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Introduction

The Nature Conservation Council (NCC) and the Total Environment Centre (TEC) welcome the opportunity to comment on IPART's Interim Report on the Inquiry into the Role of Demand Management in the Provision of Energy Services. The NCC and TEC support the increased role of demand management (DM) in reducing greenhouse gas emissions and avoiding unnecessary network augmentation. We support increased DM for the provision of environmental and social benefits. It is important to pursue DM options as a viable alternative to the conventional "increase supply to meet demand" solution.

DM should play a significant role in helping NSW Electricity Retailers meet their Greenhouse Benchmarks. Demand management options are much more certain than carbon sequestration activities which pose a high risk in terms of abatement certainty. For a more comprehensive discussion on this please see the submission on behalf of the environment groups to IPART on the NSW Greenhouse Benchmarks for Electricity Retailers (wwwnccnsw.org.au/ncc/context/greenlectricty.html).

Underlying principles

Essentially, DM must be pursued because environmental costs are not included in the price of electricity.

- These costs remain as externalities in the market.
- Voluntary measures are not a sufficient driver for change, it was necessary to introduce incentives for electricity retailers to incorporate these externalities, as demonstrated with the introduction of the NSW Greenhouse Benchmarks.
- Similarly, for DM initiatives to occur, the introduction of meaningful incentives is fundamental.

- Planning for DM a core feature of NSW sustainability, consistent and integrated across government.

The development of meaningful incentives will be dealt with in our recommendations to IPART.

Summary Recommendations

While we respect that it is not the role of IPART to develop government policy on DM, it remains our concern that the lack of incentives for DM is the single biggest barrier for the greater uptake of DM. Until these issues are properly addressed, the progress of DM will be limited. There is minimal attention towards the inherent barriers and lack of incentives that currently undermine DM in the electricity industry. To create incentives for DM we recommend

- Enforceable DM targets: this will create a market, without strong regulatory incentives, it is unlikely that any DM initiatives will occur
- Separation of energy planning powers from the energy industry.
- Independent energy forecasting.

Overall, we support IPART's suggestion for a focused approach to demonstrate efficient and effective DM programs that will increase the industry's confidence in DM. We would like to see attention towards both end-user DM and supply side initiatives. This is to ensure that increased confidence in both these aspects of DM are realised and pursued by industry.

This submission will include our specific recommendations to stimulate the market for DM, followed by our comments on various issues, outlined in the paper.

RECOMMENDATIONS:

1. Establish enforceable regulation for DM throughout the energy industry

We support the paper's overall concepts that encourage the pursuit of DM in the energy industry. However, we feel that until stronger drivers to change the culture of the electricity market are created, it is unrealistic to expect any significant change to occur.

This has been proven with the experience of the Californian energy crisis and the introduction of the Greenhouse Benchmarks for NSW electricity retailers. In principle, support of DM initiatives may exist throughout the energy industry, but regulated measures for DM or a strong impetus such as the energy crisis in California are the type of drivers that are needed to facilitate the uptake of DM.
We believe that this situation is the result of the inherent conflict that exists when historically the energy industry has not embraced a culture of DM and the consent authority, energy planning and energy provision are too close, with the risk of a potential

conflict of interest. Thus, despite external efforts to encourage DM in energy planning it is unlikely that the ultimate decision makers will adopt these initiatives. In addition the complexities in measuring some types of DM, such as electricity sales foregone arguably, adds another level of resistance for these players.

To create an environment where DM will be pursued, we recommend establishing regulated targets for the industry. In the case of electricity retailers we expect that this will come under the (yet to be decided) conditions for the recently introduced *Greenhouse Benchmarks for NSW Electricity Retailers*. To facilitate network driven DM, new regulated targets for this area of the industry will need to be created. The legislation that deals with these targets could also cover the operation of the proposed DM Fund. We recommend that the regulatory powers be vested with IPaRT, given their expertise in the area.

2. Independent Energy forecasting

A fundamental problem with the energy industry is the lack of separation between development planners (the proponents) and mid to long term energy forecasting. Not dissimilar to other areas of planning it is crucial to separate the vested interests of the proponents from the decision makers. Otherwise the predictable result of increasing supply to meet a forecasted increase in demand will continue. Without an independent process, it is impossible to determine rigor of conclusions for network augmentation. We recommend that independent energy forecasting is necessary, to ensure against a bias towards network augmentation of DM.

The rest of our submission comments on some of the particular recommendations raised in IPART's discussion paper. This submission will focus on 'environmentally driven' and 'network driven' DM. There is overlap between some of these issues and those of retail driven DM.

