Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2014 - 2015

Department/Agency: Treasury
Question: BET 352 - 356
Topic: - Demand Management
Reference: written - 17 June 2015
Senator: Waters, Larissa

Question:

352. Why doesn't the AER require networks put forward demand management proposals?
353. Why has the AER set a $1 million per year cap on demand management infrastructure allowance, when there is no legal requirement for this? What is the intention of such a policy?
354. Demand management is only 1% of network expenditure in Australia, when it is up to 10% in other jurisdictions such as California, if there are no significant proposals included in this round of determinations, it will drop below that. What are you doing to ensure we get some proposals up in this determination period?
355. Can the AER explain why in the NSW determination they are not utilising demand management frameworks that are being put before them by network companies such as AusGrid?
356. How can barriers be removed to better encourage demand management as opposed to build more and more infrastructure (such as setting guidelines, requiring open reporting on it so that networks can learn from each other).

Answer:

352. The regulatory framework has a number of incentives to encourage network businesses to pursue demand side options, where these are efficient.

The incentive regulation framework (chapter 6 of the National Electricity Rules (rules)) encourages distribution businesses to efficiently meet their reliability and service standard requirements. This includes managing the expected demand for services; complying with all regulatory obligations and requirements for the quality, reliability and security of supply and maintaining the safety of supply. It rewards businesses who implement demand side measures where these are most efficient.

Distribution businesses are obliged to evaluate effective demand management and subject these to public scrutiny through rules governing the regulatory investment test for distribution (RIT-D) and annual planning reporting.

The RIT-D requires the distribution businesses to:

- Evaluate the costs and benefits of different investment options (including non-network) to address an identified need, and only choose the option that maximises benefits
- Allow other parties to become involved in the process of managing demand on the network by allowing these parties to present efficient alternatives to the distribution businesses proposals.

There are detailed requirements on what distribution businesses are to include in their distribution annual planning reports and requirements to have a demand-side strategy.

The AER is required to have regard to the extent the distribution business has considered, and made provision for, efficient and prudent non-network alternatives. Where the distribution business does propose a demand management response, the AER must be satisfied that this is prudent and efficient.

353. The capped demand management innovation allowance is designed to provide incentives for distribution businesses to investigate trial and/or undertake efficient broad based and peak demand management projects and programs involving capital and operating expenditure.

The amount of the allowance for each distribution business is scaled to the relative size of each business's annual revenue. The AER has applied this approach consistently across all jurisdictions.

Under the most recent data available (June 2013), no distribution business has spent their total allowance.

354. See response to 352 above.

355. Ausgrid proposed around $22M in broad based demand management projects.

The regulatory framework allows operating expenditure, such as demand management, where an increase in this expenditure is outweighed by benefits of reduced capital expenditure (i.e. there is an efficient trade-off). Demand management can provide cost effective alternatives to network investments, by deferring or avoiding the need for augmentations to relieve network constraints. For example, a fall in demand as a result of a demand management project may result in the deferral of construction of a new line. Depending on the circumstances, additional demand management may be an efficient trade-off.

The AER was not satisfied that Ausgrid's benefit-cost analysis demonstrated that the benefits of their proposals outweighed the costs. Expenditure on demand management, like all expenditure proposed by the distribution businesses, needs to be prudent and efficient.

356. The AEMC is currently considering rule changes proposed by CoAG Energy Council and the Total Environment Centre in respect of demand management.

The AEMC's draft determination on the demand management incentive scheme was released on 28 May 2015. The purpose of the new incentive scheme is to encourage least cost network investment and operation by allowing distribution businesses to access a proportion of the full benefits delivered by demand management options.

Currently, under the AEMC's draft determination, the AER is to develop a new scheme and innovation allowance by the end of 2016. This will be dependent on the AEMC's final determination.