Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 8 – Demand management incentive scheme and demand management innovation allowance mechanism

September 2025

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: 23008246

Amendment record

Version	Date	Pages
Version 1	30 September 2025	9

Contents

8 Demand management incentive scheme and demand management innovation allowance mechanism

Under clauses 6.6.3 and 6.6.3A of the National Electricity Rules (NER), our regulatory determination must specify how any applicable Demand management incentive scheme (DMIS) and Demand management innovation allowance mechanism (DMIAM) are to apply in the next regulatory control period.

This attachment sets out how we will apply the DMIS and DMIAM to AusNet for the 2026–31 regulatory control period (period).

8.1 Draft decision

8.1.1 Demand management incentive scheme

In accordance with our framework and approach paper (F&A),[1] our draft decision is to apply the DMIS to AusNet for the 2026–31 period.

The DMIS provides network businesses with financial incentives for undertaking efficient demand management activities as an alternative to more expensive capital investment in their networks.[2]

The DMIS contains 3 elements:[3]

- an incentive payment in the form of uplift to the actual cost (the cost multiplier) of up to 50% of expected costs of efficient demand management projects
- a net benefit constraint, to ensure the incentive payment for any project cannot be higher than that project's expected net benefit
- an overall incentive constraint, which limits the total incentive in any year to 1% of the distributor's annual revenue requirement for that year.

The DMIS is also subject to an annual review and approval process through our prescribed DMIS compliance reporting requirements. In accordance with the DMIS, the cost multiplier to any eligible project will be that specified in the version of the DMIS that is in effect at the time the eligible project becomes a committed project.[4]

---

1 AER, *Framework and Approach Papers for AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31*, March 2024, p. 12.

2 AER, *Demand Management Incentive Scheme, Electricity distribution network service providers*, December 2017.

3 AER, *Demand Management Incentive Scheme, Electricity distribution network service providers*, December 2017.

4 AER, *Demand Management Incentive Scheme, Electricity distribution network service providers*, December 2017, clause 2.1(2).

8.1.2 Demand management innovation allowance mechanism

In accordance with our F&A,[5] our draft decision is to apply the DMIAM to AusNet for the 2026–31 period.

The DMIAM funds research and development into further innovative demand management projects that have potential to reduce long-term network costs.[6]

The DMIAM comprises:

- a fixed allowance of $0.2 million ($2017), plus 0.075% of the annual revenue requirement for each regulatory year, as set out in our Post-Tax Revenue Model (PTRM) for AusNet
- project eligibility requirements
- compliance reporting requirements.[7]

In our final distribution determination, we will determine the amount of the DMIAM allowance for AusNet for the 2026–31 period, based on the final PTRM.

8.2 Overview of proposal

8.2.1 Demand management incentive scheme

The DMIS currently applies to AusNet. AusNet proposed to continue to apply the DMIS for the 2026–31 period.[8]

8.2.2 Demand management innovation allowance mechanism

The DMIAM currently applies to AusNet. AusNet proposed to continue to apply the DMIAM for the 2026–31 period.[9]

In the current 2021-26 regulatory period, AusNet used the DMIAM to participate residential demand response projects, large scale storage integration trial and electric vehicle charging management.

In its proposal, AusNet expects to use the DMIAM in the 2026-31 period to explore targeted innovation and research projects to further its understanding of how to manage peak demand in winter months as AusNet forecast to become a winter peaking network by 2027. [10]

AusNet has proposed a DMIAM allowance of $4.76 million ($2025–26) for the 2026–31 period.

---

5 AER, *Framework and Approach Papers for AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31*, March 2024, p.12.

6 AER, *Demand management innovation allowance mechanism, Electricity distribution network service providers*, December 2017.

7 AER, *Demand management innovation allowance mechanism, Electricity distribution network service providers,* December 2017.

8 AusNet, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*,* January 2025, p. 321.

9 AusNet, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*,* January 2025, p. 321.

10 AusNet, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*,* January 2025, p. 275.

8.3 Assessment approach

Under the NER we are required to decide how the DMIS and DMIAM will apply to AusNet.[11] Our proposed approach, including our reasoning, is outlined in our F&A. We have considered the materials submitted to us by AusNet, and our draft decision adopts the position expressed in our F&A.[12]

8.3.1 Interrelationships

The DMIS encourages distribution network service providers (DNSPs) to find lower cost solutions to investing in networks. The incentive scheme achieves this by providing DNSPs with financial incentives to undertake efficient expenditure on non-network solutions to manage peak electricity demand.

In applying the DMIS we consider the effect it has on the incentives created by our other incentive schemes – the capital expenditure sharing scheme (CESS), the efficiency benefit sharing scheme (EBSS), and the service target performance incentive scheme (STPIS) – and vice versa.

The CESS and EBSS are incentive schemes designed to encourage efficient decision-making by DNSPs. These schemes operate symmetrically to better balance incentives between capital expenditure (capex) and operating expenditure (opex), by sharing the savings and risks of each kind of expenditure between DNSPs and consumers.

