



## **Productivity Commission Draft Report on Energy Efficiency**

**May 2005**

### **General**

#### **DRAFT RECOMMENDATION 11.1**

It is crucial that local government does not erode the uniformity of minimum energy efficiency standards for new houses. Unfortunately this is already happening and makes it difficult for suppliers to keep track of the particular requirements in each state or local council.

#### **DRAFT FINDING 11.3**

AEEMA does not agree that there is insufficient clarity on the rationale for and objectives of government intervention in energy efficiency in all cases. AEEMA understands that in some cases government intervention is necessary to improve energy efficiency as a means of reducing energy consumption and thereby reducing greenhouse gas emissions and investment in energy production and distribution infrastructure below business as usual forecasts.

MEPS were originally based upon a no regrets principle in which present value of savings should exceed additional costs. However, in 1999, NAEDEC advised industry that, commencing with MEPS 2005 for refrigerators, the former no regrets policy would be replaced by a policy based upon adoption of worlds best practice with a lag while also taking into account MEPS levels applicable in trading partner countries. The rationale for this is to maximise energy savings achievable through MEPS while maintaining effective competition in the market. Our industry consulted with government and understood and accepted this policy and the rationale for it in respect to refrigerators.

So far the policy has been effective where consultation with industry occurred because it was then applied to product types for which MEPS are effective. However, AEEMA is very cautious about MEPS extension to other types of products where efficiency in use depends more on user behaviour than on technical efficiency of products as determined by tests. In those cases there is a significant risk that programs and settings developed to meet MEPS test requirements will not be used in practice and potential savings will not be realised in use.

#### **DRAFT RECOMMENDATION 11.2**

AEEMA considers that limited government resources should be allocated to energy efficiency measures with care to ensure that resources are allocated efficiently and achieve the best outcomes at the least cost. Care should be taken to ensure that new initiatives do not drain resources from existing programs where maintenance is required to ensure they remain effective with changing technologies and markets.

However, AEEMA does not think it necessary or desirable to place a moratorium on all the initiatives in the National Framework until independent evaluation of all existing programs has been undertaken. This is a long-term process and we cannot afford to delay some projects where a lot of preliminary work has been undertaken.

In regards to the nine packages indicated in NFEE stage one Package 5, which extends labelling and standards for electrical and gas appliances, should be carefully evaluated to ensure that it is based upon robust and relevant tests and will result in significant savings in energy.

Implementation of any element in this package should be preceded by market research into how equipment is currently used in households. This is needed so information and education can be focussed on the most pertinent matters. It would also provide data against which to check the models upon which labelling and MEPS are based. The most recent data currently available is obsolete. It was collected more than 10 years ago.

Package 8, raising consumer awareness and thereby influencing consumer behaviour, could make the appliance efficiency labelling and MEPS program more effective. While users lack information or motivation to use appliances efficiently, the promised benefits of more efficient equipment will not be achieved in practice. We would assume that this package is one that would be covered by the Commission's other recommendations and therefore this package would not be delayed.

### **DRAFT FINDING 12.1**

AEEMA agrees with the negative finding on a national efficiency target.

## **Residential**

### **DRAFT FINDING 7.1**

AEEMA agrees with the Commission's cautious assessment of the direct influence of labelling on purchasers' choices. However, labelling may have a greater influence on energy efficiency than might be assumed by considering customer choice in isolation. Labelling with sound algorithms and robust tests has a profound effect upon product designs, raising the energy efficiency of most if not all products in the market. In that case more often than not a purchaser is choosing between models that are all of higher efficiency than would have been the case without labelling.

AEEMA also agrees with the finding that benefits of labelling may have been overstated in regulatory impact statements. This may apply particularly to products where the label efficiency rating is based upon a single program but, quite frequently or even mostly, users actually use other programs. In some cases it would also be argued that the savings are understated.

Savings in net present value terms of labelling and MEPS may also be overstated due to choice of inappropriate discount rates for future savings. However, although financial data in a RIS should be as accurate as practicable, if only to assist in ranking projects, until it is possible to put a cost on greenhouse gas emissions, labelling and or MEPS may be justifiable for the public good even though initial costs exceed net present value of energy savings.

### **DRAFT RECOMMENDATION 7.1**

Although costs and savings should be identified as accurately as possible in each RIS, until greenhouse gas emissions can be costed, and unless costs are preposterous, ranking alternatives by the amount of greenhouse gas emissions saved might be of more use in determining the value of a regulation than considerations of cost effectiveness alone.

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AEEMA accepts that a MEPS level that is justifiable in the interests of public good may be reduced competition. However, MEPS levels should be carefully developed to ensure that any resulting reduction in competition would not be disproportionate to the resulting reduction in greenhouse gas emissions. Also, if suppliers are given adequate time before implementation of proposed MEPS, then the likely availability of a choice of products will increase. In regards to refrigerators, there are still 60 suppliers to the market with hundreds of models to choose from, despite the recent introduction of a new MEPS.

AAEEMA notes that the Commission seeks advice on the use of disendorsement labels instead of MEPS. MEPS is generally the better instrument. Disendorsement labels do not deal with the problem of split incentives. However, disendorsement labels do have a place where products are required by a niche market for a specific reason. An example would be consumers that are very sensitive to detergent in their clothes. They may want to choose a washing machine that gives an excellent rinse performance, but the water efficiency is not the number one priority.