



Appendix J – DMIS/DMIA Report

Note: See Attached

Demand Management Incentive Scheme Report - 2012



DMIS Report

This report details outcomes of projects supported by the Demand Management Incentive Scheme.

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1 Introduction

In August 2011, United Energy (UE) was delighted to formalise a Memorandum of Understanding (MoU) with Manningham City Council to work with the Council in providing support for jointly planned initiatives within the Doncaster Hill Smart Energy Zone¹. The MoU allows UE to provide its expertise in electricity distribution to assist the Council to explore and facilitate projects which promote sustainable energy development and demand management opportunities within the precinct. UE is supportive of and is actively engaged with the Council in its District Energy Services project, predominantly through in-kind labour support, but also in cash support through the Demand Management Incentive Scheme Allowance (DMIA) in instances when external consulting resources were required for the development of the project.

While the aim of the District Energy Services project is to ultimately establish a working, commercially feasible district energy services scheme in the Doncaster Hill Smart Energy Zone to potentially defer network augmentation, the DMIA has been an essential funding source to enable the Council and UE to do the upfront work necessary to prove the concept. Working with two qualified expert service providers to explore and establish the foundations for a suitable commercially viable model within the existing regulatory framework, has been a valuable step in the process. If proven successful, this model could form the benchmark for opportunities to develop similar schemes elsewhere around Australia.

In January 2012, UE submitted two requests to the AER to seek indicative up-front approval to use an allocation of the Demand Management Incentive Scheme (DMIS) funding (part A) to support the District Energy Services project and the associated Energy Portal project. In March 2012, the AER endorsed both of UE's applications. While UE subsequently abandoned the trialling of demand management through the Energy Portal due to issues with commercial terms and timings with our subcontractor, work on the District Energy Services project has progressed substantially well over the last year.

UE has some emerging constraints within the Doncaster electricity distribution network and the convergence of these constraints with the implementation of a District Energy Services project within the Doncaster Hill area could allow the non-network solution to defer planned network augmentations by reducing peak demand. Key to the success of achieving this objective was the development of a commercial model with one or more District Energy Services companies identified through the Expression of Interest (EOI) and Request for Quotation (RFQ) process held during the year. UE and Council shortlisted two providers, GDF Suez and MSEZ Consortium from the process and both organisations have developed comprehensive proposals that are presently being reviewed by an independent third party. We have now reached the point where the two non-network providers have produced detailed feasibility reports stating that establishing a District Energy Services project in Doncaster Hill is commercially viable and both are eager to proceed.

2 Regulatory Requirement and Compliance

The AER, in its Demand Management Incentive Scheme applied to UE for the 2011-2015 regulatory period, sets certain criteria and reporting requirements for expenditure from the DMIA. These are detailed below along with a description of how UE complies with each of these requirements.

2.1 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.”

One of the objectives of the District Energy Service Scheme is to defer the proposed network augmentation of establishing Templestowe Zone Substation, currently detailed in UE's 2012 Distribution System Planning

¹ <http://www.doncasterhill.com/donhilloverview/sustainability/smart-energy-zone>

Report². Solutions provided by the two service providers in their commercial feasibility reports include opportunities to shift or reduce demand as an alternative to 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.”

The District Energy Services Scheme aims to address specific network constraints by reducing demand on the network at the location and time of the constraint. UE’s Doncaster Zone Substation supplies much of this developing area around Doncaster Hill. According to UE’s Distribution System Planning Report 2012, Doncaster Zone Substation is fully developed with three 20/27MVA 66/22kV transformers and supplies the areas of Doncaster, Doncaster East, Box Hill North and Templestowe including the Box Hill Central, Doncaster Hill and The Pines precincts. The maximum summer demand of the substation is already above its (N-1) rating, and the maximum demand is expected to continue to increase by at least 2MW per annum for the foreseeable future. With major commercial and high density residential developments occurring in the Doncaster Hill area, there is a need by 2016 to build a new 66/22kV 20/33MVA zone substation in Templestowe to offload the Doncaster zone substation thereby providing additional capacity for the Doncaster Hill area. The report identifies that non-network solutions, in the order of 2MW will help to defer the need for network augmentation.

“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.”

The two District Energy Service Scheme commercial feasibility study reports offer quite different and novel solutions for the area. The reports identify commercially viable demand management opportunities within the precinct which can be developed within the existing regulatory and planning frameworks.

“4. Recoverable projects and programs may be tariff or non-tariff based.”

The District Energy Services Scheme project is 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.”