As explained in our final decision for the DMIS,[13] we consider that the symmetrical operation of incentives under the CESS and EBSS should balance out any negative impacts that DNSPs may experience under any of these schemes. For instance, as DNSPs spend more on opex, they may exceed their targets under the EBSS and receive a smaller incentive or higher penalty as a result. However, since the DMIS only incentivises efficient demand management projects, we would expect that reductions in capex gained from project deferral or avoidance would exceed any increase in opex under the demand management project. In this scenario, benefits under the CESS would outweigh any detriment under the EBSS.[14] Hence, we expect the DMIS will encourage DNSPs to undertake more demand management activities where it is efficient to do so.

We will not exempt supply outage due to malfunction of DMIS projects from the STPIS. This is because we consider this would negatively affect consumers in 2 ways. First, exempting demand management solutions from the STPIS would transfer the risk of failure to consumers, who have little opportunity to mitigate that risk. Second, exempting demand management from performance targets may increase the perception that demand management is less reliable than network solutions, furthering any potential cultural bias against demand management. This would not support the DMIS' objective, which is to

---

11 NER, clauses 6.3.2(a)(3) and 6.12.1(19).

12 AER, *Framework and Approach Papers for AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31*, March 2024, p.12.

13 AER, *Explanatory statement, Demand management incentive scheme, Electricity distribution network service providers*, December 2017.

14 AER, *Explanatory statement, demand management incentive scheme, Electricity distribution network service providers*, December 2017, p. 60.

promote efficient investment in relevant non-network options, or standalone power system (SAPS), relating to demand management.[15]

The DMIAM is not an incentive scheme. Its objective is to provide DNSPs with funding for research and development in demand management projects that have the potential to reduce long-term network costs. This allowance will fund innovative projects that have the potential to deliver ongoing reductions in demand or peak demand. The DMIAM will complement the DMIS and increase the capacity of DNSPs to invest in ideas that may eventually become DMIS projects to reduce future capex and opex costs.

8.3.2 Submissions

We received a submission from the AusNet Coordination Group supporting AusNet's approach for the DMIAM and DMIS for the 2026-31 period. It also noted that AusNet's proposal considers customer preferences to build in flexibility to respond to uncertainty.[16]

8.4 Reasons for draft decision

DNSPs can manage demand on their networks to reduce, delay or even avoid the need to install, replace or upgrade expensive network assets. Network assets include equipment like poles, wires, transformers and substations. When used effectively, managing demand to avoid incurring these costs can reduce upward pressure on network charges, which make up about half the cost of electricity bills.

Managing demand on electricity networks can increase the reliability of supply and reduce the cost of supplying electricity. Often, electricity consumers are empowered to manage demand via price signals and enabling technology.

Price signals or financial incentives can reward consumers for using electricity in ways that allow network businesses to keep their costs down. These signals or incentives may come in the form of things like cost-reflective tariffs, congestion pricing, and rebates. Enabling technology often complements price signals by empowering consumers' use of electricity in a way that allows network businesses to keep their costs down. This technology may include things like advanced metering technology, demand response enabling devices, and energy monitoring apps.

8.4.1 Demand management incentive scheme

We propose to apply this scheme because it will deliver long term benefit to consumers. DNSPs can only receive DMIS incentive payments for demand management projects that are efficient and contribute, partially or wholly, to resolving a network constraint. In deciding whether a project is efficient, we require DNSPs to test the demand management services market, which should increase transparency, promote competition, and put greater downward pressure on electricity prices, benefitting the whole community.

Regarding the control of and to ensure the effective implementation of the scheme, we require that AusNet provide compliance reports and supporting documents each year as

---

15 NER, clause 6.6.3(b).

16 AusNet Coordination Group - Submission - Victorian electricity distribution proposals 2026-31, May 2025, p.28

required under the DMIS—to prove that its eligible and committed projects and expenditures meet the requirements of the scheme. We will determine the eligibility and specific incentive payments for each project according to the requirements of the DMIS.

8.4.2 Demand management innovation allowance mechanism

The DMIAM funds DNSPs to:

- undertake research and development on demand management initiatives that have the potential to reduce long-term network costs
- to share these learnings across industry and with consumers through the scheme's public reporting requirement.

Effective use of this allowance can lead to the development of effective programs for reducing network costs. We consider that this allowance should be included in the next regulatory control period.

Any unused funding under the DMIAM will be returned to consumers in the 2031–36 period.

AusNet is required to provide the AER with annual DMIAM compliance reports and supporting documents to prove that its research and development projects and expenditures meet the requirements. We will determine the eligibility and DMIAM payments for each project according to the DMIAM's specified criteria.[17]

[17] AER, *Demand management innovation allowance mechanism, Electricity distribution network service providers*, December 2017, p. 9.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP	distribution network service provider
EBSS	efficiency benefit sharing scheme
CESS	capital expenditure sharing scheme
F&A	framework and approach
NER	National Electricity Rules
capex	capital expenditure
opex	operating expenditure
PTRM	post-tax revenue model
STPIS	service target performance incentive scheme