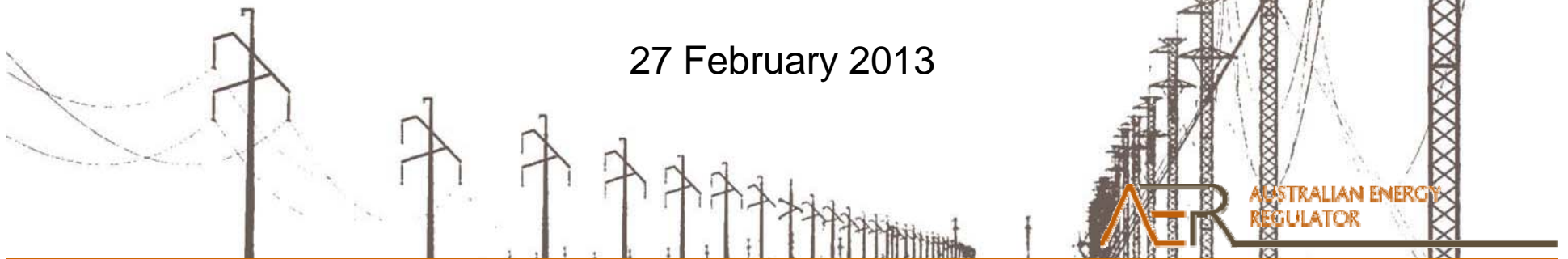


Energy market reform and demand management

Presentation to the Second Australian Summer Study on Energy Efficiency and De-centralised Energy

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Overview

- Introduction
- Some reasons for limited demand side participation (DSP) to date
- Network planning reforms
- Network regulation reforms
- Network pricing and metering reforms

Introduction

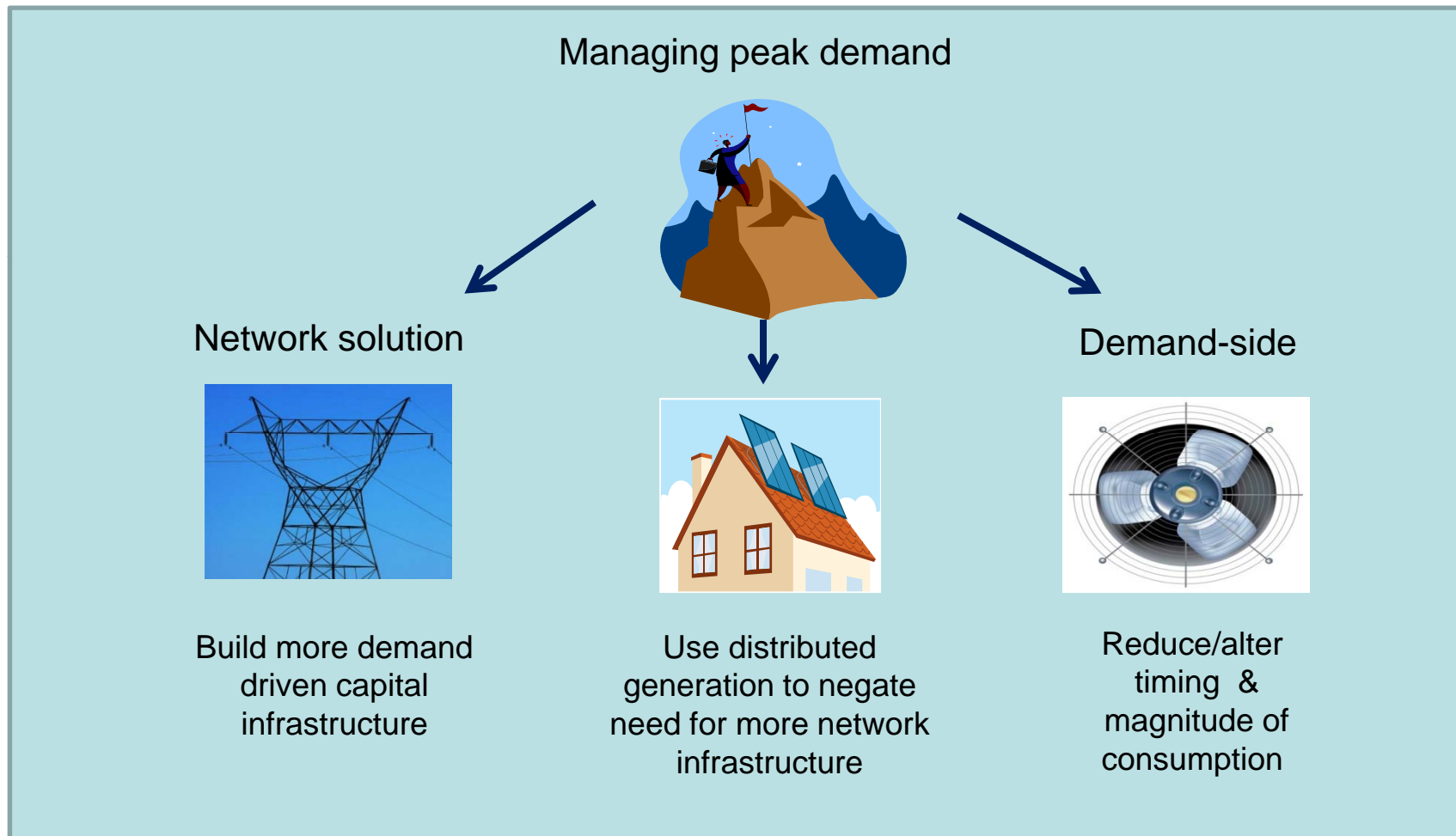
Major policy reviews covering DSP:

