

Economy and Infrastructure Legislation Committee
Inquiry into the Impact of the Carbon Tax on Health Services
Parliament of Victoria
Email: keir.delaney@parliament.vic.gov.au



7 March 2014

Dear Mr Delany

This submission provides information from the Energy Efficiency Council that is relevant to the Inquiry into the Impact of the Carbon Tax on Health Services.

The Energy Efficiency Council is the peak body for energy efficiency, demand response and cogeneration, and brings together Australia's top expertise in these areas to support the development of policy and programs. The Council's members have worked extensively with the Victorian health sector to identify and implement energy savings, and have a detailed knowledge of the sector's energy costs and opportunities to reduce these costs.

The Council agrees that it is critical to reduce the Victorian health sector's energy bills and exposure to rising gas and electricity costs. We estimate that, if the Victorian Government fully implemented the Greener Government Building (GGB) Program, it would save the health sector at least \$14 million to \$21 million per annum in energy and maintenance costs. These savings are on top of the savings arising from the removal of the carbon price, which the Government estimates at \$13 million to \$14 million per annum.

The Victorian Department of Treasury and Finance (DTF) estimates that applying the GGB Program to all Victorian Government agencies will:

- Deliver well over \$2 billion in operational savings over two decades. Given that wholesale gas prices are projected to more than double from \$3.50 per Gigajoule to over \$11 per Gigajoule, this figure is likely to be a significant under-estimate;
- Have a positive impact on the Victorian State budget, with a modest short-term increase in debt, a longer-term reduction in debt, an immediate positive impact on surplus and an immediate positive impact on the balance sheet; and
- Reduce the Government's greenhouse gas emissions by 30 per cent, substantially reducing its exposure to any future national or global carbon price; and
- Attract investment in Victoria and support several hundred private sector jobs.

The Council believes that DTF's estimate is conservative, and represents the lower bounds of the potential benefits of the GGB program. We notes the program will also:

- Improve the quality of government facilities, boosting comfort and productivity; and
- Help to build the capacity of the energy efficiency sector

The Council asks the Economy and Infrastructure Legislation Committee to note the significant benefits of the GGB Program and restate their cross-party support for continuing the proposed forward program of at least \$30 million of investment per annum across the whole of the Victorian Government.

We look forward to the opportunity to presenting to the Committee at a suitable date, preferably in the second half of March.

Greener Government Building (GGB) Program

The Victorian Government's GGB Program is a world's best-practice energy efficiency program that has enjoyed cross-party support. The GGB program is focussed on delivering financial benefits to the Victorian Government. Under the program:

- Agencies are required to identify opportunities to reduce energy and maintenance costs.
- Agencies are encouraged to invest in any projects that deliver an Internal Rate of Return (IRR) of more than 12 per cent, based on current energy prices.
- Agencies can borrow funds under Section 37 of the Financial Management Act from the Public Account to invest in these energy efficiency programs. It is critical that agencies have access to finance to invest in energy efficiency programs. Without access to finance, investment in energy saving projects would drop substantially. The vast majority of agencies are not allowed to borrow funds from the general market directly, and have to borrow from the Public Account which is administered by the Department of Treasury and Finance (DTF).

As a result, the GGB Program has a positive impact on the Victorian Government's budget on almost all important metrics.

- **Guaranteed Internal Rate of Return (IRR)** - the GGB Program is structured so that energy efficiency experts deliver a guaranteed IRR of at least 12 per cent, based on energy savings at existing tariffs. However, the IRR will actually be closer to 20 per cent, as many assets (e.g. air handling units, chillers, boilers, lighting) already need to be replaced and energy tariffs are projected to increase.
- **Reduction of Outgoings** - the DTF's initial cost-benefit study for the GGB Program estimated that it would deliver over \$1 billion in energy and maintenance savings over 25 years. However, savings to date have been substantially greater than previously estimated, and DTF now believes that the GGB Program will deliver over \$2 billion in savings.
- **Increased Surplus (Operating Statement)** - the reduction in outgoings from the GGB Program is more than double the increase in depreciation. This significantly increases the Government's surplus on the annual operating statement.
- **Net debt** - Projects funded under the GGB Program result in a short-term increase in net debt (years 1 to 6), and a positive impact from years 8 to 15. Although the GGB Program increases short-term debt, the benefits to all other financial metrics mean investments of this type are generally viewed positively by ratings agencies.
- **Balance sheet** - A project funded under the GGB Program would have net zero impact over the contract period (Year 1 to 7), as the uplift in the building value nets out the initial cost of the upgrade, and net positive impact from the end of the contract period until the end of asset life (Years 8 to 15)

A reduction in activity under the GGB Program would increase the Victorian Government's outgoings, reduce the surplus and have a negative impact on the balance sheet.

