2023-27 Revenue Proposal

Revenue Proposal Reference Group

17 September 2021

Session topics

- Demand Management Innovation Allowance Mechanism (DMIAM).
- Brief Business Narrative update.

Demand Management Innovation Allowance Mechanism (DMIAM)

Purpose and engagement scope

- On 9 July 2021, we requested the Australian Energy Regulator (AER) not to apply the DMIAM to us in the 2023-27 regulatory period.
- We briefly engaged on this request with our Revenue Proposal Reference Group (RPRG) on 10 August 2021.
- Since then we have received further feedback from several members of our Customer Panel, the AER CCP23 and a submission to the AER from the Queensland Energy Users Network (QEUN).
- We have been asked to provide our customers further information and some customers consider that the DMIAM should be applied.
- After further consideration, we propose to engage at the Empower level of the IAP2 spectrum on whether we should seek to apply the DMIAM in our 2023-27 regulatory period or not.
- This means we propose to empower our Customer Panel to make a decision on this matter, which we commit to implement in our Revised Revenue Proposal.

Background

- The AER's Final DMIAM Guideline, published on 27 May 2021, provides for funding to undertake R&D demand management projects that are not part of the efficient operating or capital expenditure forecasts in a Revenue Proposal.

- We forecast the DMIAM would provide Powerlink with up to an additional $3.3 million of operating expenditure for these projects in the 2023-27 regulatory period.

- We reviewed the types of candidate projects for the DMIAM. Where we can identify benefits to customers we will assess these opportunities as part of our normal business activities.

- We concluded that we do not wish to be funded for expenditure that will not otherwise be considered efficient. Therefore, we requested the AER not apply the DMIAM to our 2023-27 regulatory period.

Customer feedback

- We have been asked by customers to provide further context around two items:
  - what work we are already doing related to demand management and how we are responding to demand management issues as part of business-as-usual; and
  - what knowledge sharing is occurring between Powerlink and other network businesses, specifically related to demand management innovation.
- The background paper that accompanies these slides provides further details about these points, for further discussion.

Customer Panel decision

- We propose that our Customer Panel decide whether, in its view, Powerlink should seek to apply or not apply the DMIAM in our 2023-27 regulatory period.

- We are genuinely open to implementing either option and commit to doing so as part of our Revised Revenue Proposal, due for submission to the AER in early December 2021.

- If the Customer Panel decide to apply the DMIAM, we will take relevant steps to identify and pursue appropriate projects in the next regulatory period. We will engage with and update the Customer Panel on this, and any relevant advisory panel formed as part of implementation of the DMIAM, during the next regulatory period.

- We propose that the Customer Panel consider this matter and provide its decision at our next Customer Panel meeting on **22 October 2021**.


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Background – what is the DMIAM?

What is the DMIAM?

- The Demand Management Innovation Allowance Mechanism (DMIAM) will provide funding for R&D on demand management projects with potential to reduce long-term network costs.
- It applies to expenditure that is not otherwise efficient – efficient expenditure is included in the ex-ante capital and operating expenditure allowances.
- DMIAM is a separate ex-ante allowance included in the Revenue Determination, but with ex-post approval of actual expenditure.
- The AER does not review or endorse potential DMIAM projects as part of the Revenue Determination process.

DMIAM elements

- **Allowance:**
  - 0.1% of MAR + up to $200,000 (to fund independent endorsement of projects). For Powerlink 0.1% of MAR is approximately $3.3 million;
  - limited to operating expenditure only; and
  - any underspend is recovered as a negative pass-through in the next regulatory period. Any overspend is borne by the TNSP.

- **Project eligibility requirements:**
  - based on new or original concepts; or
  - involves technology or techniques not previously implemented in the relevant market; or
  - focussed on customers in a market segment that has not been exposed to the technology.