

Ms Clare Savage
Chair
Australian Energy Regulator

CC: Warwick Anderson, General Manager
David Chan, Director

23 August 2021

Dear Ms Savage

RE: Inclusion of the Demand Management Innovation Allowance Mechanism in Powerlink’s 2022-27 Revenue

On 19 August 2021 Powerlink advised the Queensland Electricity Users Network (QEUN) that on 9 July 2021 Powerlink had made an application to the Australian Energy Regulator to not apply the Demand Management Innovation Allowance Mechanism (DMIAM) to its 2022-27 revenue.

We appreciate Powerlink’s written advice as QEUN is not a member of Powerlink’s Customer Panel. However, QEUN has actively participated in the consultation on Powerlink’s 2022-27 Regulatory Proposal.

Powerlink is also aware of our strong interest in trialling a ‘consumer initiated’ demand management project – the QEUN’s *Traffic Light System*.

The Traffic Light System (TLS) has been a QEUN priority since 2017 when it was included in our submission to Dr Finkel’s *Independent Review into the Future Security of the National Electricity Market*.

In a meeting on the TLS with Energy Queensland and Powerlink in December 2019, Energy Queensland claimed they may not be able to proceed with further discussions on the TLS as Energex and Ergon Network’s 2015-2020 Demand Management Innovation Allowance (DMIA) had likely been spent.

In May 2020, the AER published DMIA expenditure for the first four years of the 2015-2020 period; Energex had \$2.884 million of DMIA funds remaining and Ergon Network \$3.289 million remaining.

| DNSP | DMIA approved 2015-16 | DMIA approved 2016-17 | DMIA approved 2017-18 | DMIA approved 2018-19 | DMIA approved 2019-20 | Total DMIA approved | Total DMIA allowance for period | DMIA remaining for period | Per cent of DMIA spent |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|---------------------------------|---------------------------|------------------------|
| Energex | 338 | 440 | 1,123 | 475 | | 2,375 | 5,260 | 2,884 | 45% |
| Ergon Energy | 472 | 795 | 262 | 441 | | 1,971 | 5,260 | 3,289 | 37% |
| SA Power | 1,955 | 1,120 | -13 | 143 | | 3,205 | 3,156 | -49 | 102% |
| TOTAL | 2,765 | 2,355 | 1,372 | 1,059 | | 7,551 | 13,676 | 6,125 | 55% |

Source: AER analysis and DMIA reports submitted by distributors. Numbers may not add up due to rounding.

In April 2021, the AER published DMIA expenditure for the entire 2015-2020 regulatory period: Energex had underspent DMIA by \$1.398 million and Ergon by \$0.502 million. The total underspend was \$1.9 million.

| DNSP | DMIA approved 2015-16 | DMIA approved 2016-17 | DMIA approved 2017-18 | DMIA approved 2018-19 | DMIA approved 2019-20 | Total DMIA approved | Total DMIA allowance for period | DMIA remaining for period | Percentage of DMIA spent |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|---------------------------------|---------------------------|--------------------------|
| Energex | 472 | 440 | 1,123 | 475 | 1091 | 3,602 | 5,000 | 1,398 | 72% |
| Ergon Energy | 338 | 795 | 262 | 441 | 2662 | 4,498 | 5,000 | 502 | 90% |
| SA Power | 1,955 | 1,120 | -13 | 143 | 8 | 3,213 | 3,000 | -57 | 102% |
| TOTAL | 2,765 | 2,355 | 1,372 | 1,059 | 3761 | 11,313 | 13,156 | 1,843 | 86% |

Source: AER analysis and DMIA reports submitted by DNSPs. Numbers may not add up due to rounding.

We understand a lack of DMIA funds is the primary reason that Energy Queensland did not continue the discussions on a trial of the QEUN’s Traffic Light System.

Failure to include DMIAM in revenue determinations for transmission networks could result in worthwhile demand management projects being lost. This is predicated on the belief that transmission networks are struggling to cope with the trifecta dilemma of rising peak demand, decreasing minimum demand and falling delivered energy consumption. Finding non-network solutions to address the trifecta dilemma costs money.

We assume a lack of financial resources to fund non-network solutions is the reason why Energy Networks Australia lodged a national rule change request to include DMIAM in revenue determinations for transmission networks.

