

Hon Lily D'Ambrosio
Minister for Energy and Resources
Level 36, 121 Exhibition Street
Melbourne VIC 3000



21 August 2015

Re: Priorities for Energy Efficiency, August 2015

Dear Minister

I'm writing to you to outline the Energy Efficiency Council's (EEC) priorities for the Energy Efficiency and Productivity Strategy (the Strategy) in advance of your summit on 25 August.

The EEC endorses the broad directions set out in the Energy Efficiency and Productivity Statement, and welcomes the Victorian Government's strong vision and commitment to use energy efficiency to lower household bills, create jobs, boost competitiveness and reduce emissions. We believe the Government can achieve all these outcomes if the Strategy:

- Combines immediate actions with a longer-term vision
- Invests the right funding now to reduce government expenditure over time
- Links to broader energy policy
- Engages with broader industry development and job creation.

Firstly, we believe the Strategy should include clear actions and funding over 4 years, as part of a longer-term strategy to transform markets over 10 years. Some policies should be introduced straight away, some need research and piloting before they can be rolled-out, and certain regulatory measures should be introduced later, once markets have started to transform.

For example, Victorian and NSW state energy efficiency programs from the early-to-mid 2000s led to the widespread adoption of Compact Fluorescent Lightbulbs (CFLs). These market changes were essential to enable the Federal Government to announce minimum standards for light bulbs in 2007. Similarly, Victoria should invest now in tools and outreach programs to make upgrading offices standard practice, which will enable the state to introduce minimum standards for offices in 2020.

Secondly, investing the right amount now will not only deliver major economic benefits to the state, but will reduce future requirements for government funding. Many previous energy efficiency programs had the right intention but insufficient funding for proper research, piloting and program delivery, which ironically reduced their cost-effectiveness.

We strongly recommend that programs are properly funded to ensure they are well designed before they are launched, which will ensure they deliver real outcomes. Some of our recommendations involve relatively modest funding over the next few years for piloting, with increased funding later. Other recommendations involve real funding over the next four years to reduce costs in the future. For example, investing in tools and outreach will enable the use of regulatory measures later on that have a much lower cost to government. We believe that the Strategy will need at least \$150 million over the next 4 years, in addition to investment in the Greener Government Building Program.

Thirdly, energy efficiency is strongly affected by the broader rules and regulations of the energy sector. For example, the push for fixed tariffs by the monopolies that manage electricity networks not only affects vulnerable energy users, it also undermines the incentive to invest in energy efficiency. Therefore, we strongly recommend that the Strategy includes clear references and recommendations around key issues in the energy sector, even if the Victorian Government is addressing these issues through other strategies.

Fourth, a well-designed Strategy will not only create new jobs in energy efficiency, but will also strengthen other businesses in the state, enhancing job stability and growing the economy. Similarly, it will be far more effective to deliver energy efficiency improvements to some energy users (e.g. manufacturers) if it is incorporated into a broader program to make their company more competitive. For example, efficiency could be included as just one part of a broader program that helps manufacturers invest in new equipment and adjust to new markets. Therefore, we recommend strong linkages between the Strategy and broader industry policy.

The Council's detailed recommendations are set out in the attached document. These are high-level recommendations, and over the next month we will work with experts to expand these into detailed proposals. Our recommendations are broken into:

1. Cross-cutting issues
2. Energy market reform
3. Office and retail buildings
4. Government operations, health and education
5. Industry and SMEs
6. Households and vulnerable consumers

Our comments do not cover the Victorian Energy Efficiency Target (VEET), which is being progressed through another review.

I look forward to seeing you at the Energy Efficiency and Productivity Summit, and would like to meet with you after the Summit to discuss your priorities and the issues set out in this letter. Your office can contact me anytime regarding your availability for a meeting after the Summit on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



Rob Murray-Leach
Executive, Policy and Advocacy
Energy Efficiency Council

1. Cross-cutting issues

The EEC has a number of recommendations that cut across all sectors. We recommend that the Victorian Government:

