

Prime Minister's Task Group on Energy Efficiency

Energy Efficiency Council response to the Task Group Report

Executive Summary

The Energy Efficiency Council welcomes the opportunity to provide comment on the recommendations set out in the Prime Minister's Task Group on Energy Efficiency Report. As the peak body for energy efficiency and cogeneration in business and government, the Energy Efficiency Council has extensive expertise in both technology and policy.

The Energy Efficiency Council commends the Task Group for developing wide-ranging report that contributes significantly to the energy efficiency debate. The Council supports the majority of the Task Group's recommendations and calls on the Government to implement a number of the key recommendations as soon as possible.

The Government has made the introduction of a carbon price a high priority for this term. The Council strongly supports the introduction of carbon price, and acknowledges that this will require extensive resources. However, it is both possible and vital to develop and implement key energy efficiency policies in parallel to the carbon price.

A carbon price is critical to drive energy efficiency, but on its own it will not mobilise the full potential for energy efficiency. A combination of a carbon price and policies that address other market failures that impede energy efficiency will lower the cost of abatement, improve Australia's competitiveness and build public and political support for a carbon price.

The Task Group made 45 recommendations. The Government will need to select a set of priority actions and develop a plan for implementing them over the coming term. The Council's recommends that the highest priorities should be:

- A national energy efficiency target
- An Energy Savings Initiative or Public User Charge that supports energy efficiency and cogeneration in buildings and industry
- Reforming the energy market to ensure that market participants invest in demand-side solutions when they are more cost effective than supply-side options
- Energy efficiency in Commonwealth Government operations, driven by a financing mechanism and mandates to enable agencies to invest in improved efficiency.
- Streamlining and clarifying the connection process for distributed generation

The Council also recommends the urgent development of an accreditation scheme for Energy Service Companies. This small policy measure is important to improve the effectiveness and reduce the risks associated with other energy efficiency policies.

The Council strongly supports these and many other of the Task Group's recommendations. However, the effectiveness of these policies and programs will depend on the details of their design and implementation. A poorly designed or unstable policy environment will have an adverse impact on the energy efficiency industry. The Council calls on the Australian Government to work closely and openly with the Energy Efficiency Council and other stakeholders to design and implement a stable policy framework.

The Council congratulates the Task Group on a thorough, constructive and consultative process and commends the report to the Australian Government. Should you require further information on any of the issues raised in this submission please contact the Energy Efficiency Council on info@eec.org.au or 03 8327 8422.

Yours sincerely



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Overview and Caveat

The Energy Efficiency Council commends the Task Group for developing wide-ranging report that contributes significantly to the energy efficiency debate. The Council supports the majority of the Task Group's recommendations and calls on the Government to implement a number of the key recommendations as soon as possible.

The Council has focused its comments on priority Task Group recommendations that relate to commercial buildings and industry. The Council has not commented on other issues in the Task Group report, including data and recommendations that relate to transport. Where the Council has not explicitly commented on a matter in the Task Group report it does not mean that the Council tacitly supports the Task Group's perspective.

The Council strongly supports many of the Task Group's recommendations. However, the effectiveness of these policies and programs will depend on the details of their design and implementation. A poorly designed or unstable policy environment will have an adverse impact on the energy efficiency industry. Therefore, the Council's support for a particular measure depends on the measure being well designed, adequately funded and effectively implemented

The Council calls on the Australian Government to work closely and openly with the Energy Efficiency Council and other stakeholders to design and implement a stable policy framework.

Foundation Measure 1: A national energy efficiency target

EEC position: Support with additional indicators

The Energy Efficiency Council strongly supports the Task Group's recommendation to establish a national energy efficiency target, and supports the scale of the target proposed by the Task Group, namely to improve energy intensity by 30 per cent by 2020. A target would:

- Send a clear message to the community to support behaviour change
- Help co-ordinate activities between government, businesses and households and
- Ensure that governments put policies in place to address barriers to efficiency.

An energy intensity target should be retained as a useful communication device, but it is not an accurate indicator of energy efficiency improvement. An intensity target would capture both technical energy efficiency (e.g. improved factory processes) and structural change (a shift from manufacturing to services). Therefore, the energy intensity target must be accompanied by a range of more robust measures of energy efficiency improvement.

The Australian Government must report on progress towards the intensity target and other key indicators every year.

Foundation Measure 2: National Energy Savings Initiative (ESI)

EEC position: Support

The Energy Efficiency Council strongly supports the Task Group's proposal to introduce an ESI or Public Benefits Charge, noting that the scheme should meet the EEC's seven principles for an effective scheme.

