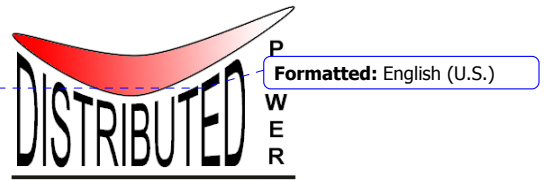


16 April 2004



User Participation Working Group  
c/- Office of Energy Planning and Conservation  
GPO Box 936  
Hobart Tas 7001

Dear Sir or Madam:

### **Distributed Power Pty Ltd submission**

Distributed Power Pty Ltd (DPPL) is pleased to provide this submission for consideration by the SCO in their policy development work for the MCE. In the context of this submission, DPPL can be considered as an end user advocate with specialised knowledge in embedded generation and an overall interest in Demand Management in the broader sense.

With reference to the workshops conducted in Melbourne and Sydney and the workshop notes that were distributed to participants on 14 April 2004, we would like to strongly reinforce the comment that a more holistic and strategic approach to end user participation is required to obtain the best policy outcome.

While it is welcome and encouraging that there are three strands of end user participation in the current process, a more holistic approach that considers all demand side options in establishing energy market policy options has a far greater chance of realising the real and sustainable benefits that the demand side can offer. Our focus for this submission is to comment on the options available for this overall strategy rather than to comment on the detail considered by the three strands presented at the workshops.

This submission is composed of the following parts:

- 1. Why a holistic Demand Side strategy?**
- 2. The ESAA business as usual scenario**
- 3. The California experience**
- 4. The DM Roadmap concept**
- 5. Conclusion**

#### **1. Why a holistic Demand Side strategy?**

Unlike the supply side of the electricity industry, the demand side is a fragmented and inhomogeneous grouping of constituents that does not have a clear focus and goals. The constituents that are present or potential stakeholders in the demand side includes energy users of all types and sizes, retailers, NSP's, embedded generator developers, appliance and equipment manufacturers and installers, architects, builders, building product manufacturers, energy services companies, NGO's, Governments at all levels, etc, etc.

**Distributed Power Pty Ltd ACN 091 241 002 ABN 23 091 241 002**  
Suite 1, Level 2, 19-23 Prospect Street, Box Hill Vic 3128  
Ph: +613 9898 7400 Facsimile +613 9898 7499

It is the view of DPPL that the fragmented nature of the stakeholders in the demand side is a key reason that it has not been possible to affect positive change that encourages a significant uptake in DM in Australia until now.

## **2. The ESAA business as usual scenario**

As the advocacy body for a \$17 billion industry (electricity sector), the ESAA is a well established and well-resourced industry association that has the advocacy and analytical skills required to ensure that their members' best interests are fully considered in the formation of policy.

In August 2003, as part of their advocacy for energy market reform, the ESAA released their views on the load growth projections and investments required to 2012. In this analysis, the ESAA estimated that \$30 billion of investment in electricity supply and \$8 billion in gas supply would be required to meet load growth that was projected to be in the order of 50,000 GWh per annum by 2012.

If we disregard the gas industry investments and reduce the \$30 billion electricity investments by the \$5 billion that is attributed to MRET, (as this is the product of legislation already committed) this requires an investment of \$25 billion by 2012 to satisfy the load growth from approx. 175,000 GWh in 2002 to approx. 225,000 GWh in 2012.

Our analysis of this data suggests that in order to cover the costs of these investments, an additional annual cost of approx. \$3 billion per annum will be paid for by energy users. This represents an increase in real terms in the average cost of electricity of approx. 12%.

An increase of this scale is far larger than those presently mooted for MRET and other greenhouse measures and will materially affect energy intensive users and therefore it is imperative that alternatives that avoid this savage increase in energy costs are fully considered. DM represents what we believe to be the best opportunity to achieve this.

## **3. The California experience**

The 2001 California "energy crisis" is an excellent example of what DM can produce when it has to. Although the demand side response was triggered by a capacity shortfall and accompanying massive electricity price increases on a scale that will hopefully never be experienced here, it is the results in terms of the "post crisis" wash up that bear scrutiny.

In the run up to the crisis, California's load growth had been dampened during the early 1990's through the implementation of a number of energy efficiency programs by Californian utilities. These programs were discontinued with the implementation of electricity market restructuring into competition based on typical supply side economics and with market rules that no longer encouraged DM.

As a result of this, demand began to grow again with further demand growth projected into the future.

