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Dear Ms Page

The Energy Efficiency Council (EEC) welcomes the opportunity to provide further input to the Council of Australian Governments (COAG) Taskforce on regulatory and competition reform (the Taskforce). The EEC has analysed the range of energy efficiency programs in Australia and consulted with members to develop a number of key recommendations.

The Taskforce has proposed processes to accelerate:

- Reforms to interconnected energy markets, to improve competition and efficiency of electricity networks; and
- Reforms to rationalise carbon reduction and energy efficiency policies that are not complementary to a carbon price; or are ineffective, inefficient or impose duplicative reporting requirements on business.

The Taskforce proposed that the aim for this reform program would be “lowering costs for business and improving national competition and productivity.”<sup>1</sup> The EEC strongly supports this aim. To deliver outcomes that substantially meet this aim, COAG needs to focus on:

- **Reducing energy costs for businesses and households**

The majority of electricity price rises in recent years have been caused by network expenditure. In the coming years, rising coal and gas prices are projected to be major drivers. Better network regulation, demand management, distributed generation and end-use energy efficiency would reduce peak demand and improve energy productivity, substantially reducing energy bills relative to business-as-usual. In December COAG made major commitments regarding network regulation and peak demand. Additional policies are required to build on these commitments and realise the full potential for reduced energy costs, particularly in regards to energy efficiency, distributed generation and networks.

- **Eliminating duplication and ineffective programs**

Australia must have effective energy efficiency programs to reduce energy costs for businesses and households. Critical energy efficiency programs like the Energy Efficiency Opportunities (EEO) program and the proposed Energy Savings Initiative (ESI) help households and businesses respond to rising energy prices, and do not duplicate the carbon price. However, there are genuine opportunities to eliminate duplication between state and federal programs and terminate ineffective state-based programs. The EEC makes recommendations to strengthen energy efficiency programs, reduce duplication and eliminate ineffective programs on pages 5-7 of this submission.

- **Reducing red tape**

While some groups use the term 'red tape' to criticise effective policies that deliver community benefits, 'red tape' is properly defined as unnecessary administrative processes or regulations that deliver limited benefit. Removing effective programs to reduce compliance costs is counter-productive. However, the EEC has identified opportunities to reduce genuine red-tape by reducing duplication and simultaneously strengthening and reducing the reporting burden of key programs.

<sup>1</sup> Taskforce Paper 2012 '29 June 2012 Taskforce Consultation - Summary of Reform Proposals'

Genuine outcomes in these three areas would deliver substantial benefits for businesses. The Taskforce should avoid taking actions that may appease certain stakeholders, but would actually result in longer-term increases in energy bills. Removing ineffective programs delivers benefits for the community, but removing effective energy efficiency programs would reduce the ability of businesses to respond to rising energy prices, exacerbating the rise in peak electricity demand.

Furthermore, eliminating critical policies would increase uncertainty in sectors of the economy that have already been strained by legislative risk. The review of policies that are 'complementary' to a carbon price needs to recognise that:

- While some energy efficiency programs may deliver reductions in greenhouse gas emissions, this is incidental to the main goal of these programs. For example, the main goals of most energy efficiency programs are to help households and businesses adjust to rising energy prices. Therefore, while these programs are clearly 'complementary' to a carbon price, they are better framed as 'not duplicating the carbon price'.
- For investors, whether they are energy users, energy suppliers or energy service suppliers, there is considerable uncertainty regarding the longevity of the current carbon pricing regime. Eliminating effective policies in 2012-13 that could be reinstated as early as 2013-14 would have major cost implications for governments and businesses.

In 2012 the EEC undertook significant work on energy policy, including jointly releasing a 'Plan for Affordable Energy' with the Australian Industry Group, CHOICE and the Brotherhood of St Laurence. Based on both the Plan and independent work, the EEC's key recommendations are:

- COAG and the Standing Council on Energy and Resources (SCER) should continue their program of key energy market reforms and expand this program to cover critical energy efficiency policies and barriers to distributed generation.
- COAG note that far fewer energy efficiency programs currently operate in Australia than estimated by the Productivity Commission in 2011<sup>2</sup>. The Commission's list of energy efficiency policies includes many programs that have either ceased to operate or are only incidentally related to energy efficiency.
- COAG note that energy efficiency measures are critical to help households and businesses respond to rising energy prices, which is critical for their welfare and competitiveness. Many of the energy efficiency programs that are currently running deliver substantial benefits and should be retained. However, there are opportunities to enhance, streamline, merge or eliminate a number of programs. The EEC has made a number of detailed recommendations on pages 5-7 of this submission
- Strengthen the EEO program by adjusting reporting requirements, combining it with industry roadmaps and resourcing it to assist smaller energy users. This would allow Victoria to eliminate the Environment and Resource Efficiency Plan program, and support NSW businesses as the Energy Savings Action Plans program is wound down.
- Establish a National Energy Savings Initiative (ESI) to replace three existing energy efficiency schemes (the NSW Energy Saving Scheme (ESS), Victorian Energy Efficiency Target (VEET) and South Australian Residential Energy Efficiency Scheme) and the proposed ACT scheme. In the meantime, the VEET program should be substantially redesigned to operate like the NSW ESS, so that the schemes are harmonised, and both schemes should cover gas and electricity so that they can support cogeneration.
- Enhance and merge programs to improve the energy efficiency of government operations. Each government requires an effective program to reduce agencies' expenditure on energy, like the well-regarded Victorian Greener Government Buildings Program (GGBP). Within each jurisdiction there are a number of government energy efficiency programs that should be either:
  - o Strengthened or merged into a small number of programs (e.g. the Victorian 'energy efficiency in schools' program should merge with the more effective GGBP)
  - o Incorporated into normal business procedures. For example, installing LED traffic lights should be classified as part of standard cost-saving procedures for road agencies, rather than classified as a separate energy efficiency program.

<sup>2</sup> Productivity Commission 2011, *Carbon Emission Policies in Key Economies*, Research Report, Canberra.

The Energy Efficiency Council looks forward to working with the Taskforce to ensure that it delivers outcomes that genuinely benefit the community. Please contact me on 03 8327 8422 should you wish to discuss any of the issues raised in this submission.

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

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## 1. Key Recommendations

The Energy Efficiency Council recommends:

### 1. Continuing a program of Energy Market Reform

COAG and the Standing Council on Energy and Resources (SCER) should continue their program of critical energy market reforms and build on this program to achieve its full potential by:

- Complementing energy reforms with key energy efficiency programs
- Tackling the barriers to distributed generation (see the attached submission to the Victorian Competition and Efficiency Commission)
- Developing targets for distribution network service providers to use demand-side activities to reduce expenditure on network expansion

### 2. COAG note inaccuracies in lists of current energy efficiency policies

COAG should note that far fewer energy efficiency programs currently in operation in Australia than suggested by the Productivity Commission in 2011<sup>3</sup>. The Commission's list of climate change programs in Australia:

- Includes many energy efficiency programs that have either completely ceased to operate or are being phased out
- Includes programs that are incidentally related to energy efficiency (e.g. investment in public transport infrastructure)
- Repeats several programs multiple times.

### 3. Strengthening the EEO program and eliminate similar state-based programs

Governments should work together to help businesses to build their capacity to manage energy while reducing red-tape. This should involve:

- o Expanding resourcing for the Australian Government's highly effective Energy Efficiency Opportunities (EEO) program to support smaller energy users. Over the last five years the EEO has helped over 200 large energy users using more than 0.5 PJ of energy to improve their productivity and find over \$1.2 billion of annual energy savings. The program should be resourced so that it can be expanded and provide support for companies that use over 0.1 PJ of energy per annum. These companies typically pay over \$1 million for energy each year, and the benefits of their participation would significantly exceed costs.
- o If the EEO program is resourced extended to smaller energy users, it would allow the Victorian Government to eliminate the Environment and Resource Efficiency Plan program and enhance support for NSW businesses as the Energy Savings Action Plans program is wound down.
- o Reducing the effort required for EEO reporting by allowing those companies that can demonstrate good energy management practices and outcomes to shift from administratively-intensive reporting of **processes** to simpler reporting of **outcomes**. This would reduce reporting burdens and enhance the incentive for companies to improve their energy management. This approach would need to be trialled before it is rolled out.
- o The National Greenhouse and Energy Reporting Scheme (NGERS) should be resourced and enhanced so that it collects the information required for EEO and other programs. This would mean that industry has a single, comprehensive portal for entering energy and emissions data, rather than multiple portals.

<sup>3</sup> Productivity Commission 2011, *Carbon Emission Policies in Key Economies*, Research Report, Canberra.

#### **4. Develop a national energy efficiency scheme and replace state schemes**

The Australian Government is considering a Energy Savings Initiative (ESI) to help households and businesses adjust to rising energy prices. The Federal Liberal Party and Australian Greens have previously supported investigating a national ESI.