The Government should introduce an ESI or Public Benefits Charge with or without a carbon price. There are three justifications for a scheme like an ESI:

- I. As a long-term mechanism to address regulatory failures in the energy market, so the market invests in efficiency when it's cheaper than supply infrastructure.
- II. As a transitional mechanism to develop a market for energy efficiency. It will take many years to introduce policies to address residual market failures to efficiency. As these are introduced they would reduce the certificate price in a scheme like an ESI.
- III. If there is no carbon price, the ESI can be enhanced to provide a carbon price.

If the Government is unable to introduce a carbon price it will need to introduce a very aggressive ESI. If the Government introduces a carbon price it will still need to introduce a scaled-down ESI to address issues in the energy market and develop the energy efficiency market. Furthermore, as there are already three state schemes like the ESI, replacing them with a national ESI would improve their effectiveness and reduce red-tape.

The Council believes that there are several options for scheme design, including a certificate-based scheme and a grant scheme. The Government should consult with industry early in 2011 about the broad features of the scheme. Whichever option is chosen, an ESI or public benefits charge must meet the following seven principles. The scheme must:

1. Provide incentives based on the amount of energy a project actually saves, including electricity, gas, coke and diesel.
2. Apply to all parts of the economy, but focus on industry and commercial buildings, as these sectors have the greatest potential for energy savings.
3. Be run by an independent body that includes impartial energy efficiency experts. This will ensure a fairer system and give confidence about the stability of the scheme.
4. Balance simplicity and compliance by providing part of the incentive up front and part after measurement and verification.
5. Encourage major energy efficiency retrofits, rather than small, incremental projects. Typically, incremental projects only add up to minor savings, but 'whole site' upgrades can cut energy use by 30 per cent or more.
6. Focus on genuinely new projects, rather than projects that companies were going to do anyway. In industry this means focusing on projects with a payback period longer than two years.
7. Encourage applicants by simple, clear rules that help businesses, including:
 - Simple application processes with minimal red tape
 - Clear rules about how companies secure the incentive
 - Quick assessments of business applications that include a rapid assessment of eligibility and a detailed second stage assessment
 - Multiple funding rounds each year
 - Establish support services to assist companies to apply for funding.

Foundation Measure 3: Improved Governance

EEC position: Support with caveats

The Energy Efficiency Council supports the use of a single ministerial council for energy efficiency and the formation of an Australian Energy Commission that incorporates energy efficiency alongside the current roles of the Australian Energy Market Commission (AEMC).

However, governance changes should not delay effective action on energy efficiency nor make it more difficult to rapidly implement rational energy efficiency policy. The current structure for decision-making in the energy market creates delays by requirements for multi-jurisdictional agreement before action can proceed.

Therefore, a new Australian Energy Commission should not be given such overarching powers on energy efficiency that individual jurisdictions (e.g. the Commonwealth) are unable to take individual and appropriate action.

Foundation Measure 4: Improved innovation, data and analysis

EEC position: Supported

The Energy Efficiency Council supports the development of a national energy efficiency innovation pathway and an energy efficiency measurement and analysis platform.

The Council notes that, so far, there has been substantially less government investment in energy efficiency research, development and demonstration than in renewable energies, despite substantial low-cost emission reduction options in efficiency. Addressing this shortfall would deliver substantial economic benefits to Australia.

Foundation Measure 5: Building a culture of energy efficiency

EEC position: Supported

The Energy Efficiency Council supports the development of a long-term strategy to build a culture of energy efficiency. A different approach will be required in the business and government sectors, as people use different norms in their domestic and business lives. The Council looks forward to assisting the government in this long-term strategy.

The Task Group recommended a long-term 'behaviour change' program for both businesses and households. The Task Group sensibly notes that a communication campaign on its own would have little impact, and must be accompanied by "aligning Commonwealth and state policies such as labelling, grants and subsidies."

Recommendations in Chapter 8: Large energy users

The Chapter on Large Energy Users makes the following firm recommendations:

- Consider expanding the Energy Efficiency Opportunities program.
- Consider introducing a large energy users demonstration incentive.

The Chapter on Large Energy Users also makes two other key recommendations:

- Ahead of a mature carbon price, provide incentives for energy efficiency projects that have more than a 2 year payback through the Energy Savings Initiative.
- In the absence of a mature carbon price or Energy Savings Initiative, use a grant, subsidy, levy and refund scheme or some form of obligation to drive efficiency.

