Powering the Regions Fund team
Department of Climate Change, Energy, the Environment and Water
Via email: prf@dcceew.gov.au

3 February 2023

Re: Powering the Regions Fund consultation paper

Please find attached the Energy Efficiency Council's submission to the Powering the Regions Fund (PRF) consultation paper. The EEC warmly welcomes the Government's intention to invest in industrial decarbonisation in regional areas and is pleased to make a submission to the consultation paper.

The EEC broadly welcomes the direction taken by the consultation paper. Investing in the decarbonisation of regional industry is an important step in the journey to net zero. Assisting Safeguard Mechanism entities to decarbonise through financial assistance, rather than relaxing decarbonisation obligations, is also an approach that promotes domestic decarbonisation and transforming industry to be ready for a net zero economy.

The EEC would encourage the Government to primarily look at the PRF as an industrial decarbonisation and development program, rather than a regional development program. The focus of the program should be helping industrial enterprises overcome those additional barriers to decarbonisation and improving energy performance which may exist for regional businesses, improving their productivity and long-term competitiveness. Focus on the PRF as a regional development tool risks compromising the PRF's effectiveness as an industrial decarbonisation program.

The EEC notes that the PRF has the ability to invest in ways that could complement other government initiatives that will be more constrained in their operation. For example, the National Reconstruction Fund will only be able to invest in financial investments like equity and loans, meaning it can only support a limited range of businesses. The PRF can support other initiatives, by allowing businesses to access funding for a wider range of activities, including capital and non-capital upgrades, but also the advice and expertise necessary to identify, evaluate and implement those upgrades which can reduce emissions and save money. The EEC encourages the Government to look for ways in which PRF funding can complement and amplify other initiatives, including through helping businesses to build a business case to access other sources of funding.

The EEC also notes the opportunity for the Government to use the PRF to help businesses manage and optimise their energy use – both to reduce emissions and save on energy bills. Energy Management Systems (EnMS) are a critical tool to help businesses improve their energy usage, and can unlock rapid reduction in energy use and emissions. Part of the Industrial Decarbonisation stream could help reduce the additional barriers that regional businesses can face in accessing skills, expertise and resources to implement metering, monitoring and management of their energy use.

These, and a range of other matters are explored in our formal submission (attached).

For further information please contact me on alex.stjohn@eec.org.au or 0413 698 181.

Yours sincerely

Alex St John

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Energy Efficiency Council

Submission to the Powering the Regions Fund discussion paper

Overview

The Energy Efficiency Council (EEC) warmly welcomes the Government's commitment to invest in clean prosperity for regional communities through the Powering the Regions Fund (PRF) and welcomes the opportunity to make a submission on the Powering the Regions Fund consultation paper. The EEC is Australia's peak body for energy efficiency and energy management, and counts business, universities, NGOs and governments among its members. The EEC advocates for policies that deliver healthy, comfortable buildings; productive and competitive businesses, and an affordable and reliable energy system for Australia. The EEC is strongly committed to helping Australia deliver its emissions reduction commitments and transition to a prosperous, net zero economy.

Industrial decarbonisation will be one of the most significant challenges Australia faces on the journey to a net zero economy. Government support for industry to improve its energy productivity, lower emissions and enhance future competitiveness will be critical to ensure that Australian industry has the best chance of thriving in a post-transition economy. Investing with a regional focus will help create a just transition that ensures that the benefits of the transition to net zero flow to all Australians.

The PRF is an important complement to other initiatives already underway to help the transition. The ability of the PRF to make direct funding commitments, rather than providing support as a financial investment, will allow interventions in some ways that could improve the chances of other initiatives. For example, while a financial investment vehicle could provide concessional or de-risked financing arrangement for an upgrade, such vehicles would not help businesses access advice or appropriate data and expertise to determine whether such upgrades would be worthwhile. The EEC encourages the Government to consider how the Powering the Regions Fund might complement and amplify the impact of other policy initiatives including the Safeguard Mechanism reforms, the National Reconstruction Fund and the National Energy Performance Strategy.

We would further encourage the Government to give priority in the PRF to funding that will support long-term investments that are compatible with achieving net zero by 2050 at the latest. Further government purchases of Australian Carbon Credit Units under the Emissions Reduction Fund should be phased out as the reformed Safeguard Mechanism comes online. Generation of ACCUs – especially from land-sector sources – is a mature market with growing private sector demand, and government resourcing could be better used in catalysing difficult industrial decarbonisation tasks.

