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Total Environment Centre

Submission to the AEMC

Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses

Draft Rule

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TEC's Support for this Rule Change
This rule change seeks to avoid penalising Transmission Network Service Providers (TNSPs) who opt to invest in demand side participation (DSP) as a means of efficiently deferring capital expenditure (capex) in the previous regulatory period. It requires the Australian Energy Regulator (AER) to, when designing and implementing the Efficiency Benefit Sharing Scheme (EBSS), consider the possible impacts of the EBSS on a TNSP's incentives for implementation of non-network alternatives to capex.

In principle, this additional requirement upon the AER will, to a very small extent, increase the likelihood that TNSPs will undertake economically efficient demand-side projects under opex in principle and removes one of the barriers to DSP in the NEM.

This rule change aims to increase consistency between determinations for different TNSPs, align the determination requirements for TNSPs with those for Distribution Network Service Providers (DNSPs), increasing the likelihood that non-network alternative are separated from operating expenditure (opex) under the EBSS and the potential for economically efficient investment by TNSPs.

As TEC has previously advocated for the separation of non-network alternatives and opex under the EBSS, we are pleased that the Ministerial Council on Energy initiated this rule change and that the AEMC has published the Draft Rule, however, TEC remains of the view that this rule change will not noticeably increase the use of non-network alternatives to capex as it does not address the underlying biases or barriers to such alternatives that are systemic in the NEM framework.

Summary of TEC's Position in Relation to the Rule Change Proposal
TEC noted the inconsistency between the EBSS arrangements for DNSPs and TNSPs in relation to the treatment of non-network alternative expenditure and agreed with other stakeholders that the EBSS, absent the rule change, can create an unintentional disincentive for TNSPs to pursue non-network alternatives, as non-network alternative expenditure could potentially mean overspending their opex targets and attracting financial penalties under the EBSS.

TEC submitted that 'non-network alternatives' is a broad term[1] and enunciated a non-exhaustive list of specific actions that could be considered non-network alternatives. TEC agreed with the AER that developing a comprehensive list of expenditure that can rightly be considered non-network alternative expenditure is a difficult, if not impossible, task.

[1] An action is a non-network alternative if it: lowers demand on a network; is cheaper than, or equal to, the cost of investing in network solutions; and provides satisfactory reliability and security of supply.

TEC's Comments in Relation to the Draft Rule
The Draft Rule aligns with the comments of TEC and other stakeholders. As such, TEC broadly supports the Draft Rule.

The Draft Rule, if made, would correct this small issue with the EBSS to ensure that the AER must consider the incentives for non-network alternative expenditures in relation to TNSPs when applying the EBSS to revenue determinations.

TEC agrees with the AEMC's decision not to explicitly define or list non-network alternative expenditures under the EBSS. However, the AER must take an inclusive approach to the interpretation of the Rule to ensure that all relevant expenditure is considered and that no disincentive remains.[2]

Barriers to DSP and Limitations of the EBSS
TEC's view is that DSP should take precedence over network solutions. Thus TEC supports this rule change, just as it supports any effort to improve equality between network solutions and non-network alternatives. However, TEC continues to doubt that the rule change will result in any noticeable increase in DSP.[3]

The penalisation of TNSPs who implemented demand management in the previous regulatory period is a particular and minor barrier to DSP in the NEM. As such, this rule change should not be regarded as a comprehensive answer to these barriers.[4]

TEC acknowledges that its broader concerns regarding DSP in the NEM are beyond the scope of this modest rule change, and therefore does not propose to reiterate these concerns in detail. TEC continues to hold these concerns, and will fully express them as part of DSP3 and the Economic Regulation rule change proposal.

In brief, TEC remains concerned that any opex-based programs which compete with capex solutions are disadvantaged due to systemic biases in the NEM framework that incentivise supply-side investment over greater utilisation of DSP. TEC shares these concerns with a number of commentators, including, *inter alia*, Professor Ross Garnaut and the Chairman of the AER, Andrew Reeves.

TEC looks forward to further expounding these concerns in future AEMC processes.

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[2] To date there is no indication that this is likely to be an issue: the AER already accounts for non-network alternative expenditure under the terms proposed by the Draft Rule.

[3] The error that this rule change seeks to correct in relation to TNSPs not present in relation to DNSPs. Nonetheless, DSP amongst DNSPs remains low.

[4] Either by itself or in conjunction with the other rule change requests initiated by the MCE as a result of the AEMC's Final Report on the Stage 2 Review of DSP.