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Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
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Submitted by email to TransGridrevenuereset@aer.gov.au

8 August 2014

Dear Mr Pattas,

Submission on TransGrid's revenue proposal for 2014-19

EnerNOC is grateful for this opportunity to comment on TransGrid's revenue proposal.

EnerNOC is an energy management company, currently managing over 24 GW of load sourced from over 14,000 commercial and industrial sites across markets in North America, Europe, Australia, New Zealand, and Japan. As well as offering much of this load into energy, capacity, and ancillary services markets of varied designs, we also assist customers in improving their efficiency and minimising their spending on energy.

1 Demand management as part of "business as usual"

We congratulate TransGrid on preparing a forward-thinking revenue proposal. It contains the following claim:

> *TransGrid's Board and Executive are committed to ensuring that demand management is part of 'business as usual'.*[1]

… and the evidence indicates that the business has indeed learned that it is no longer acceptable to spend consumers' money building new infrastructure where more cost-effective alternatives exist. It has engaged with consumers regarding increased demand management activities, and received "almost unanimously positive" feedback.[2]

It is particularly welcome that the business is considering the long-term interests of consumers – as required by the National Electricity Objective – rather than myopically focusing on one regulatory cycle.

1 TransGrid Revenue Proposal Appendix R, p.5.

2 TransGrid Revenue Proposal, p.41.

2 An innovation allowance that will be spent on useful work

TransGrid has proposed a significantly increased demand management innovation allowance:

> *In this proposal, TransGrid is proposing an increase in its demand management innovation allowance to more proactively pursue initiatives to reduce peak demand, with a view to reducing the level of network investment needed to meet peak demand in the future.*[3]

> *An allowance dedicated exclusively to demand management innovation is crucial for TransGrid to unlock the demand management potential of NSW and the ACT.*[4]

While we have previously been highly critical of innovation allowances on the basis that they are often spent on needless pilots or trials from which little new can be learned,[5] TransGrid's proposals have merit: they centre on learning how to use demand response at scale, and developing markets in the necessary services.

We therefore support this initiative, and recommend that the AER approve this increase.

3 Pre-emptive network support

TransGrid's "Powering Sydney's Future" project involves a huge potential network investment near the beginning of the regulatory cycle after the one currently being considered. There are significant potential consumer benefits to be achieved by deferring this investment or reducing its scale, but a network support project starting in 2019 would be highly unlikely to allow such a deferral, as it could not reach sufficient scale in time. As TransGrid observes:

> *To succeed in deferring network investment by use of a network support alternative, TransGrid considers it essential that "pre-emptive" network support be included in the operating expenditure allowance from summer 2014/15 to summer 2017/18, to develop the network support market in the area.*[6]

We agree. We believe that the measured approach they propose to developing network support capability in the required area will provide a more cost-effective outcome at lower risk than attempting to develop a large project at the last moment. It will also provide considerable option value, in case future demand forecasts deliver surprises.

3 *Ibid.,* p.31.

4 TransGrid Revenue Proposal Appendix R, p.5.

5 See, for example, EnerNOC submission to Productivity Commission Electricity Network Regulation inquiry issues paper, 16 April 2012, p.3, and EnerNOC submission to AEMC Power of Choice Review draft report, 11 October 2012, p.20.

6 TransGrid Revenue Proposal, p.84.

This issue would be much simpler if the next regulatory reset didn't happen to fall between the start of the proposed network support programme and the date at which the proposed capital investment would otherwise be needed. If network regulation worked perfectly, the timing of the regulatory cycle would have no impact on the behaviour of regulated businesses. The AER should strive to support decisions which best support the long-term interests of consumers. We believe that this pre-emptive network support does exactly that, and recommend that the AER approve it.

4 Incentives for demand management

We note that TransGrid is only proposing opex allowances for its pre-emptive network support and its innovation programme. This means that it will not be earning any return from pursuing these activities. In fact, they are likely to lead to lower capex requirements in the next regulatory cycle, which will lower its returns.

In short, TransGrid is proposing to do the right thing – maximise net consumer benefits over the long-term – *despite* the regulatory regulatory framework, rather than in response to it.

We agree with TransGrid that expenditure on network support and other demand management initiatives should be excluded from the Efficiency Benefit Sharing Scheme[7] and the Capital Expenditure Sharing Scheme (if applicable)[8], so as to avoid introducing further inappropriate disincentives for efficient demand management activities.

We would go further, and suggest that TransGrid (and other TNSPs) should be subject to a demand management incentive scheme to provide a positive incentive to carry out efficient demand management. While the AEMC, in their Power of Choice review, excluded TNSPs from their proposed demand management incentive scheme, their reasoning was not that there was no need for incentives, but rather that there were other regulatory reforms underway which it did not want to pre-empt.[9]

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

Yours sincerely,

Dr Paul Troughton
Director of Regulatory Affairs

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7 *Ibid., p.219.*

8 *Ibid., p.220.*

9 AEMC, Power of Choice Review, *Final Report*, pp.213-214.