3 May 2004

User Participation Working Group
c/- Office of Energy Planning and Conservation
GPO Box 936
Hobart Tas 7001

Dear Sir or Madam:

Distributed Power Pty Ltd revised submission

Further our submission of 19 April 2004, Distributed Power Pty Ltd (DPPL) is pleased to provide this revised submission for consideration by the SCO in their policy development work for the MCE. This revision became necessary after it became clear that there was an error in the economic analysis that had been completed on the basis of the ESAA projections.

This revised submission corrects those errors and uses this revised analysis to change the content of sections 2 and 3 of the original submission as follows:

2. The ESAA business as usual scenario

As the advocacy body for a $17 billion industry (electricity sector), the ESAA is a well established and well-resourced industry association that has the advocacy and analytical skills required to ensure that their members' best interests are fully considered in the formation of policy.

In August 2003, as part of their advocacy for energy market reform, the ESAA released their views on the load growth projections and investments required to 2012. In this analysis, the ESAA estimated that $30 billion of investment in electricity supply and $8 billion in gas supply would be required to meet load growth that was projected to be in the order of 50,000 GWh per annum by 2012.

This analysis disregards the gas industry investments and focuses only on the $30 billion electricity investments required by 2012 to satisfy the load growth from approx. 175,000 GWh in 2002 to approx. 225,000 GWh in 2012.

Our analysis of this data suggests that in order to cover the costs of these investments, an additional annual cost of approx. $5.6 billion per annum will be paid for by energy users. This represents an increase in real terms in the average cost of electricity of almost 2.5% in 2012.

An increase of this scale is larger than those presently mooted for MRET and will materially affect energy intensive users and therefore it is imperative that alternatives that avoid this increase in energy costs are fully considered. DM represents what we believe to be the best opportunity to achieve this.

Distributed Power Pty Ltd ACN 091 241 002 ABN 23 091 241 002
Suite 1, Level 2, 19-23 Prospect Street, Box Hill Vic 3128
Ph: +613 9898 7400 Facsimile +613 9898 7499

The other related issue is that these projected investments in additional capacity are based on a quite substantial rate of load growth from 175 GWh to 225 GWh. If this rate of load growth does not eventuate due to either a slowdown in economic growth or a higher rate of peak load growth than underlying load growth, the investments will need to recover their capital from a smaller base.

If either of these scenarios occurs, the average cost of electricity will increase at a rate higher than that projected above. This may be a very real prospect as ABARE's future load growth scenarios appear to be lower than those used by ESAA.

3. The California experience

The 2001 California "energy crisis" is an excellent example of what DM can produce when it has to. Although the demand side response was triggered by a capacity shortfall and accompanying massive electricity price increases on a scale that will hopefully never be experienced here, it is the results in terms of the "post crisis" wash up that bear scrutiny.

In the run up to the crisis, California's load growth had been dampened during the early 1990's through the implementation of a number of energy efficiency programs by Californian utilities. These programs were discontinued with the implementation of electricity market restructuring into competition based on typical supply side economics and with market rules that no longer encouraged DM.

As a result of this, demand began to grow again with further demand growth projected into the future.

With the crisis manifesting itself in the form of massive electricity price increases and blackouts, the government interceded to correct the situation. At that time, the blame for the situation from the supply side of the electricity industry was very predictably placed with the government for their role in the market restructuring and the tight environmental regulations that had delayed and/or prevented the construction of large new generation assets.

The stage seemed set for a massive investment cycle to add significant new conventional supply side assets, but instead a community based coalition emerged that saw pioneering legislation enacted that provided over US$5 billion to encourage DM and clean energy investments.

The result of the demand side activities initiated because of the crisis was that California's electricity demand reduced by 14% in 2001, which means that their system did not require the immediate and massive investments that were initially mooted at the onset of the crisis. Although the California crisis was a painful and expensive experience for which Californians will continue to pay well into the future, it has had some beneficial outcomes as well in demonstrating the potential for demand side initiatives in modern communities.

It must be acknowledged that the Californians are still struggling to understand what specific issues and actions led to the demand reductions that were experienced and whether these will be maintained into the future or not. However, there is now a body of information that can be analysed and learnt from to inform the development of policy that encourages developments on the demand side without the need for a crisis for implementation.

If Australia could achieve a similar demand side load reduction by 2012, this would result in a staggering $3.75 billion reduction in annual charges from the level based on the ESAA forecast under 2. above. This would also reduce the average unit cost of electricity by over 2.5% when compared with the ESAA scenario and would leave the real average cost of electricity slightly below 2002 levels.

While this simple calculation does not factor in all impacts and externalities (eg. environmental, costs for DM, etc.) it does illustrate that the economy could save almost $4 billion per annum by 2012 when compared to ESAA's business as usual.

Our analysis assumes that with load growth reduced in line with the California experience, the capital required for Electricity Supply assets will be in the order of $9.25 billion. This is because:

- MRET alone will deliver half of the required incremental energy generation and therefore no baseload investments are likely;
- Lower levels of load growth means that investments in infrastructure can be smaller;
- Lower levels of load growth means that investments in infrastructure can be deferred;
- Industry participants can utilise the lower rate of load growth to find more innovative and lower cost options to increase capacity from existing assets.

Even if only a portion of this reduction could be realised, the scale of this opportunity warrants due and proper consideration in the formation of Australia's Energy Policy.

4. Conclusion

We regret that the error in analysis has required us to revise and re-submit this submission late and we trust that it is still timely enough to receive consideration in your process.

Yours sincerely,

Franz Grasser
Director

Distributed Power Pty Ltd ACN 091 241 002 ABN 23 091 241 002
Suite 1, Level 2, 19-23 Prospect Street, Box Hill Vic 3128
Ph: +613 9898 7400 Facsimile +613 9898 7499