

Mr Dave Tonna
Energy Efficiency Information Grants Program
Department of Climate Change and Energy Efficiency
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8 December 2011

Dear Mr Tonna

The Department of Climate Change and Energy Efficiency (DCCEE) has sought input on the design of the Energy Efficiency Information Grants Program (EEIGP). This submission sets out the initial views of the Energy Efficiency Council on the EEIGP.

The Energy Efficiency Council (EEC) is the peak body for energy efficiency, cogeneration and demand-management¹ in business and government. The Council brings together Australia's top expertise in these fields to support the development of policy and programs. Incorporating expert advice in the design of programs increases their success and reduces the risk of program failure.

Raising the level of energy efficiency in Australia will boost the competitiveness of businesses and improve the welfare of households, even in the absence of a carbon price. Global oil, gas and coal prices are rising, in part due to rapid growth in demand in developing countries. Higher fossil fuel prices will benefit Australian companies that are involved in the extraction and sale of fossil fuels, but could affect the growth of the rest of the Australian economy and impact on household welfare.

With the addition of a carbon price the benefits of energy efficiency, cogeneration and demand-management to the economy are even more significant, as they will substantially reduce the cost of abatement. Climate Works Australia estimates that reaching technically and commercially achievable levels of energy efficiency could save Australia \$5 billion a year. This estimate does not include the substantial economic benefits using distributed generation and efficiency to peak demand.

Electricity transmission and distribution businesses are planning to spend over \$39 billion over five years on the electricity network, which will further raise the cost of electricity. This expenditure, and future expenditure on the grid, could be substantially reduced by reducing peak demand. The Prime Minister's Task Group on energy efficiency estimated that a national energy savings scheme could cut peak demand and reduce expenditure on electricity infrastructure by \$12 billion to 2040.

There are a number of barriers that distort private price signals and prevent socially optimal levels of investment in energy efficiency, including imperfect energy pricing and regulatory barriers in the energy market. In addition, there are a range of information barriers that impede individuals, organisations and companies from investing in privately cost-effective energy efficiency.

These "information barriers" should not simply be a lack of information, and are better understood as barriers that impede optimal decision-making. They include:

- Lack of available information and underinvestment in skills and training caused by the public good nature of education and inertia between increases in energy prices and investment in the private sectors development and provision of information, skills and training.
- Bounded rationality, norms and issues with organizational decision-making

¹ Demand management includes reducing a site's demand during periods of peak network demand, when electricity prices are substantially higher.

The EEC supports investment in programs to address information and decision-making barriers that impede households and businesses from investing in energy efficiency and cogeneration. The Council supports the broad intent of the EEIGP, but recommends some substantive changes to the proposed design.

First, the information that is provided to businesses and households must be developed by reputable experts in energy efficiency. There are numerous information products available that provide information that is either irrelevant to key decision makers (e.g. technical information on energy efficiency when decision-makers require contracting information), inaccurate or misleading. For example, many guides on energy efficiency advise companies to have an energy audit, without adding the critical information that:

- Companies must engage a well-qualified auditor that has experience in implementing energy efficiency upgrades; and
- The company must have a process in place to implement the audit and / or an energy management plan,

To non-experts this may appear to be a minor point, but there is overwhelming evidence that audits that are carried out by inexperienced auditors, or are carried out without a clear plan for implementing the audit, are not implemented at all.

The Council notes that the Government is proposing to ask applicants to demonstrate “existing expertise or access to expertise, in energy efficiency technologies, processes and practices. This may include the engagement of partners or contractors”. While the Council welcomes this requirement, it is not sufficient to include this factor as just part of one merit criteria. The Council recommends that expertise in energy efficiency and behavior change be made a separate merit criteria, and that the independent expert advisory committee (the Committee) investigate the skills, qualifications and reputation of the experts involved in the project.

