

Ms Sarah Balmanno
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Dear Ms Balmanno

The Department of Climate Change and Energy Efficiency (DCCEE) released a Consultation Paper on Design Options for the *Community Energy Efficiency Program* in September 2011. This submission provides the Energy Efficiency Council's response to the Consultation Paper.

The Energy Efficiency Council is the peak body for energy efficiency and cogeneration in business and the public sector, and brings together Australia's top expertise in energy efficiency to support the development of policy and programs. Incorporating expert advice into the design of energy efficiency programs significantly improves their effectiveness and reduces program risk.

Program Objectives and Additionality

The Energy Efficiency Council strongly supports the Community Energy Efficiency Program. Although there is a sound financial case for investing in energy efficiency, many local governments and community groups lack the awareness or upfront funds to invest in energy efficiency. The Community Energy Efficiency Program should help to address these barriers by driving additional energy efficiency projects and demonstrating the benefit of energy efficiency.

As such, the Community Energy Efficiency Program should aim to genuinely increase the uptake of energy efficiency in Australia, rather than simply providing support to organisations that are already investing in energy efficiency. The Energy Efficiency Council recommends that the objectives of the program should also include:

"Increase investment in, and awareness of, energy efficiency in Australia, particularly amongst local councils, community organisations and households"

Based on this objective, the Community Energy Efficiency Program should focus on supporting projects that are additional to business-as-usual, rather than simply funding projects that would have occurred even in the absence of the grants. There are a number of methods that should be used to identify additional projects. These include:

- The proponent should be required to explain why the project would not take place in the absence of the grant.
- The project should not already have a budget allocation for the complete costs of the projects. However, many local governments include projects in their strategic plans that need external funding to proceed, and these types of project would be additional.
- Projects that are already underway or have already been completed should not receive grants under any circumstances.
- The payback period should exceed three years. This complicates the use of 'value for money' as a merit criteria, as projects with very high internal rate of return for government investments are unlikely to be additional. Therefore, the Council recommends that 'value for money' should include a 'gateway' for projects with a payback period of three to ten years, and 'value for money' should focus on the public benefits of the project that do not accrue to the council.

Prioritising successful projects

As proposed, the Community Energy Efficiency Program will clearly involve discretion in the prioritisation of successful projects. This approach has both strengths, in that it can consider multiple factors and non-quantitative factors (e.g. demonstration value), and weaknesses, as numerous proponents may develop worthy applications that are not successful.

The Energy Efficiency Council recommends that the strengths of a discretionary approach are maximised, and the weaknesses minimised, if:

- The prioritisation process involves the advice of genuine experts; and
- DCCEE provides clear guidelines to potential applicants on how projects will be prioritised.

Firstly, the prioritisation process must involve genuine experts in energy efficiency. The Energy Efficiency Council recommends that DCCEE consult with the Council in appointing experts to the panel, but at a minimum the panel should involve experts that have been recently involved in delivering energy efficiency retrofits.

Secondly, the merit assessment and prioritisation process needs to be clear and transparent to encourage worthy applications and minimise the time that applicants spend developing projects that are unlikely to secure grants. In particular, the Energy Efficiency Council recommends that higher priority should be given to projects that have:

- Higher percentage reductions in total energy use (energy efficiency improvement potential)
- Greater certainty that the projected energy savings will be delivered (Project design, funding and management)

Prioritizing projects with higher percentage reductions in total energy use will encourage organizations to aspire for more aggressive savings initiatives. Projects that implement only projects which short paybacks lock out opportunities for deep cuts in energy use, whereas projects that blend short payback options with longer payback options can deliver deep savings with acceptable payback periods. It is in EEC member experience that deep retrofits can achieve energy savings of up to 50 per cent.

Total energy use should be measured in energy spend (AUD) or greenhouse gas emissions. Although kilowatt-hours or gigajoules are also useful measures of energy savings, it is hard to use these metrics to prioritise projects if some of the projects include cogeneration, as the prioritisation process will not be comparing like-for-like. Projects that do not include a shift from electricity to gas typically do not report the efficiency of off-site generation (e.g. at a coal-fired generator), whereas cogeneration projects will report on-site generation efficiency.

The Council also recommends that DCCEE prioritize projects based on the likelihood that savings will be delivered. Determining whether savings are likely to be delivered should consider multiple factors, including:

- The quality of the application, including the use of investment-grade audits in determining energy saving potentials
- The experience and skills of the project managers or other parties in delivering the energy efficiency project
- The provision of some form of guarantee of energy savings (e.g. guaranteed NABERS rating or use of an Energy Performance Contract) should be considered favourably in terms of ensuring that project results are delivered, but should not be a requirement for projects
- Whether the proposal includes an ongoing Energy Management Plan signed by a relevant decision maker.