The EEC would also like to make the following overall comments on the proposed Powering the Regions Fund:

1. <u>Invest in improved energy performance productivity for regional businesses</u>

Energy management, energy efficiency and improving energy productivity are key strategies to begin decarbonisation in every business. The implementation of an energy management system (EnMS) is a way to enable emissions reduction and energy savings at relatively low cost, although there can be additional hurdles to accessing expertise and knowledge in regional areas. Government investment in resources to help businesses access advice, knowledge and expertise to improve their energy efficiency and productivity could assist regional industries to start the decarbonisation process, as well as improving productivity and competitiveness.

2. <u>Capture decarbonisation opportunities in agriculture and primary production</u>

Although not canvassed in the consultation paper, there is a significant task of decarbonisation in agriculture and other primary production. Rural industries have high reliance on diesel and other fossil fuels, and opportunities exist to decarbonise some agricultural operations in the short term. On-farm processing could be a prime target for initial decarbonisation efforts through deployment of heat pumps, thermal storage and other technologies that can help substitute low-cost renewable energy in place of diesel and liquefied petroleum gas – both for cost and emissions reduction purposes. The PRF could look at helping primary producers implement energy efficiency upgrades and fuel switching to reduce reliance on these fuels, save money and improve competitiveness.

3. <u>Target industrial decarbonisation and development, not regional development</u>

The primary goal of the PRF should be industrial decarbonisation, with funds directed towards overcoming additional barriers to decarbonisation in regional areas. While there may be welcome spillover benefits from investment, the primary objective of the PRF should be to start the decarbonisation journey for regional industries, enhancing the long-term competitiveness of those businesses. More productive, competitive business will provide ongoing benefits to their regions through economic activity and employment – but attempting to make spillover benefits the main focus of the program risks compromising the long-term competitive advantage of Australian regional industry.

Responses to specific questions

Supporting Regional Australia's contribution to emissions reductions

Discussion Questions:

1) How should the PRF best be delivered with a regional focus?
2) If any regions are to be prioritised, what factors should be considered?
3) What is the best way to design and deliver support within any prioritised regions, or otherwise achieve the objective of regional transformation?

Within regional areas, the PRF should target:

- Investments that are compatible with achieving net zero by 2050;
- Complementing and amplifying other government initiatives;
- Reducing barriers to the most difficult decarbonisation challenges;
- Overcoming additional hurdles that regional businesses face in accessing expertise, resources and skills, and
- Investments that align strongly with one or more areas of well-defined competitive advantage for Australia.

The objectives of the PRF relate to development of clean, decarbonised Australian industry – as such, the PRF should be viewed as an *industrial* development program designed to help overcome additional barriers faced by industry in regional areas, rather than a *regional* development program. While it is true that economies of scale can be accessed by industries that cluster around a particular region that affords access to particular resources or expertise, this should flow from the development of a particular industry, rather than development of a particular region.

In some cases, there are sound arguments for affording particular regions priority in considering the transition to clean industry – particularly those areas that are likely to undergo structural changes through long-term changes to the energy mix. However, such regions should be supported by dedicated and bespoke assistance, tailored to those regions. Attempting to make an industrial development program serve the purposes of a regional development program risks poor outcomes for both objectives.

Therefore, the EEC recommends that the PRF prioritise the most pressing industrial decarbonisation needs *within* regional areas. Regional areas should be defined using the Australian Bureau of Statistics definitions of remoteness, with regional areas including all areas of remoteness excepting Major Cities of Australia. PRF programs may also reasonably accord higher merit or priority to projects in areas with increased levels of remoteness.

Objective 1: Decarbonising Existing Industries

Discussion Questions:

4) Is there an approach to funding that will best allow the PRF to be accessible to the depth and breadth of industry across Australia?
5) Do you have any concerns over recipients being required to monitor performance and report publicly on project outcomes (including total abatement achieved)?
6) Should there be limits to the total funding any project, region or sector can receive?

The EEC has no particular views on these questions at this time. We would note that:

- While the PRF is a reasonably substantial amount of funding, it is likely to serve only a small proportion of the ultimate need for industrial decarbonisation. Therefore, we encourage the Government to carefully target PRF programs to deliver adequate and substantial resources to make significant impact in targeted areas. This will naturally lead to the need to make strategic choices about what the PRF will initially support.

- Reporting and monitoring on project outcomes is a reasonable requirement and supports program evaluation as well as knowledge sharing, which helps maximise the benefits captured through the PRF investment. However, attention should be paid to keeping administrative burden both for application and reporting against the fund low, to help maximise participation.