Second, the EEC recommends that all applicants should be required to demonstrate that they have considered behavioural and organizational factors, and larger grants should be contingent on detailed design that incorporates behavioural factors. The Prime Minister’s Task Group on Energy Efficiency Report states (p33):

Even if parties have access to accurate information, they do not always make optimal decisions, especially where well-established norms affect decision-making. If decision-makers do not perceive energy efficiency to be ‘material’ (for example, energy costs are a relatively small proportion of a business’s total costs), they may not even investigate potentially very profitable energy efficiency options that will more than pay for their technical costs and the time to implement them. Substantial energy efficiency upgrades that can deliver good rates of return may be unable to access capital expenditure budgets, or be overlooked in favour of projects that increase production but deliver lower rates of return.

Behavioural, organisational and cultural factors overlap with information and skills gaps, but addressing them can be substantially more complex. For example, simply providing information on the benefits of discussing energy efficiency at a company board level will rarely convince a company to do so. Information needs to be carefully tailored and delivered....

To comply with a requirement to demonstrate that a project has considered behavioural issues, applicants should consider:

- Who are the key decision-makers that influence whether a business becomes more efficient?
- What are the motivations of the key decision-makers?

- What is the general level of capacity and knowledge of the key decision-makers, and what information do they need? For example, a best-practice guide on how to contract energy efficiency specialists would be more useful to many business owners than detailed technical information about efficient heating, ventilation and air conditioning (HVAC) technologies. The first and most critical decision that most site managers actually make is whether to engage a specialist, not what type of HVAC system to install.
- To what degree do key decision-makers feel that improving energy efficiency is their responsibility and in their locus of their control?
- What other barriers do key decision-makers and organizations face in upgrading their efficiency (e.g. lack of capital, difficulty in accessing skilled contractors)?
- What are the options available to motivate key decision-makers and provide them with the information, capacity and will to upgrade their businesses' efficiency? For example, a project could use peer-to-peer networking, demonstrations and norm-building exercises.

It is important to allow EEIGP applicants flexibility in their applications and not require onerous demonstration that these questions have been considered, and the answers to some questions may not be apparent until projects are implemented. Furthermore, it is also important to allow smaller grants to targeted just part of a broader strategy (e.g. the grant could focus on developing best-practice guides, with a subsequent project outside of the grant to deliver training). However, all applicants should demonstrate that they have considered these issues and indicate how the proposed project fits into a comprehensive behavior-change strategy.

Third, the Government should have the discretion to support projects that are of significant benefit but do not fit into the current limited guidelines. For example, a consortia could develop a suite of information on contracting experts and technical information, which could then be supplied to industry bodies to deliver to their members. This type of project would substantially improving the cost-effectiveness of the overall EEIGP, but would not currently be eligible.

Fourth, a very wide variety of businesses face information and decision-making barriers, not just Small and Medium Enterprises (SMEs). Given that the energy saving opportunities on individual large business sites are substantially larger than on individual SME sites, tackling information barriers in larger businesses can be considerably more cost-effective. In addition, larger businesses often face fewer non-information barriers to energy, again often making information programs for large businesses more cost-effective. While the EEC understands the intent to focus on those sectors that face greater barriers, it may be more sensible to initially focus on those sectors where opportunities can be more easily unlocked, to demonstrate the success of EEIGP, and then move into sectors that are harder to unlock.

The Council would strongly urge that the EEIGP be left as broad as possible to engage any business or organization, irrespective of their size. However, at the very least the EEIGP's definition of SME should be substantially larger than 50 employees, and projects should still be eligible if they support both SMEs and larger businesses. For example, a project that aims to address information barriers common to all commercial buildings would support both SMEs and larger organizations, and refusing to support this program because it wasn't exclusively targeted at SMEs would be deeply counterproductive.

Fifth, a range of organizations should be eligible to apply for EEIGP, including experts, organizations like CSIRO and professional bodies. The EEC supports the intent of the program to target well-respected information providers, and in some situations these types of organization would be the most credible sources of information. For example, professional bodies may be the most relevant parties, where the key decision-makers are professionals that operate a broad variety of industries (e.g. accountants and Chief Financial Officers).

Summary

The Energy Efficiency Council (EEC) supports the Government's commitment to invest in projects to address information and decision making barriers, and recommends changes to its design to make it more effective. 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