

Your Ref:
Our Ref: EBN2

26 MAY 2008

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box
CANBERRA ACT 2601

Dear Mr Buckley

The Queensland Government welcomes the opportunity to comment on the issues paper '*Potential development of demand management incentive schemes for Energex, Ergon Energy and ETSA Utilities for the 2010 - 15 regulatory control period*' (the Paper), released by the Australian Energy Regulator (AER) in April 2008.

The Queensland Government supports the implementation of a demand management incentive scheme that provides for a more economically efficient market where network and non-network investments that deliver the same level of service reliability are given equal regulatory concession, and economic benefits are ultimately transferred to Queensland electricity consumers.

A demand management incentive scheme that leads to reductions in greenhouse gas emissions is also considered critical in the context of the Government's commitments on climate change.

Strong economic conditions and high population growth in Queensland, combined with the increasing penetration of energy-intensive appliances such as air conditioning and the development of more energy-intensive commercial industries, is leading to escalating energy demand levels.

ENERGEX, Ergon Energy and Powerlink Queensland have conducted electricity consumption modelling which forecasts that under a 'business-as-usual' scenario, peak electricity demand in 2020 will be 75 per cent higher than 2007 levels and total consumption will be up to 48 per cent higher.

Rising peak demand is placing pressure on Queensland's network infrastructure capacity and investment, along with contributing to higher energy prices and greenhouse gas emissions. Currently, approximately 10 per cent of Queensland's network capacity is installed to meet peak electricity demand that occurs for around one week each year. Demand management measures that reduce peak demand can assist with the deferment of expensive network augmentation and, potentially, have a downward impact on electricity prices.

ENERGEX, Ergon Energy and Powerlink Queensland, with the support of the Department of Mines and Energy, have undertaken a cost-benefit analysis of a suite of demand management projects that have the potential to deliver peak energy reduction and/or energy conservation benefits to Queensland. This analysis has identified a number of priority pilot projects for which implementation options are being explored, including direct load control, targeted industrial and commercial sector measures and distributed generation projects.

The Queensland Government would support the implementation of an AER demand management incentive scheme that would enable Queensland electricity businesses to undertake these priority pilot projects and expand on current demand management trials. The Cool Change Stage One air conditioning load control trials and the Townsville Solar Cities Project are examples of pilot projects currently underway, which the Queensland Government considers are integral to the demand management learning process that will assist to identify the most effective demand management measures.

Effective regulatory arrangements would deliver a positive incentive to Queensland distribution network service providers (DNSPs) to undertake projects that provide the greatest opportunity for energy conservation and peak demand reductions, whilst maintaining or improving electricity supply reliability in Queensland and ensuring adequate capacity in Queensland's energy supply systems. A scheme that leads to deferred network augmentation requirements with economic benefits for Queensland consumers is essential.

Demand management as well as energy efficiency developments will make important contributions to the Queensland and national commitments to reduce greenhouse gas emissions to 60 per cent below 2,000 levels by the year 2050. The Queensland Government considers that a well-designed regulatory framework underpinning improved energy conservation is particularly relevant in the context of the forthcoming National Emissions Trading Scheme (NETS). NETS alone should not be relied upon to deliver the response required to achieve the necessary emissions cuts. The Garnaut Review and the National Emissions Trading Task Force have both highlighted that the price signals arising from NETS will be unlikely to result in a significant increase in energy efficiency in the short term because barriers to improved energy efficiency are not necessarily linked to price signals.

The following elements and their effectiveness in providing for a cost-efficient demand management approach could be considered for integration into a regulatory framework for Queensland:

- Enabling distributors to earn the same rate of return on investments for demand management measures as for capital investments that deliver the same level of reliability and security of supply at reasonable cost.
- Cost-benefit analysis of infrastructure augmentation versus demand management options as part of the network planning process.
- An allowance allocated to demand management pilot projects and innovation, based on a reasonable percentage of DNSP revenue. It is noted that the innovation allowance developed for networks in New South Wales and the Australian Capital Territory was low in comparison to the cost of implementing meaningful demand management trials.
- Enabling a broad range of demand management activities, possibly including: community based social marketing and education, commercial and industrial sector initiatives, direct load control, consumer response trials and distributed generation.

Demand management initiatives will be most successful when applied in concert with upstream and downstream market stakeholders, including generators, transmission networks and retailers. It is suggested the AER could look toward fostering a regulatory environment for the development of whole-of-industry demand management initiatives, in order to maximise opportunities for a cost-efficient market and greenhouse gas emission reductions.

Please find attached a Queensland Government response to specific questions in the Issues Paper. Queensland Government looks forward to reading the proposed DMIS paper in June 2008.

Yours sincerely



 **Dan Hunt**
Director-General
Department of Mines and Energy



 **Terry Wall**
Director-General
Environmental Protection Agency

Att: Queensland Government Response to Specific Issues Paper Questions