Productivity Commission
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15 September 2025

Re: Investing in cheaper, cleaner energy and the net zero transformation

To whom it may concern,

Thank you for the opportunity to provide feedback on the *Investing in cheaper, cleaner energy and the net zero transformation* interim report.

The EEC is the peak body for energy management and energy efficiency in Australia. Our members include technology suppliers, energy service providers, major energy users, governments, education providers and NGOs. Energy efficient products and services are essential for a cost-effective, equitable, and orderly transition to net zero.

Comments on selected issues addressed in the interim report are as follows; a lack of comment on other issues does not indicate an EEC position.

Prioritise energy performance for least-cost emissions reductions and economic productivity

Demand-side energy management measures such as energy efficiency, electrification and flexible energy demand offer major opportunities for low-cost and rapid emissions reduction.

Australia's historical access to inexpensive energy has led to a culture of energy waste – across households, commercial buildings and industry. Redirecting capital from energy expenditure to other productive activities and investments offers major opportunities for productivity gains.

An example of improved energy performance leading to productivity gains can be seen in the commercial buildings sector. Energy intensity has fallen in Australia's buildings since 2012 by around 18% and 16% for electricity and gas respectively, while buildings disclosing NABERS ratings have reduced energy intensity by around 40%. A recent collaboration between EEC and Westpac offers a range of case studies from the sector.

Unlocking the opportunity requires policy. While increasing energy costs are acting as a driver towards energy demand management, non-price barriers are still present. The successful development of NABERS and the Commercial Building Disclosure program show that regulation can deliver economic benefits.

Reforms to Safeguard Mechanism are needed

We welcome the proposal to reduce the threshold for inclusion in the Safeguard Mechanism (SM) from 100,000 tCO_2-e to 25,000 tCO_2-e in annual emissions. The

expansion of the SM can be an important driver of decarbonisation for large emitters. Nonetheless, further measures are required to drive emissions reductions among large emitters that are unlikely to be included within an expanded SM. Existing analysis suggests that most facilities in the 25-100,000t range would be in the resources sector. Because Scope 2 emissions are not included in the SM, many major commercial and industrial sector energy users will not be included or incentivised to decarbonise or improve energy performance.

We recommend complementary targets and policies should be adopted for facilities and businesses below the 25,000t threshold. The EEC is actively investigating is the potential for entities not captured by the scheme to voluntarily generate SMCs and we would be happy to discuss this idea with the Productivity Commission.

Balance least-cost abatement against limited timeframes for action

The interim report recommends the analysis of government policy measures on the basis of a consistent target consistent carbon value (TCCV). We note that energy efficiency and energy demand management are consistently among the most cost-effective opportunities for emissions reduction.

As noted in the interim report, in the absence of a broad-based carbon price government policy measures may be required beyond those deemed to have least cost on a TCCV metric.

The long lead times for decarbonisation in complex sectors and the level of rapid emissions reductions required to meet existing and prospective targets suggests that immediate policy measures or investment is required – even where a marginal abatement cost curve analysis may suggest deprioritisation in early stages. Government investment or policy in some relatively high-cost areas of abatement is expected to lower the cost of deployment by building the capacity of the private sector or driving innovation. Examples include industrial decarbonisation and the electrification of existing commercial buildings, where policy can build momentum and industry capacity to deploy solutions over the longer period, in line with Australia's net zero commitment.

Rationalisation of state and federal policies must be carefully managed

The interim report recommends a phase-out of jurisdiction- or technology-specific policy measures. Alignment between jurisdictions brings strong productivity benefits and should be facilitated where possible. However, phasing out jurisdiction-specific incentives should not be undertaken at the expense of successful approaches that are necessary to meet social and decarbonisation goals, particularly as state and local governments are often better placed than the Commonwealth to manage program delivery.

For example, in the residential sector, state and local policies and programs have reduced emissions while also delivering additional social and economic benefits. For example, in the residential sector, state and local policies and programs have reduced

emissions while also delivering additional social and economic benefits. While the 'additionality' of some of these programs may be questionable from a narrow, theoretical perspective, there are often reasons why multiple and overlapping interventions may be necessary, particularly where engagement with household consumers in complex social and political environments is required.

While jurisdictions and the Commonwealth continue to coordinate and align policies through intergovernmental processes (such as the *Trajectory for Low Energy Buildings* and the National Construction Code), recently, some states have abandoned strict additionality principles to ensure ambitious energy and climate goals can be met within limited timeframes.[1]

This comes after a realisation that policies such as minimum rental standards, electrification requirements, rebates and certificate-based energy efficiency schemes, may be required *in combination* to deliver an equitable energy transition in very tight timeframes.

Attempts to rationalise state and federal climate and energy policies should bear in mind that cost is one of several (sometimes competing) performance indicators for government policy.

Adaptation and resilience ratings

We welcome the proposal to develop national resilience ratings for homes, and note that this recommendation is consistent with the Building Ministers Meeting commitment to bring resilience within scope of the National Construction Code. The development of ratings can furthermore support households and the broader housing ecosystem including finance.

Key risk factors that may be integrated into resilience ratings should include resilience to heatwaves, bushfires, high velocity winds such as cyclones, and flooding. A tension is likely to exist between the objectives of providing clear consumer information and detailed risk categorisation across a complex range of factors.

Careful consideration is required for the interaction between or integration of a newly developed resilience rating and existing NatHERS energy performance ratings, including communication of ratings to ensure consumer confidence and clear information on energy and resilience. Considerations should include the role of thermal comfort and efficiency under extreme conditions in existing ratings; future climate projections and the likely increase in extreme heat events; the prioritisation of risks; and the weighting of local risk factors (such as flood zones) against general construction standards.

To ensure viability, governments must ensure adequate resourcing for the development of resilience ratings alongside other existing related priorities (such as NatHERS ratings, disclosure schemes, National Construction Code, and related

[1] See consideration of additionality in the VEET Act as part of the VEU Strategic Review: https://engage.vic.gov.au/project/victorian-energy-upgrades-program-strategic-review/page/additionality-in-the-program

residential energy programs as outlined in the *Trajectory for Low Energy* Buildings). In line with the development and governance approach of NatHERS, close engagement with industry and community stakeholders is necessary.

Thank you for your consideration of our comments. We would welcome any further opportunity to engage with you in relation to this process. Please contact me at Jeremy.sung@eec.org.au should you wish to discuss any related matter.

Yours faithfully,

Jeremy Sung
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