- While the EEC has no particular views at this time on individual limits, we note that in some jurisdictions energy efficiency schemes exist. These schemes can also support industrial decarbonisation, but businesses in other jurisdictions do not have access to these schemes. It may be worth considering how the PRF can be designed supplement energy efficiency schemes where they exist and help bridge the gap where they do not.

Safeguard Transformation Stream

Discussion Questions:

7) What factors beyond emissions reduction should be considered when assessing projects?
    a) Should the priority be emissions reductions at lowest cost?
    b) Should factors such as demonstration/technology potential, difficulty of abatement, electricity network or industry growth and community impacts be considered?
    c) Should a project that demonstrates an experimental technology or supports the establishment of a new industry and jobs be preferred?
    d) How should risk of non-delivery or non-performance be assessed when considering demonstration projects?
    e) Are there any other factors that should be considered?
8) Should grants be open to individual facilities only, or should facilities be able to submit a joint application? For example, proposals to jointly develop common use infrastructure.
9) Should there be any exceptions to the proposed joint contribution funding model?
    a) Should in-kind funding be counted towards an applicant's contribution?

The Energy Efficiency Council strongly supports the provision of the Safeguard Transition Stream as a practical means to assist emissions-intensive trade-exposed businesses with their decarbonisation obligations. In particular, the provision of funding to assist decarbonisation – rather than relaxing obligations – preserves the integrity of the emissions reduction target and does not inequitably shift the burden of emissions reduction to others. Rather, the benefits of continued employment and emissions reduction in EITE industries, which accrue to the community at large, are supported by the community at large.

The PRF safeguard stream should focus on projects that address harder-to-abate emissions, but are still amenable to abatement in the short to medium term. Longer-term abatement that requires technological progress is better left to R&D-focussed programs such as the Australian Renewable Energy Agency. Given competition for funds, careful selection of appropriate projects is essential. The PRF should avoid subsidising projects that could be achieved with existing solutions available on general commercial terms, but also take care to not direct funding towards projects unlikely to deliver abatement in the short to medium term.

In consideration of potential projects under the safeguard transformation stream, emissions reduction and cost-effectiveness are important parameters for project selection, but should not necessarily be treated as the final determinant of project value. Other considerations should include:

- Does the project proposal support an industry that is ultimately compatible with a net zero economy?

- Could the proposal support knowledge-sharing and other measures that will help accelerate the industrial transition more broadly?
- Does the project contribute to development of skills and expertise within Australia that will assist other businesses to decarbonise?

Overall, the safeguard stream should look to maximise the long-term value of the investment right across the economy. Some of the factors discussed above could provide improved long-term value, but may not always be the lowest cost abatement available. Where investment in joint use facilities will build long-term value in a net zero economy, this would be a sensible use of funding. Measures that enhance cooperation and collaboration should be encouraged – due to the inherently competitive nature of EITE industries, such collaboration does not represent anti-competitive behaviour and should be encouraged in the interests of bolstering Australian clean industry.

One area of grant design that may require attention is the interaction between any funding received under the PRF, and any subsequent Safeguard Mechanism Credits that an entity accrues if they are able to overachieve their emissions reduction obligations. It would be appropriate to add a control measure to the PRF to ensure that while businesses retain a strong incentive to overachieve their baseline, entities are not provided with a windfall gain funded by the taxpayer. Some kind of partial clawback or other form of restriction on SMCs generated by PRF recipients could be reasonable – such as a portion of SMCs being withheld by the Commonwealth, or permitting recipients to bank, but not trade SMCs achieved subsequent to a PRF project.

Industrial decarbonisation stream

Discussion Questions:

10) Should the IDS support both capital and non-capital investments?
11) Does a matched funding model work for the IDS? Should there be any exceptions?
12) Should the IDS offer grants or another type of financial incentive?
13) Would multiple, targeted rounds of funding support project development?
14) Would the development of IDS sub-streams benefit project development?
    a) What categories of sub-streams should be considered?
15) What assessment criteria should the IDS use to select projects?
    a) Should the assessment criteria differ from those proposed for the STS?
    b) Should joint proposal for common use infrastructure projects be given priority?
    c) Do SMEs and small-scale projects require additional support?
    d) Should any specific regions be prioritised for the IDS?