Establishment of a Demand Management Fund

We believe the idea of a Fund is a good preliminary mechanism to bring about the realisation of DM programs. However, the Fund alone is not enough to facilitate this process. As mentioned earlier a strong imperative for the electricity business to pursue DM is needed. Until then, various DM projects will not become commercially rigorous. Stronger incentives in addition to the fund are recommended to achieve commercially viable DM outcomes.

Source and level of Funding for the DM Fund

Obviously the Fund will require significant resources to operate. These resources should come from consolidated revenue from the dividends of the Government's electricity utlilities. The $10 million for the approval of the CBD cable project should naturally also go towards the Fund.

We would only support a premium on network charges for DM programs that are targetted at residential groups for reasons of equity.

Administration of the Fund

Due to the risk of overlap and given SEDA's expertise in the relevant area, we believe that SEDA is the appropriate administrator for the Fund. The fund would be built upon the Sustainable Energy Fund, with an expansion of its objectives. To overcome the concern of SEDA's multiple objectives mentioned by IPART, we recommend a transparent process for the allocation of the Funds resources in meeting the Funds objectives.

Governance of the Fund

To avoid an unbalanced focus on short-term projects with an earlier pay-back period, to the detriment of longer R&D and market development programs, as well as to avoid the confusion between the funder and service provision functions, we support the separation of the two functions, as suggested by IPART.

Retail user

Although energy efficiency with small residential consumers is less cost effective than larger commercial customers, there are other social benefits, associated with DM at the residential level such as reduced costs for residential consumers.

In addition there are the indirect social and environmental benefits associated with greater public education about energy efficiency. There is an urgent need for greater public understanding of electricity, this is one of the biggest barriers in tackling wasteful use of energy and increasing greenhouse gas emissions. Most people although concerned about greenhouse are not aware of the connection between poor electricity usage and increasing greenhouse gas emissions. Energy efficiency programs for residential customers can perform an important educational role. This in turn should assist the transformation of the electricity market towards renewables, with less demand on greenhouse intensive energy sources.

For these reasons we support the suggestion that an appropriate proportion of energy efficiency programs from the Fund be dedicated to residential consumers.

Coordinate DM across government

With respect to the implementation of DM programs, we support the coordination of DM for energy, water and waste. Better coordination is not only more cost effective, consistent with sustainability principles, but sends a clearer message to the public. We recommend that the coordination of energy, water and waste programs should be a priority for government.

Greater information about energy efficiency of houses, similar to the ACT House Energy rating Scheme would not only provide useful information for potential home-buyers, but also compliment existing services such as the Energy Smart Building Information Centre. The coordination of a range of energy efficiency services and programs simultaneously, will have a far greater impact on the public. It is more cost effective and coherent to the public when a range of DM initiative across the broad are sought in conjunction with one another.

Government Energy Management Policy (GEMP)

There is concern that the GEMP has not delivered the anticipated energy savings. Since 1988 it seems that only $7.5 million of the $20 million available to the Energy Performance Contracts (EPC) has been used. There needs to be more rigorous pursuit of energy efficiency projects for budget dependent agencies. In addition we recommend that a proportion of the savings be put back into a revolving fund for future EPCs.

The opportunity to promote DM across government is currently being lost. The government should actively demonstrate the broad application of effective DM strategies. We recommend the requirement for government buildings to maintain the most current energy codes for any buildings under construction or undergoing renovation.

Network Driven DM

The discussion paper raises a number of issues with respect to the impediments for network driven DM. We support any initiatives that attempt to re-balance this framework, including trials of congestion pricing, standard offers and positive pricing signals for distributed generation.
As discussed in the IPART discussion paper, there is insufficient clarity regarding the regulatory treatment of network capital expenditure and the treatment of avoided (TUOS) and (DUOS) costs for distributed generators. As a result distributed generation suffers a commercial disadvantage. Pricing arrangements that more adequately reflect the avoided environmental costs of distributed generation would create a more level playing field and facilitate greater uptake. The current network pricing arrangement is at odds with DM.

Conclusion

In conclusion, we support the overall concepts that encourage DM in the Interim Report. However, to facilitate the uptake of DM we consider it necessary to also introduce regulated DM targets and establish independent energy forecasting.

To ensure the uptake of DM in the energy industry we advocate the introduction of regulated targets. Without a significant driver for change such as this, it is unlikely that DM will be actively pursued by industry.

The lack of independent energy forecasting is a fundamental barrier in avoiding network augmentation. Without a clear separation between the energy planners and decision makers we cannot expect rigorous and transparent outcomes for the energy industry. We recommend that SEDA should be responsible for independent energy forecasting to ensure against a bias towards network augmentation.