Helen Wilson
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Domestic Emissions Reduction Division
Department of the Environment and Energy
Email: climatechangereview@environment.gov.au

10 May 2017

Re: Energy Efficiency Council Submission to the 2017 Review of Climate Change Policies

Dear Ms Wilson

Thank you for the opportunity to provide a submission to the 2017 Climate Change Policies Review (the Review).

The Energy Efficiency Council is the peak body for energy efficiency, demand management and cogeneration in Australia. The Council is a not-for-profit membership association, and its goal is to make sensible, cost-effective energy management measures standard practice across the Australian economy. Our members include independent experts, energy efficiency providers and various levels of government.

The Council welcomes the considerable discussion focussed on energy management in the Review's Discussion Paper. Energy management must be a major plank of the 2017 Climate Change Review, as it represents at least 30 per cent of Australia's abatement potential (Figure 1) and is critical to support energy affordability and reliability during the transition to clean energy. Moreover, energy management will deliver these reductions at negative cost, with appliance standards expected to deliver abatement at around minus $118 per tonne of avoided emissions.

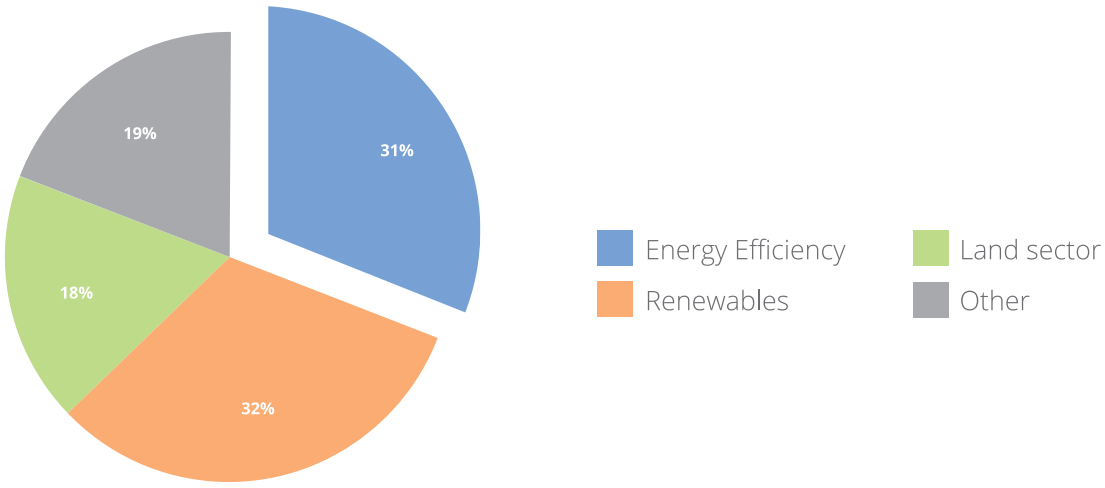

Figure 1. Abatement potential in Australia to 2030
Source: ClimateWorks Australia and WWF 2015, A prosperous, net zero pollution Australia starts today.

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While energy management has delivered substantial reductions in greenhouse gas emissions over the past twenty years, Australia has barely tapped its potential. The Australian Government has set a target to improve energy productivity by 40 per cent by 2030, and numerous studies suggest that we have the potential to further strengthen the economy by doubling energy productivity by 2030. However, with the current suite of policies in Australia we will not meet the Australian Government's current energy productivity target, let alone more ambitious goals.

The imperative to reduce greenhouse gas emissions is only one of the drivers for urgent action on energy management. Accelerating action on energy management will deliver both emissions reductions and vital support for our economy. Energy management is critical for:

Energy security and affordability

In the last ten years electricity costs in Australia have risen dramatically while reliability has decreased. This is due largely to regulatory problems, network expenditure, increased supply and demand volatility and the reduction of competition from closure of generators. Energy management can substantially address many of these issues.

