The rule change request

Energy Networks Australia (ENA) submitted a rule change request proposing amendments to the National Electricity Rules that would require the AER to develop a demand management incentive scheme (DMIS) and demand management innovation allowance mechanism (DMIA) to apply to transmission network service providers.

The DMIS provides for incentive payments to undertake efficient expenditure on non-network options. The DMIA provides funding for research and development (R&D) on demand management projects that have the potential to reduce long term network costs.

Under the current rules, the DMIS and DMIA are only available for distribution networks. ENA proposes to apply the same approach to transmission, including giving the AER discretion as to whether to apply the schemes and in determining incentive levels.

AEMC draft rule

The Commission's draft rule determination is to make a more preferable draft rule to apply the DMIA, and not the DMIS, to transmission network service providers.

Stakeholder submissions received by the Commission strongly support efficient demand management solutions that reduce the need for investment in transmission and distribution infrastructure. However, most submissions questioned the benefits to consumers of introducing both the DMIS and DMIA, and stakeholders were not convinced that introducing these schemes is the best way to incentivise efficient non-network solutions.

In the Commission's view, introducing a DMIA for transmission is expected to encourage transmission businesses to expand and share their knowledge and understanding of innovative demand management projects that have the potential to reduce long term network costs and, consequently, could lower prices for consumers.

Such innovation may play an important role in the transformation of the energy sector. Further, enabling the AER to apply the DMIA improves the flexibility and responsiveness of the regime to changing technologies and market developments.

R&D can deliver overall benefits to consumers in the long term, but lead to higher costs in the short term. The nature of the regulatory control period imposed on networks, which 'resets' prices every five years or so, impacts the expected payoff of R&D projects. The DMIA addresses this issue under the regulatory framework.

On the other hand, the Commission is not satisfied the DMIS promotes the long term interests of consumers. It is not clear from the evidence presented by ENA that the incremental benefits of introducing a DMIS are likely to outweigh the upfront costs to consumers. For example, if the DMIS is implemented, transmission businesses will receive incentive payments for undertaking non-network options that they already would have been required by the regulatory investment test for transmission (RIT-T) to adopt. This is a significant risk given transmission businesses appear to be increasingly utilising demand management solutions.

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 6, 201 ELIZABETH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

The Commission accepts ENA's view that networks may face upfront, transitional costs to develop their ability to utilise non-network options. But, ongoing incentive payments to transmission businesses are not necessary to overcome implementation barriers. These mostly one-off costs can be funded through AER revenue allowances. Other sources of funding may be available too – such as from the DMIA or the Australian Renewable Energy Agency (ARENA).

Next steps

The Commission invites submissions on the draft rule determination by 24 October 2019. Following consideration of submissions, the Commission intends to publish its final determination by 5 December 2019.

For information contact:

Director, **Ed Chan** 02 8296 7839

Technical Specialist, **Anthony Bell** 02 8296 0642

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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