



DRAFT DECISION
Powerlink Queensland
Transmission Determination

2022 to 2027

Attachment 13
Demand management
innovation allowance
mechanism

September 2021

© Commonwealth of Australia 2021

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 4141, Canberra ACT 2601

or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

AER reference: 65444

Note

This attachment forms part of the AER's draft decision on Powerlink Queensland's transmission network revenue determination for the 2022–27 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Pricing methodology

Attachment 12 – Pass through events

Attachment 13 – Demand management innovation allowance mechanism

Contents

| | | |
|-----------|--|----------|
| 13 | Demand management innovation allowance mechanism..... | 4 |
| 13.1 | Draft decision | 4 |
| 13.2 | Powerlink’s proposal..... | 5 |
| 13.3 | Assessment approach..... | 5 |
| 13.4 | Submissions..... | 5 |
| 13.5 | Reasons for draft decision..... | 6 |
| A. | Shortened forms | 8 |

13 Demand management innovation allowance mechanism

Under clause 6A.4.2 (6A) of the National Electricity Rules, our regulatory determination must specify how any transmission demand management innovation allowance mechanism (DMIAM) is to apply in the next regulatory control period.

In May 2021, we published the DMIAM regulatory instrument after stakeholder consultation.¹ This instrument sets out the design features and the operational arrangements of the DMIAM.

This attachment sets out how we will apply the DMIAM to Powerlink for the 2022–27 regulatory control period.

13.1 Draft decision

In accordance with our Framework and Approach (F&A), our draft decision is to apply the DMIAM to Powerlink for the 2022–27 regulatory control period, without any modification.

The DMIAM comprises of:

- The allowance itself: a fixed allowance of \$200,000 for the costs of independent assessment as at 30 June 2021, adjusted by the AER for inflation using the actual consumer price index (CPI); plus 0.1 per cent of the total unsmoothed annual building block revenue requirement for the regulatory control period as determined in the revenue determination. This amount will be set out in our post-tax revenue model for Powerlink.
- Project eligibility requirements: these are the necessary project criteria to be met in order for a TNSP to use the allowance to fund the project. The requirements aim to ensure that DMIAM funded projects deliver value for money to electricity consumers.
- Compliance reporting requirements: the information provided under these requirements will assist us in assessing compliance with the DMIAM. It will also allow industry and consumers to understand, share and potentially also apply the research outcomes and knowledge gained from DMIAM projects. Furthermore, it will provide transparency regarding the efficiency and effectiveness of the DMIAM allowance as used by the TNSP.

¹ AER, *Demand management innovation allowance mechanism, Electricity transmission network service providers*, May 2021.

13.2 Powerlink’s proposal

Powerlink’s revenue proposal sought to apply the DMIAM during the 2022–27 regulatory control period, and proposed a number of potential demand management projects. The AER’s final DMIAM was published on 27 May 2021, after the lodgement of Powerlink’s revenue proposal. As such, Powerlink indicated in its revenue proposal that it will provide additional information to the AER as part of its revised proposal later this year.²

On 9 July 2021, Powerlink requested that the AER not apply the DMIAM to Powerlink’s 2022–27 period.³ It advised that, after reviewing the published DMIAM, Powerlink considered that:

“The DMIAM is intended to provide a Transmission Network Service Provider (TNSP) with access to funding to research and develop demand management projects that may otherwise be considered inefficient to undertake as part of typical, business as usual operation.

We have reviewed the Final DMIAM Guideline and further considered the types of projects we might undertake as a transmission business under the DMIAM. We concluded that we should either pursue these types of projects in the normal course of business including through use of our innovation framework where they provide benefits to customers or, where these projects are not efficient, they should not proceed. This approach is consistent with our commitment to driving ongoing efficiency in our business and affordability for customers.”⁴

13.3 Assessment approach

We are required to make a decision on how the DMIAM is to apply to Powerlink for the 2022–27 regulatory control period.