² <http://www.ue.com.au/about-us/regulatory-framework/electricity-regulation/planning-reports.aspx>

Costs recovered under the DMIS for the District Energy Services Scheme project are costs incurred by UE in procuring expert consulting services. These costs have not been recovered from any other scheme. The costs do not include labour for UE and Council employees' time toward this project. This cost is absorbed by each organisation and is regarded as in-kind contribution towards the project.

“6. Expenditure under the DMIA can be in the nature of capital or operating expenditure. The AER considers that capex payments made under the DMIA could be treated as capital contributions under clause 6.21.1 of the NER and therefore not rolled into the regulatory asset base (RAB) at the start of the next regulatory control period. However the AER’s decision in that regard will only be made as part of the next distribution determination.”

All costs incurred by UE under the DMIS for the District Energy Services Scheme project are classified as operating expenditure.

2.2 DMIS Reporting

The information contained in this report and its attachment appendices is suitable for public publication.

The AER requires that a DNSP's annual report must include:

1. The total amount of the DMIA spent in the previous regulatory year, and how this amount has been calculated.

United Energy had the following expenses during the 2012 calendar year on activities associated with the DMIA.

- \$8,480 excl. GST for costs associated with engaging Roberts Evaluation Pty Ltd for developing the Project Monitoring and Evaluation plan. UE contracted Manningham City Council which sub-contracted Roberts Evaluation through a request for quotation. No overhead was applied by Council.
- \$25,000 excl. GST for costs associated with engaging GDF Suez for the District Energy Services Study commercial feasibility report. UE contracted Manningham City Council which sub-contracted GDF Suez (Cofely) through a competitive EOI and RFQ process. No overhead was applied by Council.
- \$25,000 excl. GST for costs associated with engaging MSEZ consortium for the District Energy Services Study commercial feasibility report. UE contracted Manningham City Council which sub-contracted MSEZ Consortium (Total Energy Solutions, Aurora Energy, Transfield Services) through a competitive EOI and RFQ process. No overhead was applied by Council.

United Energy had the following accruals at the end of the 2012 calendar year on activities associated with the DMIA.

- \$28,880 excl. GST for costs associated with engaging AECOM for the District Energy Services Study verification review. UE contracted directly with AECOM through a competitive RFQ process.

2. An explanation of each demand management project or program for which approval is sought, demonstrating compliance against the DMIA criteria in section 3.1.3 with reference to:

(a) the nature and scope of each demand management project or program

The District Energy Services Scheme project involves formulating a suitable model for establishing a commercially viable district energy services scheme in the Doncaster Hill Smart Energy Zone area. Council and UE did not want to be prescriptive of the type of technology or solution to be implemented for the Doncaster Hill District Energy Services Scheme, rather to have a commercially viable solution that could be established within the existing regulatory framework and meet Council's objective of reduced greenhouse gas emissions and UE's objective for network augmentation deferral through non-network solutions. The project design is such that much of the technical detail has relied largely on the specific technical and commercial expertise of the entities that were invited to respond to the RFQ.

(b) the aims and expectations of each demand management project or program

The Doncaster Hill Strategy was adopted by the Council in 2002 and outlined the Council's vision for a vibrant, high density and sustainable growth area for Manningham and was enacted in the Doncaster Hill Planning scheme. It is important to clarify that the Council sees its role in delivering District Energy Services Project as being an "active facilitator" with the aim of identifying a solution that achieves the commercial objectives of developers and the planning and environmental aspirations of the Manningham community.

United Energy envisages a similar facilitation role for development of private and local energy grid infrastructure. However larger scale network planning has identified augmentation requirements which are likely to be able to be deferred from the range of energy management options identified by the project.

(c) the process by which each project or program was selected, including the business case for the project and consideration of any alternatives

The quest to identify a commercially feasible district based solution to address the energy needs of Doncaster Hill commenced through an Expression of Interest (EOI) process. The EOI closed on 23 November 2011 and a number of responses were received including responses from:

- AG Coombs;
- Cogent / Origin Energy;
- Dalkia;
- GDF Suez (Cofely); and
- Total Energy Solutions / Aurora Energy / Transfield Services (MSEZ consortium).

A project steering committee was established comprising of Council and UE representatives to assess the submissions. Through a formalised selection process, two respondents were invited to undertake a more detailed feasibility study through a Request for Quotation (RFQ) process, these being

- GDF Suez (Cofely); and
- Total Energy Solutions / Aurora Energy / Transfield Services (MSEZ consortium).