Whilst Powerlink have made an application to not apply the DMIAM to its 2022-27 revenue, AusNet will include the DMIAM in its 2022-27 revenue; a decision supported by the AER’s Consumer Challenge Panel 23 (CCP23). We understand Powerlink have spoken to the CCP23 about their decision. However, we are not aware if the CCP23 supports Powerlink’s decision to not apply the DMIAM.

Transmission Trifecta Dilemma: rising peak demand, decreasing minimum demand & falling delivered consumption

| Transmission network Regulatory Period | Peak demand (MW) | | Average % change in Peak demand over 10 years | Minimum demand (MW) | | Average % change in Minimum demand over 10 years | Delivered energy consumption (GWh) | | Average % change in Delivered energy consumption over 10 years | Support for inclusion of DMIAM in Revenue Determination *** | |
|--|------------------|--------|---|---------------------|-------|--|------------------------------------|--------|--|---|-----------------------|
| | 2020 | 2030 | | 2020 | 2030 | | 2020 | 2030 | | Network | AER CCP23 |
| Powerlink * 2022-27 | 8,605 | 9,236 | Increase 0.7% per year | 3,003 | 988 | Decrease 10.5% per year | 47,860 | 44,413 | Decrease 0.7% per year | No 9 July 2021 | ? |
| AusNet ** 2022-27 | 8,885 | 8,972 | Increase 0.1% per year | 2,745 | -370 | Negative demand | 40,109 | 35,156 | Decrease 1.2% per year | Yes 29 Oct 2020 | Yes 12 Feb 2021 |
| Transgrid * 2023-28 | 13,130 | 14,540 | Increase 1.1% per year | 4,890 | 4,000 | Decrease 2.2% per year | 66,790 | 70,160 | Increase 0.5% per year | | |
| ElectraNet ** 2023-28 | 2,902 | 3,006 | Increase 0.3% per year | 434 | -71 | Negative demand | 11,584 | 10,915 | | | |
| TasNetworks** 2019-24 | 1,724 | 1,736 | Increase 0.07% per year | 875 | 810 | Decrease 0.7% per year | 10,346 | 10,248 | Decrease 0.1% per year | | |

* Transmission Annual Planning Report
 ** AEMO 2020 ESOO
 ***Transmission Regulatory Proposal

The national rule to include DMIAM in revenue determinations for transmission networks ensures a transparent mandatory reporting process which is not affected by the management or ownership of a transmission network. It ensures that before, during and after a regulatory period a discussion between a transmission business and consumers is required as the transmission business is effectively spending ‘consumer’ funds on non-network solutions.

The transmission trifecta dilemma is partially caused by consumer behaviour. It is therefore appropriate that consumers should fund demand management projects which can reduce transmission costs and consumer power bills.

Whilst we support DMIAM being applied to Powerlink's 2022-27 revenue, we are not comfortable with the process of assessment and approval of DMIAM projects. We are confused about the composition, role and voting powers of the Independent Advisory Panel. This is a concern as the AER do not review or endorse potential DMIAM projects as part of the revenue determination and DMIAM projects are subject to ex-post approval of actual expenditure.

Without a Terms of Reference for the Independent Advisory Panel, it may be possible that a DMIAM project approved by the Independent Advisory Panel could be rejected by the AER leaving the cost of the DMIAM project to be covered by the transmission business.

We are also concerned \$200,000 allocated for the Independent Advisory Panel may not be commensurate with the Panel's workload. The \$200,000 should be subject to a mandatory grant acquittal process which is standard for all transmission networks.

Should the AER decide to not apply the DMIAM to Powerlink's 2022-27 revenue determination, there is considerable risk consumers will have no formal input or role in the assessment and approval of DMIAM projects and the number and size of Powerlink's DMIAM projects is restricted due to funding constraints.

The Powerlink decision may also set a precedent for other transmission businesses as Powerlink and AusNet are the first transmission businesses to be subject to the new national rule on the DMIAM.

We recommend the DMIAM be applied to Powerlink's 2022-27 revenue and that the AER provide further guidance on the composition and powers of the Independent Advisory Panel.

Thank you for the opportunity to provide a consumer perspective on the DMIAM – a much needed source of funding for demand management projects which are critical to ensuring a smoother transition to a renewable energy future.

Yours faithfully

A solid black rectangular box used to redact the signature of Jennifer Brownie.

Jennifer Brownie

Coordinator

Queensland Electricity Users Network