Energy efficiency is the lowest-cost form of baseload 'capacity'. For example, existing fridge standards alone deliver over half of the maximum output of Hazelwood. Demand response can provide both peaking and emergency capacity, and was essential in maintaining system security in NSW in February 2017. However, we are capturing far less than 10 per cent of the potential of demand response. Demand response is estimated to deliver at most 1-2 per cent of the capacity of the National Electricity Market (NEM) compared to 8-11 per cent in healthy markets.

Jobs, manufacturing and productivity

Consumers are facing not just rising electricity prices, but also gas prices that are in the process of more than doubling. Without urgent action some manufacturers in Australia will close, resulting in a significant loss of jobs and economic activity. Energy efficiency and fuel switching will be critical to reduce manufacturers' energy bills and maintain their competitiveness and viability.

Beyond this crisis, improving energy efficiency by just one per cent a year is estimated to expand Australia's economy by $26 billion by 2030[1] by improving staff productivity and resource efficiency while lowering energy costs.

Energy efficiency itself is a huge employer. The global market for smart energy products is estimated at around $290 billion per annum and is growing rapidly.[2] If Australia captured just one per cent of the global market it would deliver $2.9 billion in income every year and create thousands of jobs. There are over 321,000 jobs that involve energy efficiency in California alone, and employment has been growing at six per cent per annum.[3]

Consumer protection and health

Minimum standards and ratings for homes and appliances protect consumers and ensure that they get what they pay for. When builders and manufacturers cut corners it can increase households' energy bills, reduce comfort and even affect their health. Building efficiency impacts winter mortality rates, which are a significant cause of death – more than 26,000 deaths each year in Australia are associated with cold weather.[4, 5]

[1] Climate Institute 2013, *Boosting Australia's Energy Productivity*.
[2] International Energy Agency 2016, *Energy Efficiency Market Report 2016*.

[3] Advanced Energy Economy Institute 2016, *Advanced Energy Jobs in California*.
[4] International Energy Agency 2014, *Capturing the Multiple Benefits of Energy Efficiency*.
[5] Gasparrini A. et al 2015 *'Mortality risk attributable to high and low ambient temperature: a multicountry observational study', The Lancet, Vol 386, No. 1991, p367-375.*

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Australian Energy Efficiency Policy Handbook

The Energy Efficiency Council has developed a comprehensive range of recommendations to improve demand-side activity across the economy, which are set out in the Australian Energy Efficiency Policy Handbook (attached to this submission). However, we recommend that the Review focus on nine priority measures (see overleaf).

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Priority Cross-cutting Measures

1. Ensure Australia's suite of climate change policies drive energy efficiency

Australia will need a suite of policies to address climate change. While many of these policies will not directly support energy efficiency (e.g. the Renewable Energy Target), the suite of policies as a whole should drive a cost-effective balance of energy supply and demand-reduction projects to reduce emissions.

The design of Australia's main tools for carbon reduction, the Emissions Reduction Fund and the Safeguard Mechanism, does not facilitate investment in energy efficiency. This distorts investments in emissions abatement away from energy efficiency and into more expensive projects. The various proposals for an Emissions Intensity Scheme, as currently structured, would also direct abatement towards generation rather than end-use investments.

Therefore, it is critical that the Government either substantially revise these programs, or explicitly recognises that these programs will drive limited energy efficiency and provides a shadow carbon price through grants or other programs to drive energy efficiency.

2. Funding and Governance for the National Energy Productivity Plan (NEPP)

The NEPP is not a set of detailed policies, but a broad framework for collaboration between the Australian, State and Territory governments. The Australian Government currently provides very limited funding for the NEPP, which results in limited progress. The Australian Government needs to substantially increase funding for NEPP, including funding for specific programs and untied funding for general policy work.

While the NEPP is a collaborative program between governments, but the work is largely funded and run on an *ad hoc* basis. In contrast, energy supply issues are run through established bodies with hypothecated funding. The Council recommends the development of a *National Energy Efficiency and Productivity Agency* that reports to the COAG Energy Council to oversee implementation of the NEPP. Over time this agency could move towards a funding structure similar to Energy Consumers Australia.

