



## Demand management incentive scheme

### Consolidated request to reform demand management incentives

**The Australian Energy Market Commission (AEMC) has started consultation on a consolidated rule change request which relates to incentives for distribution businesses to pursue efficient demand management and embedded generation connections.**

#### Overview

The Total Environment Centre (TEC) and COAG Energy Council submitted two separate rule change requests proposing amendments to the National Electricity Rules in relation to the demand management and embedded generation connection incentive scheme.

The rule change requests are based on recommendations made by the AEMC in the Power of Choice review and aim to strengthen the incentives for distribution businesses to pursue demand management projects as an efficient alternative to network capital investment.

On 19 February 2015, the AEMC consolidated the two rule change requests as they relate to the same matter.

#### Power of Choice review recommendations

The AEMC's Power of Choice review recommended to the COAG Energy Council<sup>1</sup> a market wide reform plan designed to improve consumer participation in energy markets and support consumers to make clear choices about their energy use.

In relation to distribution networks and demand management, the AEMC recommended two rule changes designed to address issues within the existing regulatory framework and provide the distribution businesses with better incentives to use demand management to reduce overall capital and operating costs.

The first rule change request was completed by the AEMC on 27 November 2014. It introduced new distribution network pricing arrangements requiring distribution businesses to set prices that reflect the efficient cost of providing network services to individual consumers. This will allow consumers to make more informed decisions about their use of electricity.

This consolidated rule change request relates to the second set of recommendations. It aims to reform the framework which guides the AER in its development and application of the demand management incentive scheme.

#### Details of the consolidated rule change request

The TEC's rule change request seeks to make it easier for the Australian Energy Regulator (AER) to design and implement a 'reformed demand management incentive scheme' that incentivises distribution businesses to undertake demand management projects as an alternative to building new network infrastructure.

Similarly, the COAG Energy Council's rule change request seeks to achieve an appropriate return to distribution businesses to incentivise efficient demand management projects, as well as to improve clarity and certainty around how such schemes would be developed and implemented. This is intended to strengthen the incentives for distribution businesses to undertake demand management projects that deliver a net benefit to consumers.

<sup>1</sup> COAG Energy Council was known at the time as the Standing Council of Energy and Resources (SCER).

## Issues for consultation

A consultation paper was released today to facilitate stakeholder comment on the issues raised by the consolidated rule change requests.

In assessing the consolidated rule change request, the AEMC will consider questions including:

- Is there a need to strengthening the incentives for distribution businesses to pursue demand management projects as an efficient alternative to network capital investment? If so, what is the most appropriate means to incentivise efficient demand management investment and innovation?
- Is the level of flexibility and discretion currently afforded to the AER in developing and applying this incentive scheme appropriate?
- Given the proposed amendments in relation to the innovation allowance are largely reflective of existing AER practice, what additional benefits are likely to be gained by codifying these in the National Electricity Rules?

The consultation paper should be read in conjunction with the rule change requests from the TEC and COAG Energy Council, which are available on the AEMC website.

Submissions are due by 19 March 2015.

## Current demand management incentive scheme

The AER has developed a demand management incentive scheme and has applied it as part of the distribution determinations of all distribution businesses in the national electricity market. Generally, the scheme is divided into two parts:

- **Part A** is a demand management innovation allowance that provides funding to the distribution businesses to trial innovative demand management and embedded generation connections schemes.
- **Part B** is a payment to distribution businesses designed to address the impacts that certain forms of control (such as the price cap) may have on a distribution businesses incentives to undertake efficient demand management.

The scheme is intended to complement the incentive regulation structure by supplementing a distribution business's approved capital and operating expenditure to facilitate the investigation and implementation of demand management projects. It also aims to correct any disincentives that might discourage distribution businesses from undertaking demand management.

For information contact:

AEMC Senior Director, **Richard Owens** (02) 8296 7800

AEMC Director, **Elisabeth Ross** (02) 8296 7800

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

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