



ATTACHMENT 17.2 NETWORK INNOVATION SCHEME EXPLANATORY MEMORANDUM

ATCO 2020-24 PLAN

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1. Introduction

Over AA5, we expect the Western Australian energy market to continue to undergo rapid change, with renewable energy revolutionising the way energy networks operate. We believe our gas network has an important role to play in supporting the decarbonisation of the energy sector as well as offering a solution that balances environmental issues, cost, and security.

During this time of rapid technological change, innovation in our business is a major focus. The integration of new technologies into our network provides opportunities to improve our services and allow better responsiveness to customer choice.

To incentivise investment in innovative technologies, we are proposing a network innovation scheme for AA5. ATCO does not currently have any incentive mechanisms in AA4.

The Network Innovation Scheme (NIS) shares some of its key features with the AER's Demand Management Innovation Allowance (DMIA) available under the Demand Management Incentive Scheme (DMIS). This Scheme allows electricity distributors in the National Electricity Market to seek additional funding (generally through opex) to manage peak demand on the network instead of investing in network augmentation.

The purpose of this document is to provide an explanation for each of the new clauses in the access arrangement that implement the NIS.

2. Network innovation scheme

Table 2.1: Network innovation scheme

SECTION	EXPLANATION
12.1	<p>This clause details the objective of the scheme.</p> <p>The objective of the NIS is to provide ATCO Gas Australia with funding for projects using innovative and new technologies with the potential to deliver medium to long-term improvements in Pipeline Services that are in the long-term interests of consumers of natural gas in Western Australia.</p> <p>The reference above to medium to long-term improvements means improvements which extend beyond a single Access Arrangement Period.</p>
12.2	<p>This clause details the project eligibility criteria for the scheme.</p> <p>The eligibility criteria provides confidence that the only projects or trials that should receive funding under the scheme are those that satisfy the scheme objective and hence are in the long-term interests of gas network consumers.</p> <p>A potential trial/project will be assessed against and must satisfy the following criteria to receive funding under the scheme:</p> <ul style="list-style-type: none"> • it is a project or program for researching, developing, or implementing a piece of new equipment, a new arrangement or application of existing network infrastructure, a new practice directly relating to: <ul style="list-style-type: none"> ○ the operation or safety of the network; or ○ an improvement in customer service; or ○ a new business or revenue model; or ○ a reduction to the carbon intensity of the gas distributed by the network; or ○ makes an incremental contribution to achieving any of the above changes; and • it is innovative, in that the project or program: <ul style="list-style-type: none"> ○ is based on new, novel or original concepts; or ○ involves technology or techniques that differ from those previously implemented or used in the Western Australian Energy Market; or ○ facilitates the adoption of new technologies that can expand the existing range of uses for gas and/or the gas network; or ○ has the potential, if proved viable, to reduce long-term network costs and prices and/or improve the quality of network services; and • the project or program relates to the services provided by means of the regulated network assets.
12.3	<p>This clause details limits on the expenditure allowed under the scheme and how ATCO will recover its costs under the scheme.</p> <p>The scheme will be administered by the ERA on an annual basis in the AA5 regulatory period and beyond, including checks and balances to ensure existing gas consumers only pay for approved trials/projects.</p> <p>Incorporating the scheme funding into ATCO’s revenue allowance will simplify the operation of the scheme. The annual adjustment to ATCO revenue will occur through the annual tariff variation mechanism.</p> <p>The administrative features are consistent with the scheme objective and will provide certainty to ATCO and the ERA about how the scheme will operate. It is intended that this will facilitate the effectiveness of the scheme and ensure its consistency with achievement of the NGO and Revenue and Pricing Principles in the NGL.</p>
12.4	<p>This clause details the process that will be adopted for ATCO to voluntarily seek pre-approval that a project will be eligible under the scheme.</p>

SECTION	EXPLANATION
12.5	This clause confirms that the annual innovation amounts cannot be rolled forward into future access arrangement periods.
12.6	<p>This clause details ATCO's reporting obligations under the scheme.</p> <p>Annual compliance reporting will ensure the ERA can determine that ATCO is complying with the scheme's administrative details and, more broadly, the scheme's objective.</p> <p>This will occur through the ERA having the power to conduct ex-post reviews of completed trials/projects to ensure compliance and eligibility for their funding, which should provide confidence to the ERA and WA gas consumers about the efficacy of the scheme.</p>
Annexure B: 2.1 (e)	This clause provides for the recovery of any costs associated with the scheme through the annual tariff variation.