3. Support the harmonisation and expansion of State and Territory schemes

NSW, Victoria, South Australia and the ACT have retailer energy efficiency obligations that are primarily intended to reduce energy bills but could also be expanded to act as shadow carbon prices. These schemes have driven substantial emission reductions, but there is an opportunity to significantly increase their effectiveness and reduce their cost through harmonisation, and expansion to Queensland and other jurisdictions. To achieve this, the Council recommends that the Australian Government engage with States and Territories to set up a national body to manage a number of common administrative tasks, including product registrations and methodology approvals.

4. Energy Market Reform

It is critical to reform energy markets in order to improve energy security and affordability. Recommendations for these reforms will largely fall to the Finkel Review, but the Climate Change Policies Review should highlight the importance of energy markets encouraging, rather than discouraging, smart energy management. Key actions include:

- Urgent reforms to support demand response for energy security and affordability.
- A review into how to unlock the potential for energy efficiency to provide 'baseload capacity' in energy markets
- Ensuring that Network Service Providers invest in energy management when it is cheaper than network augmentation.

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Priority Sectoral Measures

5. Reduce manufacturers' gas and electricity bills and emissions

Rising gas and electricity prices are impacting the competitiveness and viability of manufacturing. While it is important to stabilise gas and electricity prices, manufacturers will still face a future with higher energy prices. Given this, it is critical to help manufacturers adjust through improved energy management and switching to lower-cost fuels. The Australian Governments should establish a $500 million *'Gas and Energy Productivity'* program to help manufacturers implement major site upgrades that help boost not only energy productivity, but also resource efficiency and multi-factor productivity. The program should identify best practice, build capacity, link energy users to experts and provide grants and access to capital.

6. Transform offices

Better-performing, energy efficient offices don't just have lower emissions and energy bills — they also improve staff comfort, reduce sick-leave and improve overall staff productivity by one to five per cent. Over its first four years, the Commercial Building Disclosure program drove upgrades to just a small proportion of Australia's building stock, but delivered more than $240 million in benefits, including staff productivity gains. Workers, tenants and building owners all benefit from office upgrades.

The Australian Government should invest $10 million a year over ten years for a *'Ten-year Action Plan'* to upgrade our whole office sector and deliver billions of dollars in benefits. The Action Plan should initially focus on engagement programs for office building owners and transitional incentives or levies to encourage building upgrades. However, governments will need to introduce minimum energy efficiency standards for leased offices by 2020 to ensure that all offices are of acceptable quality.

7. Protect home buyers and renters

Giving households information on the energy performance of new and existing buildings at the point of sale or lease would allow them to consider running costs and comfort when they are buying or renting properties. This type of disclosure is a consumer protection measure that would create an incentive for builders, landlords and vendors to improve the efficiency of their buildings. This approach would be analogous to the successful Commercial Building Disclosure program.

Governments should aim to launch a national mandatory residential energy efficiency disclosure scheme in 2018-19. In addition, governments should protect renters by introducing basic minimum standards for rental homes.

8. Reduce governments' energy bills

Australian governments collectively spend more than $2.5 billion on energy every year. Improving the efficiency of schools, hospitals, streetlights, vehicle fleets and other infrastructure will boost their quality while delivering almost $1 billion in annual energy savings. The Australian Government should introduce a program based on the design of the NSW Government Resource Efficiency Policy and Victorian Greener Government Buildings Program. Effective programs to improve the efficiency of government operations require both mandates on agencies to identify energy savings and loans to agencies to fund facility upgrades.

9. Improve standards for appliances, buildings and vehicles

Australia and our major trading partners have minimum standards for buildings and appliances to protect consumers. Australia's appliance program alone saves the average consumer more than $300 per year. However, governments need to streamline the process for updating appliance standards, improve compliance for building standards and introduce fuel efficiency standards for vehicles.

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As noted above, the Australian Energy Efficiency Policy Handbook discusses these issues in more detail. If you have further questions your office can contact me via rob.murray-leach@eec.org.au.

Yours sincerely

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Energy Efficiency Council

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