energy networks association

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NETWORK INCENTIVES FOR DSP

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Overview

>Networks can alleviate some longer-term price pressure through using DSP as an alternative to network investment

>However, opportunities are constrained by a lack of commercial incentives

>Incentives are more effective than regulation/ obligations

>ENA recommends some regulatory changes to remove perverse incentives and provide a positive incentive

Why is DSP important to networks?

- DSP is an important network management tool
- DSP may be a more cost-effective option for delivering network services than augmentation
- Networks are built to meet peak demand
- One reason prices are rising is that peak demand is growing, so network build is growing, while average demand is falling
- If the growth in peak demand can be curbed through DSP, networks can use existing infrastructure more efficiently and defer or avoid new network investment
  - these benefits flow through to consumers

What DSP do networks need?

- Firm - predictable and reliable DSP
  - network planners need to know how much, where and when
- Innovative tariffs important, but not only solution
  - to be effective, need a mix of measures including DLC
- Over time, expect the market will deliver a range of DSP options from a range of providers
  - Working cooperatively with retailers and others
- But networks need the ability to directly undertake DSP, where it improves the efficiency of networks operations and investments

Current arrangements

> Network-initiated DSP currently limited to trials and small scale, local activities

> Regulatory framework generally supports localised DSP where there is a current period benefit (eg maintain reliability, deferral of network capex or opex)

- recommend minor enhancements (discussed later)
- removes perverse incentives; but doesn’t create a positive incentive

> No commercial incentive to do DSP that delivers benefits over the longer term or beyond the network boundary

- result is less than socially optimal level of DSP

ENA's recommends

- Working with AER to develop a revised DMIS
- DMIS should include the following elements:
  - positive incentive payment, reflecting share of benefits
  - method or deemed value for benefits
  - revenue adjustment for price capped businesses (like d-factor)
  - innovation allowance
- AER has the power for distribution
- Minor rule change needed for transmission

Principles for a revised DMIS

1. Support NEO
2. Recognise supply chain and consumer benefits
3. Recognise longer-term benefits
4. Economically efficient
5. Recognise need to build DSP capability
6. Recognise interaction with other incentive schemes and reg obligations
7. Offset negative revenue impact under price cap
8. Simple and transparent
9. Cost-effective
10. Potential for variation – between/ within DNSPs and

Other minor changes

>Balance incentives between capital and operating expenditure

>Balance incentives to undertake DSP within rather than the beginning of a regulatory period

>Ensure consistency in arrangements for TNSPs and DNSPs