



## Draft new rules for a demand management incentive scheme

The AEMC has called for submissions on draft rules made in relation to requests from the COAG Energy Council and Total Environment Centre. The rules would help to balance the incentives on distribution businesses to make efficient decisions in relation to expenditure, including demand management on their networks. Submissions are due by 9 July 2015.

### What did we decide in the draft determination?

The Commission has proposed to establish a new framework requiring the Australian Energy Regulator (AER) to develop a demand management incentive scheme and a demand management innovation allowance. If applied by the AER, these measures have the potential to encourage more efficient expenditure decisions by distribution businesses, which may reduce costs to consumers over time.

There are two parts to the new framework:

- **Demand management incentive scheme** - the objective of the incentive scheme is to provide distribution businesses with an incentive to undertake efficient expenditure on relevant non-network options relating to demand management. The scheme would reward distribution businesses for implementing relevant non-network options that deliver net cost savings to retail customers.
- **Demand management innovation allowance** – the objective of the innovation allowance is to provide distribution businesses with funding for research and development in demand management projects that have the potential to reduce long term network costs. The allowance would be used to fund innovative projects that have the potential to deliver ongoing reductions in demand or peak demand.

The key features of the draft rule are as follows:

- Creation of separate provisions in the National Electricity Rules for a demand management incentive scheme and a demand management innovation allowance mechanism.
- Introduction of an objective for the incentive scheme, and a separate objective for the innovation allowance, specifying what these must aim to achieve.
- Introduction of a set of principles for the incentive scheme, and a separate set of principles for the innovation allowance, intended to guide the AER in developing and applying these to help achieve their respective objectives.
- Requirement for the AER to develop and publish the incentive scheme and innovation allowance in accordance with the distribution consultation procedures, by 1 December 2016.

### Why has the Commission made the draft rule?

The draft rule (a more preferable rule) is broadly in line with the intent of the changes proposed by the COAG Energy Council and the Total Environment Centre, but is less prescriptive in the approach it takes to address the issues identified by the proponents in their rule change requests.

The Commission is satisfied that the draft rule will, or is likely to, better contribute to the achievement of the national electricity objective than the proposed changes.

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**Submissions on  
the draft rule  
determination and  
draft rule close on  
9 July 2015**

The national electricity objective is met by providing a framework that improves the clarity for stakeholders regarding the way in which the incentive scheme and innovation allowance are developed and applied. This is balanced with flexibility for the AER to consider the role of incentives to undertake demand management in the context of other components of the regulatory framework and as circumstances change.

The draft rule provides a framework that, if applied, will encourage more efficient decisions by distribution businesses that may reduce costs to consumers over time.

### **What does the rule change address?**

This draft determination addresses issues raised by the COAG Energy Council and the Total Environment Centre in relation to the existing demand management incentive scheme (currently called the demand management and embedded generation connection incentive scheme (DEMGICIS)). The rule change proponents raised concerns that the current scheme has not been effective in providing distribution businesses with incentives to undertake efficient demand management projects.

Due to the overlap of issues, the two rule change requests were consolidated into one process.

### **AEMC Power of Choice Reform Package**

This rule change is part of a reform program identified by the 2012 AEMC Power of Choice Review. This review set out a market-wide reform program to give electricity consumers more opportunities to understand and take control their electricity use and costs.

This consolidated rule change request is one of two reforms aimed at improving incentives on distribution businesses to use demand management to reduce overall capital and operating costs. The first reform, completed in November 2014, requires distribution businesses to set prices that reflect the efficient cost of providing network services to individual consumers.

### **Submissions**

The AEMC invites submissions on the draft rule determination and draft rule by 9 July 2015.

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