SP AusNet

Demand Management Innovation Allowance (DMIA) Annual Report 2011

August 2012

SP AusNet
A member of Singapore Power Group

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1 Introduction

This annual report has been prepared pursuant to the Demand Management Incentive Scheme (DMIS) scheme applied to SP AusNet by the AER in the 2011-15 Victorian Electricity Distribution Price Determination.

The DMIS requires SP AusNet to submit a report on expenditure attributed to the Demand Management Innovation Allowance (DMIA) for each regulatory year. This expenditure must fulfil the DMIA criteria set out in the DMIS.

This report details DMIA projects undertaken by SP AusNet in the 2011 calendar year which satisfy the DMIA criteria.

2 Background to DMIA

In the 2011-15 Price Determination the AER approved a DMIA of $3 million for SP AusNet. The DMIA is provided as an ex-ante allowance in the form of $600,000 (nominal) of expenditure at the commencement of each year of the 2011-15 regulatory period. While it is provided on an annual basis, SP AusNet has the flexibility to select an expenditure profile over the period which suits its needs. The total amount of expenditure recoverable under the DMIA cannot exceed $3 million in total.

The expenditure recoverable under the DMIA must satisfy the following DMIA criteria:

1. Demand management projects or programs are measures undertaken by a DNSP to meet customer demand by shifting or reducing demand for standard control services through non-network alternatives, or the management of demand in some other way, rather than increasing supply through network augmentation.
2. Demand management projects or programs may be:
   (a) broad-based demand management projects or programs—which aim to reduce demand for standard control services across a DNSP's network, rather than at a specific point on the network. These may be projects targeted at particular network users, such as residential or commercial customers, and may include energy efficiency programs and/or
   (b) peak demand management projects or programs—which aim to address specific network constraints by reducing demand on the network at the location and time of the constraint.
3. Demand management projects or programs may be innovative, designed to build demand management capability and capacity and explore potentially efficient demand management mechanisms, including but not limited to new or original concepts.
4. Recoverable projects and programs may be tariff or non-tariff based.
5. Costs recovered under the DMIS:
   (a) must not be recoverable under any other jurisdictional incentive scheme

(b) must not be recoverable under any other Commonwealth or State/Territory Government scheme and

(c) must not be included in forecast capital or operating expenditure approved in the distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.

Expenditure under the DMIA can be in the nature of capital or operating expenditure. Capex made under the DMIA is likely to be treated as capital contributions and therefore not rolled into the regulatory asset base (RAB) at the start of the next regulatory control period. However the AER's decision on this will only be made as part of the next (2016-20) distribution determination.

3 DMIA Reporting Requirements

Under Section 3.1.4.1 of the, SP AusNet's DMIA annual report must include:

1. The total amount of the DMIA spent in the previous regulatory year, and how this amount has been calculated.
2. An explanation of each demand management project or program for which approval is sought, demonstrating compliance with the DMIA criteria detailed at section 3.1.3 with reference to:
   a. the nature and scope of each demand management project or program,
   b. the aims and expectations of each demand management project or program,
   c. the process by which each project or program was selected, including the business case for the project and consideration of any alternatives,
   d. how each project or program was/is to be implemented,
   e. the implementation costs of the project or program, and
   f. any identifiable benefits that have arisen from the project or program, including any off peak or peak demand reductions.
3. A statement signed by a director of the DNSP certifying that the costs of the demand management program:
   a. are not recoverable under any other jurisdictional incentive scheme,
   b. are not recoverable under any other state or Commonwealth government scheme, and
   c. are not included in the forecast capex or opex approved in the AER's distribution determination for the next regulatory control period, or under any other incentive scheme in that determination.
4. An overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and any results to date.

In respect of requirements (1) and (4) SP AusNet cannot report information in relation to projects or programs completed in previous years of the regulatory control period as 2011 is the first year of the regulatory period.

4 SP AusNet DMIA Projects in 2011

4.1 Project Overview

In 2011 SP AusNet undertook a project to manage hot water peak demand and network constraints at Mallacoota, a town just south of the New South Wales border.

This area of the network was experiencing supply interruptions and customers were concerned about service reliability. The maximum peak demand at Mallacoota (2.5MW) occurred between 12 and 5am due to the timing of hot water units. At all other times, the peaks were less than this.

SP AusNet is claiming $10,715 (nominal) of costs for this project as DMIA.

4.2 Nature and scope

The broader project at Mallacoota ranged from initiating measures to improve reliability of supply, improving information to the customers in the event of loss of supply and shifting hot water peak demand. However SP AusNet is attributing the following narrowed scope of works to the DMIA:

- customer engagement;
- investigation and analysis of patterns of network usage; and
- time clock adjustments for hot water units to reduce hot water peak demand.

4.3 Aims and expectations

The objective of the project was to harness demand management to address service reliability and involuntary load curtailment problems in the Mallacoota area. This involved reducing hot water peak demand on the Bairnsdale-Mallacoota line, amongst other things. The purpose of this was to manage the demand profile on the Bairnsdale-Mallacoota line, prepare Mallacoota for potential mini grid (islanding or distributed generation) technologies and defer network augmentation in the longer term.

4.4 Process of project selection

In 2010 customers raised a number of concerns in relation to their network service in the Mallacoota area. In response, SP AusNet held community meetings to understand and address customer concerns in relation to, amongst other things, network reliability and involuntary load curtailment in the Mallacoota area. Following this SP AusNet gathered use

of network data and undertook data reviews investigate and analyse network use and service reliability. Given the timing of the maximum peak demand on the Bairnsdale-Mallacoota line occurred between 12-5am, switching hot water timers was the lowest cost and most efficient method to shift peak demand and address network constraints.

Considering the present level of reliability of supply in this area, significant investment will be needed to augment the network at some stage in the future. It is prudent to use mini grid technologies to meet future network demand in Mallacoota and defer network augmentation in the longer term.

4.5 Project implementation

The implementation of this project has involved SP AusNet rolling out a program to switch approximately 300 hot water time clocks to manage hot water peak demand. SP AusNet is also working on improving customer response times and minimising the number of supply interruptions in the area.

4.6 Implementation costs

The costs of this project categorised as DMIA costs are those related to adjusting hot water time clocks. This is a total of $10,715 (nominal) in operating expenditure. These cost are made up of:

- resources to engage customers;
- resources to investigate and analyse data;
- customer communications (sms, mailouts, etc); and
- the labour cost to implement the clock adjustments out in the field.

4.7 Benefits

This project has reduced hot water peak demand on the distribution line between Bairnsdale and Mallacoota from 2.5 to 2 MW.

4.8 Certification of costs

Appendix 1 of this report contains a statement signed by a director of SP AusNet confirming that the costs of the above demand management project or program:

a. are not recoverable under any other jurisdictional incentive scheme,

b. are not recoverable under any other state or Commonwealth government scheme, and

c. are not included in the forecast capex or opex approved in the AER's distribution determination for the regulatory control period under which the DMIS applies, or under any other incentive scheme in that determination.