

05MEN/0282  
TF05D02827  
EXT05/00876  
T&F05/0089 pt6

Dr Neil Byron  
Commissioner  
Productivity Commission  
Locked Bag 2  
Collins Street East  
MELBOURNE VIC 8003

Dear Dr Byron

Thank you for the opportunity to comment on the Productivity Commission's Inquiry into Energy Efficiency Draft Report.

As stated in our earlier submissions to the Inquiry, the South Australian Government is a strong supporter of energy efficiency as it can be a cost effective method of achieving a suite of Government objectives. While South Australian Government policies generally deliver private benefits, the Government's focus is on the broader social and public benefits that energy efficiency can provide such as:

- Reduced emissions of greenhouse gases and other pollutants;
- Reduced costs to consumers, especially low-income households; and
- Reduced energy costs through more efficient infrastructure utilisation and reduced peak electricity demand.

Consequently, the Productivity Commission's decision to focus on private cost effectiveness, rather than the broader economic and environmental potential of energy efficiency, has resulted in recommendations that are of limited relevance. I note that the key points of the Draft Report suggest that energy efficiency measures may generate net public benefits because of their environmental outcomes and that these measures may prove to be sound public policy. I urge the Productivity Commission to take this finding into account and to reassess its recommendations.

The South Australian Government considers the Productivity Commission's Draft Report deals with a very narrow scope, considering primarily cost effectiveness of energy efficiency to private individuals and why the measures are not adopted, rather than the economic potential of such improvements. The Productivity Commission also tends to understate the benefits, barriers and market failures while emphasising costs and the case against regulation.

The South Australian Government considers that the Productivity Commission has severely understated the effect of barriers and market failures. While the Productivity Commission notes that energy used for heating and cooling is a major portion of consumption, the Productivity Commission does not consider the negative externality imposed by its contribution to high peak demands. Energy inefficient behaviour increases the costs of supplying peak demand, which are passed on to all consumers in the form of higher tariffs. As a result, all electricity customers pay for the inefficiency of the individual consumer.

The South Australian Government is a strong supporter of minimum energy performance standards (MEPS) for appliances and equipment, as a means of addressing information asymmetries and negative externalities in the energy market. Regulatory Impact Statements (RISs) and program evaluations for MEPS undertaken as part of the National Appliance and Equipment Energy Efficiency Program (NAEEEP) have demonstrated MEPS to be one of the lowest cost forms of greenhouse gas abatement whilst at the same time delivering private benefits to consumers. It is noteworthy that these RISs have not factored in the benefits of reduced greenhouse gas emissions in producing a benefit/cost ratio for the measure, indicating that the monetised benefits of MEPS are understated.

The Productivity Commission suggests that MEPS has the potential to restrict consumer choice. MEPS are delivering significant private and public benefits. The standards are developed in consultation with industry to ensure that targets can be met and that sufficient time is allowed for development of new products. The South Australian Government is disappointed that the Productivity Commission has dismissed cost-effective MEPS improvements with an argument that inefficient products should be allowed in the market merely to increase consumer choice. Based on the lack of any substantial evidence in the Draft Report, it would appear the onus is on the Productivity Commission to demonstrate that its claims that consumers are disadvantaged is sufficient to justify the costs of removing MEPS and benefits the program provides.

Another significant contributor to peak demand problems is poor thermal performance of housing. In 2003, the South Australian Government introduced a 4-star standard for new residential homes and has announced that this will be raised to a 5-star standard in 2006. The Productivity Commission's Draft Report highlights challenges associated with implementing building standards for energy efficiency and suggests further evaluation is required prior to the introduction of more stringent requirements. The South Australian Government acknowledges that there are many factors that affect the efficiency of residential buildings and that there is some debate on the appropriate method of account for this. The Government does not consider that this is sufficient reason to defer the introduction of higher standards. While minimum energy standards for housing cannot prevent inefficient behaviour by a householder, they improve the *potential* of a house to be energy efficient.

The South Australian Government supports the National Framework for Energy Efficiency (NFEE) and is concerned with the Productivity Commission's proposal to "defer" implementation of the Stage One NFEE. In particular, the South Australian Government considers that it is unreasonable to recommend the deferral of the

NFEE, delaying the realisation of its benefits, based on the need for further evaluation of the existing programs. Stage One NFEE is a sound platform for the delivery of nationally coordinated energy efficiency initiatives. It has been developed through stakeholder consultation, underpinned by the best available modelling and has the support of the State, Territory and Australian Governments. It is also impractical to defer Stage One as it consists of a number of programs that are already operating successfully.

As the Productivity Commission notes, no firm policy proposals have yet been developed for Stage Two NFEE incentives options. To this extent, the Commission's conclusions on a National Energy Efficiency Target (NEET) appear to be premature. While the South Australian Government agrees with the Productivity Commission that an emissions trading regime, such as that being developed by the States and Territories, would be an appropriate mechanism to address greenhouse gas reductions, other complementary mechanisms may also be valuable. The Government continues to support investigations into NFEE Stage Two incentive options, with the Commission's comments on a NEET an input into this investigation.

The Productivity Commission identifies information asymmetries and split incentives as barriers which may require Government intervention. The Productivity Commission is not supportive of a number of key energy efficiency programs, even where analysis has been performed to prove them cost effective. The Productivity Commission recommends further evaluation of these programs involving philosophical, unquantifiable rationale such as the value or effect of consumer choice and understates the effect of the barriers identified. Consequently, excepting labelling to address information barriers regarding appliances, the Productivity Commission's Draft Report does not address any of the major barriers.

The South Australian Government urges the Productivity Commission to consider the broader impacts of energy efficiency and to consider a consistent approach to assessing the economic and environmental potential of energy efficiency.

I look forward to your consideration of these points in developing your final report.

Yours sincerely

**HON PATRICK CONLON MP**  
**MINISTER FOR ENERGY**

May 2005