The industrial decarbonisation stream of the PRF will be one of the most valuable investments that the Government can make in helping regional industry adapt to a new, net zero compatible economy. While the scale of the overall task will be large, making an earnest start at industrial decarbonisation is critical to ensuring that emissions reduction targets will be achieved – particularly net zero by 2050.

The EEC strongly encourages the Government to consider any and all measures that will assist existing industry to make changes and upgrades that will facilitate long-term emissions reduction, maximise use of low-cost renewable energy, and improve business productivity and competitiveness.

In the EEC's submission to the National Energy Performance Strategy discussion paper, we have highlighted the need to develop a national, long-term industrial decarbonisation plan. This reflects the reality that while some opportunities for industrial decarbonisation are ready for implementation in the near term, technological development will be required to achieve full industrial decarbonisation.

We would encourage the development of a long-term industrial decarbonisation plan to consider what additional barriers regional businesses may face in decarbonisation. Regional businesses can face greater challenges in finding appropriate expertise, accessing skilled advice, as well as typical supply chain difficulties. Further, regional enterprises can face additional difficulties in accessing and participating in communities of practice that help inform business improvements, so a core function for the PRF should be to help regional industrial enterprises access skills, expertise and resources that are more accessible in metropolitan areas.

Invest in energy management for regional businesses

As with any energy-intensive business, energy management for regional businesses can provide rapid reductions in energy use, bringing savings for both energy bills and emissions. Implementation of energy management systems (EnMS) are a key tool to reducing energy usage and improving productivity. The United Nations Industrial Development Organisation notes that businesses can typically save 10 to 20 per cent of their energy consumption in the first two years of implementing an EnMS, and savings of 25 to 30 per cent are available in the medium term in industrial production. In some cases, energy savings of up to 15 per cent can be achieved in the first year of implementation with little or no capital investment.[1] Sometimes, EnMS processes identify simple repairs and servicing of ageing equipment that yield substantial results (both in emissions and energy bill savings) at very little cost.

Uptake of energy management systems varies greatly across Australia. The Powering the Regions Fund could make a substantial contribution to industrial energy performance, emissions reduction, lower energy bills and higher productivity by advancing implementation of energy management systems in regional areas. Ultimately, energy management systems require the use of energy advisors, including Certified Energy Management System Advisors, an industry led training and certification program supported by the Commonwealth and launched in 2022. However, there could be a role for the PRF in creating regional centres of expertise in energy management; engagement with regional businesses, and support for regional businesses to implement energy metering, monitoring, and management systems – including accessing necessary expertise.

The EEC has advocated in its response to the NEPS to include a package for energy metering, monitoring and management – we would encourage the PRF to consider how regional industrial businesses could benefit from extra support to establish improved energy management practices to reduce emissions and energy bills.

Recommendation:

The Powering the Regions Fund should provide additional support to regional businesses to implement energy metering, monitoring and management processes, and help link businesses with appropriate expertise and resources.

Investments – support both capital and non-capital improvements

There are currently a range of government initiatives that will provide support for capital initiatives – particularly the National Reconstruction Fund, as well as CEFC initiatives. However, little support is available for non-capital works that could substantially help decarbonise regional industrial enterprise. For example, in many cases, identifying and implementing changes to process flows can help improve energy efficiency, reduce bills and emissions. However, such improvements can require substantial resources to identify and implement and would not generally be considered as capital improvements.

The EEC would strongly encourage the PRF to consider how it could complement and amplify the effect of other government initiatives. For example, by assisting industrial enterprises to access advice and expertise through the PRF, they might be able to identify process improvements and capital upgrades that could be supported through other initiatives, or even normal commercial means.

This means that a variety of funding arrangements should be used in the PRF. While loans and equity investments can sometimes be useful, co-funding in this case through grants or agreements might be a more effective way to use the PRF to complement other initiatives. For example, a smaller grant might identify a capital upgrade that business could access concessional financing for, or use instant asset write off provisions to help finance.

Multiple types of incentives, tailored to different circumstances, would be valuable. In many cases, the current pool of skilled workers available to identify and implement upgrades is relatively small, and activity needs to be scaled up sustainably to ensure quality outcomes for the Commonwealth and participating businesses. This suggests that successive rounds of project funding would be better than a single large round – in many cases, the demonstration effect of businesses engaging with the program would be useful to help drive wider engagement and participation in later rounds.