Finally, the Community Energy Efficiency Program should include a requirement for applicants to commit to Energy Management Plans will increase the likelihood that energy savings will be maintained, and even increased, over time.

Measurement and Verification

DCCEE should require that energy savings be primarily reported using the International Performance Measurement and Verification Protocol (IPMVP) to enable comparison, although additional metrics, such as NABERS, could complement the IPMVP. There are a number of reasons for using the IPMVP as the primary tool for reporting energy savings:

- While facilities like swimming pools, town halls and street-lights, as eligible to apply for grants under this program, mature NABERS protocols are only in place for offices, hotels and shopping centres. This means that the vast majority of the types of project that are eligible for Community Energy Efficiency Program grants cannot not be measured using NABERS.
- The IPMVP provides a range of appropriate and cost-effective ways to determine energy savings at sites. This includes basic deeming for some projects (e.g. lighting upgrades) and more complex before-and-after measurements of energy use for more complex projects. Although NABERS can be used to report before-and-after energy savings, it is primarily a benchmarking tool, and compares the performance of buildings relative to each other.

DCCEE has previously indicated concerns with the number of qualified M&V professionals in Australia. The Energy Efficiency Council notes only a few professionals would be required to meet the demands from this program and training of numerous professionals is currently underway. More fundamentally, the IPMVP is widely accepted in the energy efficiency industry, both in Australia and globally, and there is no other measurement and verification tool that could be used for this program.

Minimum Grants

The Council understands DCCEE's intention to avoid disbursing many small grants, as this would have high administration costs and produce fewer substantial demonstration projects. As a result, the Council is comfortable with the minimum grant amount of \$50,000 (ex GST). However, the Council does not support the proposal that, where a proposal involves multiple sites, the project costs for individual buildings or facilities should be greater than \$50,000. The Council recommends that, where a proposal involves multiple sites, there should be no minimum spend for individual building or facility, but the total minimum grant for all buildings should be \$50,000 (ex GST).

Grant Applications

The Energy Efficiency Council strongly recommends that third parties, particularly companies which provide energy efficiency service, be allowed to apply for grants on behalf of local councils and not-for-profit organisations. As noted above, there are substantial information barriers that prevent local councils and not-for-profits from engaging in energy efficiency projects. Energy efficiency service providers can overcome these barriers, both through the provision of technical expertise in energy efficiency and lowering the transaction costs in applying for grants.

Aged Care Facilities

The Council recommends that aged care facilities should be eligible for grants under the Community Energy Efficiency Program. The Council understands that aged care facilities, as residential facilities, will receive significant compensation under the Government's Clean Energy Future package. However, compensation is not the same as a grant that is structured to support energy efficiency improvements.

Requirements to support Australian companies

The Community Energy Efficiency Program includes a requirement that projects seeking funding over \$1 million should support "Australian companies to participate in all stages of the project" (p14) and "support the participation of Australian energy efficiency equipment and technology manufacturers" (p15)

It is clear that the intention of this clause is to support upskilling and job growth in Australia, and these are laudable goals. However there are significant issues with the ways that these requirements are currently framed.

Firstly, the definition of 'Australian company' must include international companies that have substantial numbers of staff based in Australia. The Energy Efficiency Council includes many global companies that have invested significant funds and intellectual property to build teams of highly-skilled staff in Australia, and to exclude them from participating in this scheme would limit future investment. Australia has much to learn from international experience, and overly narrow requirements in this program would prevent global companies from bringing this knowledge to Australia.

Secondly, the requirement should be limited to “provide reasonable opportunity for Australian companies to participate in all stages of the project”, and the requirement to use locally manufactured equipment and technology should be removed.

While it is possible to use almost exclusively Australian-based staff in designing, installing and managing energy efficiency projects, it is not possible to exclusively use equipment and technology that has been developed in Australia. Many excellent and innovative products have been developed and manufactured in Australia in areas like water heating and lighting controls, but much of the quality specialist equipment must be imported. The Community Energy Efficiency Program could encourage the use of locally-manufactured equipment, but should not require it.

Summary and learnings from other program

The Energy Efficiency Council notes that the Community Energy Efficiency Program should learn from the experiences of similar State-based programs, like the New South Wales *Public Facilities Program*. The Council encourages DCCEE to liaise with the New South Wales Office of Environment and Heritage to learn from their experiences in delivering community-based grant programs. This will be particularly relevant to issues such as:

- The potential to stall otherwise good projects by offering ‘successful’ applicants partial funding. Apocryphal evidence from other programs suggests that, where partial funding was offered, projects did not proceed.
- Processes for identifying which projects are genuinely additional

Please contact me on 03 8327 8422 should you require further information on any of the issues raised in this submission.

Yours sincerely



Rob Murray-Leach
Chief Executive Officer