

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)¹.

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.² 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:

¹ The RIT-D is specified in clause 5.17 of the National Electricity Rules, available from <http://www.aemc.gov.au/Energy-Rules/National-electricity-rules/Current-Rules>, with the full implementation details and guidance notes set out by the Australian Energy Regulator at <http://www.aer.gov.au/node/19146>

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.³ 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.⁴

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,

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

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.