Expand the Energy Efficiency Opportunities program.

EEC position: Support

The Council strongly supports the proposal to expand the Energy Efficiency Opportunities program to require substantial greenfield and expansion projects to assess and report on energy efficiency opportunities.

Introduce a large energy users demonstration incentive.

EEC position: Support

The Council strongly supports the proposal for a large energy users demonstration incentive.

Ahead of a mature carbon price, provide incentives for energy efficiency projects

EEC position: Partially support

The Task Group recommends that industry receive incentives through the Energy Savings Initiative to drive investment in projects that have more than a 2 year payback (pages 117 to 120). The Energy Efficiency Council strongly supports this recommendation.

However, the Task Group recommends that incentives are only required in the absence of a 'mature' carbon price. The Energy Efficiency Council notes that Australia will not have a fully mature carbon price for many years, and transitional incentives will be critical to address problems in large energy users' decision-making processes that result in sub-optimal investment from a private and societal perspective.

Therefore, the Council recommends the introduction of transitional incentives even if a carbon price is introduced, given the political complexities of introducing a suitably high carbon price and the need for transitional incentives to change behaviour.

Ahead of a mature carbon price or ESI, use other policies to drive efficiency

EEC position: Partially support

The Council notes that even with incentives, the Australian Government will need to introduce another transitional mechanism to establish an energy efficient skill-set and culture in large energy users. The EEC notes that countries like the Netherlands and the UK use target schemes to improve the efficiency of their industry by over 20 per cent, despite their industries already being significantly more efficient than Australian industry. The Council recommends the government either establish an obligation to improve energy efficiency or a levy and refund scheme for the top 200 energy users.

Recommendations in Chapters 10 & 11: Buildings and Hubs

The Chapters on Buildings and Energy-Efficient Hubs make the following recommendations:

- Using the Energy Saving Initiative or Green Tax Breaks to support retrofits
- Consider the development of a pathway towards zero-emissions buildings.
- Consider strengthening Australia's capacity to assess building energy use.
- Consider investing in industrial hubs that could demonstrate energy synergies (and energy efficiency/distributed generation technologies) in regional network constrained areas and manufacturing and mining activities.
- Consider investing in central business district hubs that could trial retrofits for highly energy-efficient commercial buildings and district-scale energy solutions.

Incentives for energy efficiency retrofits

EEC position: Support with caveat

The Council strongly supports the need for incentives to drive energy efficiency in commercial buildings. The Government's Tax Breaks for Commercial Buildings, as proposed, may only cover part of the building sector. The Council looks forward to working with the government on the detailed design Tax Break scheme and designing the Energy Savings Initiative to drive retrofits in buildings that the Tax Break doesn't cover.

Develop a pathway towards zero-emissions buildings

EEC position: Support

The Council strongly endorses the development of a long-term strategy to develop zero-emission buildings. The strategy should set dates in the future when mandatory approaches will be considered. For example, in 2011 the Government could announce that in 2015 it will review Australia's commercial building stock and consider whether to require all buildings with NABERS ratings of 2 or below to undertake a detailed facility study and implement all energy saving options with a return on investment of 20 per cent and above.

Strengthen Australia's capacity to assess building energy use

EEC position: Expand to 'strengthen Australia's capacity to identify and implement energy efficiency retrofits'

The Council supports the proposal to expand the skills of the energy efficiency and building sectors. However, there are many individuals that need to be upskilled, not just assessors. In 2010 the Council completed a study on skills and accreditation for the National Framework on Energy Efficiency. This study indicated that there are a range of parties that need to be upskilled, and assessing the energy use of buildings is only a part of the retrofit process.

Furthermore, assessments of energy use need to be combined with detailed design and implementation of energy efficiency measures to be effective. The Council recommends that the Australian Government work closely with the Energy Efficiency Council and other industry groups and focus more broadly on energy efficiency skills.

Industrial hubs and Central Business District Hubs

EEC position: Support

The Council supports the proposals for industrial hubs and central business district hubs.

Other comments

Chapters 11 does not mention the need to for ongoing disclosure of building NABERS ratings, as recommended by the Energy Efficiency Council.