A DMIA budget allocation was used to contribute toward the feasibility work and this was shared equally between the two successful RFQ respondents. In responding to the EOI all respondents were made aware that there would be some requirement to invest their own resources on a venture basis to complement the

DMIA funding stream. Therefore the DMIA funding did not cover the full costs incurred by the two successful providers.

(d) how each project or program was/is to be implemented

The District Energy Services Project is being implemented in a number of stages.

The initial stage was the establishment of a MoU between UE and Council. This was completed in August 2011 with an official signing ceremony at Council's August meeting, with speeches by UE and Council CEOs³. For a copy of the MoU, refer to Appendix 1.

In November 2011, Council in consultation with UE issued an EOI to the market to request suitably qualified district energy service providers to register their interest for undertaking a study to identify a technically and commercially viable model for a district energy services solution specific for Doncaster Hill. For more detail, refer to Appendix 5a.

The next stage was the securing of funding through the DMIA with the UE application sent to the AER in January 2012, with an associated letter of support from Council. Refer to Appendix 2. In March 2012, the AER responded to UE, endorsing the application. Refer to Appendix 3.

In April 2012, Council in consultation with UE, issued an RFQ to the two shortlisted providers from the EOI process (GDF Suez and MSEZ Consortium) to request offers for services to develop a District Energy Services Study to identify a technically and commercially viable model for a district energy services scheme solution specific for Doncaster Hill. Refer to Appendix 5b.

In July 2012 with the high quality of both proposals submitted, Council and UE decided to engage both service providers to independently undertake the commercial feasibility study, to maximise the opportunity for at least one proposed solution to be commercially viable. A developers' breakfast information session was held in July which was open by invitation to all building developers in Doncaster Hill, an important stakeholder group needed to be consulted for project viability. This session provided the opportunity for the two service providers to introduce themselves and start the consultation and negotiation process necessary to develop a commercially viable solution. Refer to Appendix 5c for more detail.

In August 2012, Roberts Evaluation consulting firm was engaged to establish the planning and evaluation framework for this project with a workshop held and a Project Monitoring and Evaluation plan developed. This plan is a living document and will be updated quarterly throughout the course of the project. For a copy of the current plan, refer to Appendix 4.

In October 2012, the two service providers presented their findings of their draft reports to Council and UE. Reports were finalised thereafter. The GDF Suez District Energy Services Study report is in Appendix 6 and the MSEZ District Energy Services Study report is in Appendix 7. Both reports propose commercially viable solutions that go some way to providing network augmentation deferral.

UE in consultation with Council (and with the endorsement of the two service providers), engaged AECOM to undertake an independent verification of the two study reports. This work is in progress and is expected to be completed by March 2013.

UE is currently developing a standard network support agreement that will be presented to the two service providers for review and negotiation in early 2013. Both study reports will be assessed as non-network solutions for the Templestowe zone substation Regulatory Investment Test for Distribution (RIT-D) process expected during 2013.

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http://www.manningham.vic.gov.au/action/NOTEMPLATE?s=0,pURL=mr_30august2011_understandingonsmartenergyzone,

(e) the implementation costs of the project or program and

To date, two commercial feasibility studies have been completed. Each study has identified staged costs for implementing a district energy services scheme in Doncaster Hill. For more detail, refer to Appendix 6 and 7.

(f) any identifiable benefits that have arisen from the project or program, including any off peak or peak demand reductions.

To date, two commercial feasibility studies have been completed. Each study has identified opportunity for peak demand reductions. For more detail, refer to Appendix 6 and 7.

3. A statement signed by a director of the DNSP certifying that the costs of each 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 capital or operating expenditure 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.

I, _____ a director of United Energy certify that:

- Expenditure under the demand management incentive scheme is not eligible for recovery under any other jurisdictional incentive scheme
- Expenditure under the demand management incentive scheme is not eligible for recovery under any other state or Commonwealth government scheme
- Expenditure under the demand management incentive scheme has not been approved in the AER's distribution determination for the regulatory control period under which the scheme applies, or under any other incentive scheme in that determination.

Signed:

Dated:

4. An overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and of any results to date.

Not applicable.

3 Attachments

- 3.1 Appendix 1 – United Energy / Manningham City Council MoU**
- 3.2 Appendix 2 (a) to (e) – United Energy applications to AER**
- 3.3 Appendix 3 – AER response to United Energy**
- 3.4 Appendix 4 – Roberts Consulting Project Monitoring and Evaluation plan**
- 3.5 Appendix 5 (a) to (c) – District Energy Services Study EOI, RFQ etc.**
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- 3.8 Appendix 8 – Solution Verification Review RFQ**