



Draft National Electricity Amendment (Demand management incentive scheme) Rule 2015

under the National Electricity Law to the extent applied by:

- (a) the National Electricity (South Australia) Act 1996 of South Australia;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (d) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (e) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (f) the National Electricity (Victoria) Act 2005 of Victoria; and
- (g) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

John Pierce
Chairman
Australian Energy Market Commission

Draft National Electricity Amendment (Demand management incentive scheme) Rule 2015

1 Title of Rule

This Rule is the *Draft National Electricity Amendment (Demand management incentive scheme) Rule 2015*.

2 Commencement

This Rule commences operation on [COMMENCEMENT_DATE].

3 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

4 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 2.

5 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 3.

6 Savings and Transitional Amendments to the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 4.

Schedule 1 Amendment to the National Electricity Rules

(Clause 3)

[1] Clause 6.6.3 Demand management and embedded generation connection incentive scheme

Omit clause 6.6.3, and its heading and substitute:

6.6.3 Demand management incentive scheme

- (a) The *AER* must develop a *demand management incentive scheme* consistent with the *demand management incentive scheme objective*.
- (b) The objective of the *demand management incentive scheme* is to provide *Distribution Network Service Providers* with an incentive to undertake efficient expenditure on relevant *non-network options* relating to demand management (the *demand management incentive scheme objective*).
- (c) In developing, and applying, any *demand management incentive scheme*, the *AER* must take into account the following:
 - (1) the scheme should be applied in a manner that contributes to the achievement of the *demand management incentive scheme objective*;
 - (2) the scheme should reward *Distribution Network Service Providers* for implementing relevant *non-network options* that deliver net cost savings to *retail customers*;
 - (3) the scheme:
 - (i) should balance the incentives between expenditure on *network* and *non-network options* relating to demand management; and
 - (ii) may, in doing so, take into account the net economic benefits delivered to all those who produce, consume and transport electricity in the *market* associated with implementing relevant *non-network options*;
 - (4) the level of the incentive:
 - (i) should be reasonable, considering the long term benefit to *retail customers*;
 - (ii) should not include costs that are otherwise recoverable from any another source, including under a relevant distribution determination; and

- (iii) may vary by *Distribution Network Service Provider* and over time;
- (5) penalties should not be imposed on *Distribution Network Service Providers* under any scheme;
- (6) the incentives should not be limited by the length of a *regulatory control period*, if such limitations would not contribute to the achievement of the *demand management incentive scheme objective*; and
- (7) the possible interaction between the scheme and:
 - (i) any other incentives available to the *Distribution Network Service Provider* in relation to undertaking efficient expenditure on, or implementation of, relevant *non-network options*;
 - (ii) particular control mechanisms and their effect on a *Distribution Network Service Provider's* available incentives referred to in paragraph (a); and
 - (iii) meeting any *regulatory obligation or requirement*.
- (d) The *AER*:
 - (1) must develop and *publish* the scheme; and
 - (2) may, from time to time, amend or replace the scheme developed and *published* under this clause,in accordance with the *distribution consultation procedures*.

6.6.3A Demand management innovation allowance mechanism

- (a) The *AER* must develop a *demand management innovation allowance mechanism* consistent with the *demand management innovation allowance objective*.
- (b) The objective of the *demand management innovation allowance mechanism* is to provide *Distribution Network Service Providers* with funding for research and development in demand management projects that have the potential to reduce long term *network costs* (the *demand management innovation allowance objective*).
- (c) In developing and applying any *demand management innovation allowance mechanism*, the *AER* must take into account the following:
 - (1) the mechanism should be applied in a manner that contributes to the achievement of the *demand management innovation allowance objective*;

- (2) demand management projects, the subject of the allowance, should:
 - (i) have the potential to deliver ongoing reductions in demand or peak demand; and
 - (ii) be innovative and are not otherwise efficient and prudent *non-network options* that a *Distribution Network Service Providers* should have provided for in its *regulatory proposal*;
- (3) the level of the allowance:
 - (i) should be reasonable, considering the long term benefit to *retail customers*;
 - (ii) should only provide funding that is not available from any another source, including under a relevant distribution determination; and
 - (iii) may vary by *Distribution Network Service Provider* and over time;
- (4) the allowance may fund demand management projects which occur over a period longer than a *regulatory control period*.
- (d) Any mechanism developed and applied by the *AER* must require *Distribution Network Service Providers* to *publish* reports on the nature and results of demand management projects the subject of the allowance.
- (e) The *AER*:
 - (1) must develop and *publish* the mechanism; and
 - (2) may, from time to time, amend or replace any mechanism developed and *published* under this clause,in accordance with the *distribution consultation procedures*.

