IPART's Demand Management Consultation Group

Draft Guidelines on the Application of the Tribunal's 2004 Demand Management Determination

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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Request for submissions

Submissions are invited from interested parties on the demand management consultation group's draft guidelines. Unless confidentiality is sought, the submissions are generally available for public inspection at the Tribunal's offices and will be available on-line in PDF format from the time of processing of the submission until 3-4 weeks after the release of the final guidelines. The Tribunal exercises its discretion not to exhibit any submissions based on their length or content (containing material that is defamatory, offensive, or in breach of any law).

Submissions from stakeholders must be received by 4 February 2005.

All submissions should be sent to:

IPART's Demand Management Consultation Group – Draft Guidelines
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Submissions will be treated consistent with the *Privacy and Personal Information Act 1998*.

Confidentiality

Special reference must be made to any issues in submissions for which confidential treatment is sought and all confidential parts of submissions must be clearly marked. *However, it is important to note that confidentiality cannot be guaranteed as the Freedom of Information Act provides measures for possible public access to certain documents.*

Public information about the Tribunal's activities

Information about the role and current activities of the Tribunal, including copies of latest reports and submissions can be found on the Tribunal's web site at www.ipart.nsw.gov.au.

Inquiries regarding these draft guidelines should be directed to:

Emma Kelso ☎ 02 9290 8453

Aaron Murray ☎ 02 9290 8440

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1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal (Tribunal) issued its NSW Electricity Distribution Pricing 2004/05 to 2008/09 Final Determination (determination) and Final Report (report) in June 2004. A key component of the Tribunal's determination was the introduction of a number of incentives to promote network demand management.

As noted in its determination, the Tribunal considers that demand management offers significant advantages; in particular, it has the potential to relieve some network constraints. Demand management measures that reduce the peakiness of the demand for electricity could improve utilisation of distribution network service provider's (DNSPs) assets and lower DNSP's capital expenditure. The Tribunal's demand management incentives are targeted at measures which produce these outcomes.

The Tribunal's determination provides relatively generous incentives to DNSPs to undertake demand management; the Tribunal considers that this level of incentive is required, at least in the short-term, to help overcome the barriers to greater use of demand management and to support the emergent market for these solutions.

As part of its determination, the Tribunal has introduced a D-factor into the weighted average price cap control formula that allows DNSPs to recover:

- approved non-tariff-based demand management implementation costs, up to a maximum value equivalent to the expected avoided distribution costs (as defined in the determination)
- approved tariff-based demand management implementation costs
- approved revenue foregone as a result of non-tariff-based demand management activities.

The Tribunal also decided that it would establish working groups:

- on the calculation of distribution revenue foregone as result of demand management activities
- to examine the treatment of demand management in DNSPs' network planning processes
- to develop an appropriate methodology for valuing loss management investments.

In late October 2004, the Tribunal established the demand management consultation group to develop principles and guidelines on: avoided distribution costs, forgone revenue, loss management investments and network planning. The terms of reference and objectives of the consultation group were limited to developing principles and guidelines to give effect to the demand management incentives outlined in the Tribunal's final determination and report. The consultation group included representatives from: the DNSPs in NSW, industry, Government and user/consumer groups. The attached draft guidelines and note are the output of the consultation group.

The consultation group has produced three draft guidelines which set out principles and methodologies for: calculating avoided distribution costs, estimating foregone revenue, and assessing the economic value of loss management investments in the context of the Tribunal's determination and the D-factor regime. It should be noted that the avoided distribution costs and foregone revenue guidelines are only relevant to non-tariff-based demand management projects.

The network planning note discusses the treatment of non-network projects and demand management within DNSPs' network planning processes.

2 CALCULATION OF AVOIDED DISTRIBUTION COSTS

The avoided distribution costs guideline is intended to provide clarity to DNSPs and demand management service providers on how the Tribunal would evaluate avoided distribution costs consistent with the determination and the D-factor regime. While the avoided distribution costs parameter is not explicitly included in the D-factor formula, its calculation is important as it sets a cap on the amount of non-tariff-based network demand management implementation costs which can be passed onto consumers through the D-factor regime.

The report notes that non-tariff-based demand management implementation costs are the costs incurred by DNSPs in changing the behaviour of end-users, using measures other than tariffs, to reduce end-use demand for electricity or affect the timing or source of consumption. Such costs include, for example, the administrative cost of running energy efficiency programs, education or information costs, the cost of providing incentives to participants, and the costs of contracting demand management service providers to reduce electricity demand at peak times to defer the need for network augmentation.

3 METHODOLOGY FOR ESTIMATING FORGONE REVENUE

The foregone revenue guideline sets out principles for estimating revenue foregone as a result of implementing a non-tariff-based demand management measure consistent with the determination and D-factor regime. The Final Report notes that the Tribunal considers the direct assessment approach is an appropriate method to calculate foregone revenue.

4 METHODOLOGY FOR ASSESSING ECONOMIC VALUE OF LOSS MANAGEMENT INVESTMENTS

The loss management investment guideline is intended to provide DNSPs and associated service providers with clarity on how the Tribunal would assess the prudence of loss management investments when determining the regulatory asset base. The report re-affirms the Tribunal's position that prudent loss management investments should be rolled into the regulatory asset base and economic loss management investment should not be optimised out of the regulatory asset base.

The attached guideline is limited to providing a methodology to calculate the value of loss management investments consistent with the Tribunal's determination and report. It does not contemplate the costs of such investments. The guideline does not consider wider loss management issues or incentives to undertake investments to reduce network losses, beyond recognising prudent loss management investments in the regulatory asset base.

5 NETWORK PLANNING

The network planning note summarises the consultation group's analysis, findings and recommendations regarding the DNSPs' network planning processes and their treatment of non-network projects and demand management. The consultation group concluded that a guideline on network planning processes was unnecessary at this time given the number of legal and regulatory requirements which impact on the DNSPs' planning processes. However, the consultation group endorsed releasing the attached note which outlines a number of recommendations, including potential actions by the Tribunal and stakeholders in the future.

The Tribunal considers that the attached guidelines provide greater clarity to the DNSPs and service providers as to the regulatory treatment of non-tariff-based demand management projects in the context of the D-factor regime and assist in promoting demand management solutions, particularly those addressing network constraints.

The Tribunal invites interested parties to comment on the draft guidelines and note by 4 February 2005.