

# Draft Decision

## Transgrid Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

### Attachment 11 Demand management innovation allowance mechanism

September 2022

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## Note

This attachment forms part of the AER’s draft decision on Transgrid’s 2023–28 transmission determination. 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 – Demand management innovation allowance mechanism

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

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# 11 Demand management innovation allowance mechanism

The purpose of the demand management innovation allowance mechanism (DMIAM) is to encourage transmission network service providers (TNSPs) to expand and share their knowledge and understanding of innovative demand management projects that may reduce long-term network costs and, consequently, drive lower prices for consumers.

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

In May 2021, we published the DMIAM regulatory instrument after stakeholder consultation.<sup>1</sup> 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 Transgrid for the 2023–28 regulatory control period.

## 11.1 Draft decision

Our draft decision is to apply the DMIAM to Transgrid for the 2023–28 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% 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 (PTRM) for Transgrid.
- **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.

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

## 11.2 Transgrid’s proposal

In its 2023–28 proposal, Transgrid proposed to apply the DMIAM for the 2023–28 period, in accordance with the AER’s *Framework and Approach* (F&A) paper and the AER’s published DMIAM.<sup>2</sup>

## 11.3 Assessment approach

We are required to make a decision on how the DMIAM is to apply to Transgrid for the 2023–28 period.

We outlined our proposed approach to, and reasons for, the application of the DMIAM in our F&A for Transgrid.<sup>3</sup>

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 Transgrid and by stakeholders.<sup>4</sup>

## 11.4 Submissions

We received no submissions from stakeholders regarding the subject matter.

## 11.5 Reasons for draft decision

The DMIAM provides funding to transmission networks to undertake further research on demand management initiatives. The learnings from these initiatives are to be shared across industry and with consumers.

Transgrid is thus required to annually provide DMIAM compliance reports and supporting documents, as required under the DMIAM. This will be to demonstrate that its research and development projects and expenditures meet the requirements of the mechanism.

We will annually assess the eligibility of each project and determine the eligibility and the DMIAM payments for each project according to the criteria specified in the DMIAM.

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<sup>2</sup> Transgrid, *Revenue Proposal 2023–28*, 31 August 2022, p. 155.

<sup>3</sup> AER, *Final framework and approach for Transgrid – Regulatory control period commencing 1 July 2023*, July 2021, p. 23.

<sup>4</sup> Transgrid, *Revenue Proposal 2023–28*, 31 August 2022, p. 155.

## Glossary

Term	Definition
AER	Australian Energy Regulator
CPI	Consumer price index
DMIAM	Demand management innovation allowance mechanism
F&A	Framework and approach
NER	National Electricity Rules
PTRM	Post-tax revenue model
TNSP	Transmission network service provider

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