Developing new clean energy industries

Discussion Questions:

16) Should support for the development of new clean energy industries be targeted towards specific sectors, regions, or stages of technology development?
    a) How should regions be defined or delineated to provide clarity to applicants?
    b) What forms of coordination and planning should the PRF support?
    c) How can the PRF avoid duplicating existing coordination mechanisms in particular regions, industries and for particular technologies?
17) How can the PRF complement existing funding for clean energy industries?
    a) Should PRF funds be allocated to existing initiatives? If so, please specify which ones.
18) What types of financial support should the PRF offer to support new clean energy industries? For example, grants, tax deductions, equity, concessional loans, subsidies, etc.?
19) How should the impact of PRF support for new industries be measured and assessed?

As discussed earlier, we would encourage the focus of the PRF to be based on decarbonising industrial enterprises located in regional areas that can be compatible with a net zero economy. At present, we believe there is sufficient need for investment in existing industries to account for the initial allocation to the Fund several times over.

However, supporting the development of new industries could also be a useful activity for the Fund. The EEC believes there is opportunity for new and expanded industrial enterprises in clean technology in Australia, particularly where those enterprises focus on a clearly defined area of competitive advantage or are serving a uniquely Australian need. For example, development and supply of insulation and other building products that are designed for Australia’s climate conditions, or HVAC equipment that is optimised to work for Australian households and businesses could be productive areas for new industrial investment.

Enable innovation and market development and readiness

The EEC would see the greatest value for the PRF in enabling measures that can help new industries succeed. While investment in individual businesses is useful in some circumstances, it is likely to be better value to establish programs and frameworks to help new industrial enterprises build their operations and markets. For example, the PRF could help resource facilitators and concierges to help new regional clean technology enterprises access advice, skills, financing, government services and others. Access to many of these things can be more difficult in regional areas and providing a network of 'boots-on-the-ground' facilitators and coordinators as sources of local knowledge could help overcome these barriers. We understand from feedback in previous commercialisation programs that the human facilitators and mentors provided through these programs has been an invaluable element – sometimes described as services that money can't buy.

The scale of the PRF means that it is unlikely to be able to provide step-change financial support to a wide range of new industries, so it may be better to leave more general industrial investment programs to existing entities such as ARENA and the CEFC. However, using a portion of the PRF to provide significant and substantial support through information, advice and facilitation to enterprises could be an important and well-suited role for the PRF.

Workforce development

Discussion Questions:

20) What are the main challenges when it comes to workforce development?
    a) Are you currently experiencing any skills shortages that impact your ability to develop or deliver a potential project?
21) How should the PRF support workforce development?
    a) Should additional funding be offered to projects that deliver greater workforce development and participation?
    b) Should workforce development be an eligibility requirement?
22) How should workforce development impacts be measured and assessed?
    a) Should applicants be required to estimate the number of workers required for construction, maintenance and ongoing operation? How should temporary and permanent roles be compared?
    b) Should applicants be required to identify the potential for existing workers and job seekers in the region to be engaged under their project?

Accessing a skilled workforce is likely to be the largest barrier to decarbonising industry in the short to medium term. This reflects both current debilitating general labour shortage conditions, as well as a relatively small base of pre-existing skills and knowledge for workers in this area.

The EEC is strongly committed to fostering a workforce that champions safety, quality and long-term workforce sustainability. To a certain extent, challenges in finding an adequate workforce will be beyond the efforts of both industry and governments, but nonetheless supporting frameworks to develop skilled, safe industry remains a high priority.

The EEC operates a professional certification framework, which certifies a range of service providers in energy management, advice, and building retrofits. The EEC encourages the Government to consider integrating skills and accreditation requirements into programs as one method of reducing risk associated with these programs and providing professionals with a clear pathway for professional development.

Further, we encourage governments to consider the cumulative workforce demand that new programs will induce. New programs should seek to scale up demand sustainably, learning from previous efforts to create decarbonisation programs in homes and industry.

Purchasing Carbon Credits

The EEC strongly encourages the Government to phase out government purchasing of carbon credits as soon as possible. While there is a role for government in ensuring a stable, liquid and vital market for ACCUs, the oncoming reformed Safeguard Mechanism should provide adequate market demand.

We believe that taxpayers' funds are better directed towards projects that are not amenable to incentivisation under the Emissions Reduction Fund framework. To date, the ERF has not been a viable method to resource industrial decarbonisation projects – it would be a more valuable use of limited resources to alter the ERF to be more supportive of industrial energy efficiency and fuel switching projects, and to invest in industrial decarbonisation directly.

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[1] UNIDO Industrial Energy Accelerator (n.d.), *Energy management systems*, United Nations Industrial Development Organisation.