

21 April 2017

Mr Warwick Anderson  
Australian Energy Regulator  
23 Marcus Clarke St  
Canberra, ACT 2601

Dear Mr Anderson

**Re: ADDITIONAL NOTE IN RESPONSE TO DMIS AND DMIA WORKSHOP**

On 6 April 2017, CitiPower and Powercor attended the AER's workshop on options for a demand management incentive scheme (**DMIS**) and demand management innovation allowance (**DMIA**). Following this workshop, the information below may assist the AER in forming a view regarding the benefits of a large scale DMIA.

Ofgem's network innovation framework

As part of its RIIO model in 2010, Ofgem introduced an innovation stimulus package that included its Network Innovation Competition (**NIC**). The NIC allows distributors and external parties to jointly access funding to implement large scale innovation projects aimed at transitioning the UK electricity system to a low carbon economy.

Importantly, the NIC complements (i.e. it is additional to) Ofgem's smaller-scale network innovation allowance (**NIA**). The NIA is similar to the AER's existing DMIA, and provides funding for the following:

- smaller technical, commercial, or operational projects directly related to the licensee's network that have the potential to deliver financial benefits to the licensee and its customers; and
- the preparation of submissions to the NIC.

UK Power Networks: Low Carbon London

As part of the NIC, UK Power Networks was able to implement its Low Carbon London (**LCL**) project.<sup>1</sup> A key focus of the LCL project was demand side response and distributed generation.

In total, the LCL project received £28 million in NIC funding. The demand side response component of the LCL alone is expected to deliver savings of £43 million by 2023.

More broadly, the UK experience showed the customer benefits from facilitating greater innovation include the following:

- lower short-term costs—a number of the projects funded through Ofgem's NIC have already been transferred into business-as-usual activities (including the use of flexible connections, the dynamic reconfiguration of the network to meet demand and restore outages, and demand side response techniques);
- lower future costs—learnings from projects regarding new customer technologies, such as electric vehicles, have assisted distributors in the UK in preparing to meet the future challenges these technologies will pose. This has improved their state of readiness to meet longer term needs of customers and the network;
- innovation begets more innovation—the results from Ofgem's NIC have provided a solid foundation upon which to build future innovation projects. This includes the development of partnerships with other non-network parties;

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<sup>1</sup> UK Power Networks shares common ownership with CitiPower and Powercor.

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- value for money—introducing a competitive framework for large-scale innovation has ensured customers receive value for money, as only the 'best' projects will be funded. As learnings are shared, however, all customers will benefit; and
- improved customer satisfaction and reliability—benefits in the UK have been observed in improving network performance and flexibility. Improvements in this area are likely to have direct consequential improvements, such as the satisfaction of customers as a more reliable network, or shorter durations of interruptions.

Full reports on the LCL project are available on UK Power Networks' website.<sup>2</sup>

#### Next steps

Following the success of the LCL project, we are reviewing opportunities for similar projects on our network. In particular, these projects are aimed at ensuring our networks can accommodate the following:

- increased provision of renewable generation as a result of the Victorian Government's renewable energy targets (i.e. 25 per cent renewable energy by 2020, and 40 per cent by 2025); and
- increasing availability of demand management and/or non-network solutions to address network constraints.

Given the breadth of potential customer benefits from network innovation, we support a dedicated electricity network innovation scheme (e.g. consistent with the high-cap allowance model set out as option two in the AER's consultation paper).

Should the AER have any queries regarding this submission, please do not hesitate to contact Jeff Anderson on (03) 9683 4809, or [janderson@powercor.com.au](mailto:janderson@powercor.com.au).

Yours sincerely,



Brent Cleeve  
**Head of Regulation, CitiPower and Powercor**

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<sup>2</sup> [http://innovation.ukpowernetworks.co.uk/innovation/en/Projects/tier-2-projects/Low-Carbon-London-\(LCL\)/](http://innovation.ukpowernetworks.co.uk/innovation/en/Projects/tier-2-projects/Low-Carbon-London-(LCL)/)