

## 17. Demand Management Innovation Allowance Mechanism

### 17.1 Introduction

The objective of the Demand Management Innovation Allowance Mechanism (DMIAM) is to provide Transmission Network Service Providers (TNSPs) with funding for research and development in demand management projects that have the potential to reduce long-term network costs<sup>1</sup>.

This chapter sets out our assessment of the likely application of the DMIAM during the 2023-27 regulatory period. This assessment is based on the reasoning provided by the Australian Energy Market Commission (AEMC) in its Final Rule Determination<sup>2</sup> and the Australian Energy Regulator's (AER's) Draft DMIAM<sup>3</sup>.

The DMIAM is expected to be finalised by the AER in June 2021. We will provide updated information on our approach to the DMIAM in our Revised Revenue Proposal, which will be due around December 2021.

### 17.2 Regulatory requirements

The National Electricity Rules (the Rules)<sup>4</sup> require the AER to develop a DMIAM for TNSPs. In developing the DMIAM, the Rules require the AER to take account of a number of matters<sup>5</sup>, in particular:

- demand management projects should have the potential to manage ongoing changes in demand;
- projects should be innovative and not otherwise be efficient and prudent non-network options; and
- the allowance should only provide funding that is not available from any other source, including under a revenue determination.

The AER released its Draft DMIAM and Explanatory Statement in December 2020, which commenced formal consultation on the proposed DMIAM. Prior to this the AER released an Issues Paper which sought preliminary views from stakeholders. The AER intends to publish its Final DMIAM and Explanatory Statement in June 2021. In developing our Revenue Proposal, we have given consideration to the information in the Draft DMIAM and Explanatory Statement to inform how the DMIAM should apply.

### 17.3 Application of the DMIAM to our 2023-27 regulatory period

In its Final Determination that introduced the DMIAM, the AEMC specifically discussed the question of transitional arrangements for Powerlink, given the likely timing of finalisation of the DMIAM. The AEMC concluded that Powerlink could highlight its intention to propose application of the DMIAM in its Revenue Proposal and then provide the formal requirements under the scheme in its Revised Revenue Proposal. The AEMC sought the AER's feedback on this arrangement. The AER confirmed it will allow Powerlink to follow this approach.

Our request to the AER to amend or replace the Framework and Approach (F&A) paper for our 2023-27 revenue determination process included that the DMIAM should apply to Powerlink. In its Final F&A paper the AER stated its intention to apply the DMIAM to Powerlink for the 2023-27 regulatory period. The AER also noted, given the expected timing for the finalisation of the transmission DMIAM, that we will have an opportunity to fully reflect the finalised DMIAM in our Revised Revenue Proposal, to be submitted in December 2021.

### 17.4 Our approach

While still not finalised, the Draft DMIAM sets out the AER's proposal for the structure and parameters of the DMIAM. Based on these initial views our approach to the DMIAM consists of:

- an ex-ante allowance of \$200,000 (real, 2020/21) + 0.1% of Maximum Allowed Revenue (MAR), or \$3.5m for the 2023-27 regulatory period;
- the allowance is for operating expenditure only; and
- we will consider projects that improve wholesale market outcomes as well as those that help meet our mandated reliability of supply standards.

<sup>1</sup> National Electricity Rules, clause 6A.7.6(b).

<sup>2</sup> Demand Management Incentive Scheme and Innovation Allowance for TNSPs, Rule determination, Australian Energy Market Commission, December 2019.

<sup>3</sup> Draft Demand Management Innovation Allowance Mechanism – Electricity transmission network service providers, Australian Energy Regulator, December 2020.

<sup>4</sup> National Electricity Rules, clause 6A.7.6.

<sup>5</sup> National Electricity Rules, clause 6A.7.6(c).

As the DMIAM is not yet finalised we have not included any forecast for it in our Revenue Proposal. After the DMIAM is finalised in June 2021 our Revised Revenue Proposal will include an appropriate provision.

The scale of electricity transmission infrastructure and the large quantities of energy being transported across the transmission network can mean there are fewer opportunities for demand management to provide a suitable alternative to network investment.

Given the likely size of the allowance we intend to focus our efforts on a limited number of potential opportunities where we can envisage end-consumer demand management being directly applicable to transmission level outcomes. We can also see advantages in the DMIAM being structured so that multiple Network Service Providers (NSPs) can collaborate and pool funding to progress projects across network ownership boundaries. Ideally this would include both transmission and distribution businesses. Our initial thinking is to explore how we might be able to harness demand management capability so as to extend existing transmission network limits sometime in the future.

While we recognise the potential for demand management initiatives to reduce long-term network costs by promoting innovative thinking, we want to ensure that such initiatives are not already captured or better catered for under our operating expenditure or other relevant incentive schemes.

#### **17.4.1 Potential demand management projects**

While we have not developed any firm proposals at this time, some conceptual demand management projects that we may explore further include:

- extension of an existing System Integrity Protection Scheme (SIPS) that currently trips generation and/or load to also trigger a response such as a mode change on a Battery Energy Storage System (BESS). As a Research and Development project, the BESS could be relatively small and does not need to be optimally located. The objective is to prove the technical capability to be integrated into a SIPS;
- tests of the ability to provide a co ordinated demand response that includes both fast response, such as a BESS, and slower response, such as embedded generation or load reduction; and
- collaborate with interconnected Transmission Network Service Providers (TNSPs) or Distribution Network Service Providers (DNSPs) to establish protocols for sharing demand management resources and high speed signalling for activation of those resources across network boundaries.

#### **17.5 Summary**

The DMIAM is not expected to be finalised by the AER until June 2021, after which we will consider the detailed operation of the mechanism. We seek to have the DMIAM apply to us during the 2023-27 regulatory period and we will provide additional information to the AER as part of our Revised Revenue Proposal.