- Australian Energy Markets Commission (AEMC)
 - Distribution network planning and expansion framework
 - Power of Choice review of DSP
- Productivity Commission review network regulation frameworks
- The Senate Inquiry into electricity prices
- Commonwealth Government Energy White Paper

Some reasons for limited DSP to date

- Business planning processes and the availability of information for DSP suppliers
- Network companies prefer capital investment
- The regulatory framework for approving capex and opex
- Misalignment between driver of network costs and tariff structures
- Technical barriers (few smart meters, Victoria being the exception)

The peak demand context



Network planning reforms

Nationally consistent regulatory planning requirements (AEMC Distribution network planning and expansion framework):

- **Regulatory investment test for distribution (RIT-D)**
- **Annual planning review and reports (DAPR)**
- **Demand-side engagement strategy** (for considering non-network options and engaging with non-network providers)

Network regulation

Funding demand-side investments by distributors:

1. Regulatory allowances for operating (opex) and capital expenditure (capex)
2. Retainment of capex savings from successful demand-side projects:
 - Possible reforms to savings retainment period
3. Demand management incentive scheme:
 - Possible reforms to design and power of scheme, allowing capture of broader market benefits

Network pricing reforms

Gradual introduction of cost-reflective, time varying network tariffs (Power of Choice recommendations)

- Mandate such tariffs for **large residential/small business**
- **Medium-large consumers** transitioned to such tariffs but allowed to opt-out
- **Small consumers** maintain flat tariff but allowed to opt-in

Accompanying reforms:

- Reform/tighten pricing principles in NER
- Improved consultation procedures – distributors with retailers and consumers

Technological enablers - Metering

- Power of Choice recommendation
- Interval meters with additional communication / smart features enable energy management possibilities
- Customer usage data to be more readily available to DSP suppliers (with customer permission)
- Contestable roll out of interval meters with defined standard technology specifications
 - Require for all large consumers
 - Require for all new meter connections, refurbishments/replacements

Concluding comments

- Significant phase of regulatory and market evolution for how networks and third parties engage in/with DSP:
 - Network planning
 - Incentives for regulated businesses
 - Cost reflective network tariffs
 - Smart technologies and smart energy services
- Decisions relating to a number of key reforms will be made by state jurisdictions