

Regulation Branch
Commerce Commission

Submitted by email to regulation.branch@comcom.govt.nz

27 June 2014

Dear Sir,

Submission on draft decision for Transpower's price-quality path for 2015-2020

EnerNOC is grateful for the opportunity to comment on the draft decision and supporting reasons for the key components of the individual price-quality path for Transpower New Zealand Limited (Transpower) for the next regulatory period from 1 April 2015 to 31 March 2020 (RCP 2).

In particular, we would like to comment on the Electricity Authority's (EA) letter dated 14 April 2014 regarding Transpower's Demand Response (DR) Programme, which formed part of the documentation and which is referred to in paragraph 5.84 of the draft decision paper. The EA's suggestions on mitigating its concerns with the DR programme, and the conditions under which the Commission could approve funding, are contained in paragraph 5.85.

In its introductory paragraph, the EA refers to the purchase by Transpower of the DRMS platform, as used by PJM.

The DRMS was indeed developed for PJM. However, it is important to realise that PJM uses it as a means to dispatch and manage the participation of DR aggregators, and the occasional very large industrial customer that participates directly. PJM has no sales force. It does not solicit DR from end-users. It concentrates on administering a neutral market in the most efficient way it can. Transferring the DRMS from the Grid Owner to the System Operator would be entirely consistent with this, and we recommend that this should be done as soon as practicable.

We concur with the EA's concern that there could be "perceptions of non-impartiality because the system operator is not separated from the transmission asset owner" and the transmission asset owner could have an unfair advantage in introducing and operating its DR programme, in comparison to other commercial DR programmes. We also agree that Transpower's DR programme should not be used for purposes other than transmission network deferral and that "regulated funds should not be used to fund Transpower's DR tool when used for operational, non-transmission deferral purposes".

We would go further and seek to remove the perception that the sole buyer of DR as a transmission alternative will also be a competing supplier of that DR, as this

will tend to make commercial suppliers of DR wary of investing in the sector, and hence reduce competition and innovation.

We cannot see any context in which it makes sense for the Grid Owner to be directly approaching and contracting with retail consumers such as commercial building owners or agricultural businesses. To avoid impeding the development of a competitive market for DR as a transmission alternative, the Grid Owner should:

1. Make it clear that it will not be approaching retail consumers directly (although it is reasonable for it to deal with large grid-connected entities which approach it).
2. Develop standardised transmission alternative DR capacity products, with clear performance obligations and penalties and sensible contract durations.
3. Indicate its requirements in terms of these standardised products, and allow parties to compete to supply them.

We support the EA and Transpower working to develop a “joint road map” for DR and recommend that the Commerce Commission reconsider its draft decision to disallow any DR programme costs, provided that proposed programmes are subject to EA supervision.

The “joint road map” paper proposed by the EA for coordinating the efficient scope of Transpower’s DR programme may identify development projects that would enhance the efficiency of the Transpower system and also provide benefits for distribution networks and be to the advantage of consumers. Without allowable funding, these projects would not be implemented in the regulatory control period.

The EA, as the market regulator, is in the best position to provide a framework for the efficient and coordinated use of DR and to mitigate the potentially negative impact of the Transpower proposal. We therefore support the EA’s suggestion that the Commerce Commission approve the proposed programme funding, subject to the mitigating conditions set out in the EA’s letter.

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

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Paul Troughton', with a long horizontal flourish extending to the right.

Dr Paul Troughton
Director of Regulatory Affairs