An ESI is entirely separate to a carbon price. An ESI would:

- Provide a positive price signal for demand-side activities to correct distortions in energy costs that are practically difficult to reform, such as cross-subsidisation for installing and using air conditioners.
- Enable third-parties to help consumers undertake coordinated demand-side activities at scale. This would address the structural imbalance in the energy market which encourages supply-side activities at scale but impedes delivery of demand-side activities at scale.
- Create an incentive for third-parties to find ways to overcome well-known market failures that prevent the take up of privately cost-effective energy efficiency, including information barriers, bounded rationality and split-incentives.
- Enable market-transformation in the supply of energy efficiency goods and services, such as high-efficiency motors.

The ESI would improve regulatory efficiency and reduce red-tape by replacing three existing state-based schemes, the NSW Energy Saving Scheme (ESS), the Victorian Energy Efficiency Target (VEET) and the South Australian Residential Energy Efficiency Scheme. The ESI would also replace the scheme currently being developed by the Australian Capital Territory Government. A single national ESI is likely to be far more effective than each state scheme, as economies of scale allow sufficient resources to be invested to develop and run a highly effective scheme.

While the ESI is being considered, the VEET program should be substantially redesigned to operate like the NSW ESS, which would both improve the performance of the VEET and enable companies to operate more effectively across borders. Both the ESS and VEET should cover natural gas, to allow highly effective cogeneration projects to be supported by these program.

#### **5. Enhance and consolidate programs that improve government efficiency**

Improving the energy efficiency of government operations delivers substantial financial savings. The Victorian Government's well-regarded 'Greener Government Buildings Program' (GGBP) focuses on delivering financial savings, and will save the Victorian Government between \$1 billion and \$2 billion over 20 years.

Other governments should redesign and upgrade their energy efficiency program programs that that they operate similarly to the Victorian GGBP. While each government needs to have its own program, within each jurisdiction a number of government energy efficiency programs should be either:

- a. Strengthened or merged into a small number of programs. For example, the Victorian 'energy efficiency in schools' program should be merged into the GGBP.
- b. Incorporated as part of normal business practices. For example, installing LED traffic lights, should just become part of standard cost-saving procedures for road agencies, rather than an 'energy efficiency' measure.

## 6. Retain and strengthen key energy efficiency policies

Governments should retain and strengthen key programs that help households and businesses reduce their energy bills. These include:

- a. Information and training programs, such as:
  - The NABERS and Commercial Building Disclosure (CBD) programs that help tenants and building owners determine the actual efficiency of buildings and identify options to improve their efficiency
  - The EEO program, which helps businesses to develop energy management procedures and skills (see Recommendation 3)
  - The Australian Government's Energy Efficiency Information Grants
  - Programs that help develop the energy efficiency sector, such as roadmaps, training and accreditation
- b. National grant programs that help transform sectors' approaches to energy, such as the Clean Technology Investment Program (CTIP) and Community Energy Efficiency Program (CEEP).
- c. Marketing, facilitation and standard tools that assist business to take up profitable energy efficiency options. State-based business-support programs should generally be shifted away from grant programs to well-funded facilitation programs (see Recommendation 7)
- d. Finance programs that address specific barriers to funding energy efficiency, such as the Clean Energy Finance Corporation and Environmental Upgrade Agreements (EUAs). The CEFC should offer funding to energy users through energy efficiency service providers, in order to improve efficiency and reduce the cost of finance for energy users.
- e. Consumer protection through development and application of standards and labels for appliances and standards for buildings, including effective evaluation of adoption and, where they are mandatory, effective enforcement.
- f. Energy market reforms, or programs like the Energy Savings Initiative that correct distortions in energy markets.

## 7. Shift the focus of state-based business-support programs

State-based business-support programs should be shifted from grant programs to industry-led, well-funded facilitation programs. State-based programs tend to involve modest levels of funding, which are too small to deliver substantial benefits as grant programs. Given the modest quantum of funding, these programs will achieve substantially greater outcomes if they focus on facilitation. Examples include:

- a. In NSW the Energy Saver and Energy Efficiency for Small Business programs have delivered some good results, but have also funded some poor-quality audits that weren't implemented. The NSW Government should use the learnings from the effective components of these programs and work closely with the Energy Efficiency Council to develop a more targeted business facilitation and support program that involves extensive private-sector delivery.
- b. In Victoria the Resource Efficiency Business Program should focus on facilitation, by helping energy users to scope out their goals, linking them to energy service providers and helping them develop and manage contracts for energy services.

