Total Environment Centre
for the future

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(by email)

12 April 2017

Dear Ms Conboy and Ms Groves,

Re: Demand Management Incentive Scheme and Allowance

On 7 April the AER called for a further round of ad hoc submissions on the design of these two incentive mechanisms. However, TEC would be writing to you in any case to express our serious concerns about this long overdue reform process.

TEC was one of the two proponents of rule change requests that led to the AEMC's determination on the DMIS and DMIA. One of the catalysts for the rule change was the AER's failure to design and implement a DMIS even though it had the power to do so.

The final determination was published on 20 August 2015. According to C.11.82.82 of the NER, the AER "must develop and publish" the first DMIS and DMIA by 1 December 2016. It is now April 2017 and not only has the AER still not developed and published the DMIS and DMIA; in the agenda for the DM Options Day on 6 April, it even asked the questions, "Should we introduce a Scheme?" and "Should we apply an Allowance Mechanism?"

There are two issues here. One is that the AER appears to be expressing a cavalier attitude to its legal obligations to implement a scheme and allowance under the NER. The other is that by asking these questions it is effectively reopening a debate that was thoroughly prosecuted through the Power of Choice and DMIS rule change processes: giving succour to opponents of network DM that the reform may still be derailed; and forcing supporters to devote time and energy to yet again arguing the case for more DM in the NEM.

We are aware that the new DMIS and DMIA are not due to be implemented by networks until the next round of revenue determinations. This is in itself regrettable, given that the rule changes were lodged in 2013, giving sufficient time for the rule change process and scheme design to occur before the current round of revenue determinations. We are also aware that the AER resisted the proposal for it to be required to implement these incentives, and then asked the AEMC to allow it to delay designing the scheme.

Throughout this process, the AER has appeared a reluctant party, even though it acknowledged in its consultation paper that networks were under-delivering in their DM programs and that the current allowance mechanism was not working well. It appears as though the bias against DM as a capex alternative may extend beyond the current rules and some market participants to the regulator as well.

The benefits of network DM in enhancing power system security as well as moderating peak demand are well documented. In view of the fact that the new scheme will be in place over a period (2019-26) of more intermittent output and flexible demand, making the need for lower cost capex alternatives increasingly critical to protect consumers, we are calling on you to support this process by

1. Giving an unequivocal assurance that the DMIS and DMIA will be implemented in compliance with the NER; and
2. Publishing a firm timetable for the early completion of the design processes.

Finally, we would caution the AER against appearing to comply with the NER by introducing a DMIS and DMIA while their design renders them ineffective. The new DMIS must be consistent with the DMIS objective, which is “to provide DNSPs with an incentive to undertake efficient expenditure on relevant non-network options relating to demand management.” Failure to comply with this overarching objective in the scheme design opens the AER to the risk of legal challenge.

We look forward to your early reply in order to resolve this issue.

Yours sincerely,

Jeff Angel

Executive Director