Recommendations in Chapter 12: Energy markets

The Chapters on energy markets makes a number of recommendations, including:

- Option 3: Consider tasking the Australian Energy Market Commission/Australian Energy Regulator to provide stronger regulatory oversight of the regulatory investment test process.
- Option 4: Consider requiring the Australian Energy Regulator to review the effectiveness of the Demand Management Incentive Scheme measures (building on previous improvements in this area).
- Option 5: Consider the acceleration and expansion of the current Ministerial Council on Energy work to streamline distributed generation connection processes.
- Option 7: Consider tasking the Ministerial Council on Energy to incorporate any national energy efficiency target into National Electricity Market governance arrangements.
- Option 8: Consider requiring the Australian Energy Regulator to undertake a regular energy efficiency performance review of relevant National Electricity Market participants which would allow for monitoring of improvements over time.
- Option 9: Consider tasking the Australian Electricity Market Commission to consider any supporting changes in the National Electricity Rules in the context of this package of options.

Balancing supply and demand-side in energy markets (Options 3, 4, 7, 8 & 9)

EEC position: Support with caveats

The Energy Efficiency Council recommends changes to the National Electricity Market and supports the package of measures proposed by the Task Group to achieve this reform (Task Group Options 3, 4, 7, 8 and 9). However, while the package could enable substantial change, the degree of change would depend on how each of these measures is progressed. For example, reviewing the Demand Management Incentive Scheme could result in no changes or substantial changes.

Therefore, the Energy Efficiency Council recommends establishing a 'Demand-Side Review Committee' to provide oversight of the review process. The Committee would meet periodically to set the direction of reform and assess progress. The Council recommends that the committee include relevant Ministers and Parliamentary Secretaries, and advisors including the Australian Energy Market Commission, Energy Efficiency Council and others.

Connecting Distributed Generation (Options 5)

EEC position: Support with additions

The Energy Efficiency Council strongly supports the proposal to streamline the distributed generation connection process (Option 5) through standard grid connection rules, a connection ombudsman and annual maps (p171). However, this needs to be complemented with payment for network benefits and fairer rules for selling and distributing electricity and energy services from distributed generation.

Other recommendations (Options 1, 2 and 6)

EEC position: Support as a lower priority

Recommendations in Chapter 13: Energy Services Companies

The Chapter on Energy Service Companies (ESCOs) makes the following firm recommendations:

- Consider a revolving financing mechanism to support building energy efficiency improvements across community facilities.
- Consider setting new targets for government buildings (leased or owned) and establishing a revolving building fund for Commonwealth government portfolios to bid for retrofit upgrades.
- Consider working with relevant industry associations, education and training service providers and other stakeholders to develop and promote an accreditation and training regime for energy service companies.

The Chapter on ESCOs also notes the following project could develop the ESCO market:

- The introduction of standard-form contracts and contract provisions
- Raising awareness of energy performance contracting with the financial community and energy users.

Support building energy efficiency improvements across community facilities

EEC position: Support

The Energy Efficiency Council strongly supports the Task Group recommendation to improve community facilities, and welcomed the Prime Ministers announcement before the election of \$80 million for grants to community facilities. The Energy Efficiency Council looks forward to working with the government on the detailed design of this mechanism.

Energy efficiency in Commonwealth Government Portfolios

EEC position: Support with additions

The Energy Efficiency Council strongly supports the Task Group recommendation that the Australian Government enhance its own energy efficiency, and agrees that a financing mechanism will be critical to support this recommendation. Successfully driving up the efficiency of the Government's own buildings will also require:

- A government-wide protocol for energy efficiency improvement;
- A method for enforcing agency compliance; and
- A single lead agency.

The Council recommends that the Government establish an advisory body that includes the Energy Efficiency Council to help it develop its internal energy efficiency program.

An ESCO accreditation and training regime

EEC position: Support

The Energy Efficiency Council strongly supports the Task Group recommendation to develop a quality assurance scheme for energy service companies. The Council is the appropriate body to accredit its members in combination with other parties. The Council has recently completed a project on up-skilling the energy efficiency sector and notes that an ESCO accreditation scheme needs to be complemented by schemes run by other industry bodies, including accreditation schemes for lighting and HVAC experts.

Other measures to develop the ESCO sector

EEC position: Support

The Energy Efficiency Council supports, and is an appropriate organisation to lead, the development of standard-form contracts and raising awareness of energy performance contracting with the financial community and energy users. These project would require collaboration from a number of industry bodies and governments, along with funding support.

Recommendations in Chapter 14: Standards, ratings and Labels

The Energy Efficiency Council supports standards as an important part of the policy mix to drive energy efficiency in Australia. The Council will comment on the detailed recommendations in Chapter 14 of the Task Group Report through direct engagement.