



18 March 2015

**SUBMISSION TO AEMC ON CONSULTATION PAPER ON
NATIONAL ELECTRICITY AMENDMENT (DEMAND
MANAGEMENT INCENTIVE SCHEME) RULE CHANGE 2015**

BACKGROUND

The Queensland Consumers' Association (the Association) is a non-profit organisation which exists to advance the interests of Queensland consumers. The Association's members work in a voluntary capacity and specialise in particular policy areas, including energy. The Association is a member of the Consumers' Federation of Australia, the peak body for Australian consumer groups and is represented on the Queensland Competition Authority's Consumer Consultative Committee and the Energy and Water Queensland Ombudsman's Advisory Council. The Association is also a member of the Queensland Council of Social Service's Essential Services Consultative Group.

The Association welcomes the opportunity to make this submission on the proposed rule changes. However, due to resource constraints this submission is brief.

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GENERAL COMMENTS

As indicated in the Association's recent submission to the Senate inquiry into distribution businesses, for many years, the Association has advocated, largely unsuccessfully, at state and national level for higher priority to be given by distributors and other stakeholders, including regulators and governments, to the implementation of demand management measures to reduce the cost of meeting peak demand.

The failure nationally to use demand management measures sufficiently to address the problem of peak demand has resulted in a massive increase in peak demand in many states, especially late in the afternoon on very hot days, and in the network investments needed to meet it. These investments have in turn substantially pushed up power prices to consumers.

This was a massive public policy failure that has cost consumers and the economy very dearly.

And, while the Association recognises that conditions have changed in recent years, and the existence of great technological and other uncertainties likely to have significant impacts on demand, prices, etc, we consider that there is still great scope for the use of cost effective and efficient demand measurement measures by distribution businesses. The main challenge is to remove the many existing barriers to this occurring.

Therefore, the Association strongly supports the Rules being changed to increase the ability of demand management to be used as an alternative to, or in conjunction with other measures, to achieve the objectives of the National Electricity Law.

SPECIFIC COMMENTS

Direct load control of air conditioners

Based on the major benefits Queensland consumers obtained from the introduction many years ago of direct load control of hot water systems by distributors, the Association has highlighted for many years the large potential benefits likely from voluntary direct load control of household air conditioners.

The need for this became apparent several years ago when the use of air conditioners began to expand very rapidly. Yet industry and governments failed¹ to quickly develop and implement policies to overcome impediments to the use of direct load control of air conditioners.

The advantages of direct load control over other forms of demand management, and other approaches to managing peak demand, include:

- It is a simple “set and forget” operation for consumers
- It provides a highly reliable way for distributors to manage peak demand
- It can lock in a peak demand reduction capability for several years
- It can often be implemented without the need for any tariff or meter changes.

Trials have shown that direct load control of household air conditioners, involving switching them to economy mode, results in no noticeable reduction in consumer comfort.

Retrofitting older air conditioners for direct load control does not seem to be practical or economic. Nevertheless, the Association considers that the continuing expansion in the number of air conditioners in use, and the impending very large replacement market, will still allow direct load control of these appliances to be a significant demand management tool.

Also, PeakSmart enabled air conditioners are now widely available but for a variety of reasons² many will be installed without a signal receiver being fitted. Therefore, there will be considerable potential for distributors to later develop and implement programs that result in a receiver being fitted and the appliances becoming part of distributor demand management portfolios.

The Association considers that the regulatory arrangements to date to provide incentives or to require distributors to consider, develop, and implement direct load control of air conditioners as an alternative to, or to complement opex (augex and repex) and opex have been extremely inadequate.

This is clearly demonstrated by the fact that the significant recent progress made by the two Queensland distributors Energex and Ergon Energy, especially Energex with its PeakSmart direct load control scheme for air conditioners, would not have been achieved without substantial grant funding provided by the Queensland government.

Therefore, it is essential that the regulatory arrangements be improved and we consider that the Rules should be changed along the lines proposed by both TEC and the COAG Energy Council.

Although outside the scope of this consultation we also wish to take the opportunity to put on the public record our view that:

¹ The reasons are identified and discussed in a Consultation Regulation Impact Statement on Mandating Smart Appliance interfaces issued by the Equipment, Energy Efficiency Committee of Energy Efficiency in 2013 and available at <http://www.energyrating.gov.au/about/other-programs/demand-response/>

² For example, where a distributor does not want or is unable to have direct control of the household air conditioner loads or a householder does not want to participate in a distributor’s direct load control program

1. Distributors, retailers, equipment manufacturers, regulators and governments should work much harder and more cooperatively than in the past to ensure that cost effective direct load control, plays a much greater role in the future management of peak demand.

2. The distribution industry should give high priority to the future roles for direct load control of air conditioners in the development, adjustment and management of networks and in conjunction with other stakeholders (including consumers) should develop national guidelines on this matter.

3. The Federal government should give high priority to implementing the recommendations in the Consultation Regulation Impact Statement on Mandating Smart Appliance interfaces issued by the Equipment, Energy Efficiency Committee of Energy Efficiency in 2013. This would greatly facilitate the adoption of a national approach towards direct load control of household appliances, including air conditioners.

Demand management as an alternative or complement to expenditure on asset replacement

The Association considers it is important to recognise the role of demand management as an alternative, or complement, to not only augmentation capital expenditure but also replacement capital expenditure, which is likely to be an increasing proportion of capital expenditure in the foreseeable future.