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With the crisis manifesting itself in the form of massive electricity price increases and blackouts, the government interceded to correct the situation. At that time, the blame for the situation from the supply side of the electricity industry was very predictably placed with the government for their role in the market restructuring and the tight environmental regulations that had delayed and/or prevented the construction of large new generation assets.

The stage seemed set for a massive investment cycle to add significant new conventional supply side assets, but instead a community based coalition emerged that saw pioneering legislation enacted that provided over US\$5 billion to encourage DM and clean energy investments.

The result of the demand side activities initiated because of the crisis was that California's electricity demand reduced by 14% in 2001, which means that their system did not require the immediate and massive investments that were initially mooted at the onset of the crisis. Although the California crisis was a painful and expensive experience for which Californians will continue to pay well into the future, it has had some beneficial outcomes as well in demonstrating the potential for demand side initiatives in modern communities.

It must be acknowledged that the Californians are still struggling to understand what specific issues and actions led to the demand reductions that were experienced and whether these will be maintained into the future or not. However, there is now a body of information that can be analysed and learnt from to inform the development of policy that encourages developments on the demand side without the need for a crisis for implementation.

If Australia could achieve a similar demand side load reduction by 2012, this could result in a staggering 22.5% reduction in average electricity prices from the level based on the ESAA forecast under 2. above.

While this is a simple calculation that does not factor in all impacts and externalities (eg. environmental, costs for DM, etc.) it does illustrate that the economy could save up to \$6 billion per annum by 2012 when compared to business as usual.

Even if only a portion of this reduction could be realised, the scale of this opportunity warrants due and proper consideration in the formation of Australia's Energy Policy.

#### **4. The DM Roadmap concept**

In mid 2003 a loose coalition of organisations with interests in DM met and discussed options to advance the cause of DM. These initial meetings included senior representatives from the Energy Users Association of Australia (EUAA), Business Council for Sustainable Energy (BCSE), Energy Action Group (EAG) and DPPL.

During the course of these discussions, it was decided that a submission for funding should be made to the NEM Advocacy Panel (AP) to plan, develop and execute a workshop program to create a strategy distilled from the knowledge of key industry stakeholders to guide the future development of DM.

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It was also decided that for the purpose of this exercise, the broad definition of Demand Management created by IPART be used to provide a holistic view of the range of opportunities that are to be considered.

In December 2003, the AP approved funding for Stage 1 of the work in preparing the documentation, workshop processes and participants lists and with this funding in hand, the initial participants (EUAA, BCSE & EAG) invited representatives from Moreland Energy Foundation (MEFL) and Origin Energy (OE) to join a steering committee to oversee the development of this project.

This first stage of preparation for the workshops was completed by late February 2004 and it was during this process that the name "DM Roadmap" was coined for this project. The completion of the first stage of the workshop planning enabled the amount of time and effort as well as workshop numbers to be established and this in turn allowed time and cost estimates for the completion of the DM Roadmap to be completed. (see attached Stage 1 Report)

These formed the basis for a submission for funding to the AP to execute the DM Roadmap project (see attached application), but at their March meeting, the AP decided to defer any decision on progressing with this work in view of the imminent MCE workshop process and with the perception that these two processes were covering much of the same ground.

Since attending the Melbourne MCE workshop, DPPL is of the view that the proposed DM Roadmap workshops and those that have been conducted by MCE for the purpose of obtaining Public Consultation on User Participation are entirely different in terms of their purpose and desired outcomes.

Further, it is our view that the case for the execution of the DM Roadmap workshop process has been strengthened by the feedback received at the MCE workshops where participants asked for a more holistic and strategic approach to end user participation than what was on the agenda.

## **5. Conclusion**

If DM is to fulfil the promise that it can contribute significantly to achieving and maintaining a least cost electricity supply system, a cohesive DM Roadmap must be developed by stakeholders to provide focus and targets for the diverse range of participants in this sector.

In the absence of an identifiable "DM Industry" the steering committee is a surrogate entity that is willing and able to undertake this task quickly and efficiently to provide an outcome that will be useful to inform the development of policy. It is estimated that the entire process to completion of the DM Roadmap could be achieved within 2 months from the commitment of funding and this would enable the outputs to contribute to the current policy development.

The ESAA's projections and the California experience demonstrate the high potential value that properly focussed and implemented DM can deliver and the MCE is in a unique position at present to ensure that these options are properly evaluated, assessed and implemented into the policy mix.

DPPL and the steering committee are prepared to discuss this submission further with the SCO or the team managing the consultation process at any time to facilitate progress in this matter.

We thank you for the opportunity to submit this input to your process and we look forward to consulting further with you on this issue as required.

Yours sincerely,

Franz Grasser  
Director

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