1. **Develop long-term sector plans.** To deliver deep savings, policies should be staged over time. Some policies and programs should be introduced immediately, but others will require research or learning-by-doing before they are scaled up. This type of approach will be both more effective and reduce the need for public funding, particularly as the policy suite moves towards support and regulatory approaches. For example, a ten-year plan for the office sector could potentially include:
 - **Past** – market leaders started to take action, and the introduction of the Commercial Building Disclosure program in 2010 led to further action in the Premium and A-grade section of the office market.
 - **2015-16** – Continue mid-tier office demonstration projects, expand outreach and develop tools (e.g. standard contracts) to simplify retrofitting. Commence research into policies that will be launched in 2016-2025.
 - **2016-19** – Introduce incentives to retrofit mid-tier buildings (e.g. lower council rates for high-performing buildings)
 - **2019-20** – Introduce minimum standards for the lease of office buildings (e.g. to be leased, an office building must have a NABERS Energy rating of over 2 stars)
 - **2025** – Reach aspirational target. As an example, the target could be for the average NABERS Energy rating across all office buildings to reach 4 stars.
2. **National and international alignment.** This will include:
 - a. The Victorian Government **advocating on key national policies**, including energy market reform, appliance and building standards and a national program for industrial efficiency.
 - b. **Alignment of state policies**, including learning from other jurisdictions in the design of building programs and harmonising residential disclosure and energy efficiency schemes
3. **A media campaign to encourage efficiency.** The campaign should tailor the message to different sectors. For example, a campaign for residential efficiency would focus on increased comfort and health, and would learn from the Bracks Governments' successful Target 155 program for water. A campaign for business would focus on competitiveness, cost savings and productivity gains.
4. **Governance for energy efficiency.** Governance is often given limited attention, but is essential. Governance should include allocating clear roles and accountabilities between agencies, to ensure that key issues don't 'fall between the cracks' and foster sound policy design, evaluation and improvement. In addition, agencies should annually report on the tasks they are allocated in the 10-year strategies.
5. **Skills, capabilities and job-creation.** We recommend a new program to deliver capability, tools and industry development across all sectors (including residential, commercial buildings and industry) with a budget of at least \$15 million over 4 years. The program would include energy auditor certification based on the new AS/NZS 3598 series, support for the Building Retrofit Toolkit and training for electricians. The program would need to be closely coordinated with the commercial, industrial and residential 'action-learning' programs (see below).

2. Energy market reform

Energy market structures are central to ensure the right mix of demand- and supply-side investment that will deliver lowest costs for energy consumers. The Victorian Government can't unilaterally change key features of the energy market, but still has a major role to play in energy market reform. Furthermore, while the Victorian Energy Efficiency Strategy will not be the main driver for many market reforms (e.g. improvements to network tariffs) it is essential that the strategy:

- References key energy market issues, in order to enhance understanding of how energy markets influence efficiency, and makes broad recommendations on these issues, even if it is simply to identify work that the Victorian Government is already doing in that area (e.g. on network tariffs); and
- Makes new recommendations on a number of specific issues to ensure that demand-side issues are properly addressed.

We recommend that the Government:

1. **Urgently address network tariffs** to ensure that they are fair to energy consumers and encourage adaptation in the energy market. Network companies, which are monopolies, are changing tariff structures to maximise their profits, and are pushing for further changes. Many of the existing or proposed tariff structures are inequitable and undermine the incentive for energy efficiency. While network tariffs are regulated by the Australian Energy Regulator (AER), the Victorian Government should develop research papers that identify fair and unfair tariff structures, and then publicise the results and argue for fair tariffs.
2. **Unlock the value of energy users as a demand-side resource.** The Victorian Government should set up a specific program to unlock the value of households and businesses as a 'demand-side resource' (e.g. reducing peak demand) that can lower the cost of energy supply. This would include:
 - **Produce an enhanced map with the schedule of network upgrades.** Work with networks to produce an enhanced State map of scheduled network upgrades and the value generated if energy users and third parties can defer or avoid these upgrades (e.g. via distributed generation and demand-management).
 - **Reform the way that networks are incentivised** to ensure that they invest in demand-side options when they are cheaper than network augmentation.
 - **Appoint an individual (e.g. in the Essential Service Commission) to oversee demand-side and distributed generation projects that lower network costs.** The new position would oversee and resolve disputes between network companies, energy users and third-parties, including fair costs for connecting generation to the network and paying energy users for demand-side services.
3. **Identify key regional towns and new developments that could establish mini-grids** to lower network and energy costs for consumers. This project would bring together network management, renewables, energy efficiency and job creation.
4. **Unlock the value of residential smart meters and business data.** Victoria invested billions of dollars rolling out of smart meters to households, but the full value of smart meters has not yet been unlocked. The Government should take actions to maximise the value of this infrastructure, including ensuring that households and businesses have access to their energy-user data in a way that helps them manage their energy.

