Combined Proposal 2024-2029

Attachment 13
Demand management incentives and allowance

Outline: This attachment to TasNetworks' regulatory proposal sets out how the Demand Management Incentive Scheme and Demand Management Innovation Allowance Mechanism will apply during the 2024-2029 regulatory control period.

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Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal. TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

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	Combined Proposal overview
Attachment 1	Customer and stakeholder engagement summary
Attachment 2	Annual revenue requirement
Attachment 3	Regulatory asset base
Attachment 4	Rate of return
Attachment 5	Regulatory depreciation
Attachment 6	Capital expenditure
Attachment 7	Contingent projects
Attachment 8	Operating expenditure
Attachment 9	Corporate income tax
Attachment 10	Efficiency benefit sharing scheme
Attachment 11	Capital expenditure sharing scheme
Attachment 12	Service target performance incentive scheme
> **Attachment 13**	**Demand management incentives and allowance**
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Attachment 15	Classification of services
Attachment 16	Control mechanisms
Attachment 17	Pass through events
Attachment 18	Alternative control services
Attachment 19	Negotiated services framework and criteria
Attachment 20	Distribution connection pricing policy
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13 Demand management incentives and allowance

13.1 Overview

The Demand Management Incentive Scheme (**DMIS**) provides financial incentives for TasNetworks to undertake efficient demand management solutions in operating our distribution network.

The Demand Management Innovation Allowance Mechanism (**DMIAM**) provides a modest amount of funding for research and development in demand management projects that have the potential to reduce long term distribution and transmission network costs.[1]

The Australian Energy Regulator's (**AER's**) Framework and Approach Final Decision states an intention to apply the DMIS and DMIAM to TasNetworks distribution network and the DMIAM to the transmission network in the 2024–2029 regulatory control period.[2]
DMIS does not apply to transmission networks.

TasNetworks supports the continued application of DMIS and DMIAM to its distribution network and DMIAM to the transmission network noting:

- DMIS projects and financial incentives are proposed by TasNetworks and approved by the AER as part of an annual compliance and approval process, not through this determination process; and
- if DMIAM funding remains unspent at the end of the regulatory control period it will be returned to customers through a deduction to TasNetworks' revenue requirement in the second year of the next regulatory control period.

13.2 Proposed application of the DMIS in 2024-2029 regulatory control period

The DMIS will apply to TasNetworks' distribution network in the 2024-2029 regulatory control period.

To provide better outcomes for our customers during the 2024-2029 regulatory control period, TasNetworks will seek to identify and implement demand management projects that cost-effectively address network constraints as an alternative to more expensive capital expenditure projects. Cost-effective demand management projects will be annually reported to the AER that then will determine the DMIS financial incentive.

The DMIS operates separately to the Revenue Determination, via an application, reporting and approval process as set out in the documentation of the scheme.[3] There are no revenue adjustments to be determined as part of TasNetworks' Revenue Determination, with applications being required to be made during the 2024-2029 regulatory control period as potential projects arise.

1 Demand Management Innovation Allowance Objective – National Electricity Rules Clause 6.6.3A(b) and 6A.7.6(b)

2 AER, Framework and approach TasNetworks distribution and transmission (Tasmania) Regulatory control period commencing 1 July 2024, p 51.

3 AER, Demand management incentive scheme, Electricity distribution network service providers, December 2017.

13.3 Proposed application of the DMIAM in 2024-2029 regulatory control period

The DMIAM will apply to TasNetworks' distribution and transmission networks in the 2024-2029 regulatory control period. Projects which TasNetworks intends to undertake using the DMIAM do not need to be set out and approved in the Revenue Determination. The only matter to be decided in the Revenue Determination is the total amount of the available allowance.

Like DMIS projects, DMIAM projects and expenditure are assessed and approved annually by the AER. Transmission DMIAM may also be subject to independent assessments prior to AER approval. The following sections provide details of the forecast allowances and some projects that could potentially be funded by the distribution and transmission DMIAM in the 2024-2029 regulatory control period.

13.3.1 Distribution DMIAM

In accordance with the distribution DMIAM,[4] we propose the maximum DMIAM allowances for the 2024-2029 regulatory control period as shown in Table 1.

Table 1: Proposed Distribution DMIAM allowances for 2024-2029 regulatory control period (2023-24, $m)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
DMIAM	0.47	0.47	0.48	0.48	0.48	2.38

13.3.2 Transmission DMIAM

In accordance with the transmission DMIAM,[5] we propose the maximum DMIAM allowances for the 2024-2029 regulatory control period as shown in Table 2.

Table 2: Proposed Transmission DMIAM allowances for 2024-2029 regulatory control period (2023-24, $m)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
DMIAM	0.20	0.20	0.20	0.20	0.20	1.01

4 AER, Demand management innovation allowance mechanism, Electricity distribution network service providers, December 2017.

5 AER, Demand management innovation allowance mechanism, Electricity transmission network service providers, May 2021.

13.3.3 Potential DMIAM Projects

TasNetworks has identified two trials, an export tariff trial and a community battery trial, that may be funded through DMIAM. As DMIAM projects and expenditure are assessed ex-post by the AER, other projects may be identified and included during the 2024-2029 regulatory control period.

Given the relatively modest nature of TasNetworks' DMIAM allowance, we propose to identify opportunities to collaborate and pool funding with TasNetworks' distribution network and, or, other Transmission Network Service Providers. TasNetworks' transmission DMIAM will be used only to contribute to innovative trials or pilot projects that can, if successful, deliver benefits to the Tasmanian transmission network and Tasmanian electricity customers.

Export tariff trial

The use of export tariffs for distribution customers is a new concept in Australia and there are no data to determine the scale of the impact such tariffs will have on customer behaviour. However, an export tariff is expected to modify customer behaviour in relation to how rooftop solar photo voltaic (**PV**) output is utilised behind-the-meter.

TasNetworks expects that it would undertake relevant tariff trials prior to formally proposing export tariffs to the AER. Trials are a critical input as they can test customer responsiveness and sentiments on a smaller scale and enable feedback and refinements to be made before implementing tariffs for the entire customer base.

Community Battery Trial

Community batteries increase network hosting capacity and solve network constraints around dispatchability, reducing the pressure on the grid in both high and low demand events.

The results from a community battery trial are expected to include information on customer behaviour in relation to how rooftop solar PV output is utilised and how the network facing load-export profile (at the customer meter as well as upstream of the battery location) of customers will change.


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