We outlined our proposed approach to, and reasons for, the application of the DMIAM in our F&A for Powerlink.⁵

Our draft decision has adopted the position in the F&A. In arriving at our draft decision, we have considered materials submitted to us by Powerlink and by stakeholders.

13.4 Submissions

We only received one submission regarding the application of DMIAM from the Consumer Challenge Panel (CCP23), which supported Powerlink’s proposed approach to provide additional information to the AER as part of its revised revenue proposal.

² Powerlink, *2023–27 Revenue proposal*, January 2021, pp. 166–167.

³ Powerlink, *Letter to the AER – Application of the Demand Management Innovation Allowance Mechanism to Powerlink’s 2023–27 regulatory period*, 9 July 2021.

⁴ Ibid.

⁵ AER, *Final framework and approach for Powerlink – Regulatory control period commencing 1 July 2022*, July 2020, p. 17.

CCP23 submitted that this approach will provide Powerlink with the time to firm up its proposals, informed by further targeted stakeholder engagement.⁶

13.5 Reasons for draft decision

The DMIAM is intended to fund TNSPs for research and development in demand management projects that have the potential to reduce long-term network costs. The demand management projects to be funded under the DMIAM must meet the necessary project approval criteria as set out in the DMIAM instrument.

Powerlink's request to not apply DMIAM was submitted in July 2021, two months after our public consultation process on Powerlink's revenue proposal closed in April 2021. Therefore, we have not been able to effectively consult with stakeholders on Powerlink's new position in time to make this draft decision.

In particular, we note that Powerlink has not provided details of its innovation framework on how demand management innovation initiatives will be integrated into its business as usual plans.

While Powerlink's proposal to undertake research and development works under a business as usual manner may have merit, we consider it important that Powerlink's new proposal is publicly consulted on and discussed before we make a decision. We consider that Powerlink's revised revenue proposal should outline its consultation process with stakeholders on how innovation on demand management initiatives will be assimilated into its business as usual operations.

In particular, we would like to see Powerlink's application address:

- How Powerlink's research and development would accommodate future efficiency gains by implementing the outcomes of previous trials.
- How Powerlink proposes to share its learnings from demand management initiatives with the power industry including to develop improved ways to manage the power system, noting the DMIAM has an information sharing requirement so that the lessons learnt by one TNSP will be shared with other TNSPs and demand management proponents.

Consequently, we do not accept Powerlink's proposal of not applying DMIAM for the 2022–27 period at this stage, because:

- Its new proposal to not apply the DMIAM has not been subject to consultation.
- We also consider that Powerlink's statement that "the DMIAM is intended to provide a TNSP with access to funding to research and develop demand management

⁶ CCP23, *Advice to the AER on the Powerlink transmission regulatory proposal for the regulatory determination 1 July 2022 to 30 July 2027*, May 2021, pp. 73–74.

projects that may otherwise be considered inefficient to undertake as part of typical, business as usual operation” may be understating aspects of the DMIAM.⁷

- Powerlink has not proposed an approach to share the learnings of any research and development on demand management initiatives where it undertakes such initiatives as part of its normal course of business.

For this draft decision, we maintain our position in the F&A to apply the DMIAM to Powerlink for the 2022–27 period.

When making our final decision on the application of DMIAM, we will give consideration to Powerlink’s revised proposal and stakeholder submissions on this matter.

⁷ Powerlink, *Letter to the AER – Application of the Demand Management Innovation Allowance Mechanism to Powerlink’s 2023-27 regulatory period*, 9 July 2021.

A. Shortened forms

| Shortened form | Extended form |
|----------------|--|
| AER | Australian Energy Regulator |
| CCP23 | Consumer Challenge Panel, sub-panel 23 |
| CPI | Consumer price index |
| DMIAM | Demand management innovation allowance mechanism |
| F&A | Framework and Approach |
| TNSP | Transmission network service provider |