

Our ref: EDM 57112315
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13 August 2021

Electricity Access Team
Economic Regulation Authority
Level 4, 469 Wellington Street,
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Submitted via electronic lodgement to publicsubmissions@erawa.com.au

Dear Sir / Madam

Re: Demand management innovation allowance mechanism – Request for feedback on development of guideline

Western Power welcomes the opportunity to respond to the Economic Regulation Authority of Western Australia's (ERA) request for stakeholder feedback on its development of a guideline on the demand management innovation allowance mechanism required under the Electricity Networks Access Code 2004 (WA).

Western Power's understanding is that eligible projects may receive funding under the DMIA from 1 July 2022 and that the annual compliance report would be due by 31 October each year commencing on 31 October 2023 for the financial year 2022/23.

Western Power's feedback and considerations in this paper are cognisant of the nature of innovation, which requires flexible and proportionate evaluation of candidate projects.

Form of the mechanism

The key purpose of the allowance is to overcome barriers and constraints within the regulatory framework that would prevent investment in innovation which would deliver benefits to customers. The scheme enables funding for innovation that would not otherwise be available. Western Power's view is that the application of the innovation allowance should be flexible enough to adapt to the circumstances and progression of an energy market in transition to ensure that the scheme achieves its intended outcomes.

Western Power agrees with the ERA's reasoning that the costs of a pre-approval process may outweigh the benefits, given the level of the allowance proposed.

However, the proposed eligibility criteria and the process of ex-post assessment creates risks and administrative complexity which may prevent some valuable innovative projects from being considered and lead to under-utilisation of the DMIA. Ex-post review should evaluate the eligibility requirements in a proportionate, flexible, transparent, and objective manner to ensure the scheme achieves the desired objectives.



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Project Eligibility

Western Power considers the application of the eligibility criteria should mature over time as Western Power tests and builds its capability. If the criteria are interpreted too restrictively in the first period, this could lead to low levels of innovation. The framework should allow a common understanding between ERA and Western Power to evolve [through continuing discussion and consultation] as more projects are tested and refined under the DMIA.

It is important that the Guideline does not overly restrict the concept of demand management innovation. Western Power considers that the definition of demand management should be sufficiently broad to encompass a range of applications and incorporate cutting edge technology and emerging concepts. For example, the DMIA has the potential to help and protect vulnerable and remote customers in the community from impacts arising from the energy transition.

It is also important that projects under the DMIA are not necessarily linked directly to a technology or technique. The scope of DMIA should be broad enough to enable innovation in areas such as tariff studies, commercial arrangements with third party providers and customer engagement expenditure.

The ERA noted in its consultation paper that:

“There is no restriction on whether the mechanism funds network or non-network demand management research and development projects, or what parameters the projects involve, such as network reliability, safety, stability, supply quality, visibility or forecasting. The mechanism objective contained in the Access Code refers only to the potential to reduce network costs. However, the network affects the operation of the Wholesale Energy Market, including power system security and reliability. Consequently, forecast cost reductions must take account of any effects on other elements of electricity costs.”

Western Power proposes that the eligibility criteria incorporate this assumption and clarify that the allowance may be used to fund both network and non-network demand management research and development projects, including but not limited to those that address challenges relating to:

- (a) price, quality, safety, reliability and security of supply of electricity
- (b) safety, reliability and security of covered networks, and
- (c) environmental consequences of energy supply and consumption, including reducing greenhouse gas emissions, efficiencies in the handling and disposal of waste and other products, considering land use and biodiversity impacts, and encouraging energy efficiency and demand management.

Innovation Requirements

Western Power considers the strict application of research criteria is too restrictive and proposes that the term “relevant market” be replaced with “by the network operator”.

Western Power is not a research organisation, however, in practice it must be innovative and efficient in the processes, systems, and technologies it deploys to meet emerging and current network challenges for the benefit of the community.

Innovation is a term that can mean different things to different people. Western Power's practical definition of innovation is:

- Something (strategy, research, process, product or service)...
- that is new (to Western Power) and ...
- is useful (serves users and end customers).

Western Power considers the Guideline should contemplate known or established technologies, which may be new to or not previously used by Western Power.

Many technologies and practices may not be new or original in concept but need to be explored and trialled by Western Power in order to understand how to apply them efficiently and prudently in the South West Interconnected System (**SWIS**).

Also, technologies and practices which may not have been deemed as applicable to the SWIS in the past could become viable or attractive as circumstances, pricing and commercial positions change.

Funding Requirements

Western Power's view is that the requirement to "identify all sources of funding" is too broad and should be limited to "existing Federal and State funding schemes".

Funding schemes may have very different objectives and lengthy application processes that involve significant cost. This may make them unsuitable for many projects given the proposed level of the allowance. Western Power's view is that it should be sufficient to demonstrate that an eligible project has not also received funding under a Federal or State Funding Scheme. Western Power also considers that it should not be required to "demonstrate that it was not able to obtain funding" by applying for funding to each identified scheme. Western Power's view is that the new funding mechanism was not intended as a last resort and the Access Code only requires that funding for a particular project not be duplicated through multiple sources.

Reporting Requirements

An innovation project may not necessarily provide a complete or definitive solution to a particular challenge(s). Quantification of benefits such as the impact on power system security assessment can require a significant investment in time and resources and may not be prudent or practical to undertake as part of an innovation project's outcome assessment. This type of detailed assessment is undertaken when proceeding to the justification stage for investments under the regulatory framework. The benefits of these longer term initiatives may not be apparent within the timeframe for reporting an innovation project's outcomes.

A key issue for the ERA to address in preparing its guideline is the level and extent of supporting information and benefits assessment required. Western Power proposes that the requirement to quantify the potential to reduce long-term network costs, taking account of any additional costs that may arise in total electricity costs as a result of the change to demand should be qualified with the words "where reasonably practical".

Western Power proposes that the requirement to provide "any other information required" should also be amended to "any other information reasonably required" as some information required to enable an informed reader to understand and evaluate a project may not be practical to develop and provide as part of a project.

If the ERA would like to discuss any aspect of our response, please contact Jonathon Mizen at

Yours sincerely

Zahra Jabiri

Head of Regulation and Investment Assurance

Cc: Jacqui Hall, Chief Financial Officer