

Climate Action Network Australia
Submission to:

Productivity Commission Inquiry into
Energy Efficiency

Draft Report



The Climate Action Network Australia (CANA) is a National network of environment and community groups working on climate change and energy issues.

CANA is concerned that the Productivity Commission has overlooked the extent to which Australia is highly vulnerable to climate change in the Draft Report on the Inquiry into Energy Efficiency released April 2005.

To avoid an increase in temperature above 2°C industrialised countries need to reduce greenhouse emissions by 60-80% by 2050. By 2020 industrialised nations need to have reduced their emissions by more than 20%.

These are achievable yet challenging goals essential to ensure a safe and healthy environment and vibrant economy for current and future generations of Australians. Stabilising the climate is indisputably in Australia's national interest. In order for Australia to achieve these deep cuts and meet our international obligations, Australia must start now. Setting targets that create certainty for business will help avoid more dramatic, disruptive and expensive measures later.

The international community is mobilising around climate change and energy efficiency, evident in the World Energy Council's recent World Wide Review on Energy Efficiency¹. Australia will pay the price for being left at the starting gates.

Australia has adopted a short-term target of modest, real emission increases by 2008 to 2012 over 1990 levels equivalent as outlined in the Kyoto Protocol. It has also acknowledged the need for major global emissions reductions of the order of 50-60% by 2050². In order to achieve these targets, Australia must engage a range of policies and measures. No one approach will be sufficient; energy efficiency must be a key part of this policy mix!

The Climate Action Network Australia (CANA) believes that the Productivity Commission Draft Report undermines efforts to reduce greenhouse gas emissions and places Australia at great risk. CANA opposes many of the conclusions reached in the Productivity Commission Draft Report and believes its recommendations would have serious repercussions for Australia's endeavours to reduce greenhouse gas emissions and achieve the deep cuts necessary to avoid dangerous climate change.

In CANA's submission to the Productivity Commission Issues Paper³, CANA highlighted the significant negative externalities occurring as a result of energy consumption. Correspondingly, positive externalities result from energy efficiency and conservation.

¹ <http://www.worldenergy.org/wec-geis/publications/default/launches/eeepi04/eeepi04.asp>

² Media Release, Minister for the Environment and Heritage, Senator the Hon. Ian Campbell, 2 September 2004, <http://www.deh.gov.au/minister/env/2004/mr02sep2004.html>

³ Available from http://www.cana.net.au/documents/EEproductivitycommission_CANA_submission_nov04.pdf

It is disappointing to note that the many comments from CANA's submission have not been acknowledged in the Productivity Commission's Draft Report. These include the benefits of the National Framework on Energy Efficiency (NFEE) and the need for ongoing research to drive innovation. The remainder of this submission is dedicated to providing a summary of CANA's primary concerns on the Productivity Commissions Draft Report.

Narrow Terms of Reference

Market failure has been a key contributor to the lack of progress on energy efficiency. Energy consumption produces negative externalities - pollution inflicted on society and the environment - which is not reflected in the price of energy.

CANA remains concerned that electricity prices do not reflect these real costs, despite clear identification that stationary electricity generation is the primary source of Australia's greenhouse gas emissions and that climate change will have devastating social and environmental consequences. This ensures that the private benefits to reducing energy consumption are distorted and limited. While the costs of energy efficiency measures may be private, the benefits are often very public.

CANA argues that there are real private benefits to energy efficiency and point to the wealth of practical examples of Australians engaging in energy efficient behaviour for their own private benefit. Many CANA members actively work with local communities to educate and overcome the existing barriers, and attain the private benefits from energy efficiency. Energy efficiency should be actively pursued not just for these private benefits it provides Australians, but for the public benefits that are a key to avoiding dangerous climate change. Energy efficiency for this reason is a 'no regrets' outcome.

Any evaluation of the benefits of energy efficiency measures, must therefore consider both the private and public costs and benefits. However, the Terms of Reference (ToR) preclude such an inquiry:

There may well be a broader set of energy efficiency improvements that would be justified on the grounds of net social benefit (including environmental benefits) but these are not the principle policy focus of this inquiry

CANA therefore believes the narrow ToR of the Inquiry, ensure that the Productivity Commission, while exploring the full costs of energy efficiency does not consider the public benefits. CANA is concerned that the narrowness of the ToR have led to serious flaws in the Productivity Commission Draft Report to the extent that the recommendations made are largely ungrounded. While, the Productivity Commission acknowledges the narrowness of the ToR for this inquiry, it does not restrict its recommendations to policy measures based on private benefit.

Private cost effectiveness is a much narrower focus than the more commonly adopted public perspective that underpins the Commission's economy-wide charter.

Despite this, the Productivity Commission ToR permits evaluation of policy considerations that incorporate much broader public policy objectives as indicated below:

However, the terms of reference quite clearly stipulate that the Commission should look at all existing and recent policy considerations, including a NEET.

CANA believe this paralyses this Productivity Commission Inquiry and precludes any ability to evaluate broad public benefits of public policy measures. With such narrow ToR, CANA believes any subsequent evaluation of existing policy measures become largely irrelevant.

The NFEE and its Public Benefits.

The NFEE and the relevant conclusions drawn by the Productivity Commission are clear evidence of this paradox of precluding assessment of public benefits of policy.

The Productivity Commission Draft Report recommends the following:

'The nine point National Framework for Energy Efficiency (Stage One) measures, recently endorsed by the Ministerial Council on Energy, should be deferred until independent evaluations of existing energy efficiency programs have been undertaken.'

