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Mr Tom Leuner
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email: AERInquiry@aer.gov.au
cc: planning@aemo.com.au, consultation@electranet.com.au (RIT-T Proponents)

26 February 2013

Dear Mr Leuner,

Dispute notice regarding SA-Vic Interconnection Upgrade RIT-T

EnerNOC would like to lodge a dispute with respect to the RIT-T carried out by ElectraNet and AEMO for the SA-Vic (Heywood) interconnection upgrade, on the basis that there was a mistake in the calculation of net market benefits.

We apologise that this notice is being sent a few days after the 22 February date mentioned in the Project Assessment Conclusions Report (PACR) – we only realised today that a mistake had been made in the application of the RIT-T to this project.

The mistake is as follows: in assessing the cost of the demand management component of Option 5, wealth transfers, which should be ignored, were instead counted as economic costs.

Specifically, as explained on p.35 of the PACR, the RIT-T proponents "adopted an indicative cost of $120,000/MW/annum for the availability fee". They then modelled the 200 MW facility as costing $24m/annum. This figure is a good estimate of what ElectraNet would have to pay EnerNOC to have the demand response available. It is not, however, the economic cost of the demand response programme.

A large proportion of this payment is passed on to participating electricity consumers. This proportion is hence best characterised as a wealth transfer, rather than a cost component of the "net economic benefit to all those who produce, consume and transport electricity in the market",[1] which is what is relevant to the RIT-T.

The exact amount passed through to participating electricity consumers varies from programme to programme depending on the difficulty of customer

[1] National Electricity Rule 5.16.1(b).

acquisition in the relevant region, but is typically around 50%. EnerNOC's gross margins for the 2010 and 2011 calendar years were 42.9% and 43.1%, which is consistent with this.[2]

If we assume that 50% of the availability payment component of the demand response costs ascribed to Option 5 in the PACR are in fact wealth transfers, and hence should be ignored, then the present value of the net market benefit of Option 5 rises by $47.0m to $203.9m. This is higher than the net market benefit calculated for any of the other options in the PACR, so Option 5 should therefore have been chosen as the preferred option.

The RIT-T proponents should have been aware that much of the cost they were modelling for the demand response programme was in fact a wealth transfer, not an economic cost. EnerNOC raised this issue on page 5 of its 30 January 2012 letter responding to the consultation notice, and in telephone discussions with ElectraNet staff during July and August 2012. While the exact proportion to be passed through was not stated in the letter, it should have been clear to AEMO and ElectraNet that the offered capacity would be provided by commercial and industrial customers, who would be paid to make it available. Hence the passthrough proportion would not be 0%, as was assumed in the PACR.

We therefore request that the PACR be amended to model the cost of Option 5 correctly, and hence show that Option 5 is the preferred option.

We are happy to provide any further information that you may require to confirm this assessment.

Yours sincerely,

Dr Paul Troughton
Manager of Regulatory Affairs

2 Taken from EnerNOC's 2011 Annual Report, the most recent one available.