3. Office buildings and retail

The commercial building sector includes office buildings, retail, accommodation, industrial buildings, municipal buildings, education and health. Government buildings (including education and health) and industrial buildings are covered elsewhere. We recommend that the Victorian Government focus their efforts in the remaining sectors on the two biggest opportunities – offices and retail.

There has been real improvement in the efficiency of premium grade office buildings in recent years, but we have not realised the potential improvements in the large number of lower-grade 'mid-tier' office buildings or the retail sector. We recommend a long-term plan that includes immediate actions and research, piloting and scaling up information and regulatory policies that reduce the need for public funding.

Priorities for the Strategy

1. **Efficient Mid-tier Office Buildings program:** Develop a ten-year vision to transform the mid-tier office sector, and allocate \$40 million over the next four years to start this journey. The program would be based in Sustainability Victoria and work closely with the City of Melbourne. The program would have an 'action-research' focus that links to the skills program and includes research, demonstration projects and outreach efforts to both building owners and tenants. The results of these projects would be used to develop more sophisticated policies, and SV would be explicitly required to design:
 - An incentive program to be introduced in 2016-17, potentially based on differential council rates (e.g. buildings with a NABERS energy rating of 4 stars get discounted rates, and unrated or low-rated buildings have higher rates so that Council's raise the same level of revenue).
 - Minimum lease standards to be introduced in 2019-20, which stipulate a minimum NABERS Energy rating of 2 stars but also provides building owners with access to finance so that upgrades come at no net cost.
2. **Efficient retail program:** Develop a ten-year vision to transform the retail sector, with funding of \$10 million over the first four years. Due to the lower maturity of energy efficiency in this sector than the office sector, this program would have a greater focus on demonstration and research over the next four years, which means that it requires a smaller budget for this period.
3. **Compliance with minimum standards for new buildings and major refurbishments**
The Council notes that, while it is essential to get compliance with standards for new buildings right, this would have a smaller impact on emissions over the next decade than retrofitting programs.
4. **Ensure that VEET delivers incentives for commercial building upgrades**

The Victorian Government will also need to work on national priorities, including:

- Enhancing minimum standards for new buildings and major refurbishments, including applying standards to smaller refurbishments.
- Enhance the NABERS Energy rating and Commercial Building Disclosure programs

4. Government, health and education

It is critical that the Victorian Government catch up with best-practice in the private sector to save energy and reduce its operating costs. The EEC recommends the Government:

1. **Reintroduce and strengthen the Greener Government Building (GGB) program,** which delivered significant improvements in energy efficiency between 2009 and 2014. To reintroduce the program the government should
 - Reinststate the mandate on agencies to identify energy saving projects.
 - Reinststate the system for the Department of Treasury and Finance (DTF) to finance energy saving projects that deliver substantial returns on investment. Based on previous experience, DTF would need to loan around \$30 million to \$60 million per annum to agencies over the next decade.
2. **Engage local governments and universities to save money via energy efficiency.** Local governments and universities can use the GGB framework and directly borrow money to improve their energy efficiency. The Victorian Government should set up a program to:
 - Engage senior executives (CEOs, CFOs, councillors, chancellors etc) to promote investment in energy efficiency to save money.
 - Provide support and facilitation to help these organisations use the GGB framework to upgrade their efficiency. This support could be delivered through a collaborative program involving DTF and local government peak bodies.
3. **Directly invest to upgrade state housing.** Residents of state housing are often vulnerable households that need support to lower their energy bills. Upgrading state housing will increase comfort and health for these vulnerable households and reduce their energy bills.

5. Industry and Small to Medium Enterprises (SMEs)

Even small manufactures (e.g. food processors) are energy intensive and have significant opportunities for energy savings. However, the benefits from analysing a site's energy use are often go well beyond reductions in energy bills. Experts undertaking energy audits frequently identify much larger productivity improvements, such as reductions in production bottlenecks and improved materials efficiency. In addition, manufacturers' staff are often time poor, difficult to engage and focussed on issues other than energy.