Conversely, CANA supports the development of these nine energy efficiency measures, as endorsed by the Ministerial Council on Energy (MCE), and believes they play a key role in delivering a cost effective reduction in Australia's level of greenhouse gas emissions.

Endorsement of the NFEE by the MCE was on the basis (and indeed acknowledgement) of the overall societal benefits that would be achieved through such measures. The MCE considered more than just the private costs and benefits attributed to energy efficiency measures. Therefore the MCE concluded that it was for the benefit of all Australians to overcome some of the key impediments to energy efficiency. These conclusions were following extensive analysis and consideration of the full costs/benefit of such measures including a Regulatory Impact Statement, as discussed in the following section of this submission.

The NFEE is key to overcoming the barriers identified as restricting the uptake of energy efficiency. The NFEE energy efficiency measures are 'no regrets' – they produce net public benefits while also being privately cost-effective.

Evaluating the NFEE package, excluding these public benefits, is to distort the intention of the Government's commitment to the Inquiry as announced in the Energy White Paper: *Securing Australia's Energy Future*. The Productivity Commission's ToR prevents any real evaluation of public policy measures, such as the NFEE package. CANA therefore concludes that such conclusions are irrelevant to the public policy context of such measures that aim to

alleviate the private impediments, while capitalising on the vast public benefits that result through energy efficiency.

The wealth of evidence

CANA believes that energy efficiency provides the least cost, and most effective means of reducing greenhouse gas emissions. This is a view supported internationally. Governments around the world have recognised the benefits – private and public – attributable to energy efficiency.

The Productivity Commission has however drawn alternate conclusions, in contradiction to almost universal public policy opinion.

CANA is disappointed by what appears to be very selective use of reference material and public submissions at the expense of a comprehensive assessment of energy efficiency measures and their effectiveness to date.

For example, the Productivity Commission Draft Report implies that energy efficient is not the least cost solution in greenhouse gas emission and instead argues that the *'benefits of energy efficiency improvements may be overstated and the costs of adoption underestimated'*.

CANA strongly disagrees with this conclusion and point to many failings in the Productivity Commission's assessment and approach:

- There are a large number of energy efficiency projects that have in fact provided significantly greater cost effective returns than anticipated. This is particularly true when the net public benefits are considered.
- While energy efficiency remains an immature industry, attracting less than optimal investment, the true costs – and benefits – remain unrealised. As per any other developing industry sector, a critical mass will achieve economies of scale resulting cost reductions.
- While (as the Productivity Commission duly note) rigorous monitoring and evaluation of energy efficiency programmes and initiatives remain absent, there can be little certainty regarding the true benefits and costs of energy efficiency improvements. CANA therefore finds it puzzling how the Productivity Commission, while acknowledging such informational deficiencies, can draw any such conclusion.

CANA believes the Productivity Commission conclusions regarding the cost/benefit of MEPS is another such example.

Evaluation and Ongoing Research

CANA welcomes a more comprehensive and rigorous evaluation of previous and existing energy efficiency programmes. Many sound public policy measures require increased research and assessment to achieve increased cost effectiveness and ensure delivery of programme objectives.

CANA agrees that careful analysis and evaluation of a National Energy Efficiency Target is necessary. However progress is essential. CANA believes that an incentive scheme is paramount to developing the potential of energy efficiency and overcoming the many barriers which remain.

However, CANA believes that the Productivity Commission has largely ignored analysis undertaken by Governments to date. This includes the analysis undertaken as part of the NFEE and Regulatory Impact Statements conducted to date.

All previous energy efficiency measures have been subjected to rigorous RIS. These involve:

'...significantly higher levels of scrutiny and accountability and ensure regulatory requirements will only be written into law after being tested for regulatory efficiency'.

A large number of energy efficiency measures generate net public benefits, through improved social or environmental outcomes. These measures and regulatory responses are subject to the meticulous process involved in Regulatory Impact Statements (RIS). CANA generally accepts the conclusions reached by the various government departments undertaking these RIS's and therefore believe that these energy efficiency measures make for sound public policy.

The way forward

CANA agrees with the Productivity Commission that energy has been cheap, and that this leads to complacency and limits the adoption of optimal levels of energy efficiency. But cost reflective pricing alone will not be a sufficient solution.

While State Government initiatives progress these efforts, more is needed. The Productivity Commission has a key role in exploring the full potential of energy efficiency, and the benefits it provides all of Australia.

CANA believes that government is responsible for public policy making which delivers outcomes with the greatest public benefit. This should include the provision of information, correcting and designing market mechanisms *and* regulatory intervention. Limitations of consumer sovereignty should not in themselves be a limitation to public policy and the formidable objective of achieving the greatest public good.

CANA is concerned about the approach of the Productivity Commission in relation to the conditions for government intervention. The Commission states:

the Commission considers that organisational and behavioural limitations/barriers are not a sufficient reason for government intervention.

CANA believes that Government has a duty of care to intervene when the actions of individuals are proven to be damaging to broader society and the environment.

Further, when there are low costs involved in delivering such regulation as evidence in energy efficiency measures internationally, with significant public benefits, CANA questions the validity of such a position.

CANA believes that a wide range of measures are necessary to avoid dangerous climate change, of which energy efficiency provides the least cost opportunities to reduce greenhouse gases. Clearly there are a wide variety of impediments which currently limit the extent to which an optimal level of energy efficiency is adopted, as highlighted in the original CANA submission to the inquiry. CANA believes that the Energy Efficiency Inquiry Draft Report is negligent in the opportunity provided to address these impediments and the recommendations of the report regress existing energy efficiency policy.