John McLaren  
Chief Advisor, Regulation Branch  
Commerce Commission  

Submitted by email to regulation.branch@comcom.govt.nz  
15 May 2014  

Dear Mr McLaren,  

Cross-submission on default price-quality paths from 1 April 2015.  

EnerNOC is grateful for the opportunity to comment on other submissions made to the process and issues paper.  

We welcome the Electricity Networks Association’s paper, Options and Incentives for Electricity Distribution Businesses to Improve Supply and Demand-Side Efficiency. It is a significant piece of work, and we endorse most of its recommendations.  

The ENA’s paper describes a Net Market Benefits (NMB) test. It is worth comparing this with the Regulatory Investment Test for Distribution (RIT-D) which is a feature of Australia’s National Electricity Market (NEM).  

The headline feature of the RIT-D is that, before committing to a major network investment project, the EDB must carry out a formal assessment of alternative “credible options”, and then implement the option that produces the greatest net benefit.  

On its own, the RIT-D and its predecessors have not led to all that many non-network options being pursued in the NEM. However, this seems to have been due to a range of regulatory disincentives towards demand-side activities, similar to those identified by the ENA; we are hopeful that, now these are being removed, the RIT-D will work as intended.  

It is important to implement the reforms recommended by the ENA (and in our previous submission) to remove regulatory disincentives. Until these are fixed, an investment/market benefits test will achieve little. Once they are fixed, a NMB test or RIT-D could be very effective at promoting efficient investment.  

We would like to draw attention to another element of the RIT-D, and some complementary regulations relating to engagement with demand-side providers:

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2 Experience in the NEM suggests that incentives trump obligations.
1. At the start of the RIT-D process, the EDB is required to publish a “non-network options report” which defines the problem the project aims to solve. This report is used as the basis for consultation with proponents of non-network solutions to determine what non-network options are credible.

2. The EDB knows who to consult with about potential non-network options, because it is required to maintain a register of interested parties as part of its demand-side engagement strategy.

The ENA’s paper highlights the issue of EDBs not necessarily having a good understanding of the efficiency (and presumably demand response) options that are available. Something akin to these elements of the RIT-D and the demand-side engagement obligations could address this issue.

I would be happy to provide further detail on these comments, if that would be helpful.

Yours sincerely,

Dr Paul Troughton
Director of Regulatory Affairs

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3 There are exceptions for small projects, and where it is obvious that no non-network option could solve the problem.
4 The demand-side engagement obligations are specified in clauses 5.13.1(e)-(j) of the National Electricity Rules.