Therefore, we recommend that the Victorian Government integrate energy efficiency improvement as a key priority in a broader program that engages manufacturers in the State to identify a suite of major opportunities for productivity improvements, including:

- Energy (including energy supply) and materials efficiency
- Automation and retooling for productivity
- The digital economy

Non-manufacturing SMEs need to be approached in a completely different way, generally based around industry sectors that have common equipment. For example, the Government could set up a specific program working with energy-intensive laundries and cold-storage sites to help them adjust to higher gas and electricity prices.

Priorities for the strategy:

1. **Industrial efficiency action-research program:** A program based in Sustainability Victoria, with a budget of \$30 million over four years that would initially be directed to priorities 2-4 (see below) and skills and industry development. The EEC recommends that SV have considerable flexibility to iterate this program over the four year funding period. SV would also be directed to develop:
 - A ten-year strategy for specific industrial efficiency sectors
 - A program to drive energy management processes in industry, focussing on regular analysis of energy use data, and reporting energy saving options to the CFO and board. This program could be based on regulation and/or other approaches, and would need to consider alignment to national approaches.
2. **Re-tooling manufacturing for jobs and productivity:** SV and DEDJTR to work with the parts of government that are normally tasked with industry development, to create a program to boost competitiveness and productivity in the state through retooling manufacturing. Funding for this effort should be drawn from the budget used for industry development, rather than energy efficiency.
3. **SME energy efficiency program.** This program would work with 3 to 5 specific sectors (e.g. laundries, bakeries etc.) and their industry associations over 4 years to drive upgrades to energy-intensive equipment. The program would need to have a 12-month design period, and then run for 3 years to ensure deep engagement.
4. **Ensure that VEET delivers incentives for industrial upgrades**

Victoria should also work on national priorities, including:

- Reinstatement of the Federal Energy Efficiency Opportunities program

6. Households and vulnerable consumers

The VEET is a major tool to drive energy efficiency improvements in households. However, there are a number of other policies that are critical to make energy more affordable for households, including programs focussed on vulnerable households. We recommend that the government develop:

1. **A broad energy efficiency program for residential efficiency**, that focuses on developing a 10-year vision to transform homes to improve their comfort, health and affordability. The program would link to the skills and industry development program, and would invest in research, piloting and scaling up programs such as:
 - Trialing renovation strategies to support widespread home retrofits
 - Engaging and upskilling electricians, plumbers and appliance retailers to support household decision-making
2. **Voluntary disclosure at the point of building sale and lease**. Voluntary disclosure of the energy efficiency of homes, similar to residential disclosure scheme running in the ACT, would help home buyers and tenants identify efficient homes and create an incentive for energy efficiency upgrades. This program should be voluntary for the period 2016-18, and then become mandatory in 2018. Victoria must engage with other jurisdictions and industry to ensure that the tool used is appropriate and could support the development of a national program.
3. **Develop minimum standards for rental homes** for introduction in 2018. These standards should focus on health and safety of tenants, rather than carbon reduction, and will deliver significant benefits to vulnerable households. Standards would need to have a well-designed and publicised timeline for introduction.
4. **Raise and enforce standards for new buildings and major refurbishments**. While Australia has standards for new buildings, these standards are significantly lower than those found in similar climate zones in Europe and the US, and enforcement of standards in Victoria is not sufficient. The Victorian government should particularly focus on standards for apartments, as this is a major growth area for construction and standards for apartments have significant issues.
5. **Ensure that VEET delivers incentives for residential upgrades**
6. **Vulnerable households program**. Targeted programs are necessary to overcome the additional barriers faced by vulnerable households, which make it harder for them to use VEET for deeper savings. Additional programs should enable vulnerable households to tap into VEET and/or directly upgrade their appliances or buildings. Well-designed programs will reduce concession payments and improve health outcomes, and so DEDJTR will need to work with Department of Human Services to coordinate program design and delivery. Programs should include:
 - Upgrades to public and community housing to reduce lifecycle costs for tenants.
 - Partnerships with local governments and state government departments, welfare organisations and energy retailers that have existing links to low-income families and can deliver programs to those that are most in need.
 - Setting up a fund to pay for part of the upfront cost of energy efficiency measures, as this is a particular barrier for this group.

Victoria will also need to engage on national programs, particularly with relation to the development of residential building standards.