

The Australian Gas Light Company

June 12, 2002

Mr Tom Parry
Chairman
Independent Pricing and Regulatory Tribunal
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RE: Inquiry into the Role of Demand Management and Other Options in the Provision of Energy Services (Matter No. 01/257)

Thank you for the opportunity to comment on the Interim Report of the Inquiry into the Role of Demand Management (DM) in the Provision of Energy Services.

AGL supports initiatives that will improve the utilisation of DM including distributed generation because significant community and environmental benefits for a reasonable cost should be delivered.

The comments that follow have been organised in the same manner as the "Overview of Conclusions and Recommendations" in the Interim Report (Chapter 6) and the numbers used here refer to the numbering system used in the Overview.

6.1 Environmentally - driven demand management

2. Establish Demand Management Fund

AGL supports the option that involves the creation of 2 separate funds – essentially Option 3. The first fund to be applied to reducing in levels of greenhouse gas emissions and other adverse by-products of energy production. The second, to promote a sustainable future by focusing on longer-term market transformation and R&D projects

With the demise of the Federal Government's ERDC fund, very little long term R&D funding has been available for developing potential energy technologies. There is evidence that energy efficiency R&D is being carried out in the USA, Europe and Japan on micro-turbines, fuel cells, desiccant systems and similar technology. However, there is a need to demonstrate these new technologies locally under local conditions and the proposed fund could go help in this regard.

Further, we believe some funding should be made available to commercialise locally developed technologies. For example, the developers of two liquid desiccant air conditioning systems - Air-Change P/L (John Urch) in Sydney and Ficom (John McNabb) in Adelaide. Both systems can operate on waste heat from co-generation or fuel cells and are able to provide comfortable conditions for residences both in summer and winter at a reasonable cost. The utilisation of this type of technology could dramatically reduce summer peak loads.

Applications by proponents seeking funding should be administered by an independent authority separate from the collection agency (assumed to be the MEU) and allocated on

a competitive basis. The independent authority would need to be representative of DNSPs, retailers and customers.

6.2 Network – driven demand management

Note that additional commentary on issues raised in this section has been included in AGL's submission to IPART's "Distributed Generation Discussion Paper" – with particular reference to maintaining network reliability.

1. Review regulatory treatment of network capital expenditure and DM/Distributed Generation payments - include prudency assessment guidelines and test.

AGL supports the Tribunal in its efforts to enhance the networks' planning processes to allow consideration of DM options. The initiative should include the requirement for early notification by network providers of possible needs for network augmentation so DM options can be thoroughly explored.

3. Clarify rules for treatment of avoided TUOS/DUOS and transaction costs to DGs

The proposed development of standard connection agreements would be a valuable initiative.

4. Support a DM code of practice and use of standard offer contracts

Ideally, standard offer contracts for DM should require the network operator to offer a set price per kVA of peak network demand reduction per year. This would provide a clearer indication of the value of DM to potential DM suppliers than at present. Where practicable, annual planning statements should also include a measure (even if indicative) of the value to the DNSP in avoiding network augmentation for each constraint identified. Such an indication of the commercial value of DM at an early stage will assist proponents to be more effective in their involvement with the process.

There are acknowledged and significant practical limitations to the achievement of this approach but it is vital that DM proponents have indicative price signals to guide their economic assessment.

The scope of this Inquiry does not specifically include a review the DM Code of Practice. The effectiveness of the Code is essential to the success of DM. AGL proposes that future measurement of the effectiveness of the DM initiatives should include a measurement of the effectiveness of the Code.

A review of the Code would need to include consideration of the following points;

- Recognition that non-network solutions will in most cases not be implemented by the DNSP alone, but by a customer(s), a proponent and the DNSP in partnership. The process should recognise that commercial partnerships need to be formed between DNSPs, customers and proponents from the earliest stages (eg: during feasibility evaluations) and that "isolated" evaluation of DM projects by DNSPs does not encourage involvement of third parties.

- Details of the Standard Offers should be available early in the planning process. Standard offers should also state the technical and performance criteria that the DNSP requires any DM to meet.
- Technical barriers to network connection should be addressed through availability of technical design standards for DG interconnections.

6.3 Retail market driven demand management

Note that additional commentary on issues raised in this section has been included in AGL's submission to IPART's "Distributed Generation Discussion Paper" and in its submission to the MEU's Position Paper on "Greenhouse-related licence conditions for electricity retailers".

1. Review policy for rolling out "smart" meters to residential customers.

Support for this proposal may be found in the following 2 paragraphs quoted from Public Utilities Fortnightly - April 1, 2002 concerning the recent California problems:

" There were two fundamental aspects to this (California market design) that were ignored," observes Boirenstein, the director of the University of California Energy Institute at UC Berkeley. "One is the demand side of the market, which was completely left out, so that essentially we were operating a market where all of the adjustment had to occur on the supply side. On the other side, the supply side, we threw everything into the spot market that wasn't contracted beforehand. We have to understand that for this market to work, we really need to have demand-side responsiveness and we need to have long term contracting ability.""

"Frank Wolak, a Stanford University professor of economics and chair of the Market Surveillance Committee for the California Independent System Operator, explains it in practical terms. "If you don't allow people to see price risk, they won't invest in demand response technology. So in some sense, that's the fundamental chicken and egg problem in this whole thing; if you continue with these sort of bandages (price caps) you'll never get to where you eventually get the benefits consumers would achieve from a competitive market. That's going to require consumers to manage price risks, to manage their consumption.""

If customers are not charged appropriately for peak electricity prices they will not do anything about reducing peak demand. Time of use metering could go a long way towards changing customer's usage patterns and/or introducing peak load reduction technologies at a customer's premises such as fuel switching or in the future, micro co-generation.

However, support for this initiative is tempered by our concern that an equitable mechanism for recovery of the capital cost of the change in metering has not been proposed.

2. Facilitate development of an active market or trading platform for aggregation of DM to provide better information on the value and opportunities for DM.

AGL supports frameworks that promote the emergence of DM aggregators. Aggregation will enable DM specialists to emerge, addressing barriers of

- market immaturity & inexperience,
- lack of power in negotiations with DNSPs,
- capacity to manage risks of DM (reliability and commercial)

3. Develop a market framework for small-scale distributed generators

AGL believes that this initiative will be an essential requirement for the development of distributed generation projects. The issues involved are more fully discussed in AGL's response to IPART's Distributed Generation Discussion Paper.

Yours faithfully

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The Australian Gas Light Company