

AEMC Review: Differences between actual and forecast demand in network regulation

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What are the key drivers of investment decisions by NSPs?

- How important are region wide forecasts of peak and energy demand for investment decisions?
- Are forecasts of peak and energy demand in local areas more important for investment decisions?
- What do NSPs do in practice to manage uncertainties associated with demand forecasts when making investment decisions?
- How do NSPs manage changes in demand forecasts over the period of planning for a project? What are the key decision points when making investment decisions?

Network regulation rule changes

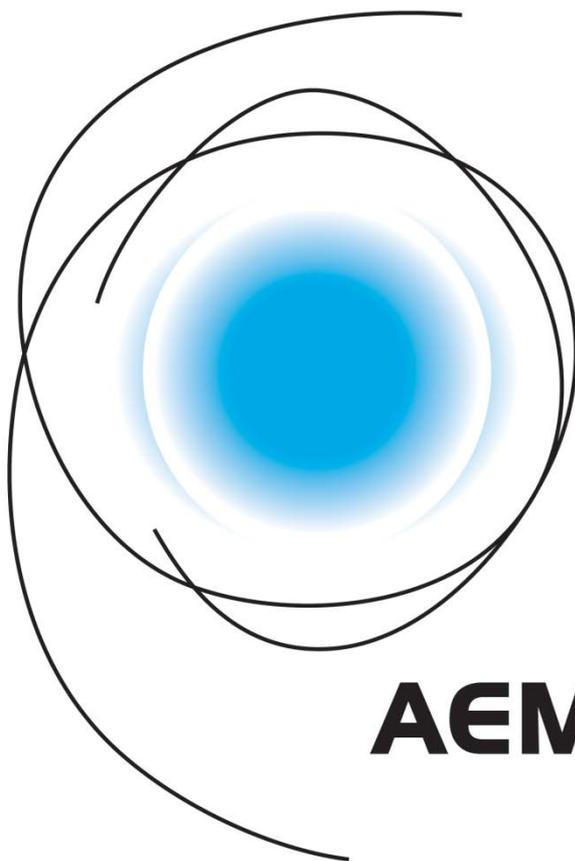
- Improved clarity and removal of ambiguities regarding the powers of the AER to review NSP's expenditure proposals
- AER can develop an *ex ante* capex incentive regime
- AER will review *ex post* the efficiency of capex of all NSPs
- AER has the power to disallow inefficiently incurred capex above the *ex ante* allowance from entering the RAB
- AER will set out how it intends to use these provisions in a guideline
- Intended to strengthen the incentives for NSPs to make efficient investment decisions

Complement existing provisions

- AEMO produces an annual NTNDP that sets out a strategic national view on investment requirements
- NSPs produce Annual Planning Reports providing more detailed information about local investment plans
- The RIT-T and RIT-D are used to consult on and decide the best options to provide for increases in demand
- Non-network options are considered as part of these assessments
- Capex re-openers, pass-throughs and contingent projects provide other mechanisms in the rules to manage risk

Discussion questions

- How do NSPs respond to changes in demand and factor them into their investment planning processes within the current framework?
 - What options do NSPs have to delay or bring forward capex in response to changes in demand during their regulatory control period?
 - Are there any differences between transmission and distribution NSPs?
- How should the regulatory framework recognise the investment risks from changing demand?
 - What are the costs of these risks?
 - Does the current regulatory framework provide appropriate mechanisms to manage the risks and provide the right incentives for efficient investment?



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