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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Draft Determination – Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses

Dear Commissioners Pierce, Henderson, Spalding:

EnerNOC thanks the AEMC for the opportunity to contribute to a review of the Draft Determination for the Efficiency Benefit Sharing Scheme (EBSS) and Demand Management Expenditure by Transmission Businesses.

In essence, we believe that supply and demand solutions, which lead to equivalent outcomes should be treated equally. We also appreciate that a supply solution will be the most efficient alternative for around 90% of network programs because of sustained load growth or to facilitate an expansion of the network or possibly because of a pre-existing condition/s or failure in that part of the grid.

That said, and as shown graphically by Figure 1 below, the top 10% of peak demand occurs for less than 0.5% of the time. By extrapolation it can be shown that about 10% of the capex spent by NSPs is used to build infrastructure to meet those peaks. Economic analysis has shown that non-network alternatives deliver improved economic outcomes for this portion of the demand with the same or better reliability. However, the non-network alternative/s will consume opex while reducing capex.

Of course building ever more grid capacity, must be coupled with more generation capacity to meet the increased demand. Hence, a valuable side effect of clipping peaks on the grid with non-network alternatives (often neglected by economists) is that it will not be necessary to build the same generation capacity, which conservatively is an additional saving of about $1m/MW to build.

In practice the AER has discretion when considering economic efficiency and has been promoting the use of non-network alternatives via the DMIS, the adoption of the D factor and other measures. Unfortunately, the continued low use of non-network alternatives by NSPs generally is a clear indication that a prescribed process and/or an "equivalent value" approach is warranted. Indeed over the past seven years EnerNOC's experience in the NEM has been that the only TNSP that has actively pursued non-network solutions on any scale is TransGrid in NSW. While TransGrid has indicated that they would look favourably at pursuing more non-network alternatives, and similarly other TNSPs have also shown interest, the current regulatory arrangements are biased against non-network solutions.

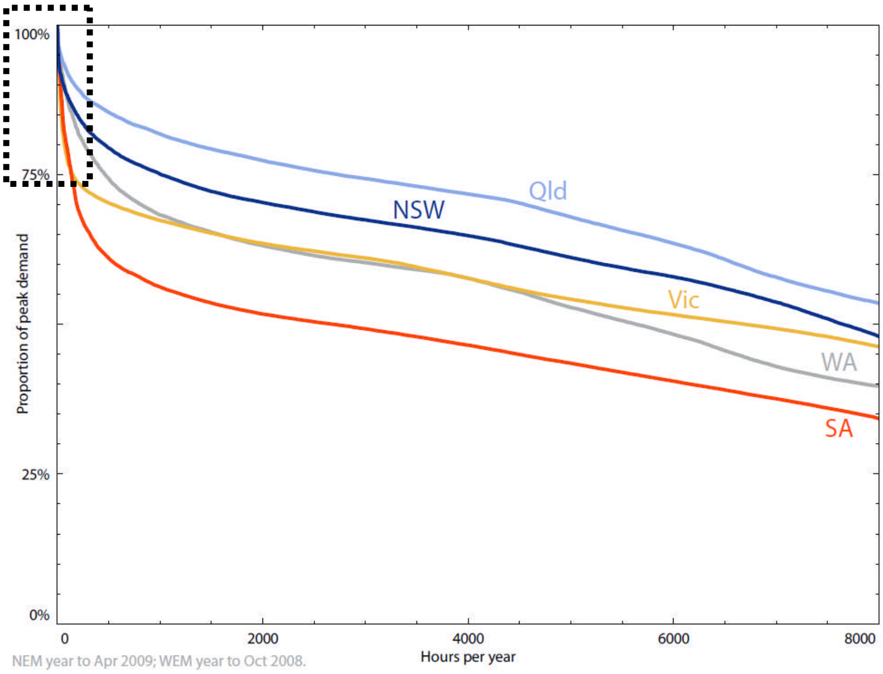

Figure1: Proportion of Peak Demand by State

We also note that Rod Sims, the Chairman of the ACCC, was quoted in the Australian Financial Review (page 1, Tuesday 11 October 2011) questioning whether there were sufficient incentives for demand management in electricity and explicitly saying that he would argue not. This reinforces our long held view that while endeavours to introduce greater efficiencies from non-network alternatives have been helpful, far more needs to be done.

Hence we strongly support the stated AEMC's Strategic Priorities, which explicitly look to improve economic outcomes and encourage the use of non-network alternatives.

One point of concern we have is about the reliability of the electricity supply in the Melbourne CBD for this coming summer[1] and can't help but wonder how much less of a concern it would be and the net improved economic outcome if Network businesses involved were encouraged to strongly embrace demand programs. While the aforementioned report on the supply for the Melbourne CBD considers non-network alternatives, it has no credibility given that the consultant did not investigate the option at all. EnerNOC has a database of demand sources in the Melbourne CBD and outer lying areas, which estimates each site's capability. Our view is that a non-network program in this area is viable with the cooperation from the Network businesses.

EnerNOC is therefore most supportive of this Rule Change and would believe the scheme should be extended to DNSPs. Further, and in support of the statement by Mr Sims, we believe that the low adoption of non-network alternatives as well as cultural and other barriers that these Network companies have to non-network alternatives is justification for affirmative action that promotes more demand side alternatives. One affirmative action that we would like to see is the targeting of NSPs to ensure that 10% of their capex is spent on non-network solutions with no impact on their opex. An alternative scheme is the "Equalisation of Opex and Capex" as adopted by Ofgem in the UK.

[1] Refer to "Proposed Augmentation for Melbourne Inner Suburbs and CBD Supply", A Final Report prepared for CitiPower and AEMO by NERA Economic Consulting dated 31 May, 2011

Thank you again for the opportunity to respond to this draft determination and draft National Electricity Amendment. Please do not hesitate to contact me directly with any questions related to this submission.

Regards,

Michael Zammit
Principal, Market Development