## 2. Reducing energy costs for households and businesses

### 2.1 A Plan for Affordable Energy and COAG's energy reforms

In late 2012 the EEC, Australian Industry Group, CHOICE and the Brotherhood St Laurence jointly commissioned independent analysis by Oakley Greenwood on the factors driving up electricity prices, and options to place downward pressure on electricity prices. This report can be found at: <http://www.eec.org.au/node/234>

The report found that the cost of building new network infrastructure was responsible for around 50 per cent of electricity price rises over the last five years, and network costs now account for around 40 per cent of household electricity bills. One way to help networks become more efficient is to reduce critical peak demand (super peak), which occurs on just a few days a year, normally during very hot or cold days. Around 25 per cent of electricity bills are driven by these 'super peaks', because infrastructure has been build to meet peak demand and generation is more expensive during peaks.

Over the next decade, both network costs and rising gas and coal prices are likely to drive up electricity prices. This means that it is essential to help energy users become more energy efficient and manage their peak demand to get more out of each dollar that they spend on electricity.

In October 2012 the EEC, Australian Industry Group, CHOICE and the Brotherhood St Laurence released a 'Plan for Affordable Energy' that recommended policy changes to place downward pressure on rising energy bills. The full plan is attached. In summary, the Plan recommended:

1. Adopting the Australian Energy Market Commission (AEMC) proposal to allow consumers and third-parties to sell demand response into the wholesale market at times of 'super peak' demand
2. A number of reforms to ensure that network companies are as cost-effective as possible, including increasing the power of the Australian Energy Regulator and developing a proposal to set distribution network service providers minimum targets to use demand-side activities to reduce expenditure on infrastructure.
3. Strengthening key energy efficiency programs, including the Clean Technology Investment Program and Victorian Greener Government Building Program.
4. Taking a segmented approach to time-of-use pricing and interval meters
5. Monitoring retail costs and margins to ensure the retail sector is competitive, flexible and meets consumers' needs
6. A number of reforms to ensuring consumers are protected, including setting up a national consumer energy advocacy body.

In December 2012 COAG agreed to a number of reforms in line with the Plan's recommendations. The EEC strongly welcomes COAG's commitments. Further work will be required to implement these reforms effectively, and fully realising the potential of COAG's commitments will require additional commitments, including:

- Developing targets for distribution network service providers to use demand-side activities to reduce expenditure on network expansion
- Complementing energy reforms with key energy efficiency programs
- Tackling the barriers to distributed generation. In November 2012 the Federal Parliament's tri-partisan Senate Select Committee on Electricity Prices endorsed many of the EEC's recommendations on distributed generation. For more information see the attached EEC submission to the Victorian Competition and Efficiency Commission.

## 2.2 Improving household and business energy productivity

Improvements to the NEM are vital, but some of these changes will take some time to implement and, on their own, these reforms will not address a number of price and non-price barriers that make it hard for households and businesses to respond to rising energy prices. Measures that help households and businesses overcome these barriers will complement peak reduction programs and drive significant reductions in energy bills. While these measures may also reduce greenhouse gas emissions, this is only a side-effect of their primary aim, which is reducing barriers to optimal energy-use patterns and enhancing social and economic outcomes.

Many businesses have the opportunity to reduce their energy use by well over 30 percent, including very low cost opportunities to reduce their use by 5 to 15 per cent. Australia is one of the least energy efficient developed countries, and this puts our economy at a competitive disadvantage. Between 1973 and 1998 Australia's energy efficiency increased by just 0.7 per cent a year, compared to 1.6 per cent a year in most other developed countries. The Council recommends a number of measures to improve energy productivity, including:

- Information programs like the Commercial Building Disclosure scheme
- Capacity building programs like the Energy Efficiency Opportunities program
- Minimum standards for appliances and buildings; and
- Establishing a National Energy Savings Initiative (ESI), which would both improve energy productivity and reduce red-tape by harmonising existing state scheme. The intent of the ESI is to make it easier for households and businesses to respond to rising energy prices. The ESI is discussed more on page eight of this submission.

The COAG Taskgroup undoubtedly played a key role in the reforms that COAG adopted in December 2012. The EEC looks forward to working with the COAG Taskgroup as it helps COAG to develop the suite of strengthened energy efficiency programs that it will need to adopt to complement its energy market reforms.