Queensland Government Response to Specific Issues Paper Questions

The Queensland Government would like to make the following comments in relation to specific questions raised in the Issues Paper.

1. What are the incentives and disincentives for QLD and SA Distribution Network Service Providers (DNSPs) to undertake demand management?

There are strong incentives for demand management measures that have a downward impact on electricity distributors' costs when DNSPs benefit from the savings these measures provide. Opportunities for market development in new technology areas could be viewed as an incentive for DNSPs.

The limited direct relationship between energy users and DNSPs creates a difficulty for demand management, but this could be improved through implementation of effective customer awareness programs. Given certain demand management investigations are in their early stages in Queensland, further experience and assessment is required in order to determine whether the strategies will achieve the desired impact in comparison with supply-side infrastructure investments.

2. Is it necessary to apply a Demand Management Incentive Scheme (DMIS) in QLD and/or SA, given the likely effect on customer prices and customer willingness to pay for an incentive for a DNSP to conduct demand management?

For the reasons outlined in the general response attached to this submission, the Queensland Government considers it is imperative that a demand management incentive scheme be introduced for Queensland's DNSPs. Well-designed demand management initiatives may have a role in reducing energy costs to end-use customers by reducing overall demand and, in particular, the incidence and magnitude of demand peaks, and deferring or removing the need for network augmentation.

5. Do lessons learned from the QLD or SA jurisdictions or other jurisdictions provide any insight into the potential development of DMIS to QLD and SA DNSPs?

Competitive markets for demand management have emerged in Australia in the context of regulatory support mechanisms or financial incentives, for example, use of the D-factor in ACT and NSW energy markets.

Whilst a revenue cap may provide more incentive for demand management than a price cap, a revenue cap alone does not provide the level of incentive required to drive extensive demand management activity. Further incentive is required to encourage distribution businesses to consider demand management as being part of their core business.

7. What are the likely costs and benefits of implementing and administering the DMIS proposed in this paper or any other potential DMIS?

Potential costs and benefits of a DMIS in Queensland which would require consideration in the development of a scheme, include:

Maximising opportunities for demand management that would assist to reduce impacts on households of rising energy costs have clear benefits. Reduced electricity consumption has positive flow-on benefits effects including the reduction of greenhouse gas emissions and increased awareness of links between energy use and climate change. Demand management can enable distribution businesses to target areas where network capacity is constrained providing alternative to resourcing intensive network augmentation.

The costs of demand management programs run by DNSPs include actual costs, administrative costs and lost revenue-generating opportunities from new infrastructure. The possible increased risk of lower reliability would need to be mitigated. Any potential impact on electricity pricing would need to be carefully analysed.