Schedule 2 Amendment to the National Electricity Rules

(Clause 4)

[1] Clause 5.10.2 Definitions

In clause 5.10.2, omit the definitions of “identified need”, “network option” and “non-network option”.

[2] References to 'identified need' in various clauses in Chapter 5

In Chapter 5, Part B, and Schedule 5.8, omit “identified need” wherever appearing and substitute "*identified need*".

[3] References to 'network option' in various clauses in Chapter 5

In Chapter 5, Part B, omit “network option” wherever appearing and substitute "*network option*".

[4] References to 'non-network option' in various clauses in Chapter 5

In Chapter 5, Part B, and Schedules 5.8 and 5.9, omit “non-network option” wherever appearing and substitute "*non-network option*".

[5] References to "demand management and embedded generation connection incentive scheme" in various clauses in Chapter 6

In clauses 6.3.2(a)(3), 6.4.3(a)(5), 6.4.3(b)(5) and 6.12.1(9), omit “*demand management and embedded generation connection incentive scheme*” and substitute “*demand management incentive scheme, demand management innovation allowance mechanism*”.

[6] Clause 6.4.3(b) Details of the building blocks

In clause 6.4.3(b) insert “, 6.6.3A” after “6.6.3”.

[7] Clause 6.8.1 AER's framework and approach paper

In paragraph 6.8.1(b)(2)(vi), omit “*demand management and embedded generation connection incentive scheme*” and substitute “*demand management incentive scheme or demand management innovation allowance mechanism*”.

[8] Schedule 6.1.3 Additional information and matters

In clause S6.1.3(5), omit “*demand management and embedded generation connection incentive scheme*” and substitute “*demand management incentive scheme or demand management innovation allowance mechanism*”.

[9] References to 'non-network alternatives' in various clauses of Chapter 6

In clauses 6.5.6(e)(10) and 6.5.7(e)(10), omit “non-*network* alternatives” and substitute “*non-network options*”.

[10] References to 'non-network alternatives' in various clauses of Chapter 6

In clauses 6.5.8(c)(5) and 6.6.2(b)(3)(vii), omit “non-*network* alternatives” and substitute “*non-network options*”.

[11] References to 'non-network alternatives' in various clauses of Chapter 6A

In clauses 6A.6.5(b)(4), 6A.6.6(e)(12) and 6A.6.7(e)(12), omit “non-*network* alternatives” and substitute “*non-network options*”.

[12] References to 'non-network alternatives' in various clauses in schedules to Chapter 6A

In clauses S6A.1.1(8) and S6A.1.2(a), omit “non-*network* alternatives” and substitute “*non-network options*”.

Schedule 3 Amendment to the National Electricity Rules

[1] Chapter 10 Omitted Definitions

Omit the definition of “*demand management incentive and embedded generation connection scheme*”.

[2] Chapter 10 New Definitions

In Chapter 10, insert the following new definitions in alphabetical order:

demand management incentive scheme

A scheme developed and *published* by the AER under clause 6.6.3.

demand management incentive scheme objective

Has the meaning given to it by clause 6.6.3(b).

demand management innovation allowance mechanism

A mechanism developed and *published* by the AER under clause 6.6.3A.

demand management innovation allowance objective

Has the meaning given to it by clause 6.6.3A(b).

identified need

The objective a *Network Service Provider* (or in the case of a need identified through joint planning under clause 5.14.1(d)(3) or clause 5.14.2(a), a group of *Network Service Providers*) seeks to achieve by investing in the *network*.

network option

A means by which an *identified need* can be fully or partly addressed by expenditure on a transmission asset or a distribution asset which is undertaken by a *Network Service Provider*.

non-network option

A means by which an *identified need* can be fully or partly addressed other than by a *network option*.

Schedule 4 Savings and Transitional Amendments to the National Electricity Rules

(Clause 6)

[1] Chapter 11 Savings and Transitional Rules

After rule 11.79, insert:

Part ZZH Demand management incentive scheme

11.80 Rules consequential on making of the National Electricity Amendment (Demand management incentive scheme) Rule 2015

11.80.1 AER to develop and publish the demand management incentive scheme and demand management innovation allowance mechanism

- (a) By 1 December 2016, the *AER* must develop and *publish* the first:
 - (i) *demand management incentive scheme* under clause 6.6.3; and
 - (ii) *demand management innovation allowance mechanism* under clause 6.6.3A.