Energy costs in the health sector

The Victorian Auditor-General's report "*Energy Efficiency in the Health Sector*" from September 2012 (Report 2012-13.5) found that Victorian health services spent nearly \$70 million on energy in 2010-11 alone. The Victorian health sector's energy costs will have risen since 2010-11, largely due to increases in electricity distribution costs, but also due to the carbon tax.

The Victorian Department of Health has identified the opportunity to substantially reduce the health sector's energy bill by implementing energy efficiency upgrades. Conservative

estimates suggest that Victoria's public health service could reduce its energy bill by around 20 to 30 per cent, but recent detailed assessments have identified much larger savings at specific facilities. Therefore, an effective energy efficiency program would save the Victorian health service a minimum of \$14-21 million, and likely far more if the increase in energy costs since 2010-11 is factored in.

In 2012 the Victorian Auditor-General stated simply:

"Without additional funding or further energy efficiency initiatives, health services may need to allocate more of their budget to energy supply costs, or reduce other healthcare services." (p.vii)

The Auditor-General went on strongly recommend that Department of Health invest significant effort to *"upgrade its strategic implementation plan for the GGB Program."*

The Council notes that the Department of Health has subsequently expended significant effort to improve its implementation of the GGB Program, and last year released a schedule of tenders for upgrades to health agencies.

In moving for the establishment of this Inquiry, the Hon D.M. Davis, Minister for Health, stated:

"Some will argue, with legitimacy, that there should be energy-saving measures and that they make perfect sense. They make good business sense because they lower the cost of health services' energy production, and the government would certainly support those measures"

Hansard Victorian Parliament Economy and Infrastructure Legislation
Committee, Tuesday 10 December 2013 p.10

The Energy Efficiency Council agrees with this statement by the Minister of Health, and encourages the Economy and Infrastructure Legislation Committee to endorse the GGB Program and provide cross-party support its continuation.

Employment benefits

While the focus of the GGB Program is financial savings in the Victorian Government, it has a very large and positive impact on employment in the energy efficiency sector. The Victorian Government's forward financial commitment of \$30 million to \$50 million per annum and a pipeline of projects announced by health agencies last year have given the energy efficiency sector the confidence to make significant investment to hire and train staff and participate in the GGB Program.

While the GGB provides companies with the certainty they need to hire and retain staff, these staff are not employed to solely deliver services to the Victorian Government, but also deliver services to the private sector. In addition, the high standards that the Victorian Government set for companies to secure a place on the GGB Program's panel of providers has resulted in significant up-skilling in the energy efficiency sector.

A number of Australian and global companies are on the panel, including AG Coombs, AGL, Alerton, CarbonetiX, Cofely, Dalkia, Ecosave, Genesis Now, Honeywell, Schneider-Electric, Siemens and Total Energy Solutions. As in the automotive sector, every job in one of these companies is supported by downstream contractors and product suppliers.

The Energy Efficiency Council notes that any significant changes to the GGB Program would threaten hundreds of jobs and the investments that have been made by the energy efficiency sector. Therefore, we are seeking cross-party support for the program to provide more certainty for the sector.

Other benefits of the GGB Program

While the main focus of the GGB Program is financial savings, DTF have also estimated that, as a by-product, the GGB Program will reduce the greenhouse gas emissions attributable to Victorian Government buildings by 30 per cent. As a result, in 2011 the former Premier, Ted Ballieu, personally awarded the GGB Program the 'Premier's Sustainability Award'.

Summary

The Council asks the Economy and Infrastructure Legislation Committee to note the significant benefits of the GGB Program and restate their cross-party support for continuing the proposed forward program of at least \$30 million of investment per annum across the whole of the Victorian Government.

We look forward to the opportunity to presenting to the Committee at a suitable date, preferably in the second half of March. If the Committee requires further information I can be contacted directly on ceo@eec.org.au or 0414 065 556.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rob Murray-Leach', is placed over a light grey rectangular background.

Rob Murray-Leach
Chief Executive Officer